REPORT ON EXAMINATION

OF THE

CHUBB INDEMNITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT FEBRUARY 21, 2013

EXAMINER MOSES EGBON
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Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
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 30836 dated February 21, 2012, attached hereto, I have made an examination into the condition and affairs of Chubb Indemnity Insurance Company as of December 31, 2011, 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 home office located at 15 Mountain View Road, Warren, New Jersey 07059.
1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was performed concurrently with the examinations of the following insurers:

<table>
<thead>
<tr>
<th>Company</th>
<th>State of Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chubb Custom Insurance Company</td>
<td>Delaware</td>
</tr>
<tr>
<td>Chubb Insurance of New Jersey</td>
<td>New Jersey</td>
</tr>
<tr>
<td>Chubb Lloyds Insurance Company of Texas</td>
<td>Texas</td>
</tr>
<tr>
<td>Chubb National Insurance Company</td>
<td>Indiana</td>
</tr>
<tr>
<td>Executive Risk Indemnity Inc.</td>
<td>Delaware</td>
</tr>
<tr>
<td>Executive Risk Specialty Insurance Company</td>
<td>Connecticut</td>
</tr>
<tr>
<td>Federal Insurance Company</td>
<td>Indiana</td>
</tr>
<tr>
<td>Great Northern Insurance Company</td>
<td>Indiana</td>
</tr>
<tr>
<td>Northwestern Pacific Indemnity Company</td>
<td>Oregon</td>
</tr>
<tr>
<td>Pacific Indemnity Company</td>
<td>Wisconsin</td>
</tr>
<tr>
<td>Texas Pacific Indemnity Company</td>
<td>Texas</td>
</tr>
<tr>
<td>Vigilant Insurance Company</td>
<td>New York</td>
</tr>
</tbody>
</table>

The examination was conducted in conjunction with the State of Indiana, which was the coordinating state of the Chubb Group. Other states participating in this examination were Delaware, New Jersey, Wisconsin and Texas.

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 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and
evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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

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

2. **DESCRIPTION OF COMPANY**

The Company was incorporated under the laws of the State of New York on November 3, 1922 as the Sun Indemnity Company; it later changed its name to Sun Insurance Company of New York. On February 3, 1994, the Company was sold to Federal Insurance Company ("Federal") and its name was changed to Chubb Indemnity Insurance Company.

The Company is a member of the Chubb Group of Insurance Companies ("Chubb Group"). As of December 31, 2011, the Chubb Group consisted of the following members:
At December 31, 2011, 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 was $13,032,725. Gross paid in and contributed surplus did not change during the examination period.

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-one members. The board is required to meet at least once every quarter during the year. At December 31, 2011, the board of directors was comprised of the following fourteen members:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Principal Business Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joel David Aronchick</td>
<td>Senior Vice President, Chubb &amp; Son, a division of Federal Insurance Company</td>
</tr>
<tr>
<td>Madison, NJ</td>
<td></td>
</tr>
<tr>
<td>Walter Brain Barnes</td>
<td>Senior Vice President &amp; Chief Actuary, Chubb &amp; Son, a division of Federal Insurance Company</td>
</tr>
<tr>
<td>Annandale, NJ</td>
<td></td>
</tr>
<tr>
<td>Jon Cory Bidwell</td>
<td>Senior Vice President, Chubb &amp; Son, a division of Federal Insurance Company</td>
</tr>
<tr>
<td>Pelham, NY</td>
<td></td>
</tr>
<tr>
<td>Mark Steven James</td>
<td>Senior Vice President, Chubb &amp; Son, a division of Federal Insurance Company</td>
</tr>
<tr>
<td>Basking Ridge, NJ</td>
<td></td>
</tr>
<tr>
<td>John Joseph Kennedy</td>
<td>Senior Vice President &amp; Chief Accounting Officer, The Chubb Corporation</td>
</tr>
<tr>
<td>Towaco, NJ</td>
<td></td>
</tr>
</tbody>
</table>
Name and Residence | Principal Business Affiliation
--- | ---
Paul Joseph Krump | Executive Vice President,
Mendham, NJ | The Chubb Corporation
William Andrew Macan | Vice President, Corporate Counsel & Secretary,
Yardley, PA | The Chubb Corporation
Harold Lawrence Morrison, Jr. | Executive Vice President,
Basking Ridge, NJ | The Chubb Corporation
Douglas Alan Nordstrom | Vice President & Treasurer,
Cranford, NJ | The Chubb Corporation
Dino Ennio Robusto | Executive Vice President,
Short Hills, NJ | The Chubb Corporation
Gail Wallace Soja | Senior Vice President,
Chatham, NJ | Chubb & Son, a division of Federal Insurance Company
Richard Glenn Spiro | Executive Vice President,
White Plains, NY | The Chubb Corporation
Peter James Tucker | Senior Vice President,
New York, NY | Chubb & Son, a division of Federal Insurance Company
Jeffrey Allen Updyke | Senior Vice President,
Guilford, CT | Chubb & Son, a division of Federal Insurance Company

The board of directors’ meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dino Ennio Robusto</td>
<td>Chairman</td>
</tr>
<tr>
<td>Paul Joseph Krump</td>
<td>President</td>
</tr>
<tr>
<td>Richard Glenn Spiro</td>
<td>Senior Vice President</td>
</tr>
<tr>
<td>Walter Brian Barnes</td>
<td>Vice President &amp; Actuary</td>
</tr>
<tr>
<td>William Andrew Macan</td>
<td>Vice President &amp; Secretary</td>
</tr>
<tr>
<td>Douglas Alan Nordstrom</td>
<td>Vice President &amp; Treasurer</td>
</tr>
</tbody>
</table>
B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in all fifty states and 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:

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Line of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Accident &amp; health</td>
</tr>
<tr>
<td>4</td>
<td>Fire</td>
</tr>
<tr>
<td>5</td>
<td>Miscellaneous property</td>
</tr>
<tr>
<td>6</td>
<td>Water damage</td>
</tr>
<tr>
<td>7</td>
<td>Burglary and theft</td>
</tr>
<tr>
<td>8</td>
<td>Glass</td>
</tr>
<tr>
<td>9</td>
<td>Boiler and machinery</td>
</tr>
<tr>
<td>10</td>
<td>Elevator</td>
</tr>
<tr>
<td>11</td>
<td>Animal</td>
</tr>
<tr>
<td>12</td>
<td>Collision</td>
</tr>
<tr>
<td>13</td>
<td>Personal injury liability</td>
</tr>
<tr>
<td>14</td>
<td>Property damage liability</td>
</tr>
<tr>
<td>15</td>
<td>Workers’ compensation and employers’ liability</td>
</tr>
<tr>
<td>16</td>
<td>Fidelity and surety</td>
</tr>
<tr>
<td>17</td>
<td>Credit</td>
</tr>
<tr>
<td>19</td>
<td>Motor vehicle and aircraft physical damage</td>
</tr>
<tr>
<td>20</td>
<td>Marine and inland marine</td>
</tr>
<tr>
<td>21</td>
<td>Marine protection and indemnity</td>
</tr>
<tr>
<td>26(A)(B)(C)(D)</td>
<td>Gap</td>
</tr>
<tr>
<td>27</td>
<td>Prize indemnification</td>
</tr>
<tr>
<td>29</td>
<td>Legal services</td>
</tr>
</tbody>
</table>

The Company is also authorized to transact such workers compensation insurance as may be incident to coverage contemplated under paragraphs 20 and 21 of Section 1113(a), including insurance described in the Longshoremen’s and Harbor Workers’ Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended). The Company also has Article 63 Special Risk authority.

Based on 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, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $8,700,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:
<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>New York State</th>
<th>Total Premiums</th>
<th>Percentage of Total Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$164,150,247</td>
<td>$277,922,278</td>
<td>59.06%</td>
</tr>
<tr>
<td>2008</td>
<td>$166,700,115</td>
<td>$313,499,975</td>
<td>53.17%</td>
</tr>
<tr>
<td>2009</td>
<td>$161,571,183</td>
<td>$316,982,788</td>
<td>50.97%</td>
</tr>
<tr>
<td>2010</td>
<td>$153,569,874</td>
<td>$341,194,052</td>
<td>45.01%</td>
</tr>
<tr>
<td>2011</td>
<td>$155,820,653</td>
<td>$368,341,836</td>
<td>42.30%</td>
</tr>
</tbody>
</table>

The Company, as part of the Chubb Group, is represented by approximately 5,000 independent agents and accepts business on a regular basis from approximately 500 insurance brokers. Business is also produced through participation in a number of underwriting pools and syndicates.

C. Reinsurance

The Chubb Reinsurance Pool

The Company and eight other affiliates within the Chubb Group participate in an inter-company pooling arrangement, the Chubb Group Reinsurance Pool (“the Pool”). This arrangement 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 (“Federal”) is the lead company with a 68.5% participation in the Pool.

The following is a list of the companies within the Pool and their respective participation percentage:

<table>
<thead>
<tr>
<th>Company</th>
<th>Pool Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Insurance Company</td>
<td>68.5%</td>
</tr>
<tr>
<td>Pacific Indemnity Company</td>
<td>17.0%</td>
</tr>
<tr>
<td>Executive Risk Indemnity, Inc.</td>
<td>8.0%</td>
</tr>
<tr>
<td>Great Northern Insurance Company</td>
<td>4.0%</td>
</tr>
<tr>
<td>Vigilant Insurance Company</td>
<td>0.5%</td>
</tr>
<tr>
<td>Chubb National Insurance Company</td>
<td>0.5%</td>
</tr>
<tr>
<td>Chubb Indemnity Insurance Company</td>
<td>0.5%</td>
</tr>
<tr>
<td>Chubb Custom Insurance Company</td>
<td>0.5%</td>
</tr>
<tr>
<td>Executive Risk Specialty Insurance Company</td>
<td>0.5%</td>
</tr>
</tbody>
</table>
The Chubb Group Reinsurance Pool differs from traditional pooling arrangements 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 arrangement, the net financial results are identical.

The remaining four Chubb Group members, which are non-participants in the pooling arrangement, 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 and Northwestern Pacific Indemnity Company cede 100% of their business to Pacific Indemnity Company, Chubb Insurance Company of New Jersey cedes 100% of its business to Federal Insurance Company and Chubb Lloyd’s Insurance Company of Texas cedes 100% of its business to Great Northern Insurance Company.

Assumed Reinsurance

Assumed reinsurance accounted for 10.94% of the Company’s gross premium written at December 31, 2011. All of the assumed premiums were from the intercompany reinsurance pool.

Ceded Reinsurance

The Chubb Group cedes reinsurance on a combined group basis and apportions the cost among each participating pool member in proportion to their designated pool share. The most significant components of the Chubb Group’s ceded reinsurance program are directed at per-risk excess of loss and per-event catastrophe reinsurance associated with property risks. Specifics regarding each significant program are as follows:

<table>
<thead>
<tr>
<th>Type of Contract</th>
<th>Cession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td></td>
</tr>
<tr>
<td>Property per risk</td>
<td></td>
</tr>
<tr>
<td>First layer</td>
<td>85% of $25,000,000 per risk in excess of $25,000,000, not to exceed $200,000,000 in the aggregate during the contract period.</td>
</tr>
</tbody>
</table>
Type of Contract | Cession
---|---
Second layer | $75,000,000 per risk in excess of $50,000,000, not to exceed $300,000,000 in the aggregate during the contract period.

Third layer | $125,000,000 per risk in excess of $125,000,000, not to exceed $375,000,000 in the aggregate during the contract period,

Fourth layer | $250,000,000 per risk in excess of $250,000,000, not to exceed $500,000,000 in the aggregate during the contract period.
(100% subscribed)

Fifth layer | $150,000,000 per risk in excess of $500,000,000, not to exceed $300,000,000 in the aggregate during the contract period.
(100% subscribed)

North American Property Catastrophe

First layer | 60.96% of $400,000,000 in excess of $500,000,000 each and every occurrence.

Second layer | 61.88% of $400,000,000 in excess of $900,000,000 each and every occurrence.

Third layer | 70.11% of $350,000,000 in excess of $1,300,000,000 each and every occurrence.

Fourth layer | 78.82% of $400,000,000 in excess of $1,650,000,000 each and every occurrence.
(Northeast only)

The activity reflected in Schedule F relates mainly to the intercompany reinsurance pooling arrangement. 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 appropriate risk transfer analyses and an attestation from the Company's President 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 wholly-owned subsidiary of Federal Insurance Company, an Indiana domiciled insurer. The Company’s ultimate parent is the Chubb Corporation, a New Jersey corporation. A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company structure as of December 31, 2011 (ownership is 100%, except as noted):

The Chubb Corporation (New Jersey)
- Federal Insurance Company (IN)
- Pacific Indemnity Company (WI)
  - Texas Pacific Indemnity Company (TX)
  - Northwestern Pacific Indemnity Company (OR)
- Great Northern Insurance Company (IN)
- Chubb Custom Insurance Company (DE)
- Chubb Indemnity Insurance Company (NY)
- Chubb Lloyd’s Insurance Company of Texas (A TX Lloyds Company)
- Chubb Investment Holdings Inc. (NJ)
- Chubb Insurance Investment Holdings Ltd. (UK)
  - Chubb Europe Services Ltd. (UK)
  - Chubb Insurance Company of Europe SE (UK) (99.99% owned, see Note C)
  - Masterpiece Netherlands B.V. (Netherlands)
  - Chubb Managing Agent Ltd. (UK)
  - Chubb Capital Ltd. (UK)
  - Chubb 1882 (A Lloyds Syndicate)
- Chubb European Investment Holdings, SLP (A Scottish Limited Partnership) (see Note D)
  - Chubb Europe Finance Ltd. (UK)
  - Chubb Financial Solutions Ltd. (Bermuda)
  - Chubb Insurance Company Ltd. (China)
- Executive Risk Indemnity Inc. (Delaware)
  - Executive Risk Specialty Insurance Company (CT)
- Vigilant Insurance Company (NY)
  - Chubb De Colombia Compania De Seguros S.A. (Columbia) (88.31% owned, see Note A)
- Chubb National Insurance Company (IN)
- Chubb Insurance Company of New Jersey (NJ)
- CC Canada Holdings Ltd. (Canada)
  - Chubb Insurance Company of Canada (Canada)
- Chubb Insurance Company of Australia Ltd. (Australia)
- Chubb Argentina De Seguros S.A. (Argentina)
- Chubb De Mexico Compania Afianzadora S.A. D.E. C.V. (Mexico)
- Chubb De Mexico Compania De Seguros S.A. D.E. C.V. (Mexico)
- Federal Insurance Company Escritorio De Representacao No Brasil Ltd. (Brazil)
Chubb De Chile Compania De Seguros Generales S.A. (Chile) (99.97% owned, see Note E)
Chubb Pacific Underwriting Management Services PTE, Ltd. (Singapore)
PT Asuransi Chubb Indonesia (Indonesia)
Chubb Atlantic Indemnity Ltd. (Bermuda)
DHC Corporation (Delaware)
  Chubb De Brasil Companhia De Seguros (Brazil)
Chubb & Son Inc. (NY)
  Chubb Services Corporation (IL)
  Chubb Insurance Solutions Agency Inc. (NJ)
Chubb Global Financial Services Corporation (Delaware)
  Bhakdiku Company Ltd. (Thailand)
  Chubb Insurance Company Ltd. (Thailand)
  Harbor Island Indemnity Ltd. (Bermuda)
  Chubb Investment Holdings Ltd. (Hong Kong)
  MI Insurance Brokers Ltd. (Hong Kong)
Bellemead Development Corporation (Delaware)
Chubb Custom Market, Inc. (New Jersey)
Chubb Executive Risk, Inc. (Delaware)
  Executive Risk Management Associates (Connecticut) (70% owned, see note B)
  Executive Risk Capital Trust (Delaware)
  Sullivan Kelly, Inc. (California)
    Sullivan Kelly of Arizona Inc. (Arizona)
Chubb Re, Inc. (New Jersey)
Transit Air Services, Inc. (New Jersey)
Chubb Computer Services, Inc. (New Jersey)
Chubb Investment Services Ltd. (UK)
Chubb Multinational Manager, Inc. (New York)
Chubb Financial Solutions, Inc. (Delaware)

NOTES
(A) Remaining ownership as follows:
  6.13% owned by Federal Insurance Company
  4.22% owned by The Chubb Corporation
  0.92% owned by Pacific Indemnity Company
  0.42% owned by Great Northern Insurance Company

(B) 30% owned by Sullivan Kelly, Inc.

(C) 0.001% owned by Vigilant Insurance Company.

(D) Two Partners:
  Federal Insurance Company – Founding Partner
  Vigilant Insurance Company- General Partner

(E) 0.03% owned by The Chubb Corporation

At December 31, 2011, 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 Federal Insurance Company to act as the manager of the Company’s insurance business. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Consolidated Federal Income Tax Allocation Agreement

Chubb Corporation, per an agreement dated July 29, 1981, files a consolidated federal income tax return on behalf of the Company and various affiliates. The Company amended and restated the agreement which is to be effective January 1, 2012. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

The Company included in its filed federal income tax return for 2011 certain affiliates that were not included in its consolidated federal income tax allocation agreement or the addendums thereto. Circular Letter No. 33 (1979) requires any amendment or termination to such agreement be filed with the superintendent 30 days prior to entering into such termination or amendment. Further, Section 1504(d)(4) provides that any material transaction “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.”

It is again recommended that the Company amend its consolidated federal income tax allocation agreement to include all participating parties pursuant to the provisions of Section 1505(d)(4) of the New York Insurance Law.
E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders 40%
Liabilities to liquid assets (cash and invested assets less investments in affiliates) 67%
Premiums in course of collection to surplus as regards policyholders 29%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

<table>
<thead>
<tr>
<th>Amounts</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses and loss adjustment expenses incurred</td>
<td>$130,484,710</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td>62,369,911</td>
</tr>
<tr>
<td>Net underwriting gain</td>
<td>24,309,267</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>$217,163,888</td>
</tr>
</tbody>
</table>

F. Accounts and Records

CPA Contract

The contract dated February 20, 2012 between the Company and its independent certified public accountant did not include the following required provision of Section 89.8(a) of Department Regulation 118:

"Every company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent, the board of directors and the company’s audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date, including, for applicable MCOs, the contingent reserve requirement of 10 NYCRR 98-1.11(e)."
It is recommended that the Company ensure that its contract with its CPA complies with Section 89.8(a) of Department Regulation 118.

**Conflict of Interest Statements**

A review of the conflict of interest questionnaires provided by the Company indicated that the questionnaires for some of the Company’s directors were missing, some of the questionnaires were not signed, and some did not complete part 2 of the questionnaire (political contributions and activities).

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, 2011 as determined by this examination and as reported by the Company:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Assets</th>
<th>Assets Not Admitted</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$204,504,463</td>
<td>$ 0</td>
<td>$204,504,463</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>4,724,553</td>
<td></td>
<td>4,724,553</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>2,216,936</td>
<td></td>
<td>2,216,936</td>
</tr>
<tr>
<td>Uncollected premiums and agents' balances in the course of collection</td>
<td>33,680,682</td>
<td>1,863,916</td>
<td>31,816,766</td>
</tr>
<tr>
<td>Deferred premiums, agents' balances and installments booked but deferred and not yet due</td>
<td>62,768,374</td>
<td>632,756</td>
<td>62,135,618</td>
</tr>
<tr>
<td>Amounts recoverable from reinsurers</td>
<td>449,082</td>
<td></td>
<td>449,082</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>6,283,665</td>
<td>2,268,069</td>
<td>4,015,596</td>
</tr>
<tr>
<td>Equities and deposits in pools and associations</td>
<td>821,589</td>
<td></td>
<td>821,589</td>
</tr>
<tr>
<td>State surcharges receivable</td>
<td>109,820</td>
<td></td>
<td>109,820</td>
</tr>
<tr>
<td>Amounts receivable under high deductible policies</td>
<td>240,278</td>
<td>3,264</td>
<td>237,014</td>
</tr>
</tbody>
</table>

Total assets                                 | $315,799,442 | $4,768,005          | $311,031,437        |
Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses $ 81,840,250
Commissions payable, contingent commissions and other similar charges 687,825
Other expenses (excluding taxes, licenses and fees) 1,243,504
Taxes, licenses and fees (excluding federal and foreign income taxes) 243,700
Current federal and foreign income taxes 407,887
Unearned premiums 22,792,785
Policyholders (dividends declared and unpaid) 372,502
Ceded reinsurance premiums payable (net of ceding commissions) 47,920,360
Funds held by company under reinsurance treaties 154,460
Amounts withheld or retained by company for account of others 1,700,410
Provision for reinsurance 408,595
Payable to parent, subsidiaries and affiliates 45,371,894
Minnesota workers’ compensation premium assessment 29,177
Total liabilities $203,173,349

Surplus and Other Funds

Additional admitted deferred income tax asset under SSAP No.10R $ 584,502
Common capital stock 3,500,000
Gross paid in and contributed surplus 13,032,725
Unassigned funds (surplus) 90,740,861

Surplus as regards policyholders 107,858,088

Total liabilities, surplus and other funds $311,031,437

Note: Audits covering tax years 2007 through 2009 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2010 through 2011. 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

Surplus as regards policyholders increased $53,932,077 during the 5-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned $217,163,888

Deductions:

- Losses and loss adjustment expenses incurred $130,484,710
- Other underwriting expenses incurred 62,360,557
  Aggregate write-ins for underwriting deductions 9,354

Total underwriting deductions 192,854,621

Net underwriting gain or (loss) $ 24,309,267

Investment Income

Net investment income earned $ 44,601,533
Net realized capital gain 396,583

Net investment gain or (loss) 44,998,116

Other Income

Net gain or (loss) from agents' or premium balances charged off $ (181,715)
Aggregate write-ins for miscellaneous income 81,117

Total other income (100,598)

Net income before dividends to policyholders and before federal and foreign income taxes $ 69,206,785

Dividends to policyholders 729,711

Net income after dividends to policyholders but before federal and foreign income taxes $ 68,477,074

Federal and foreign income taxes incurred 15,697,956

Net income $ 52,779,118
C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2006 $ 53,926,011

<table>
<thead>
<tr>
<th>Gains in Surplus</th>
<th>Losses in Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$52,779,118</td>
</tr>
<tr>
<td>Net unrealized capital gains or (losses)</td>
<td>2,724</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>248,965</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>65,154</td>
</tr>
<tr>
<td>Change in provision for reinsurance</td>
<td>749,544</td>
</tr>
<tr>
<td>Additional admitted deferred income tax under SSAP No. 10R</td>
<td>584,502</td>
</tr>
<tr>
<td>Total gains or losses in surplus</td>
<td>$54,181,042 $248,965</td>
</tr>
</tbody>
</table>

Net increase (decrease) in surplus 53,932,077

Surplus as regards policyholders per report on examination as of December 31, 2011 $107,858,088

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $81,840,250 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company’s internal records and in its filed annual statements.
5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Consolidated Federal Tax Allocation Agreement</td>
<td>13</td>
</tr>
<tr>
<td>B. CPA Contract</td>
<td>14</td>
</tr>
</tbody>
</table>

**A. Consolidated Federal Tax Allocation Agreement**

It was recommended that the Company amend its consolidated federal tax allocation agreement to include all participating parties pursuant to the provisions of Section 1505(d)(4) of the New York Insurance Law.

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

**B. CPA Contract**

It was recommended that the Company comply with Department Regulation 118 by entering into contracts with its independent Certified Public Accountant that contain the requisite provisions.

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

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Consolidated Federal Tax Allocation Agreement</td>
<td>12</td>
</tr>
<tr>
<td>B. Certified Public Account (CPA) Contract</td>
<td>14</td>
</tr>
<tr>
<td>C. Conflict of Interest Statements</td>
<td>14</td>
</tr>
</tbody>
</table>

**A. Consolidated Federal Tax Allocation Agreement**

It is again recommended that the Company amends its consolidated federal income tax allocation agreement to include all participating parties pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

**B. Certified Public Account (CPA) Contract**

It is recommended that the Company ensure that its contract with its CPA complies with Section 89.8(a) of Department Regulation 118.

**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.
Respectfully submitted,

/s/
Moses Egbon, CFE
Senior Insurance Examiner

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

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

/s/
Moses Egbon

Subscribed and sworn to before me

this _________ day of __________________, 2013.
NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, 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:

Moses Egbon

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 my name and affixed the official Seal of the Department at the City of New York

this 21st day of February, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By: Jean Marie Cho
Deputy Superintendent