

REPORT ON EXAMINATION

OF

CHUBB INDEMNITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

MARCH 30, 2018

EXAMINER

JUSTIN MATHEW

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 30, 2018

Honorable Maria T. Vullo
Superintendent
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 31571 dated March 6, 2017, attached hereto, I have made an examination into the condition and affairs of Chubb Indemnity Insurance Company as of December 31, 2016, and submit the following report thereon.

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

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s office located at 202A Hall’s Mill Road, Whitehouse Station, New Jersey 08889.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Indiana, which was the lead state of the Chubb Group. The examination was performed concurrently with the examinations of the following insurers:

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

Texas Pacific Indemnity Company (“TPIC”), a Texas domiciled insurer, was examined in the prior coordinated examination as of December 31, 2011. It is noted TPIC is not part of this coordinated examination due to a merger with Pacific Indemnity Company effective September 30, 2017.

Other states participating in this examination were Connecticut, Delaware, New Jersey, Texas and Wisconsin.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“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
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- 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 as the Sun Indemnity Company on November 3, 1922; it later changed its name to Sun Insurance Company of New York. The Company commenced business on January 1, 1923. The present name was adopted on February 3, 1994.

The Company is wholly-owned by Federal Insurance Company ("FIC"), which is domiciled in the State of Indiana. FIC was wholly-owned by the Chubb Corporation ("Chubb"), a New Jersey domiciled Holding Corporation. On June 30, 2015, Chubb entered into an agreement and plan of merger with ACE Limited ("ACE"), a company organized under the laws of Switzerland, and William Investment Holdings Corporation, a New Jersey corporation and a wholly-owned indirect subsidiary of ACE, which provided for the acquisition of Chubb by ACE.

On January 14, 2016, ACE, now known as Chubb Limited completed the acquisition of Chubb, a leading provider of middle-market commercial, specialty, surety and personal insurance for approximately \$29.5 billion, comprising \$14.3 billion in cash and \$15.2 billion in newly-issued stock, based on the Chubb Limited closing price on the acquisition date. In addition, Chubb Limited assumed outstanding equity awards to employees and directors with an attributed value of approximately \$323 million. The total consideration was \$29.8 billion.

The Company is a member of the Chubb Group of Insurance Companies (“Chubb Group”). As of December 31, 2016, the Chubb Group consisted of the following members:

| <u>Company</u> | <u>State of Domicile</u> |
|--|--------------------------|
| Chubb Custom Insurance Company (“CCIC”) | New Jersey |
| Chubb Indemnity Insurance Company (“CIIC”) | New York |
| Chubb Insurance Company of New Jersey (“CICN”) | New Jersey |
| Chubb Lloyds Insurance Company of Texas (“CLIC”) | Texas |
| Chubb National Insurance Company (“CNIC”) | Indiana |
| Executive Risk Indemnity Inc. (“ERII”) | Delaware |
| Executive Risk Specialty Insurance Company (“ERSIC”) | Connecticut |
| Federal Insurance Company (“FIC”) | Indiana |
| Great Northern Insurance Company (“GNIC”) | Indiana |
| Pacific Indemnity Company (“PIC”) | Wisconsin |
| Texas Pacific Indemnity Company (“TPIC”) | Texas |
| Vigilant Insurance Company (“VIC”) | New York |

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 twenty-one members. The board meets four times during each calendar year. At December 31, 2016, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|--|
| Christopher John Kearns New York, New York | Director, Chubb Indemnity Insurance Company |
| Paul Joseph Krump Mendham, New Jersey | Chairman and President, Chubb Indemnity Insurance Company |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|--|
| John Joseph Lupica Newtown, Pennsylvania | President, Ace American Insurance Company |
| Harold Lawrence Morrison, Jr. Basking Ridge, New Jersey | Director, Chubb Indemnity Insurance Company |
| Paul Gerard O'Connell Princeton, New Jersey | Senior Vice President and Chief Actuary, Chubb Indemnity Insurance Company |
| Kevin Michael Rampe New Hope, Pennsylvania | Director, Chubb Indemnity Insurance Company |
| Drew Kiehn Spitzer Summit, New Jersey | Executive Vice President, Chief Financial Officer and Treasurer, Chubb Indemnity Insurance Company |

As of December 31, 2016, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|-----------------------|--|
| Paul Joseph Krump | Chairman and President |
| Drew Kiehn Spitzer | Executive Vice President, Chief Financial Officer and Treasurer |
| Paul Gerard O'Connell | Senior Vice President and Chief Actuary |
| John Paul Taylor | Senior Vice President |

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in all fifty states, as well as the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance 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> |
|------------------|-------------------------|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|--|
| 10 | Elevator |
| 11 | Animal |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Workers' compensation and employers' liability |
| 16 | Fidelity and surety |
| 17 | Credit |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |
| 26(A)(B)(C) (D) | Gap |
| 27 | Prize indemnification |
| 29 | Legal services |

The Company is also authorized to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurance described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended), and as authorized by Section 4102(c), insurance of every kind or description outside of the United States and reinsurance of every kind or description. In addition, the Company is licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, 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 in the amount of \$35,000,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

| <u>Calendar Year</u> | <u>Direct Premiums</u> | <u>Assumed Premiums</u> | <u>Total Gross Premiums</u> |
|----------------------|------------------------|-------------------------|-----------------------------|
| 2012 | \$405,671,870 | \$46,407,855 | \$452,079,725 |
| 2013 | \$382,929,100 | \$47,734,090 | \$430,663,190 |
| 2014 | \$383,631,654 | \$49,276,462 | \$432,908,116 |
| 2015 | \$409,279,635 | \$50,642,126 | \$459,921,761 |
| 2016 | \$439,194,547 | \$48,779,352 | \$487,973,899 |

Approximately 66% of the Company's direct writings in 2016 were concentrated in New York, California, Minnesota, Pennsylvania and Illinois. Major product lines written direct and assumed in 2016 were in workers' compensation (56.0%), homeowners multiple peril (20.7%), inland marine (5.7%) and other liability – occurrence (5.4%). The Company's products and services are distributed through brokers, independent agents and various forms of direct marketing. The Company has a substantial presence in the United States with a broad variety of coverages serving large corporate and upper middle market accounts, middle market and small commercial accounts, and personal lines. As of December 31, 2016, there were a total of 152 producer corporations for the Company.

Due to the intercompany pooling agreement (described in Section 2C of this report), the net exposure of the Company is significantly different than its direct exposure. At December 31, 2016, the Company reported \$31,683,995 in net premiums written, \$439,194,547 in direct premiums written and \$48,779,352 in assumed premiums written.

C. Reinsurance

Intercompany Pooling Agreement

Effective October 1, 2006, the Company and eight other affiliates participate in an intercompany pooling agreement, the Chubb Group Reinsurance Pool ("the Pool"). This agreement covers substantially all business, with the exception of foreign business, the run-off of an old aircraft voluntary pool and certain asbestos and environmental losses from policies written by Pacific Indemnity Company prior to its acquisition. Federal Insurance Company is the lead insurer with a 68.5% participation in the Pool.

The Chubb Group Reinsurance Pool differs from traditional pooling agreements where participants cede all of their business to a lead reinsurer, who then retrocedes back to each pool participant according to their pool participation percentage. In the Chubb Group Reinsurance Pool, each participating company retains a percentage of its direct business equal to its pool participation percentage and cedes the remainder to the other pool participants. Each participating company also assumes its participation percentage from each of the other pool participants. Although the methodology utilized by the Pool differs from a "traditional" pooling agreement, the net financial results are identical.

The Company has a 0.5% share in the pool. The following chart shows the other Pool participants, their participation percentage, the ceded premiums to each, and the reinsurance recoverable due from each, as reported in the Company's 2016 Schedule F:

| <u>Pool Participants</u> | <u>Pooling Participation Percentage</u> | <u>Ceded Premiums</u> | <u>Reinsurance Recoverable</u> |
|--------------------------|---|-----------------------|--------------------------------|
| FIC | 68.5% | \$300,861,000 | \$501,953,000 |
| PIC | 17.0% | \$ 74,663,000 | \$124,572,000 |
| ERII | 8.0% | \$ 35,136,000 | \$ 58,621,000 |
| GNIC | 4.0% | \$ 17,568,000 | \$ 29,311,000 |
| CCIC | 0.5% | \$ 2,196,000 | \$ 3,662,000 |
| CNIC | 0.5% | \$ 2,196,000 | \$ 3,662,000 |
| ERSIC | 0.5% | \$ 2,196,000 | \$ 3,662,000 |
| VIC | 0.5% | \$ 2,196,000 | \$ 3,662,000 |

The remaining three Chubb Group members, which are non-participants in the pooling agreement, cede 100% of their business to one of the other companies within the Chubb Group. This business is then included within the Chubb Pool. Texas Pacific Indemnity Company cedes 100% of its business to PIC, Chubb Insurance Company of New Jersey cedes 100% of its business to FIC and Chubb Lloyds Insurance Company of Texas cedes 100% of its business to GNIC.

The intercompany pooling agreement was submitted to and approved by the Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

20% Net Liabilities Quota Share Reinsurance Agreement

Effective January 2016, the Company entered into a net liabilities quota share reinsurance agreement with affiliate, ACE P&C where the reinsurer accepts a 20% pro rata quota share of the Company's net liability for losses occurring, claims made or claims discovered subject to the following loss limits:

- (i) aggregate accident year loss ratio cap of 150% of Net Earned Premium, gross of ceding commission; once such loss ratio cap is breached, the reinsurer shall have no further liability hereunder;
- (ii) the reinsurer's 20% pro rata share of \$500,000,000 (or \$100,000,000) for all Losses arising out of one Loss Occurrence as that term is defined in the relevant external property catastrophe reinsurance agreements to which the Company is a party.
- (iii) the reinsurer's 20% pro rata share of \$500,000,000 (or \$100,000,000) for all Losses in the aggregate with respect to "Acts of Terrorism" or "cyber risk", both as defined in the relevant external reinsurance agreements to which the Company is a party.

Subsequent to the examination period, effective January 1, 2017, the Company amended the net liabilities quota share agreement to reflect the following: the pro rata quota share percentage increases from 20% to 35%. As a result of such pro rata quota share increase, the per Loss Occurrence, cyber risk and Acts of Terrorism limits in the agreement also have increased in the same proportion, from \$100,000,000 to \$175,000,000. In addition, the Net Earned Premium ceded under the Agreement has also changed from 20% to 35% to reflect this new increased cession.

The Company also participated in Chubb Limited's core property catastrophe reinsurance program. This program provides protection against natural catastrophes impacting primary property operations.

In 2016, the Company ceded approximately \$456,290,000 in premiums. Per the terms of the intercompany pooling agreement, approximately \$437,012,000 was ceded to pool members. Approximately \$14,171,000 was ceded to non-pool affiliates, ACE Property & Casualty Insurance Company ("ACE P&C") and ACE American Insurance Company ("ACE American"), which have authorized insurer status. Approximately \$4,876,000 was ceded to external non-affiliated reinsurers as follows: \$2,861,000 (Authorized), \$1,285,000 (Unauthorized) and \$730,000 (Certified). The remaining \$231,000 was ceded to unauthorized affiliated reinsurers.

The vast majority of the recoverable amounts reported on Schedule F – Part 3 are not collateralized due to the authorized insurer status of all reinsurers. It is noted that the reinsurance recoverables from FIC (307% of surplus) and PIC (76% of surplus) are the Company's most significant financial items and ultimately, the Company's most significant financial risk is its ability to collect on the reinsurance recoverables. It is noted that FIC and PIC were examined concurrently with the Company and that there were no financial adjustments that impacted the surplus of those companies as a result of the examination.

The quota share reinsurance agreement with affiliate, ACE P&C was reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that the agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

The intercompany pooling and net liabilities quota share agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law.

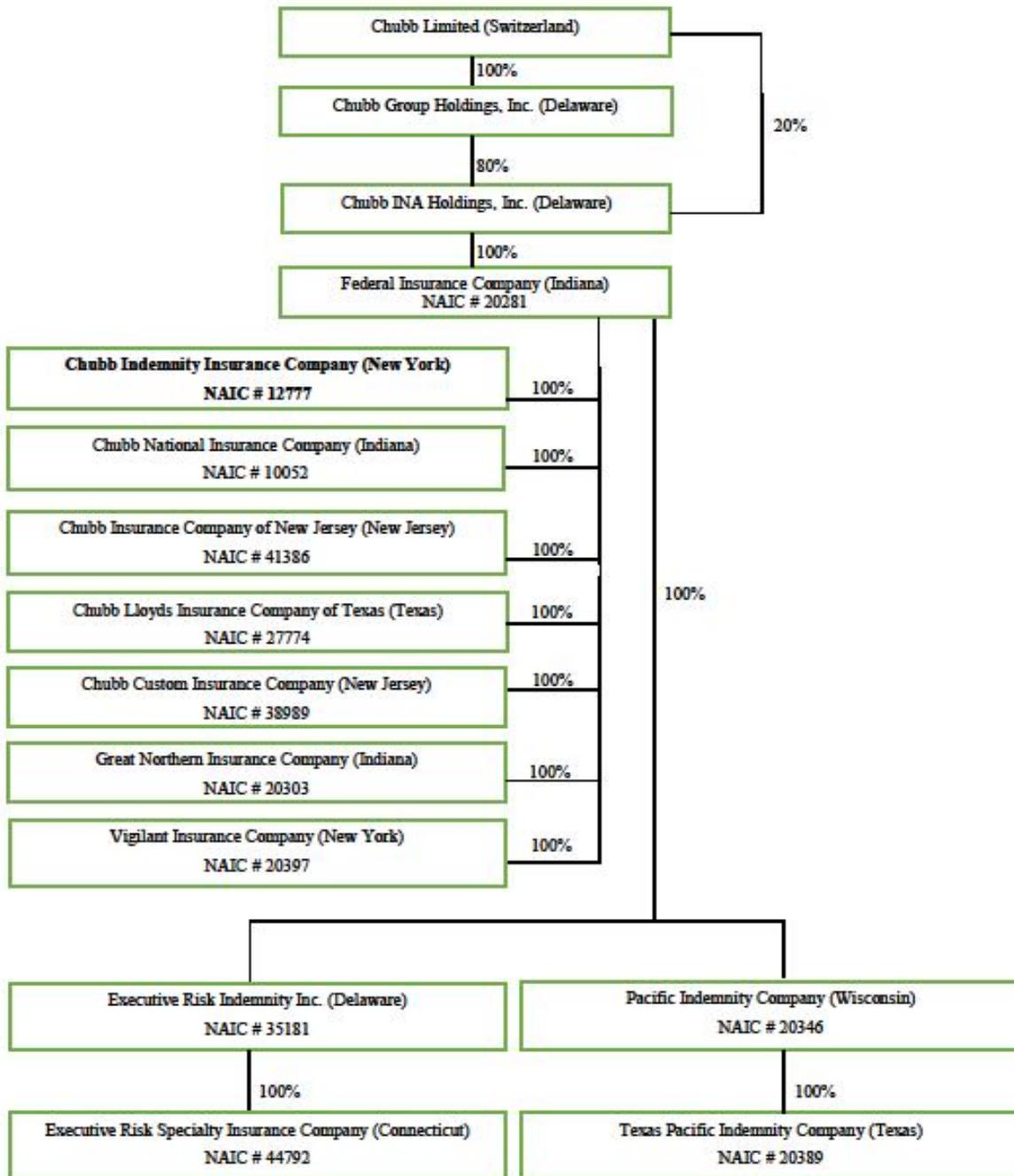
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of the Chubb Group of Insurance Companies. The Company is a wholly-owned subsidiary of Federal Insurance Company, an Indiana domiciled insurer, which is ultimately controlled by Chubb Limited.

A review of the Holding Company Registration Statement 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, 2016:



Holding Company Agreements

At December 31, 2016, the Company was party to the following agreements with other members of its holding company system:

Management Agreement

Effective January 1, 1998, the Company engaged FIC to act as the manager for the Company's insurance business and provide financial advisory services. In 2016, the Company paid a management fee to FIC in the amount of \$7,070,782. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Tax Allocation Agreement

Effective January 15, 2016, the Company is included in a U.S. consolidated federal income tax return with direct and indirect subsidiaries of Chubb Group Holdings, Inc. The agreement provides that any subsidiary having taxable income will pay a tax liability equivalent to what that subsidiary would have paid if it had filed a separate federal income tax return for the year. If the separately calculated federal income tax return for any subsidiary results in a tax loss, the current tax benefit resulting from such loss, to the extent utilizable on a separate return basis, will be paid to that subsidiary. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and New York Regulation 52.

The Company is also participating in the following management and service contracts:

1. Investment Advisory Services Agreement with Chubb Asset Management, Inc.
2. Intercompany Allocation Agreement (Allocation of Reinsurance Proceeds for Per Risk and Per Occurrence Agreements) with ACE American Insurance Company and ACE Property & Casualty Insurance Company

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

| <u>Operating Ratios</u> | <u>Result</u> |
|--|---------------|
| Net premiums written to surplus as regards policyholders | 19% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 58% |
| Two-year overall operating | 68% |

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 | \$126,381,720 | 57.39% |
| Other underwriting expenses incurred | 64,231,371 | 29.17 |
| Net underwriting gain | <u>29,607,631</u> | <u>13.44</u> |
| Premiums earned | <u>\$220,220,722</u> | <u>100.00%</u> |

The Company's reported risk based capital score ("RBC") was 1,963.3% at 12/31/2016. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

F. Accounts and Records

Compliance with Section 312 of the New York Insurance Law

Section 312(b) of the New York Insurance Law states, in part, that:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report.”

The Company was unable to provide such statements. It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors and having each director sign a statement and retain a copy that such member has received and read the report.

Conflict of Interest Statements

The Company was unable to provide all conflict of interest statements signed by its directors, officers and key employees for the examination period. It is recommended that the Company require all of its officers, directors and key employees to complete a conflict of interest questionnaire on an annual basis and ensure that all questionnaires are completed accurately and signed. Additionally, it is recommended that the Company ensure that all completed questionnaires are maintained and available for inspection.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016, as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|----------------------|--------------------------------|--------------------------------|
| Bonds | \$250,168,354 | | \$250,168,354 |
| Preferred stocks | 2,069,600 | | 2,069,600 |
| Cash, cash equivalents and short-term investments | 6,402,954 | | 6,402,954 |
| Other invested assets | 89,415 | | 89,415 |
| Receivables for securities | 31,875 | | 31,875 |
| Investment income due and accrued | 2,207,755 | | 2,207,755 |
| Uncollected premiums and agents' balances in the course of collection | 44,140,400 | | 44,140,400 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 63,887,610 | 13,393 | 63,874,217 |
| Amounts recoverable from reinsurers | 1,345,809 | | 1,345,809 |
| Other amounts receivable under reinsurance contracts | 5,214 | | 5,214 |
| Net deferred tax asset | 4,262,896 | 1,621,818 | 2,641,078 |
| Equities and deposits in pools and associations | 332,826 | | 332,826 |
| State surcharges receivable | 1,965,053 | | 1,965,053 |
| Amounts receivable under high deductible and self-insured retention policies | 2,877,407 | 24,578 | 2,852,829 |
| Other assets | <u>406,043</u> | <u>406,043</u> | <u>0</u> |
| Total assets | <u>\$380,193,211</u> | <u>\$2,065,832</u> | <u>\$378,127,379</u> |

Liabilities, Surplus and Other FundsLiabilities

| | |
|---|-------------------|
| Losses and loss adjustment expenses | \$ 77,391,715 |
| Commissions payable, contingent commissions and other similar charges | 740,391 |
| Other expenses (excluding taxes, licenses and fees) | 1,557,996 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 233,975 |
| Current federal and foreign income taxes | 1,031,830 |
| Unearned premiums | 18,691,109 |
| Advance premium | 1,305,396 |
| Dividends declared and unpaid (policyholders) | 492,919 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 56,537,062 |
| Funds held by company under reinsurance treaties | 5,594 |
| Amounts withheld or retained by company for account of others | 2,572,421 |
| Provision for reinsurance | 130,099 |
| Payable to parent, subsidiaries and affiliates | <u>53,769,258</u> |

Total liabilities \$214,459,765

Surplus and other funds

| | |
|---------------------------------------|--------------------|
| Common capital stock | \$3,500,000 |
| Gross paid in and contributed surplus | 13,032,725 |
| Unassigned funds (surplus) | <u>147,134,889</u> |
| Surplus as regards policyholders | <u>163,667,614</u> |

Total liabilities, surplus and other funds \$378,127,379

Note: The Internal Revenue Service has not performed any audits of the examination years. 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 income for the examination period as reported by the Company was \$54,772,997 as detailed below:

Underwriting income

| | | |
|--|---------------|--------------------|
| Premiums earned | | \$220,220,722 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | \$126,381,720 | |
| Other underwriting expenses incurred | 64,224,848 | |
| Minnesota workers' compensation premium assessment (net of intercompany pooling) | 3,278 | |
| LAD program expense | <u>3,245</u> | |
| Total underwriting deductions | | <u>190,613,091</u> |
| Net underwriting gain | | \$ 29,607,631 |

Investment income

| | | |
|------------------------------|------------------|------------|
| Net investment income earned | \$ 42,271,525 | |
| Net realized capital gain | <u>2,403,505</u> | |
| Net investment gain | | 44,675,030 |

Other income

| | | |
|--|----------------|----------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ (150,833) | |
| Merger integration income (expenses) | (767,236) | |
| Miscellaneous income | <u>113,922</u> | |
| Total other income | | <u>(804,147)</u> |
| Net income before dividends to policyholders and before federal and foreign income taxes | | \$ 73,478,514 |
| Dividends to policyholders | | <u>996,938</u> |
| Net income after dividends to policyholders but before federal and foreign income taxes | | \$ 72,481,576 |
| Federal and foreign income taxes incurred | | <u>17,708,579</u> |
| Net income | | \$ <u>54,772,997</u> |

C. Capital and Surplus

Surplus as regards policyholders increased \$55,809,526 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

| | | | |
|--|-----------------------------|------------------|----------------------|
| Surplus as regards policyholders as reported by the Company as of December 31, 2011 | | | \$107,858,088 |
| | <u>Gains in</u> | <u>Losses in</u> | |
| | <u>Surplus</u> | <u>Surplus</u> | |
| Net income | \$ 54,772,997 | | |
| Net unrealized capital losses | 49,809 | | |
| Change in net deferred income tax | | \$1,993,949 | |
| Change in non-admitted assets | 3,286,675 | | |
| Change in provision for reinsurance | 278,496 | | |
| Change in additional admitted deferred income tax assets recognized under SSAP No. 10R | <u> </u> | <u>584,502</u> | |
| Total gains and losses | 58,387,977 | 2,578,451 | |
| Net increase in surplus | | | \$ <u>55,809,526</u> |
| Surplus as regards policyholders as reported by the Company as of December 31, 2016 | | | <u>\$163,667,614</u> |

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

Capital paid in is \$3,500,000 consisting of 20,000 shares of \$175 par value per share common stock. Gross paid in and contributed surplus is \$13,032,725. Gross paid in and contributed surplus did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$77,391,715 is the same as reported by the Company as of December 31, 2016. The examination analysis of the Loss and Loss Adjustment Expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

Significant reserves are concentrated in the following lines of business: Other Liability - Claims-Made 24.7%, Other Liability - Occurrence 24.5% and Workers’ Compensation 20.2%. Other Liability - Claims Made consists of Professional Liability coverage with respect to Directors & Officers, Errors & Omissions, Employment Practices Liability and Fiduciary. Other Liability - Occurrence consists of Personal Excess and General Liability.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| <p>A. <u>Consolidated Federal Tax Allocation Agreement</u></p> <p>It is again recommended that the Company amends its consolidated federal income tax allocation agreement include all participating parties pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p> | <p>13</p> |
| <p>B. <u>Certified Public Accountant (CPA) Contract</u></p> <p>It is recommended that the Company ensure that its contract with its CPA complies with Section 89.8(a) of Department Regulation 118.</p> <p>The Company has complied with this recommendation.</p> | <p>14</p> |

C. Conflict of Interest Statements

It is recommended that the Company require all of its officers, directors and key employees to complete a conflict of interest questionnaire on an annual basis and ensure that all questionnaires are completed accurately and signed. Additionally, it is recommended that the Company ensure that all completed questionnaires are maintained and available for inspection. 14

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

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

| <u>ITEM</u> | <u>PAGE NO.</u> |
|---|-----------------|
| A. <u>Accounts and Records</u> | |
| i It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors and having each director sign a statement and retain a copy that such member has received and read the report. | 14 |
| ii It is again recommended that the Company require all of its officers, directors and key employees to complete a conflict of interest questionnaire on an annual basis and ensure that all questionnaires are completed accurately and signed. Additionally, it is again recommended that the Company ensure that all completed questionnaires are maintained and available for inspection. | 14 |

Respectfully submitted,

Justin Mathew
Senior Insurance Examiner

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

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

Justin Mathew

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31571

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, 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:*

Justin Mathew

as a proper person to examine the affairs of the

Chubb Indemnity Insurance Company

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 6th day of March, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief