

REPORT ON EXAMINATION  
OF THE  
TRANSCONTINENTAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 1998

DATE OF REPORT

SEPTEMBER 27, 2002

EXAMINER

WARREN YOUNGS

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

September 27, 2002

Honorable Gregory V. 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 21452 dated August 16, 1999, attached hereto, I have made an examination into the condition and affairs of the Transcontinental Insurance Company as of December 31, 1998, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at CNA Plaza, Chicago, Illinois, 60685.

Wherever the designations "the Company" or "TIC" appear herein without qualification, they should be understood to indicate the Transcontinental Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1993. This examination covered the five-year period from January 1, 1994 through December 31, 1998. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 1998. 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 Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Market conduct activities

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated on August 21, 1925 under the laws of New York. It commenced business on November 1, 1925. Two former companion carriers, Franklin National Insurance Company of New York and United National Indemnity Company, were merged with and into the Transcontinental Insurance Company as of the close of business December 31, 1955. On March 8, 1994, Transcontinental increased its paid in capital from \$3,000,000, consisting of 300,000 shares at \$10 par value per share, to \$4,200,000, consisting of 420,000 shares at \$10 par value per share.

### 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 nor more than twenty-seven members. As of the examination date, the board of directors was comprised of thirteen members. The board met four times during each calendar year for the period under examination. The directors as of December 31, 1998, were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
David A. Bierschied, Sr. Manlius, NY	Branch President, CNA Insurance Companies
Marvin J. Cashion Chicago, IL	Group Vice President and Deputy General Counsel, CNA Insurance Companies
Thomas R. DeYulia Montgomery, MD	Vice President, CNA Insurance Companies
Joel S. Feldman Kildeer, IL	Vice President and Associate General Counsel, CNA Insurance Companies

<u>Director</u>	<u>Principal Business Affiliation</u>
Michael T. Gengler Chicago, IL	Vice President and Associate General Counsel, CNA Insurance Companies
Lynn M. Gugenheim Chicago, IL	Vice President and Associate General Counsel, CNA Insurance Companies
Jonathan D. Kantor Scarsdale, NY	Chairman of the Board, Secretary & General Counsel of TIC; Senior Vice President, General Counsel and Secretary, CNA Insurance Companies
Robert M. Mann Highland Park, IL	Vice President and Associate General Counsel, CNA Insurance Companies
Sally B. Narey Boca Raton, FL	Group Vice President and Deputy General Counsel, CNA Insurance Companies
Carol A. Noer New York, NY	Chief Underwriting Officer and Counsel, CNA Insurance Companies
Mary A. Ribikawskis Bartlett, IL	Director and Assistant Secretary, CNA Insurance Companies
Rima L. Skorubskas Downers Grove, IL	Group Vice President and Deputy General Counsel, CNA Insurance Companies
Thomas P. Stillman Chicago, IL	Vice President and Associate General Counsel, CNA Insurance Companies

The minutes of all of the board of directors' meetings held during the examination period were reviewed. The board of directors' meetings were generally well attended. Director David A. Bierschied, Sr., only attended approximately 43% of the meetings he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their

views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

In view of the above, it is recommended that Director David A. Bierschied, Sr., either improve his attendance at board meetings or that the stockholders replace him with an individual who will be more active in the affairs of the Company.

At December 31, 1998, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Jonathan D. Kantor	Chairman of the Board, Secretary & General Counsel
Philip L. Engel	President
Bernard L. Hengesbaugh	Executive Vice President and Chief Operating Officer
Walter J. MacGinnitie	Senior Vice President and Chief Financial Officer
William J. Adamson, Jr.	Senior Vice President
Peter P. Conway, Jr.	Senior Vice President
Carol Dubnicki	Senior Vice President
James P. Flood	Senior Vice President
Michael C. Garner	Senior Vice President
Peter E. Jokiel	Senior Vice President
Michael S. McGavick	Senior Vice President
William H. Sharkey, Jr.	Senior Vice President
Thomas F. Taylor	Senior Vice President
Robert T. Van Gieson	Senior Vice President
Jae Lynn Witlich	Senior Vice President
David W. Wroe	Senior Vice President
John M. Squarok	Group Vice President
Pamela S. Dempsey	Vice President and Treasurer

B. Territory and Plan of Operation

The Company is licensed in the District of Columbia, Puerto Rico, and all fifty states.

The following schedule compares direct premiums written during the examination period in New York State with the total direct premiums written in the United States, including Puerto Rico:

<u>DIRECT PREMIUMS WRITTEN (000's)</u>			
<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of U. S. Premiums Written in New York State</u>
1994	\$73,959	\$621,813	11.9%
1995	\$95,598	\$800,298	11.9%
1996	\$117,660	\$1,010,535	11.6%
1997	\$159,406	\$1,186,635	13.4%
1998	\$200,441	\$1,352,266	14.8%

As of December 31, 1998, 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>Kind of Insurance</u>
3	Accident and health
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
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value

The Company was also licensed as of December 31, 1998, to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69<sup>th</sup> Congress, as amended; 33 USC Section 901 et seq. as amended).

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 \$4,200,000.

At December 31, 1998, the Company wrote insurance through independent agents. The Company's predominant lines of business were commercial multiple peril and workers' compensation, which accounted for 37.18% and 35.14%, respectively, of the Company's 1998 direct written business.

The review of all the Company's licenses as of December 31, 1998, revealed that the Company has been licensed in other states for lines of business for which it does not have authority in its New York, as follows: Colorado - mortgage; Florida - mortgage guaranty; Indiana - combination of title and mortgage guaranty; Mississippi - guaranty; North Dakota - mortgage guaranty and title; Ohio - financial guaranty.

The Company's minimum financial requirements and authority to do business is predicated upon its New York licensed authority pursuant to provisions of Section 1102 and Article 41 of the New York Insurance Law.

Therefore, it is recommended that the Company take the steps necessary to conform its licenses outside this state to its New York license and immediately cease the doing of any kind of business for which it does not have authority in New York.

The prior report on examination contained a recommendation that "the Company reinsure only those lines of business which its license permits, in compliance with the provisions of Section 1114(a) of the New York Insurance Law."

Section 1114(a) of the New York Insurance Law states, in part:

"Any domestic stock or mutual insurance corporation ... may reinsure only the kinds of insurance business which it is licensed to do in this state or which it is otherwise authorized to reinsure by the terms of its license ... "

The review of the 1994 through 1998 annual statements revealed that the Company was reporting assumed reinsurance premium activity and loss activity related to the mortgage guaranty and financial guaranty lines of business. The Company is not licensed to write either line. The Company is also not licensed under the provisions of Section 4102(c) of the New York Insurance Law to reinsure risks of every kind or description. Therefore, the Company continues to violate the requirements of Section 1114(a) of the New York Insurance Law.

In view of the above, it is again recommended that the Company reinsure only those lines of business that its license permits, in compliance with the provisions of Section 1114(a) of the New York Insurance Law.

A review of the 1998 Special Risk Insurance Exhibit of Premiums and Losses and Schedule SR (Property) included in the New York Supplement to the Annual Statement revealed that the Company had issued policies pursuant to Article 63 of the New York Insurance Law.

Based upon a review of correspondence with the Property Bureau of this Department and with the Company it was determined that the Company was not licensed as required by Section 6302(a) of the New York Insurance Law to issue special risk insurance policies.

The Company was requested to provide the details of the special risk insurance premiums written in 1998 on a policy by policy basis and the declaration pages for each of the policies issued. Based upon a review of the information provided, the Company issued six policies subject to Article 63 of the New York Insurance Law in 1998 and one in 1999.

In view of the above, it is recommended that the Company not issue policies pursuant to Article 63 of the New York Insurance Law until it has obtained the license required by Section 6302(a) of the New York Insurance Law, henceforth.

C. Reinsurance

The Company is a party to an inter-company reinsurance pooling agreement with Continental Casualty Company (“CCC”), an affiliate, and other property/casualty companies in the CNA Insurance Group. The agreement provides for the companies to cede 100% of its gross premiums written, gross losses paid, expenses paid (other than investment expenses, corporate expenses and federal or foreign income taxes), retrospective payments and underwriting assets and liabilities to CCC. CCC obtains the

external reinsurance and distributes the net retained liability and net underwriting assets and liabilities to the companies of the CNA Pool based upon their participation percentages.

The participation percentages of the companies in the CNA Pool have not changed since 1985.

The following schedule lists the companies' participation percentages during the examination period:

<u>Company</u>	<u>Domiciliary State</u>	<u>Participation Percentages</u> <u>1/1/94 to 12/31/98</u>
Continental Casualty Company	Illinois	76.27%
Transportation Insurance Company	Illinois	1.50
CNA Casualty of California	California	1.50
National Fire Insurance Company of Hartford	Connecticut	8.00
Transcontinental Insurance Company	New York	3.00
American Casualty Company of Reading, Pennsylvania	Pennsylvania	4.70
Valley Forge Insurance Company	Pennsylvania	2.50
Columbia Casualty Company	Illinois	2.50
CNA Lloyd's of Texas	Texas	.03
Total		<u>100.00%</u>

CCC retains the entire amount established for the statutory liability, "Provision for Reinsurance".

All other underwriting assets and liabilities resulting from the pooling agreement are shared based upon the participation percentages shown above.

Transcontinental Insurance Company has obtained the necessary regulatory approval to participate in the CNA reinsurance pooling agreement.

D. Holding Company System

The Company is a wholly-owned subsidiary of National Fire Insurance Company of Hartford, a Connecticut insurer, whose outstanding stock is in turn, owned by Continental Casualty Company.

Continental Casualty Company is wholly-owned by CNA Financial Corporation. The Company's ultimate parent is Loews Corporation, which as of December 31, 1998 owned 84% of the voting stock of CNA Financial Corporation.

i. Holding Company Agreements

The Company was a party to the following holding company agreements as of December 31, 1998: CNA Reinsurance Pooling Agreement, CNA Inter-Company Expense Agreement, Federal Income Tax Allocation Agreement and CNA BSO Limited Partnership Agreement. See Section 2(C) "Reinsurance" of this report for a description of the CNA Reinsurance Pooling Agreement. The other agreements are described below:

a) CNA Inter-Company Expense Agreement

The CNA inter-company expense agreement became effective January 1, 1977 and remains in effect until canceled. The agreement provides for the sharing of expenses among various CNA companies. Several endorsements over the years added and deleted various companies as parties to the agreement. See Section 2(D)(ii) below for additional information regarding this agreement.

b) Federal Income Tax Allocation Agreement

The Federal income tax allocation agreement became effective January 1, 1980. It shall continue in effect until termination or cancelled as provided for in the agreement. The participating parties to the agreement are National Fire Insurance Company of Hartford ("Parent") and Transcontinental Insurance Company ("Subsidiary"). The non-participating parties to the agreement are Loews Corporation, CNA Financial Corporation and Continental Casualty Company, due to their direct and indirect ownership of Parent and Subsidiary.

The agreement provides for Transcontinental to calculate its tax liability under the method put forth at Section 3 (A) of Department Circular Letter No. 33 (1979). Section 3 (A) states that:

“The tax charge or tax refund to the domestic insurer under the agreement shall be the amount that the domestic insurer would have paid or received if it had filed on a separate return basis with the Internal Revenue Service.”

The agreement was approved by the Department as meeting the requirements of Department Circular Letter No. 33 (1979).

c) CNA BSO Limited Partnership Agreement

The CNA BSO Limited Partnership was formed October 31, 1991. The parties to the agreement are:

National Fire Insurance Company of Hartford – General Partner.  
American Casualty Company of Reading Pennsylvania; Valley Forge Insurance Company; Transcontinental Insurance Company; Transportation Insurance Company; CNA Casualty of California; Columbia Casualty Company; and CNA Lloyds of Texas – Limited Partners.

The above parties formed the CNA BSO Limited Partnership pursuant to the provisions of the Illinois Revised Uniform Limited Partnership Act. The purpose of the partnership was to invest, reinvest and trade in securities and other financial instruments and rights and options thereto which are permitted investments under the Illinois Insurance Code in order to establish a separate investment account and designate assets for such account to support the Company’s structured settlement obligations. This matter is further discussed in item 7 herein.

Management of the business and affairs of the partnership is the sole responsibility of the general partner, which has sole discretion of making investments on behalf of the partnership. The general partner is accountable to each limited partner as a fiduciary.

A formal filing of the agreement was not made until December 28, 1995. In a memorandum dated January 2, 1996, the Department acknowledged receipt of the captioned partnership agreement and advised that it was placed on file with the Department.

ii. Article 15 of the New York Insurance Law and Department Regulation 52

The Company's holding company filings during the examination period were reviewed to ascertain their compliance with the provisions of Article 15 of the New York Insurance Law and Department Regulation 52.

The CNA inter-company expense agreement became effective January 1, 1977. Several amendments were made to the agreement over the years, with the last amendment in 1996. The agreement was not submitted to the Department until many years after it became effective. The Department is in the process of reviewing this agreement.

Section 1505(d)(3) of the New York Insurance Law provides that:

“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 such shorter period as he may permit, and he has not disapproved it within such period: (3) rendering of services on a regular or systematic basis.”

As indicated above, the CNA inter-company expense agreement was not filed until after it was already in effect. Thus, it is recommended that the Company comply with the prior notice requirements of Section 1505(d) of the New York Insurance Law, henceforth. It is noted that a similar comment was made in the prior report on examination regarding the Company's compliance with the prior notice requirements of Section 1505(d) of the New York Insurance Law.

Sections 1505(a)(1), (2), (3) of the New York Insurance Law state that:

"(a) Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following: (1) the terms shall be fair and equitable; (2) charges or fees for services performed shall be reasonable; and (3) expenses incurred and payments received shall be allocated to the insurer on an equitable basis in conformity with customary insurance accounting practices consistently applied."

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

"The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties."

The Company was unable to provide sufficient detailed documentation to verify that the allocation process under the CNA inter-company expense agreement was working properly and that Transcontinental was only being billed for legitimate expenses. Thus, it could not be determined if the charges or fees to the Company were reasonable. Therefore, it is recommended that the Company comply with Section 1505(b) of the New York Insurance Law and maintain the accounting information necessary to support the reasonableness of the charges or fees to the respective parties and produce such information upon examination.

The CNA inter-company expense agreement indicates that charges under the agreement will be paid promptly. Some of the smaller amounts that were allocated under the expense allocation process to the various companies were not settled until years later. The Company and its affiliates do not appear to be following the provisions of the CNA inter-company expense agreement in all cases. Thus, it is recommended that the Company and its affiliated companies adhere to the terms of any expense allocation agreements in effect, henceforth.

Regulation 52, Section 80-1.4 states that:

“Every controlled insurer registered or required to register pursuant to Insurance Law, Section 1503, shall within 120 days following the end of its ultimate holding company’s fiscal year, and within 120 days following the end of each succeeding fiscal year, furnish to the superintendent a report containing...” various information put forth in such section.

The Regulation 52 filings for the years 1995, 1997 and 1998 were received by the Department more than one hundred and twenty days following the end of the fiscal year. Thus, it is recommended that the Company adhere to the reporting requirements of Regulation 52, Section 80-1.4 by furnishing all of the required information within one hundred and twenty days following the end of each fiscal year.

iii. Schedule Y

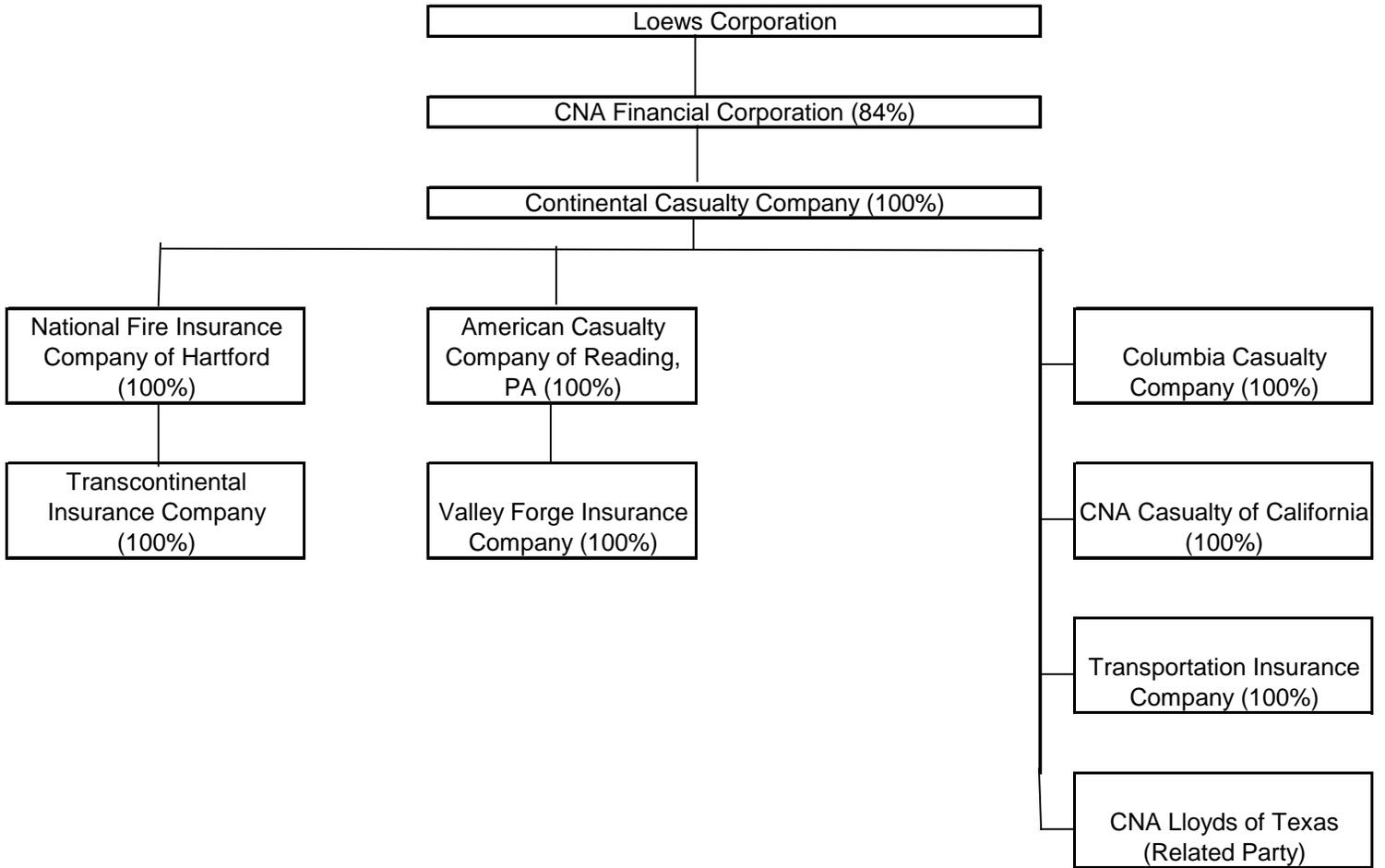
Based upon a review of Schedule Y-Part 2 of the Company’s filed 1998 annual statement and the 1998 Annual Statement instructions the following is noted:

1. The Company should be including a “P” in column 9 “Income/(Disbursements) Incurred under Reinsurance Agreements”.
2. The Company should have included an explanatory note in the space following Schedule Y, Part 2 indicating the pooling percentage and the name of each insurer in each pool.
3. The Company should have recorded an amount in column 12 “Reinsurance Recoverable/(Payable) on Losses and/or Reserve Credit Taken/(Liability)”.

Thus, it is recommended that the Company complete Schedule Y-Part 2 in accordance with the annual statement instructions, henceforth.

iv. Holding Company Chart of CCC Pool

The following is a chart of the members of the holding company system (CCC Pool only) as of December 31, 1998:



See Appendix A of the report for the whole CNA Financial Corporation holding company chart.

v. Section 1221 of the New York Insurance Law Compliance

Section 1221(a)(1) of the New York Insurance Law states that:

“Every person who directly or indirectly owns beneficially more than ten percent of any class of shares of a domestic insurer or is a director or officer thereof shall file in the office of the superintendent: within ten days after he becomes such owner, director or officer a statement, in form prescribed by the superintendent, of the amount of all such shares of which he is the beneficial owner”.

During the course of this examination it was found that the directors and officers were not making the filings required by Section 1221 of the New York Insurance Law. After bringing the above to the Company's attention, the Company's officers and directors filed the required forms. Nevertheless, it is recommended that the Company ensure that all of its directors and officers make the required filings under Section 1221 of the New York Insurance Law, henceforth.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1998, based upon the results of this examination:

Net premiums written in 1998 to surplus as regards policyholders	2.69 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	90.74%
Premiums in course of collection to surplus as regards policyholders	0.00%
* Gross premiums written in 1998 to surplus as regards policyholders	20.08 to 1
* Two-year overall overall operating ratio	107.08%
* Change in surplus	(60.28)%
* One-year reserve development to surplus	30.16%
* Two-year reserve development to surplus	25.26%
* Estimated current reserve deficiency to surplus	69.84%

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

\*The above noted ratio failures were the result of examination changes.

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	\$864,258,869	86.46%
Other underwriting expenses incurred	308,523,656	30.86
Net underwriting gain (loss)	<u>(173,132,784)</u>	<u>(17.32)</u>
 Premiums earned	 <u>\$999,649,741</u>	 <u>100.00%</u>

F. Abandoned Property Law

The Company's abandoned property filings for the period under examination and for the year 1999 were reviewed. Based upon the review it appears that the Company was filing the "VERIFICATION AND CHECKLIST FOR UNCLAIMED PROPERTY" pursuant to Section 1315 of the New York Abandoned Property Law and the required detail report. The required detailed report filed along with the Section 1315 verification and checklist also contained the preliminary Section 1316 of the New York Abandoned Property Law detail information. However, it appears that the Company was not filing the preliminary, "VERIFICATION AND CHECKLIST FOR UNCLAIMED PROPERTY" pursuant to Section 1316 of the New York Abandoned Property Law as required. The Company was filing the final Section 1316 abandoned property reports due in September of each year.

It was also found that the Company filed some of the reports reviewed outside of the prescribed filing periods.

The above discrepancies were brought to the attention of the Company personnel responsible for making the abandoned property filings, during the course of this examination. In correspondence dated January 25, 2000, the Company agreed to take corrective measures to ensure that the Sections 1315 and 1316 abandoned property reports are filed in accordance with the New York Abandoned Property Law.

The Company has procedures in place for the handling of unclaimed funds to ensure that outstanding checks are subject to follow-up procedures on a periodic basis.

G. Accounts and Records

i. CPA Contracts

Department Regulation 118, Section 89.2 requires an insurer to enter into a written contract with its certified public accountant. In addition, Section 89.2 of the Regulation sets forth the terms that the contract must encompass. The examiners requested the CPA agreement that covered TIC for the 1998 audit. The Company provided CNA's agreement with its CPA firm related to performing the 1998 audit. Such agreement did not conform to the provisions of Regulation 118.

Thus, it is recommended that the Company ensure that the agreement with the CPA for all future audits, that include Transcontinental Insurance Company, contain the provisions required by Department Regulation 118.

ii. Allocation of Expenses

This Department's Regulation 30 sets forth the rules and methods governing the allocation of expenses among the major expense groups (loss adjustment, other underwriting and investment). This

regulation also requires insurers to maintain detailed worksheets on file, supporting percentages used in allocating expenses to the various expense groups.

Management could not provide detailed worksheets to support the allocation of each expense category to a particular expense group. Thus, there was no viable way to determine whether the Company correctly allocated expenses, as per the rules found in the regulation.

In view of the above, management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30.

Department Regulation 30 also indicates what types of expenses should be allocated to each of the expense categories set forth in the regulation. Instances were found of expenses being allocated to the incorrect category by the Company (main example: expenses being included in salary and related items rather than in employee relations and welfare where they appeared to belong).

In correspondence dated June 20, 2002, the Company was asked to explain the discrepancies found by the examiners. However, the Company has not responded to the request for information.

Based upon the above, it is recommended that the Company allocate its expenses to each expense category in accordance with Department Regulation 30.

iii. Premium Taxes on High Deductible Workers' Compensation Policies

Section 3443 of the New York Insurance Law permits the issuance of workers' compensation and employers' liability insurance policies containing deductibles. Pursuant to this section of law, the insurer pays from the first dollar on a compensable claim and is then reimbursed by the policyholder for the applicable deductible. It is the position of both the Department and the New York Department of Taxation and Finance that premium taxes must be collected and paid on these policies. 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.

The New York Insurance Department issued Circular Letter No. 10 (2001) dated April 13, 2001 to once again alert all insurers of their duty to pay premium taxes as required. The Company failed to include deductible reimbursements when computing the taxes imposed by Section 1510 of the New York Tax Law.

In view of the above, it is recommended that the Company pay its premium taxes in accordance with Section 1510 of the New York Tax Law as reinforced by Department Circular Letter No. 10 (2001). In addition, the Company is directed to remit the taxes owed on the reimbursement of deductibles that it has received on high deductible workers' compensation policies from insureds, retroactive to the inception date of the Company's high deductible workers' compensation policy program.

iv. Foreign Exchange Rates

The Company's balance reported for "Net adjustments in assets and liabilities due to foreign exchange rates" appears to relate to the conversion of net assets from Canadian dollars to U.S. dollars. The review of such amount revealed the following:

- The Company utilized the January 28, 1999 Canadian exchange rate rather than the appropriate December 31, 1998 (statement date) exchange rate.
- The Company's calculation for the net adjustment due to foreign exchange rates appears to include a non-pooled CCC cash account with Toronto Dominion Bank. The Company has not responded to the examiners' memo dated April 10, 2002 regarding this item.

In light of the above, it is recommended that the Company utilize the appropriate exchange rate for the reporting date when calculating the net adjustment in assets and liabilities due to foreign exchange rates. It is further recommended that the Company only include pooled ledger account balances when calculating the pooled, "Net adjustment in assets and liabilities due to foreign exchange rates".

v. Dividends to Policyholders

The Company's board of directors approves policyholder dividends on a regular basis. However, the board minutes do not set forth an actual dollar amount for the dividends declared. The examiners asked the Company how it can be verified that dividend payments agreed with the board approval. At a meeting with Company representatives, on December 5, 2001, they indicated that there is no reasonable way to verify the dividend declared by the board to the liability established. Thus, based upon the information provided, it could not be determined if the liability established by the Company was in accordance with the board resolutions.

In view of the above, it is recommended that the Company maintain the documentation necessary to support that the dividends paid to policyholders agree to the dividend resolutions approved by the board.

vi. Assets and Liabilities that Could not be Verified

The Company did not provide supporting documentation for the following assets and liabilities reported in its filed 1998 annual statement:

<u>Assets</u>	<u>Amounts</u>
Agents' balances or uncollected premiums	\$90,497,947
Bills receivable, taken for premiums	<u>1,142,470</u>
Total unsupported assets	<u>\$91,640,417</u>
<u>Liabilities</u>	
Contingent commissions and other similar charges	\$2,791,935
Taxes, licenses and fees	3,496,908
Dividends declared and unpaid: Policyholders	3,116,910
Amounts withheld or retained by company for account of others	10,429,918
Remittances and items not allocated	6,348,057
Drafts outstanding	<u>7,945,406</u>
Total unsupported liabilities	<u>\$34,129,134</u>

The two assets noted above were not admitted for report on examination purposes. See sections 4 and 5 of this report for additional information.

The total of the liabilities noted above represents approximately 13.5% of the surplus as regards policyholders reported in the Company's 1998 annual statement and approximately 42.1% of the examination surplus shown in this report.

In view of the above, it is recommended that the Company maintain supporting detailed records and produce same upon examination for any amounts it reports in its financial statements, henceforth.

H. Section 310 of the New York Insurance Law Compliance

Section 310(a)(2) of the New York Insurance Law states, in part:

“Any examiner authorized by the superintendent shall be given convenient access at all reasonable hours to the books, records, files, securities and other documents of such insurer or other person, including those of any affiliated or subsidiary companies thereof, which are relevant to the examination...”

Section 310(a)(3) of the New York Insurance Law states:

“The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so”.

During the conduct of the examination, the officers of the Transcontinental Insurance Company did not comply with Section 310 of the New York Insurance Law, as demonstrated by the following:

- The designated contact person did not have the authority, knowledge and experience to effectively facilitate the examination;
- Requests for information were not responded to in a timely manner;
- Documentation provided was often inaccurate and incomplete and
- Documentation or information requested was never provided in some instances. See Section 2(G)(vii) of this report for additional information.

Additionally, the CPA workpapers were requested July 26, 1999, but they were not provided until April 25, 2001. Also, the Company did not complete the management representation letter called for by the National Association of Insurance Commissioners' Financial Condition Examiners Handbook.

On October 12, 2000, correspondence was sent to Company management reminding them of their responsibility under Section 310 of the New York Insurance Law, to facilitate the examination. In addition, numerous correspondence was sent to Company representatives, inquiring as to the status of the examination requests for information. Also, several meetings were held between Company representatives and the examiners to review the outstanding examination requests.

All of the above significantly increased the length of the examination, increased the cost of the examination to the Company, and put a strain on the Department's resources. Therefore, it is recommended that the Company comply with Section 310 of the New York Insurance Law. It is noted that a similar recommendation was included in the prior report on examination. It is further recommended that the Company take the following corrective action to facilitate future examinations:

- The role of the Company contact person is to facilitate the examination. Individuals assigned to this function must have broad authority and appropriate knowledge;
- Responses should be qualitatively reviewed before submission to examiners;
- Examination requests for information/documentation must be responded to and
- Sufficient human resources must be committed to facilitate the examination process.

### 3. FINANCIAL STATEMENTS

#### A. Balance sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1998 and as reported by the Company. The figures included in these financial statements have been rounded.

<u>Assets</u>	<u>Examination</u>				<u>Company</u>	Surplus Increase (Decrease)
	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Net Admitted Assets</u>	
Bonds	\$741,534,113	\$	\$	\$741,534,113	\$741,534,113	\$
Common stocks	250,000		62,517	187,483	187,483	
Real estate	379,592			379,592	379,592	
Cash on hand and on deposit	936,008			936,008	936,008	
Short-term investments	50,551,920			50,551,920	50,551,920	
Other invested assets	28,371,885		11,360	28,360,525	28,360,525	
Receivable for securities	1,310,437			1,310,437	1,310,437	
Agents' balances or uncollected premiums	73,917,030	21,867,000	95,784,030		90,497,947	(90,497,947)
Bills receivable, taken for premiums	1,142,470		1,142,470		1,142,470	(1,142,470)
Guaranty funds receivable or on deposit	539,382			539,382	539,382	
Interest, dividends and real estate income due and accrued		9,244,194		9,244,194	9,244,194	
Equities and deposits in pools and associations	4,508,454		1,588,433	2,920,021	4,508,454	(1,588,433)
Net adjustments in assets and liabilities due to foreign exchange rates	<u>565,420</u>			<u>565,420</u>	<u>565,420</u>	
Total assets	<u>\$904,006,711</u>	<u>\$31,111,194</u>	<u>\$98,588,810</u>	<u>\$836,529,095</u>	<u>\$929,757,945</u>	<u>\$(93,228,850)</u>

<u>Liabilities &amp; Surplus</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and Loss adjustment expenses	\$595,791,001	\$520,926,343	\$(74,864,658)
Contingent commissions and other similar charges	2,791,935	2,791,935	
Other expenses (excluding taxes, licenses and fees)	4,873,770	4,873,770	
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,496,908	3,496,908	
Federal and foreign income taxes (excluding deferred taxes)	5,496,027	1,819,629	(3,676,398)
Unearned premiums	98,123,162	98,123,162	
Dividends declared and unpaid: policyholders	3,116,910	3,116,910	
Amounts withheld or retained by company for account of others	10,429,918	10,429,918	
Remittances and items not allocated	6,348,057	6,348,057	
Drafts outstanding	7,945,406	7,945,406	
Payable to parent, subsidiaries and affiliates	<u>17,042,438</u>	<u>17,042,438</u>	<u>                    </u>
 Total liabilities	 <u>\$755,455,532</u>	 <u>\$676,914,476</u>	 <u>\$(78,541,056)</u>
 Common capital stock	 \$4,200,000	 \$4,200,000	
Gross paid in and contributed surplus	49,318,263	49,318,263	
Unassigned funds (surplus)	<u>27,555,300</u>	<u>199,325,206</u>	<u>(171,769,906)</u>
 Surplus as regards policyholders	 <u>\$81,073,563</u>	 <u>\$252,843,469</u>	 <u>\$(171,769,906)</u>
 Total liabilities and surplus as regards policyholders	 <u>\$836,529,095</u>	 <u>\$929,757,945</u>	

Note 1: (a) The examination adjustment increasing losses and loss adjustment expense reserves by approximately 14% was based on analysis of the Company's filed annual statements through December 31, 2001. Management has indicated that the reserves established and reported as of December 31, 1998 represented its estimates of ultimate liabilities based on then currently available facts and case law. Management has also indicated that subsequent adjustments to its previously established reserves were based on loss experience, facts and case law that emerged subsequent to the date of examination. This matter is also discussed in item 7 herein.

Note 2: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 1997. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1998 through 2000 are currently in progress. Except for any impact that might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased by \$76,175,439 during the five-year examination period, January 1, 1994 to December 31, 1998, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$999,649,741
Losses and Loss adjustment expenses incurred	\$864,258,869	
Other underwriting expenses incurred	<u>308,523,656</u>	
Total underwriting deductions		<u>1,172,782,525</u>
Net underwriting (loss)		\$(173,132,784)

Investment Income

Net investment income earned	\$229,001,510	
Net realized capital gains	<u>16,889,290</u>	
Net investment gain		245,890,800

Other Income

Net loss from agents' or premium balances charged off	\$(2,832,655)	
Finance and service charges not included in premiums	696,129	
Miscellaneous profit/(loss) items	<u>(1,537,313)</u>	
Total other income		<u>(3,673,839)</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$69,084,177
Dividends to policyholders		<u>23,504,644</u>
Net income, after dividends to policyholders but before federal and foreign income taxes		\$45,579,533
Federal and foreign income taxes incurred		<u>26,120,900</u>
Net income (loss)		<u>\$19,458,633</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1993, per prior report on examination			\$157,249,002
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income or loss	\$19,458,633	\$	
Net unrealized capital gains or (losses)	1,047,727		
Change in not-admitted assets		94,778,303	
Adjustment due to IRS Audit		3,676,398	
Change in foreign exchange adjustment	486,349		
Capital paid in	1,200,000		
Fines and penalties of regulatory authorities		14,866	
Unexplained differences	<u>101,419</u>	<u>                    </u>	
Total gains and losses	<u>\$22,294,128</u>	<u>\$98,469,567</u>	
Net decrease in surplus as regards policyholders			<u>(76,175,439)</u>
Surplus as regards policyholders, December 31, 1998, per report on examination			<u>\$81,073,563</u>

#### 4. AGENTS' BALANCES OR UNCOLLECTED PREMIUMS

The Company reported an admitted asset in the amount of \$90,497,947 as of the examination date.

Pursuant to this examination, the admitted asset has been eliminated.

The asset reported by the Company consisted of the following items:

<u>Page 2 Line Number</u>	<u>Line Description</u>	<u>Amount</u>
10.1	Premiums and agents' balances in course of collection	\$55,846,431
10.2	Premiums, agents' balances and installments booked but deferred and not yet due	14,080,864
10.3	Accrued retrospective premiums	<u>20,570,652</u>
	Total	<u>\$90,497,947</u>

The Company's balance for this item represents its pooling percentage share of the total balance for the Continental Casualty Company ("CCC") Pool. The examiners on the CCC pool exam requested information to support this asset. The Company did not provide the requested information. Therefore, this asset could not be verified.

Section 1302 of the New York Insurance Law indicates that all assets of doubtful value shall be reported as deductions from the gross assets of the insurer.

Due to the fact that the Company did not provide the requested information, the examiners could not verify the validity of this asset; therefore, it is being classified as a not admitted asset herein.

See section 2(G)(vii) of this report for additional information.

## 5. **BILLS RECEIVABLE, TAKEN FOR PREMIUMS**

The Company reported an admitted asset in the amount of \$1,142,470 as of December 31, 1998.

Pursuant to this examination, the admitted asset has been eliminated.

The Company's balance for this item represents its pooling percentage share of the total balance for the CCC Pool. The examiners on the CCC pool exam requested information to support this asset. The Company did not provide the requested information. Therefore, this asset could not be verified.

Due to the fact that the examiners were not provided sufficient documentation to verify the admissibility of this asset it was classified as a not admitted asset herein.

See section 2(G)(vii) of this report for additional information.

## 6. **EQUITIES AND DEPOSITS IN POOLS AND ASSOCIATIONS**

The examination admitted asset of \$2,920,021 is \$1,588,433 less than the \$4,508,454 reported by the Company as of December 31, 1998. The examination change represents Transcontinental Insurance Company's 3% share of the following adjustments to amounts included in the December 31, 1998 asset:

- \$9,751,769 asset written off in the first quarter of 2000 related to the Florida Windstorm Underwriting Association; and
- \$43,196,000 reallocation of losses payable – assumed reinsurance from the account "Equities and deposits in pools and associations", a pooled account, to "Reinsurance payable on paid

loss and loss adjustment expenses", a non-pooled account. The Company reclassified this balance on February 24, 1999.

The Company's 3% share of the above adjustments is \$292,553 and \$1,295,880, respectively.

## **7. LOSSES & LOSS ADJUSTMENT EXPENSES**

The examination liability of \$595,791,001 is \$74,864,658 more than the \$520,926,343 reported by the Company in its 1998 filed annual statement. The Department's 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.

The examination increase to the reserves represents the amount of adverse development reported by the Company through December 31, 2001 for losses and loss adjustment expenses incurred as of the examination date.

Section 1303 of the New York Insurance Law states, in part:

"Every insurer shall ... maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims."

Management has indicated that the reserves established and reported by the Company in its December 31, 1998 filed annual statement represented its estimate for unpaid losses and loss adjustment expenses, and was based on the information available at that time. Management attributed the adverse development to facts and case law that emerged subsequent to the date of determination, subsequent actuarial analyses of its asbestos, pollution, and mass tort exposures, as well as subsequent actuarial analyses that indicated a significant deterioration in the reserves associated with its core business. As a

result, management concluded that ultimate losses were likely to be nearer the higher end of the range of possible outcomes than previous indications, prompting the Company to record an increase in its liability for unpaid loss and loss adjustment expenses attributable to prior accident years.

In view of the above, it is recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements in order to comply with the requirements of Section 1303 of the New York Insurance Law.

As of December 31, 1998, Transcontinental Insurance Company's discounted ("statement") structured settlement reserves and total loss reserves per the filed 1998 annual statement were \$26,799,417 and \$462,144,444, respectively.

On May 14, 1990, the Department approved CNA's use of structured settlement reserves provided CNA met the following conditions:

- Establish a separate Investment Account and designate assets for the Investment Account in amounts determined by an actuary to be sufficient to support the Company's structured settlement obligations;
- Allow the assets in the Investment Account to be freely substituted, subject to compliance with statutes applicable to investments of property/casualty insurers;
- Apply a discount rate to the structured settlement reserves that is not greater than the rate of return on the assets designated to the Investment Account;
- At the end of each calendar year, identify the assets then designated for the Investment Account and provide annual actuarial certification as to the sufficiency of those assets to support the Company's structured settlement obligations;
- Provide the Department at the time of filing of the annual statement, schedules showing the number of structured settlement cases shown in Schedule P as outstanding claims, the dollar amount of structured settlement cases shown in Schedule P as paid claims, and the number of structured settlement cases closed.

See section 2(D)(i)(c) of this report for additional information.

**8. FEDERAL AND FOREIGN INCOME TAXES (EXCLUDING DEFERRED TAXES)**

The examination liability of \$5,496,027 is \$3,676,398 more than the \$1,819,629 reported by the Company as of December 31, 1998. The examination increase is based upon the Internal Revenue Service audit results for the tax years 1995, 1996 and 1997.

**9. 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 policyholders 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, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

- A. Sales and advertising
- B. Underwriting
- C. Treatment of policyholders and claimants

The following problems were encountered:

i. Advertising

The Company did not provide copies of all advertisements requested. The Company's records do not facilitate the examination of advertising. Thus, it cannot be determined if all of its advertisements

were in compliance with Section 1313 of the New York Insurance Law or if they were unfair or misleading. Thus, it is recommended that the Company maintain ad copy for all advertisements (print, radio, television, etc.) and that it be able to cross reference each advertisement to the appropriate invoice, so as to provide a means upon examination to determine if its advertisements were in compliance with Section 1313 of the New York Insurance Law and if they were unfair or misleading.

ii. Policy Forms

The Company could not provide copies of Department approval letters for some of its policy forms. Thus, it is recommended that the Company retain records evidencing Department approvals for all policy forms issued by the Company that require approval by this Department.

iii. Agents

Section 2112(a) of the New York Insurance Law states, in part:

"Every insurer ... doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer..."

Examination review of the Company's procedures for compliance with this section of the New York Insurance Law revealed that the Company failed to file the required certificates of appointment with the Department, as required by statute. Additionally, it was noted that the Company was using agents whose appointments had been terminated by the Department. The Company acknowledged in correspondence dated May 21, 2002, that it was not in compliance with the requirements of such statute.

Thus, it is recommended that the Company ensure that its agents are appointed in accordance with Section 2112(a) of the New York Insurance Law, henceforth.

The Company provided a listing of agents that it terminated in 1998. The notices of termination that the Company sent to such agents were requested. The Company was unable to provide the requested notices of termination. Thus, there was no way of verifying that the notices of termination of agents' contracts the Company issued complied with the requirements of Department Regulation 90.

Therefore, it is recommended that the Company maintain and produce on examination the notices of termination of agents' contracts it issues in the future so as to allow verification that such notices comply with the requirements of Regulation 90.

iv. Mortgagee Clause and Department Circular Letter No. 17 (1976)

A sample of commercial multiple peril policy cancellations was reviewed. The review found that the Company was not providing the required notice to the mortgagee when policies were cancelled at the insureds request as required by the New York Standard Mortgagee Clause and Department Circular Letter No. 17 (1976). In correspondence dated May 21, 2002, the Company acknowledged that during the exam some policies were identified as having been cancelled at the request of the insured and no notification was provided to the mortgagee. It was also indicated in such memo that the Company was in the process of taking corrective action.

In view of the above, it is recommended that the Company comply with the provisions of the New York Standard Mortgagee Clause and Department Circular Letter No. 17 (1976).

v. Regulation 64

During the review of claim files it was found that not all communications and transactions were being dated by the Company as required by Section 216.11 of Department Regulation 64.

After the above was reviewed with the Company, the Company issued a letter, dated October 24, 2001, to all of its claims offices regarding dating communications in claims files.

Nevertheless, it is recommended that the Company comply with the provisions of Section 216.11 of Department Regulation 64, henceforth.

vi. Complaint Log - Department Circular Letter No. 11 (1978)

Department Circular Letter No. 11 (1978) requires companies to maintain a complaint log in columnar format and list the information required to be recorded in such log.

During the course of this examination it was found that the Company's complaint log did not contain all of the required information, as indicated below:

- The person in the company with whom the complainant has been dealing.
- The person within the company to whom the matter has been referred for review.
- The date of such referral.
- Regarding timely substantive replies with the Department:
  - The date of any response.
  - The chronology of further contacts with this Department.
- Remarks about internal remedial action taken as a result of the investigation.

The above was reviewed with the Company during the course of this examination. The Company made several attempts to bring its complaint log into compliance with Circular Letter No. 11 (1978); however, based upon examination review of the last version received on May 13, 2002, the log is still not fully in compliance.

In view of the above, it is recommended that the Company ensure that its complaint log complies with the requirements of Department Circular Letter No. 11 (1978).

## 10. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. It was recommended that the Company reinsure only those lines of business which its license permits, in compliance with the provisions of Section 1114(a) of the New York Insurance Law.</p> <p>The Company has not complied with this recommendation. See section 2(B) of this report.</p>	6
<p>B. It was noted that the Company entered into a limited partnership with several persons within its holding company system contrary to the provisions of Section 1505(d)(2) of the New York Insurance Law. After the Company was apprised of the aforementioned violation, the Company provided the agreement for review.</p> <p>A recommendation regarding compliance with Section 1505(d) of the New York Insurance Law is included in section 2(D) of this report.</p>	15
<p>C. It was recommended that the Company comply with the provisions of Section 1403(d)(7)(C) of the New York Insurance Law or delete from the partnership agreement such provisions which permit the general partner to engage in derivatives and hedging transactions.</p> <p>Effective July 1, 1999, Section 1403(d)(7)(C) of the New York Insurance Law was repealed. The Department approved a derivative use plan pursuant to Section 1410 of the New York Insurance Law for the Company in December 2001.</p>	17-18
<p>D. It was recommended that the Company document sufficiently its MAC System so that examiners can utilize EDP audit software without considerable assistance of the Company's system and programming staff and develop a comprehensive disaster recovery plan for its information systems.</p> <p>The Company does have a disaster recovery plan. The Company did not provide usable electronic data related to its MAC system during this examination. The MAC system is related to premiums receivable. The Company did not provide the requested information needed to verify its</p> <p>balance reported for Agents' Balances or Uncollected Premiums. See Sections 2(G)(vii) and 4 of this report.</p>	18

ITEM	PAGE NO.
E. It was recommended that the Company comply fully with the provisions of Section 310(a)(3) of the New York Insurance Law.	20
The Company has not complied with this recommendation. See Section 2(H) of this report.	

## **11. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The following is a summary of comments and recommendations made in the body of this report:

<u>ITEM</u>	<u>PAGE NO.</u>
A. Management	
It is recommended that Director David A. Bierschied, Sr., either improve his attendance at board meetings or that the stockholders replace him with an individual who will be more active in the affairs of the Company.	5
B. <u>Territory and Plan of Operation</u>	
i. It is recommended that the Company take the steps necessary to conform its licenses outside this state to its New York license and immediately cease the doing of any kind of business for which it does not have authority in New York.	8
ii. It is recommended that the Company reinsure only those lines of business that its license permits, in compliance with the provisions of Section 1114(a) of the New York Insurance Law. It is noted that a similar recommendation was included in the prior report on examination.	8
iii. It is recommended that the Company not issue policies pursuant to Article 63 of the New York Insurance Law without obtaining the license required by Section 6302(a), henceforth.	9
C. <u>Holding Company System</u>	
i. <u>Article 15 of the New York Insurance Law and Regulation 52</u>	
(a) It is recommended that the Company follow the prior notice requirements of Section 1505(d) of the New York Insurance Law, henceforth. It is noted that a comment was made in the prior report on examination regarding compliance with the prior notice requirements of Section 1505(d) of the New York Insurance Law.	13

<u>ITEM</u>	<u>PAGE NO.</u>
(b) It is recommended that the Company comply with Section 1505(b) of the New York Insurance Law and maintain the accounting information necessary to support the reasonableness of the charges or fees to the respective parties and produce such information upon examination.	14
(c) It is recommended that the Company and its affiliated companies adhere to the terms of any expense allocation agreements in effect, henceforth.	14
(d) It is recommended that the Company adhere to the reporting requirements of Regulation 52, Section 80-1.4 by furnishing all of the required information within one hundred and twenty days following the end of each fiscal year.	15
ii. <u>Schedule Y</u>	
It is recommended that the Company complete Schedule Y-Part 2 in accordance with the annual statement instructions, henceforth.	15
iii. <u>Section 1221 of the New York Insurance Law Compliance</u>	
It is recommended that the Company ensure that all of its directors and officers make the required filings under Section 1221 of the New York Insurance Law, henceforth.	17
D. <u>Accounts and Records</u>	
i. <u>CPA Contracts</u>	
It is recommended that the Company ensure that the agreement with the CPA for all future audits, that include Transcontinental Insurance Company, contain the provisions required by Department Regulation 118.	19
ii. <u>Allocation of Expenses</u>	
(a) Management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30.	20
(b) It is recommended that the Company allocate its expenses to each expense category in accordance with Department Regulation 30.	20

iii.	<u>Premium Taxes on High Deductible Workers' Compensation Policies</u>	
	It is recommended that the Company pay its premium taxes in accordance with Section 1510 of the New York Tax Law as reinforced by Department Circular Letter No. 10 (2001). In addition, the Company is directed to remit the taxes owed on the reimbursement of deductibles that it has received on high deductible workers' compensation policies from insureds, retroactive to the inception date of the Company's high deductible workers' compensation policy program.	21
iv.	<u>Foreign Exchange Rates</u>	
(a)	It is recommended that the Company utilize the appropriate exchange rate for the reporting date when calculating the net adjustment in assets and liabilities due to foreign exchange rates.	22
(b)	It is further recommended that the Company only include pooled ledger account balances when calculating the pooled, "Net adjustment in assets and liabilities due to foreign exchange rates".	22
v.	<u>Dividends to Policyholders</u>	
	It is recommended that the Company maintain the documentation necessary to determine if the dividends it is paying to policyholders agree to the dividend resolutions approved by the board.	22
vi.	<u>Assets and Liabilities that Could not be Verified</u>	
	It is recommended that the Company maintain supporting detailed records and produce same upon examination for any amounts it reports in its financial statements, henceforth.	23
E.	<u>Section 310 of the New York Insurance Law Compliance</u>	
i.	It is recommended that the Company comply with Section 310 of the New York Insurance Law. It is noted that a similar recommendation was included in the prior report on examination.	25
ii.	It is recommended that the Company take the following corrective action to facilitate future examinations:	25
	<ul style="list-style-type: none"> <li>• The role of the Company contact person is to facilitate the examination. Individuals assigned to this function must have broad authority and appropriate knowledge;</li> <li>• Responses should be qualitatively reviewed before submission to examiners;</li> </ul>	

- Examination requests for information/documentation must be responded to;
- Sufficient human resources must be committed to facilitate the examination process.

F. Losses and Loss Adjustment Expenses

It is recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements in order to comply with the requirements of Section 1303 of the New York Insurance Law. 32

ITEM

PAGE NO.

G. Market Conduct Activities

i. Advertising

It is recommended that the Company maintain ad copy for all advertisements (print, radio, television, etc.) and that it be able to cross reference each advertisement to the appropriate invoice, so as to provide a means upon examination to determine if its advertisements were in compliance with Section 1313 of the New York Insurance Law and if they were unfair or misleading. 34

ii. Policy Forms

It is recommended that the Company retain records evidencing Department approvals for all policy forms issued by the Company and that require approval by this Department. 34

iii. Agents

(a) It is recommended that the Company ensure that agents it wishes to have represent it are appointed in accordance with Section 2112(a) of the New York Insurance Law, henceforth. 35

(b) It is recommended that the Company maintain and produce on examination the notices of termination of agents' contracts it issues in the future so as to allow verification that such notices comply with the requirements of Regulation 90. 35

iv. Mortgage Clause and Department Circular Letter No. 17 (1976)

It is recommended that the Company comply with the provisions of the New York Standard Mortgagee Clause and Department Circular Letter No. 17 (1976). 36

v. Regulation 64

It is recommended that the Company comply with the provisions of Section 216.11 of Department Regulation 64, henceforth. 36

vi. Complaint Log – Department Circular Letter No. 11 (1978)

It is recommended that the Company ensure that its complaint log complies with the requirements of Department Circular Letter No. 11 (1978). 37



STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Warren Youngs**

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

**Transcontinental 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 16th day of August, 1999*



  
NEIL D. LEVIN  
Superintendent of Insurance

## APPENDIX A

### ORGANIZATIONAL CHART

#### LOEWS CORPORATION

#### CNA FINANCIAL CORPORATION - 84%

CONTINENTAL CASUALTY COMPANY (20443)	IL	100	CONTINENTAL CORPORATION	NY	100
TRANSPORTATION INSURANCE COMPANY (20494)	IL	100	AFCO AGENT SERVICE CORP.	DE	100
NATIONAL FIRE INSURANCE COMPANY OF HARTFORD (20478)	CT	100	BAYSIDE MANAGEMENT COMPANY, INC.	CA	100
CNA SURETY CORPORATION	DE	19.67	THE BUCKEYE UNION INSURANCE COMPANY (20788)	OH	100
CAPSURE HOLDINGS, CORPORATION	DE	100	BOSTON OLD COLONY INSURANCE CO. (20761)	MA	100
CAPSURE FINANCIAL GROUP, INC.	OK	100	BUCKHOT, INC.	OH	100
SI ACQUISITION CORPORATION	TX	100	FIRST INSURANCE CO. OF HAWAII, LTD. (41742)	HI	60
SUREWEST FINANCIAL CORPORATION	SD	100	FIRST FIRE & CASUALTY INSURANCE OF HAWAII, INC. (41726)	HI	100
WESTERN SURETY COMPANY(13188)	SD	100	FIRST INDEMNITY INSURANCE OF HAWAII(41734)	HI	100
TROY FAIN INSURANCE, INC.	FL	100	FIRST SECURITY INSURANCE OF HAWAII, INC. (10938)	HI	100
SURETY BONDING CO. OF AMERICA (24047)	SD	100	J.M. LYDGATE, LTD.	HI	100
NI ACQUISITION CORPORATION	TX	100	THE MAYFLOWER INSURANCE CO., LTD. (22152)	IN	100
UNIVERSAL SURETY HOLDING CORPORATION	TX	100	NIAGARA FIRE INSURANCE CO. (35106)	DE	100
UNIVERSAL SURETY OF AMERICA (13200)	TX	100	TCC HOLDINGS, INC.	DE	20
TRANSCONTINENTAL INSURANCE COMPANY (20486)	NY	100	THE CPI GROUP, INC.	DE	100
AMERICAN CASUALTY COMPANY OF READING, PA (20427)	PA	100	CNA TRUST CORPORATION	CA	100
CNA SURETY CORPORATION	DE	17.82	CONTINENTAL VISION FINANCIAL SERVICES, INC.	DE	100
CAPSURE HOLDINGS, CORPORATION	DE	100	KANSAS CITY FIRE & MARINE INSURANCE COMPANY (20885)	MO	100
CAPSURE FINANCIAL GROUP, INC.	OK	100	CONTINENTAL CENTER ASSOCIATES		49
SI ACQUISITION CORPORATION	TX	100	SETTLEMENT OPTIONS, INC.	NJ	100
SUREWEST FINANCIAL CORPORATION	SD	100	THE CONTINENTAL INSURANCE COMPANY (35289)	NH	100
WESTERN SURETY COMPANY(13188)	SD	100	CIC COLLATERAL HOLDING SUBSIDIARIES	IL	100
TROY FAIN INSURANCE, INC.	FL	100	BELLERIVE OFFICE PARK, INC.	IL	100
SURETY BONDING CO. OF AMERICA (24047)	SD	100	FAIRFIELD OFFICE CENTER, INC.	IL	100
NI ACQUISITION CORPORATION	TX	100	JELLISON PLAZE, INC.	IL	100
UNIVERSAL SURETY HOLDING CORPORATION	TX	100	NEW MEXICO MEDICAL OFFICES, INC.	IL	100
UNIVERSAL SURETY OF AMERICA (13200)	TX	100	THE FIDELITY AND CASUALTY COMPANY OF NEW YORK (35270)	NH	100

VALLEY FORGE INSURANCE COMPANY (20508)	PA	100	CONTINENTAL MANAGEMENT SERVICES, LTD.	UK	24
COLUMBIA CASUALTY COMPANY (31127)	IL	100	LCI FINANCE, LTD.	UK	100
HEALTHPRO SOLUTIONS, L.L.C.	IL	50	THE CONTINENTAL INSURANCE HOLDINGS (EUROPE), LTD.	UK	66.64
CNA CASUALTY OF CALIFORNIA (20435)	CA	100	CONTINENTAL REINSURANCE MANAGEMENT CO., LTD.	UK	100
CNA LLOYD'S OF TEXAS (38903)	TX	***	MARINE OFFICE OF AMERICA CORP. (UK), LTD.	UK	100
CNA CASUALTY OF ILLIONIS (10072)	IL	100	CONTINENTAL REINSURANCE CORP. (UK), LTD.	UK	100
CNA REINSURANCE COMPANY (10071)	IL	100	CONTINENTAL LIFE (INTERNATIONAL), LTD.	GUERNSEY	100
GALWAY INSURANCE COMPANY (10201)	CA	100	CTEK, INC.	NJ	100
CONTINETAL ASSURANCE COMPANY (62413)	IL	100	TCC HOLDINGS, INC.	DE	15
VALLEY FORGE LIFE INSURANCE COMPANY (702011)	PA	100	CONTINENTAL CENTER ASSOCIATES		49
CONVIDA HOLDINGS, LTD.	BAHAMAS	99.99	THE CONTINENTAL INSURANCE COMPANY OF PUERTO RICO (12440)	PR	100
CNA CHILE COMPANIA DE SEGUROS DE VIDA S.A.	CHILE	99.99	CONTINENTAL MANAGEMENT SERVICES, LTD.	UK	8
CNA HEALTH PARTNERS, INC.	IL	100	LCI FINANCE, LTD.	UK	100
CNA LIFE INSURANCE COMPANY OF CANADA	CANADA	100	THE CONTINENTAL INSURANCE HOLDINGS (EUROPE), LTD.	UK	66.64
ADMINISTRATIVE PARTNERS INTERNATIONAL, INC.	PA	100	CONTINENTAL REINSURANCE MANAGEMENT CO., LTD.	UK	100
1911 CORP.	DE	100	MARINE OFFICE OF AMERICA CORP. (UK), LTD.	UK	100
FINANCIAL BROKERAGE, INC.	DE	100	CONTINENTAL REINSURANCE CORP. (UK), LTD.	UK	100
PRODUCERS AMERICA, INC.	PA	55	CONTINENTAL LIFE (INTERNATIONAL), LTD.	GUERNSEY	100
CNA INVESTORS SERVICES, INC.	IL	100	TCC HOLDINGS, INC.	DE	35
CNA COUNSELORS, INC.	DE	100	IDBI MANAGERS, INC.	NY	100
CLAIMS ADMINISTRATION CORPORATION	MD	100	MARINE OFFICE OF AMERICA CORPORATION	NY	17.35
CNA AGRICULTURE & TECHNOLOGY SERVICES, INC.	IL	100	HONG KONG FIRE INSURANCE COMPANY, LTD.	HONG KONG	6
TRANSCONTINENTAL TECHNICAL SERVICES, INC.	IL	100	THE CONTINENTAL INSURANCE HOLDINGS (EUROPE), LTD.	UK	33.36
AMS SERVICES, INC.	DE	89	CONTINENTAL REINSURANCE MANAGEMENT CO., LTD.	UK	100
INSURANCE REFERENCE SYSTEMS, INC.	DE	85	MARINE OFFICE OF AMERICA CORP. (UK), LTD.	UK	100
DOCUMENT SYSTEMS, INC.	CT	100	CONTINENTAL REINSURANCE CORP. (UK), LTD.	UK	100
INSURANCE INFORMATION EXCHANGE, L.L.C.	DE	99	CONTINENTAL LIFE (INTERNATIONAL), LTD.	GUERNSEY	100
INSWEB CORPORATION	DE	22.26	CNA SURETY CORPORATION	DE	00.61
ALLENBROOK, INC.	ME	100	CAPSURE HOLDINGS, CORPORATION	DE	100
SHERWOOD ISS, L.L.C.		51	CAPSURE FINANCIAL GROUP, INC.	OK	100
SS RE SYSTEMS, INC.	DE	100	SI ACQUISITION CORPORATION	TX	100
AGENA CORPORATION	WA	100	SUREWEST FINANCIAL CORPORATION	SD	100
INSURANCE NEWS NETWORK, L.L.C.	CT	25	WESTERN SURETY COMPANY(13188)	SD	100
ARC CANADA	CANADA	100	TROY FAIN INSURANCE, INC.	FL	100
ALLIANCE FOR PRODUCTIVE TECHNOLOGY, INC.	WA	57.23	SURETY BONDING CO. OF AMERICA (24047)	SD	100
CNA RE MANAGEMENT COMPANY, LTD.	UK	100	NI ACQUISITION CORPORATION	TX	100

CNA UNDERWRITING AGENCIES, LTD.	UK	100	UNIVERSAL SURETY HOLDING CORPORATION	TX	100
CNA CORPORATE CAPITAL, LTD.	UK	100	UNIVERSAL SURETY OF AMERICA (13200)	TX	100
LLOYDS SYNDICATES	UK	100	THE SOUTH PLACE SYNDICATE, INC.	NY	87
LONDON MARKET REINSURANCE SERVICES, LTD. (LMRS) (dormant co.)	UK	100	ASSOCIATED AVIATION UNDERWRITERS, INC.	DE	50
CNA REINSURANCE COMPANY, LTD.	UK	100	CONTINENTAL LOSS ADJUSTING SERVICES, INC.	IL	100
CNA REALTY CORPORATION	DE	100	CONTINENTAL REHABILITATION RESOURCES, INC.	NJ	100
CLE, INC.	NV	100	CNA SOLUTION, INC.	IL	100
CNA SERVICES, INC.	IL	100	CNA SOLUTION INSURANCE AGENCY, INC.	OH	100
SMITH SYSTEM DRIVER IMPROVEMENT INSTITUTE, INC.	CA	100	TCC PROPERTIES, INC.	NY	100
ALEXSIS, INC.	MD	100	CONTINENTAL CENTER ASSOCIATES		1
ALEXSIS RISK MANAGEMENT SERVICES, INC.	NY	100	EAST RIVER INSURANCE COMPANY (BERMDUA), LTD.	BERMUDA	100
CLAIMCO CORPORATION	NY	100	EAST RIVER INSURANCE COMPANY, LTD.	WEST INDIES	100
CORPORATE GROUP SYSTEMS, INC.	MI	100	EAST RIVER INDEMNITY COMPANY (BARBADOS), LTD.	BARBADOS	100
EMPLOYERS UNDERWRITERS, INC.	MI	100	CONTINENTAL MANAGEMENT SERVICES, LTD.	UK	62
CNA REAL ESTATE SERVICES, INC.	IL	100	LCI FINANCE, LTD.	UK	100
CNA SURETY CORPORATION	DE	22.12	THE CONTINENTAL INSURANCE HOLDINGS (EUROPE), LTD.	UK	66.64
CAPSURE HOLDINGS, CORPORATION	DE	100	CONTINENTAL REINSURANCE MANAGEMENT CO., LTD.	UK	100
CAPSURE FINANCIAL GROUP, INC.	OK	100	MARINE OFFICE OF AMERICA CORP. (UK), LTD.	UK	100
SI ACQUISITION CORPORATION	TX	100	CONTINENTAL REINSURANCE CORP. (UK), LTD.	UK	100
SUREWEST FINANCIAL CORPORATION	SD	100	CONTINENTAL LIFE (INTERNATIONAL), LTD.	GUERNSEY	100
WESTERN SURETY COMPANY(13188)	SD	100	CONTINENTAL REINSURANCE CORPORATION INTERNATIONAL, LTD.	BERMUDA	100
TROY FAIN INSURANCE, INC.	FL	100	BAYSIDE REINSURANCE COMPANY, LTD.	BERMUDA	100
SURETY BONDING CO. OF AMERICA (24047)	SD	100	CONTINENTAL HOLDINGS, LTD.	BWI	100
NI ACQUISITION CORPORATION	TX	100	BISHOPHOUSE, LTD.	BERMUDA	30
UNIVERSAL SURETY HOLDING CORPORATION	TX	100	CNA RISK SERVICES, LTD.	BERMUDA	99
UNIVERSAL SURETY OF AMERICA (13200)	TX	100	CONTINENTAL RISK SERVICES (BARBADOS), LTD.	BARBADOS	100
MANAGED CARE HOLDINGS CORPORATION	DE	100	CONTINENTAL PACIFIC (INTERNATIONAL AGENCIES) AUSTRALIA PTY. LTD.	AUSTRALIA	100
CARONIA CORPORATION	DE	100	CNA INSURANCE (INTERNATIONAL AGENCIES) AUSTRALIA PTY. LTD.	NEW SOUTH WALES	100
INVESTIGATIVE OPTIONS, INC.	DE	100	CONTINENTAL PACIFIC INSURANCE COMPANY (AUSTRALIA), LTD.	NEW SOUTH WALES	100
WHARF INVESTMENTS, INC.	IL	100	ZURICH INSURANCE (TAIWAN), LTD.	TAIWAN	10% beneficially owned
CNA RE SERVICES, INC.	IL	100	MUI CONTINENTAL INSURANCE SDN. BHD.	MALAYSIA	27.44
THE ENTERTAINMENT COALITION		50	FIREMEN'S INSURANCE COMPANY OF NEWARK, NEW JERSEY (20850)	NJ	100
NORTH ROCK INSURANCE COMPANY, LTD.	BERMUDA	100	CONTINENTAL REINSURANCE CORPORATION (20923)	CA	100
NORTH ROCK HOLDINGS, LTD.	CAYMAN IL.	100	GLOBAL MANAGEMENT CONSULTANTS, INC.	NJ	100
COLLATERAL HOLDING COMPANIES	IL	100	THE GLENS FALLS INSURANCE COMPANY (34622)	DE	100
CLEAR LAKE COLONY APARTMENTS, INC.			TCC HOLDINGS, INC.	DE	30

CLOVER CREAK APARTMENTS, INC.			THE CONTINENTAL INSURANCE COMPANY OF NEW JERSEY (42625)	NJ	100
CORAL POINTE APARTMENTS, INC.			FOUNDATION INSURANCE AGENCY, INC.	NJ	100
GARDEN GLEN APARTMENTS, INC.			COMMERCIAL INSURANCE COMPANY OF NEWARK, NEW JERSEY (20818)	NJ	100
IONA LAKES APARTMENTS, INC.			CONTINENTAL LLOYD'S INSURANCE COMPANY (24333)	TX	100% beneficially owned
KINGSTON VILLAGE APARTMENTS, INC.			CNA SURETY CORPORATION	DE	1.23
LAKE FOREST APARTMENTS, INC.			CAPSURE HOLDINGS, CORPORATION	DE	100
LAKE STREET PLAZA, INC.			CAPSURE FINANCIAL GROUP, INC.	OK	100
MEADOWRIDGE APARTMENTS, INC.			SI ACQUISITION CORPORATION	TX	100
MONTEREY APARTMENTS, INC.			SUREWEST FINANCIAL CORPORATION	SD	100
PACIFIC GLEN APARTMENTS, INC.			WESTERN SURETY COMPANY(13188)	SD	100
RICHLAND APARTMENTS, INC.			TROY FAIN INSURANCE, INC.	FL	100
SEASCAPE APARTMENTS, INC.			SURETY BONDING CO. OF AMERICA (24047)	SD	100
SHADOWHILLS APARTMENTS, INC.			NI ACQUISITION CORPORATION	TX	100
SUN POINTE BAY APARTMENTS, INC.			UNIVERSAL SURETY HOLDING CORPORATION	TX	100
WESTLAKE CLUB APARTMENTS, INC.			UNIVERSAL SURETY OF AMERICA (13200)	TX	100
WHISPERING WINDS APARTMENTS, INC.			PIANO FACTORY, INC.	IL	100
WINDSCAPE APARTMENTS, INC.			THE HONG KONG FIRE INSURANCE COMPANY, LTD.	HONG KONG	94
E.G. COMPANY			THE CONTINENTAL INSURANCE HOLDINGS (EUROPE), LTD.	UK	33.36
R.V.I. GUARANTY COMPANY, LTD.	BERMUDA	50	CONTINENTAL REINSURANCE MANAGEMENT CO., LTD.	UK	100
R.V.I. AMERICA CORPORATION	DE	100	MARINE OFFICE OF AMERICA CORP. (UK), LTD.	UK	100
R.V.I. AUTO SERVICES	CT	100	CONTINENTAL REINSURANCE CORP. (UK), LTD.	UK	100
R.V.I. AMERICA INSURANCE COMPANY	CT	100	CONTINENTAL LIFE (INTERNATIONAL), LTD.	GUERNSEY	100
R.V.I. SERVICES COMPANY	CT	100	NATIONAL-BEN FRANKLIN INSURANCE COMPANY OF ILLINOIS (22152)	IL	100
R.V.I. ASSOCIATES, INC.	DE	100	CONTINENTAL MANAGEMENT SERVICES, LTD.	UK	6
OMEGA ASEGURADORA DE RIESGO DE TRABAJO	ARGENTINA	70	LCI FINANCE, LTD.	UK	100
CNA RE HOLDINGS, INC.	DE	100	THE CONTINENTAL INSURANCE HOLDINGS (EUROPE), LTD.	UK	66.64
CONTINENTAL NATIONAL CORPORATION	DE	44.9	CONTINENTAL REINSURANCE MANAGEMENT CO., LTD.	UK	100
CONTINENTAL NATIONAL INDEMNITY COMPANY	OH	100	MARINE OFFICE OF AMERICA CORP. (UK), LTD.	UK	100
WORLDWIDE CREDIT MANAGERS, L.L.C.	DE	50	CONTINENTAL REINSURANCE CORP. (UK), LTD.	UK	100
HANSEN & KLEIN INSURANCE MANAGEMENT A/S	DENMARK	12	CONTINENTAL LIFE (INTERNATIONAL), LTD.	GUERNSEY	100
RSKCO, INC.	DE	100	NORTH PEARL MANAGEMENT, INC.	TX	100
ENVISION TECHNOLOGY SOLUTIONS, L.L.C.	DE	50	PACIFIC INSURANCE COMPANY (37338)	CA	100
BUILDING ASSURANCE CORPORATION	DE	100	MARINE OFFICE OF AMERICA CORPORATION	NY	82.65
CINEMA COMPLETIONS INTERNATIONAL, INC.	DE	50	CONTINENTAL SERVICE PLAN, INC.	NJ	100
1897 CORPORATION	DE	100	HULL & CARGO SURVEYORS, INC.	NY	100
SOUTH STREET INSURANCE BROKERS, INC.	NY	100	UNITED STATES P & I AGENCY, INC.	NY	100

VIATICUS, INC.	DE	100	HULL & CARGO SURVEYORS, INC. (CANADA)	BRIT. COLUMBIA	100
CNA STRUCTURED SETTLEMENTS, INC.	IL	100	MARINE OFFICE OF AMERICA CORPORATION	ONTARIO	100
CNA (BERMUDA) SERVICES, LTD.	BERMUDA	100	TCC ACQUISITION CORPORATION	DE	100
CBS SERVICES AG	SWITZERLAND	100	CONTINENTAL CENTER ASSOCIATES		1
CNA UNISOURCE OF AMERICA, INC.	DE	95	CNA RISK SERVICES, LTD.	BERMUDA	1
CNA UNISOURCE, INC.	DE	100	CONTINENTAL RISK SERVICES (BARBADOS), LTD.	BARBADOS	100
CNA UNISOURCE OF FLORIDA, INC.	FL	100	SERVICIOS Y COMISIONES CONTINENTAL S.A. DE C.V.	MEXICO	100
INTERLOGIC SYSTEMS, INC.	IN	100	CONTINENTAL PACIFIC (AUSTRALIA) HOLDING, LTD.	AUSTRALIA	0.15
CNA UNISOURCE MANAGEMENT, INC.	DE	100			
HEDGE FINANCIAL CORPORATION	DE	100			
HEDGE FINANCIAL PRODUCTS, INC.	IL	100			
HEDGE INVESTOR SERVICES, INC.	DE	100			
WESTERN NATIONAL WARRANTY CORPORATION	AZ	100			
WESTERN NATIONAL WARRANTY CORPORATION – FLORIDA	FL	100			
CNA WARRANTY, INC.	DE	100			
SPECIALTY UNDERWRITERS, L.L.C.	DE	50			
SPECIALTY UNDERWRITERS INTERNATIONAL, LTD.	UK	100			
SPECIALTY UNDERWRITERS, NETHERLANDS, B.V.	NETHERLANDS	100			
SU CANADA, LTD.	CANADA	50			
HOME SECURITY OF AMERICA, INC.	WI	90			
HOME SECURITY OF AMERICA INSURANCE SERVICES, INC.	WI	100			
HOME SECURITY ASSOCIATION OF VIRGINIA, INC.	VA	100			
HOME SECURITY ASSOCIATION, INC.	WI	100			
HOME SECURITY OF OHIO, INC.	OH	100			
HOME SECURITY ASSOCIATION OF FLORIDA, INC.	FL	100			
CNA UK HOLDINGS, LTD.	UK	100			
MARITIME INSURANCE COMPANY, LTD.	UK	100			
EASTERN MARINE UNDERWRITERS, INC.	CANADA	100			
CNA INSURANCE COMPANY (EUROPE), LTD.	UK	100			

\*\*\*Related Party (Beneficially owned)