

REPORT ON EXAMINATION
OF
CHUBB INDEMNITY INSURANCE COMPANY
AS OF
DECEMBER 31, 2001

DATE OF REPORT

MAY 15, 2003

EXAMINER

MARC BRUCKSTEIN, CFE

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

May 15, 2003

Honorable Gregory Serio
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 21860 dated April 26, 2002 and attached hereto, I have made an examination into the condition and affairs of the Chubb Indemnity Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 15 Mountainview Road, Warren, New Jersey. A visit was also made to the Company's home office at 55 Water Street, New York.

Whenever the designations "Company" or "Chubb Indemnity" appear herein without qualification, they should be understood to indicate the Chubb Indemnity Insurance Company.

Whenever the designation "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covered the five year period from January 1, 1997 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners.

- History of the Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of the Company
- Business in force
- Reinsurance in force
- Loss experience
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company regarding comments and recommendations 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 as the Sun Indemnity Company on November 3, 1922 and later changed its name to Sun Insurance Company of New York. On February 3, 1994, the Company was sold to Federal Insurance Company and the name was changed to Chubb Indemnity Insurance Company.

The Company is a member of the Chubb Group of Insurance Companies ("Chubb Group"). As of December 31, 2001, the Chubb Group consisted of the following members:

<u>Company</u>	<u>State of Domicile</u>
Federal Insurance Company	Indiana
Vigilant Insurance Company	New York
Pacific Indemnity Company	Wisconsin
Great Northern Insurance Company	Minnesota
Chubb Custom Insurance Company	Delaware
Chubb Indemnity Insurance Company	New York
Chubb National Insurance Company	Indiana
Executive Risk Indemnity Inc.	Delaware
Executive Risk Specialty	Connecticut
Quadrant Insurance Company	Connecticut
Texas Pacific Indemnity Company	Texas
Northwestern Pacific Indemnity Company	Oregon
Chubb Insurance of New Jersey	New Jersey
Chubb Lloyds Insurance Company of Texas	Texas

Capital paid in is \$3,500,000 consisting of 20,000 shares of common stock at \$175.00 par value per share. Gross paid and contributed surplus is \$7,032,725.

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 thirteen members nor more than twenty-five members. At December 31, 2001, the board of directors was comprised of the following thirteen members.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jon Corey Bidwell Pelham, NY	Senior Vice President, Chubb & Son, a Division of Federal Insurance Company
Joanne Leslie Bober New York, NY	Senior Vice President and General Counsel, The Chubb Corporation
George Ronald Fay Randolph, NJ	Executive Vice President, Chubb & Son, a division of Federal Insurance Company
David Seeton Fowler Rumson, NJ	Senior Vice President, The Chubb Corporation
Henry Gregory Gulick Middletown, NJ	Vice President and Secretary, The Chubb Corporation
David Gardiner Hartman New Providence, NJ	Senior Vice President & Chief Actuary, Chubb & Son, a division of Federal Insurance Company
Gary Louis Heard New York, NY	Vice President, Chubb & Son, a division of Federal Insurance Company
Charles Morton Luchs Mendham, NJ	Executive Vice President, Chubb & Son, a division of Federal Insurance Company
George Francis Marts Laurel Hollow, NY	Senior Vice President, Chubb & Son, a division of Federal Insurance Company
Thomas Firouz Motamed Ho-Ho-Kus, NJ	Executive Vice President, The Chubb Corporation
Dean Raymond O'Hare Far Hills, NJ	Chairman and Chief Executive Officer, The Chubb Corporation
Michael O'Reilly Franklin Lakes, NJ	Executive Vice President, The Chubb Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Philip John Sempier Little Egg Harbor, NJ	Vice President and Treasurer, The Chubb Corporation

The board of directors met four times during each of the calendar years under examination. 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, 2001, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Dean R. O'Hare	Chairman and President
David G. Hartman	Senior Vice President and Actuary
Henry G. Gulick	Vice President and Secretary
Philip J. Sempier	Vice President and Treasurer
Malcolm B. Burton	Vice President
Charles M. Luchs	Vice President
Amelia C. Lynch	Vice President
Robert A Marzocchi	Vice President
Michael O'Reilly	Vice President

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to transact business in all the fifty states, District of Columbia, Puerto Rico and U.S. Virgin Islands.

As of the examination date, the Company was authorized to transact the kinds of insurance and reinsurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value insurance (lease or contract)
26(A)(B)(C)(D)	Gap insurance
27	Prize indemnification
29	Legal services insurance

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoreman's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended).

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders of \$8,100,000.

During the period of examination the Company assumed accident and health and credit insurance business. The Company was not licensed to write these lines of business according to Section 1113(a) paragraph 3 and 17 of the New York Insurance Law. It is recommended that the Company comply with Section 1113(a) paragraphs 3 and 17 of the New York Insurance Law. Subsequent to the examination date the Company changed its license, by adding the two mentioned additional insurance lines of business.

The following schedule shows direct premiums written by the Company, the direct premiums written in New York State and the percentage that the New York premiums bear to the countrywide premiums during the examination period:

<u>Calendar Year</u>	<u>Direct Premiums Written (000's)</u>		
	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of New York State Premium Written to Total of Premium Written in the United States</u>
1997	\$108,711,520	\$119,040,048	91.32%
1998	110,837,486	132,011,235	83.96
1999	110,209,838	128,790,694	85.57
2000	112,277,642	135,874,026	82.63
<u>2001</u>	<u>122,046,154</u>	<u>156,021,949</u>	<u>78.22</u>
Total	<u>\$564,082,640</u>	<u>\$671,737,952</u>	<u>83.97%</u>

The Company, as part of the Chubb Group is represented by approximately 5,000 independent agents and accepts business on a regular basis from an estimated 1,000 insurance brokers. Business is also produced through participation in a number of underwriting pools and syndicates. The Chubb Group is a provider of insurance and risk management services, offering a broad range of standard property and liability coverages as well as specialized policies.

C. Reinsurance

The Chubb Group Reinsurance Pool

The operation of Chubb Group Reinsurance (“Pool”) differs from a traditional pooling arrangement. In the case of this pool, each participant retains a designated percentage of its own direct business, ceding the remainder of its business to the other participating companies. Each participating pooled company also assumes its designated percentage of all other Pool participants’ business.

Assumed

In 2001, the Company’s assumed premiums represented 6.1% of its total book of business for the year. All of the assumed premiums were from the Company’s participation in the Pool. The Company also assumes a relatively minor volume of business as compared to total book of business from non-affiliated companies.

As part of the Pool re-alignment of April 2000, all open reserve balances were settled among participating companies and the Pool was concurrently redistributed based on the new pooling percentages. Thus, there should be no significant analytical distortion of year-end reserve balances resulting from any pool participant having one percentage of participation prior to April 2000 and a different percentage of participation after April 2000.

Ceded

The Chubb Group purchases reinsurance on a combined group basis and apportions the cost among each participating insurer in proportion to subject premium writings, which generally approximate each company’s contributory exposure to reinsured limits. Reinsurance is purchased for each of the major class of business written. In addition to treaty reinsurance coverage, Chubb also purchases facultative reinsurance tailored to the particulars of the underlying risk.

All ceded reinsurance contracts were in the name of the following companies. During 2001, the Chubb Group's apportionments were as follows:

<u>Company</u>	<u>Approx. Net Retention</u>
Federal Insurance Company	68.0%
Pacific Indemnity	17.0
Executive Risk Indemnity Inc.	8.0
Great Northern	4.0
Vigilant	0.5
Chubb National	0.5
Chubb Indemnity	0.5
Chubb Custom	0.5
Executive Risk Specialty Insurance Company	0.5
Quadrant	<u>0.5</u>
Total	<u>100.0%</u>

The following affiliated companies cede 100% of their business to a member of the inter-company Reinsurance pool:

<u>Company</u>	<u>State Domicile</u>
Texas Pacific Indemnity Company	Texas
Northwestern Pacific Indemnity Company	Oregon
Chubb Insurance of New Jersey	New Jersey
Chubb Lloyds Insurance Company Texas	Texas

Type of ContractCessionProperty

Property per risk

3 layers (100% subscribed for all three layers)

\$140,000,000 excess of \$10,000,000, each and every loss occurrence.

North American Property Catastrophe

3 layers (45.99%, 90.00%, and 90.00% subscribed, respectively)

\$350,000,000 excess of \$100,000,000, each and every occurrence.

Casualty

Excess of loss Treaty

First layer Section (A)

Events involving a single insured with policy limits greater than \$25,000,000 then \$25,000,000 ultimate net loss each and every event in excess of \$25,000,000, ultimate net loss each and every event.

First layer Section B (Clash)

Events involving single insureds with limits less than or equal to \$25,000,000 and multiple insureds then \$25,000,000 ultimate net loss each and every event in excess of \$25,000,000, ultimate net loss each and every event.

Second layer

\$50,000,000 in excess of \$50,000,000, each and every loss occurrence.

Third layer

(100% subscribed for all three layers)

\$50,000,000 in excess of \$100,000,000, each and every loss occurrence.

Surety

Surety per risk

4 layers (100% subscribed)

90% of \$90,000,000 net loss, each principal excess of \$10,000,000, net loss, each principal.

Additional Aggregate excess of loss

(80% subscribed)

\$50,000,000 net loss, each principal excess of \$100,000,000, net loss each principal.

Specialty Lines of BusinessAccident and Worker's Compensation

Catastrophe excess of loss 5 layers (100% subscribed all five layers)	\$245,000,000 each and every occurrence in excess of \$5,000,000, each and every occurrence.
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The majority of the reinsurers are authorized companies in New York State.

C. Holding Company System

Chubb Indemnity Insurance Company is wholly-owned by Federal Insurance Company, an Indiana domiciled insurer. The Company's ultimate parent is the Chubb Corporation, a New Jersey corporation. The Chubb Corporation has filed registration statements pursuant to the provisions of Article 15 of the New York Insurance Law and New York Insurance Department Regulation 52. The following chart shows the Chubb Corporation holding company structure as of December 31, 2001:

The Chubb Corporation (New Jersey) (100% owned except as noted)

- Federal Insurance Company (IN)
 - Vigilant Insurance Company (NY)
 - Chubb de Columbia (Columbia)(% owned see item "A")
 - La Federal Compania de Inversiones (Comlumbia)(% owned-C)
 - Pacific Indemnity Company (WI)
 - Texas Pacific Indemnity Company (TX)
 - Northwestern Pacific Indemnity (OR)
 - Great Northern Insurance Company (MN)
 - Chubb Insurance Company of New Jersey (NJ)
 - Chubb Custom Insurance Company (DE)
 - Chubb National Insurance Company (IN)
 - Chubb Indemnity Insurance Company (NY)
 - Chubb Argentina de Seguros (Argentina-99.9%)
 - Chubb Fianzas Y Garantias (Argentina)
 - Executive Risk Indemnity Inc. (DE)
 - Quadrant Indemnity Company (CT)
 - Executive Risk Specialty Insurance Company
 - Chubb Insurance Company of Europe, S.A. (Belgium)
 - Masterpiece Netherlands, N.V. (Netherlands 50%)
 - Chubb Seguros Holdings Chile, S.A. (Chile)
 - Chubb de Chile Compania, S.A. (Chile)
 - Chubb Investment Holdings Inc. (NJ)
 - Chubb Insurance Company of Australia Ltd. (Australia)
 - CC Canada Holdings Ltd. (Canada)

Chubb Insurance Company of Canada (Canada)
 Chubb Pacific Underwriting Management Services Pte Ltd. (Singapore)
 Chubb de Mexico Compania Afianzadora, S.A. (Mexico)
 PT Asuransi Chubb Indonesia (Indonesia, 80%)
 Chubb de Mexico Servicio de Suscrip., S.A. (Mexico) (see item "B" for % owned)
 HISCOX PLC (UK) (27%)
 Chubb Life Solutions – Bermuda Ltd. (Bermuda)
 Chubb Corporate Solutions Insurance Company (IN)
 Chubb de Mexico Compania de Seguros, S.A. de C.V. (Mexico)
 Chubb Lloyds Insurance Company of Texas (TX)
 Chubb Financial Solutions – Bermuda Ltd. (Bermuda)
 Chubb Financial Products – Bermuda Ltd. (Bermuda)
 Chubb Atlantic Indemnity Ltd. (Bermuda)
 Chubb Atlantic Reinsurance Specialists Ltd. (Bermuda)
 Allied World Assurance Holdings, Ltd. (Bermuda) (18.70% owned)
 DHC Corporation (Delaware)
 Foundation Reinsurance (PCC) Ltd. (Guernsey)
 Chubb Do Brasil Compania De Seguros (Brasil) (99.14% owned)
 Chubb De Venezuela Compania De Seguros C.A. (Venez) (% owned "E")
 Chubb De Venezuela Comp. De Serv. Susc. Adm. S.A. De C.V. (Ven)
 Chubb & Son, Inc. (New York)
 Chubb Services Corporation (Illinois)
 Chubb & Son, Inc. (IL)
 Chubb Insurance Solutions Agency, Inc. (New Jersey)
 Chubb Underwriting Management Services of Thailand, Ltd. (Thailand)
 Chubb Global Financial Services Corporation (Delaware)
 Bhakdikij Company, Ltd. (Thai) (49% owned)
 Chubb Insurance Company (Thailand) Ltd. (Thai) (25% owned)
 CA Managers (Bermuda) Ltd. (Bermuda)
 Mollers' Brokers Ltd. (Hong Kong)
 Mollers' Insurance Underwriters Ltd. (Hong Kong)
 Harbor Island Indemnity Ltd. (Bermuda)
 Chubb Computer Services, Inc. (New Jersey)
 The Chubb Institute, Inc. (New Jersey)
 Chubb Financial Solutions Inc. (Delaware)
 Chubb Financial Solutions Representative Services Ltd. (UK)
 Chubb Financial Products (Ireland) Ltd. (Ireland)
 Bellemead Development Corporation (Delaware)
 Chubb Custom Market, Inc. (New Jersey)
 Chubb Investment Services Ltd. (UK)
 Chubb Asset Managers, Inc. (DE)
 Transit Air Services, Inc. (New Jersey)
 Chubb Capital Corporation (New Jersey)
 Chubb Investment Company of New Jersey, Inc. (New Jersey)
 Chubb do Brasil Servicos e Participacoes, Ltd. (Brazil)
 Chubb Equity Managers, Inc. (Delaware)
 Personal Lines Insurance Brokerage, Inc. (New Jersey)
 Chubb Multinational Manager, Inc. (New Jersey)

Chubb Re, Inc. (New Jersey)
 Chubb Executive Risk, Inc. (Delaware)
 Executive Risk Capital Trust (Delaware)
 Executive Risk (Bermuda) Ltd. (Bermuda)
 Executive Risk Management Associates (Connecticut) (70% owned "D")
 Sullivan Kelly, Inc. (California)
 Sullivan Kelly of Arizona Inc. (Arizona)

- (A) 88.31% Owned by Vigilant
 6.13% Owned by Federal
 4.22% Owned by Chubb Corp. NJ
 0.92% Owned by Pacific Indemnity
 0.42% Owned by Great Northern
- (B) 99.73% Owned by Federal
 0.15% Owned by Vigilant
 0.05% Owned by Pacific Indemnity
 0.05% Owned by Great Northern
 0.02% Owned by Chubb Canada
- (C) 94.0% Owned by Chubb De Colombia
 1.2% Owned by Vigilant
 1.2% Owned by Federal
 1.2% Owned by Chubb Corp. NJ
 1.2% Owned by Pacific Indemnity
 1.2% Owned by Great Northern
- (D) 30% Owned by Sullivan Kelly, Inc.
- (E) 96.0% Owned by DHC Corp
 1.0% Owned by The Chubb Corp
 1.0% Owned by Chubb Global Financial Services Corp
 1.0% Owned by Chubb & Son, Inc.
 1.0% Owned by Chubb Investment Company of New Jersey, Inc.

At December 31, 2001, the Company had the following agreements in effect with one or more of its affiliated companies:

Management Agreement

Federal Insurance Company, as the parent of Chubb Group of insurance companies, per an agreement dated January 1, 1998, acts as manager for the insurance business of the Chubb Indemnity Insurance Company. The agreement was approved by the Department.

Consolidated Federal Income Tax Allocation Agreement

Chubb Corporation, per an agreement dated July 29, 1981 along with a supplemental agreement dated June 20, 1994 and approved by the Department on June 30, 1994, filed a consolidated federal income tax return on behalf of the Company and various affiliates.

Agency Agreement

Personal Lines Insurance Brokerage, Inc., per an agreement dated June 1, 1990 and amended December 1, 2001 acts as personal lines agency for the Company and certain affiliates. The agreement was approved by the Department.

E. Accounts and Records

High Deductible

Section 3443 of the Insurance Law permits the issuance of workers' compensation and employers' liability insurance policies containing deductibles. It is the position of both the Insurance Department and the Department of Taxation and Finance that premium tax must be collected and paid on these policies. The Department of Taxation and Finance, in support of this position, states in a July 2, 1991 letter to the Insurance Department that the amount of the deductible paid by the policyholder to the insurer should be treated as premium paid to the insurer for the purpose of Section 1510 of the New York Tax Law.

In 1993, in response to numerous inquiries, the Insurance Department stated its position that the premium upon which premium tax is to be calculated is "the premium as calculated at the beginning of the policy period plus all of the losses and accompanying expenses for which the company is ultimately reimbursed by the insured". This opinion was published in the March 1993 issue of the Insurance Department Bulletin.

It was noted that during the course of this examination the company failed to report the deductible portion of these policies as premium and also failed to include such amounts as premium for the purposes of Section 1510 of the New York Tax Law.

General Interrogatories

The Company had failed to correctly complete general interrogatory note #26, in its December 31, 2001 filed annual statement. Examination review noted that the Company had purchased annuities to settle claims from one life insurer that exceeded 1% of the Company's policyholders' surplus as of December 31, 2001. It is recommended that the Company follow NAIC Annual Statement instructions regarding Note #26 to the financial statements.

Subsequently to the examination date, the Company correctly reported the proper information in their December 31, 2002 annual statement.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001 based upon the results of this examination:

Net premiums written in 2001 to surplus as regards policyholders	1.63 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	94.68%
Premiums in course of collection to surplus as regards policyholders	62.11%

Net premiums written to surplus as regards policyholders and liabilities to liquid assets ratios fall within the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners. However, premiums in the course of collection to surplus as regards

policyholders falls outside the benchmark range. This result was attributable to the Company's participation in the pooling agreement described in item 2C herein.

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	\$68,789,303	75.08%
Other underwriting expense incurred	31,155,052	34.01
Net underwriting loss	<u>(8,332,286)</u>	<u>(9.09)</u>
Premiums earned	<u>\$91,612,069</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2001.

	<u>Examination</u>			<u>Company</u>	<u>Surplus Increase (Decrease)</u>
	<u>Ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Admitted Assets</u>	<u>Admitted Assets</u>	
Bonds	\$65,990,636	\$	\$65,990,636	\$65,990,636	\$
Common stocks	1,038,070		1,038,070	1,038,070	
Cash on hand and on deposit	12,104,017		12,104,017	12,104,017	
Premiums and agents' balances in course of collection	11,651,676	826,711	10,824,965	10,824,965	
Premiums and agents' balances and installments booked but deferred and not yet due	23,095,125		23,095,125	23,095,125	
Accrued retrospective premiums	83,000	5,831	77,169	77,169	
Amounts billed & receivable under high deductible policies	204,655	5,448	199,207	199,207	
Reinsurance recoverables on loss and loss adjustment expense payments	977,533		977,533	977,533	
Federal income tax recoverable and interest thereon	562,437		562,437	562,437	
Interest, dividends and real estate income due and accrued	886,514		886,514	886,514	
Equities & deposits in pools & associations	526,525		526,525	526,525	
Other than invested assets	<u>1,166</u>	<u>1,166</u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$117,121,354</u>	<u>\$839,156</u>	<u>\$116,282,198</u>	<u>\$116,282,198</u>	<u>\$ 0</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$50,418,578	\$47,638,578	\$(2,780,000)
Commissions payable, contingent commissions and other similar charges	511,982	511,982	
Other expenses (excluding taxes, licenses and fees)	500,185	500,185	
Unearned premiums	15,119,063	15,119,063	
Dividends declared and unpaid: policyholders	363,018	363,018	
Ceded reinsurance premiums payable (net of ceding commissions)	22,376,229	22,376,229	
Funds held by company under reinsurance treaties	35,000	35,000	
Amounts withheld or retained by company for account of others	128,571	128,571	
Provision for reinsurance	639,151	639,151	
Payable to parent, subsidiaries and affiliates	8,503,807	8,503,807	
Contingency reserve for municipal obligations	16,037	16,037	
Accounts payable – sundry	<u>511</u>	<u>511</u>	<u> </u>
 Total liabilities	 <u>\$98,854,444</u>	 <u>\$96,074,444</u>	 <u>\$(2,780,000)</u>
 <u>Surplus</u>			
Common capital stock	\$3,500,000	\$3,500,000	\$
Gross paid in and contributed surplus	7,032,725	7,032,725	
Unassigned funds (surplus)	<u>6,895,029</u>	<u>9,675,029</u>	<u>(2,780,000)</u>
 Surplus as regards policyholders	 <u>\$17,427,754</u>	 <u>\$20,207,754</u>	 <u>\$(2,780,000)</u>
 Total liabilities and surplus	 <u>\$116,282,198</u>	 <u>\$116,282,198</u>	

NOTE: The Internal Revenue Service has completed its audits of the consolidated tax returns filed on behalf of the Company through the tax year ended 1996. All material adjustments, if any, made subsequent to the examination date and arising from said audits, are reflected in the financial statements included in this report. Audits covering the tax year ended 1997 to 2001 are in progress. 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 increased \$3,994,150 during the five-year examination period, January 1, 1997 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$91,612,069
Deductions:		
Losses and loss adjustment expenses incurred	\$68,789,303	
Other underwriting expenses incurred	<u>31,155,052</u>	
Total underwriting deductions		<u>(99,944,355)</u>
Net underwriting loss		\$(8,332,286)

Investment Income

Net investment income earned	\$17,494,468	
Net realized capital gains	<u>534,415</u>	
Net investment gain		18,028,883

Other Income

Net agents' balances charged off & aggregate w/-in for misc. income		(135,182)
Total other income (loss)		<u>(135,182)</u>
Net income before dividends to policyholders, and before federal & foreign income taxes		\$9,561,415
Dividends to policyholders		<u>611,503</u>
Net income before federal and foreign income taxes		\$8,949,912
Federal and foreign income taxes incurred		<u>3,724,763</u>
Net income		<u>\$5,225,149</u>

Capital and Surplus Account

Surplus as regards policyholders as of December 31, 1996 per report on examination			\$13,433,604
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net Income	\$5,225,149	\$	
Net unrealized capital gains or loss	3,333		
Change in non-admitted assets		585,090	
Change in liability for authorized reinsurance		545,602	
Cumulative effect on accounting principles	_____	<u>103,640</u>	
Total gains and losses	<u>\$5,228,482</u>	<u>\$1,234,332</u>	
Net increase in surplus			<u>3,994,150</u>
Surplus as regards policyholders as of December 31, 2001			<u>\$17,427,754</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$50,418,578 is \$2,780,000 greater than \$47,638,578 reported by the Company in their December 31, 2001 annual statement. 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. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholder and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation.

The general review was directed at the practices of the Company in the following major areas:

Sales and advertising
Treatment of policyholders and claimants

No problem areas were encountered.

6. SUBSEQUENT EVENTS

The Company's immediate parent, Federal Insurance Company, made a cash contribution to gross paid in and contributed surplus for \$6 million in the fourth quarter of 2002 to Chubb Indemnity Insurance Company.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following comments detailed as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company comply with its by-laws and maintain at least thirteen board of directors.	3
The Company has complied with this recommendation by maintaining at least thirteen board of directors during the period of examination.	
It is recommended that the Company obtain signed conflict of interest questionnaires from all directors, officers and key employees on a yearly basis.	5
The Company has complied with this recommendation.	
It is recommended that the Company comply with its by-laws and maintain an executive committee, a finance committee and an audit committee.	5

ITEMPAGE NO.

The Company has complied with this recommendation by maintaining an executive committee, a finance committee and an audit committee during the period of examination.

B. Reinsurance

One reinsurance agreement and three reinsurance addenda were not signed by reinsurers providing the majority of coverage under those agreements. In addition, two reinsurance agreements did not contain dates for the settlement of losses. It is recommended that the Company comply with Chapter 22 of the Accounting Practices and Procedures Manual and obtain signed interest and liabilities statements and addenda within the nine months of the commencement of the reinsurance agreement or the addenda. Furthermore, it is recommended that the Company amend its reinsurance agreements to include dates from the settlement of losses.

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The Company has complied with this recommendation.

C. Holding Company System

The Company has submitted only one of its three inter-company agreements to the Department for non-disapproval as required by Section 1505(d)(3) of the New York Insurance Law. Subsequent to the examination date, the Company submitted both its holding company agreements to the Department. It is recommended that the company submit all future inter-company agreements to the Department for its review in accordance with Section 1505(d)(3) of the New York Insurance Law.

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The Company has complied with this recommendation by filing all inter-company agreements with the Department for its review in accordance with Section 1505(d)(3) of the New York Insurance Law.

D. Accounts and Records

- i. It is recommended that the Company comply with the annual statement instructions and report inter-company balances as receivable from parent, subsidiaries and affiliates. 16-17

The Company has complied with this recommendation by complying with the annual statement instructions by reporting the inter-company balances as receivable from parent, subsidiaries and affiliates.

- ii. It is recommended that pooled amounts due to non-affiliates be separated and reported as due to associated companies; the remainder should be reported as payable to parent, subsidiaries and affiliates in accordance with the annual statement instructions. 17

The Company has complied with this recommendation by separating pooled amounts due to non-affiliates and reporting them as due to associated companies; the remainder is reported as payable to parent, subsidiaries and affiliates in accordance with the annual statements instructions.

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that the Company comply with Section 325 of the New York Insurance Law and maintain complete records at its New York office.	18
The Company has complied with this recommendation.	
iv. It is recommended that the Company amend its custodial agreement with the Bank of New York to include those provisions that are indicative of sound business practices.	18
The Company has complied with this recommendation by including those provisions that are indicative of sound business practices in their custodial agreement with the Bank of New York.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Territory and Plan of Operation</u>	
It is recommended that the Company comply with Section 1113(a) paragraphs 3 and 17 of the new York Insurance Law. Subsequent to the examination date the Company changed its license by adding the two mentioned additional lines of business.	7
B. <u>Accounts and Records</u>	
1) <u>High Deductibles</u>	
It was noted that during the course of this examination the company failed to report the deductible portion of these policies as premium and also failed to include such amounts as premium for the purposes of Section 1510 of the New York State Tax Law.	15
2) <u>General Interrogatories</u>	
It is recommended that the Company follow NAIC Annual Statement instructions regarding Note #26 to the Notes to Financial Statements. Subsequent to the examination date, the Company correctly reported the proper information in their December 31, 2002 annual statement.	15

Respectfully submitted,

_____/S/_____
Marc Bruckstein, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

MARC BRUCKSTEIN, being duly sworn, deposed and says that the foregoing report submitted
By him is true to the best of his knowledge and belief.

_____/S/_____
Marc Bruckstein, CFE

Subscribed and sworn to before me

This _____ day of _____ 2003.

Appointment No. 21843

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Marc Bruckstein

as proper person to examine into the affairs of the
CHUBB INDEMNITY INSURANCE COMPANY

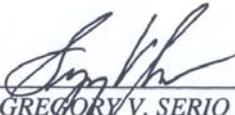
and to make a report to me in writing of the condition of the said
Company

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 7th day of March, 2002





GREGORY V. SERIO
Superintendent of Insurance