REPORT ON EXAMINATION

OF THE

ST. PAUL SURPLUS LINES INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 23rd day of June, 2011

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

ST. PAUL SURPLUS LINES INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 23 June 2011

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of June, 2011.

Insurance Commissioner of the State of Delaware

LIBERTY AND INDEPENDENCE

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Honorable Karen Weldin Stewart, CIR-ML
Commissioner of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No 09.043, dated October 28, 2009, an examination has been made of the affairs, financial condition and management of

ST. PAUL SURPLUS LINES INSURANCE COMPANY

(hereinafter referred to as the "Company") incorporated under the laws of the state of Delaware as a stock company with its statutory office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the Company's offices located at One Tower Square, Hartford, Connecticut. The report of the examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2007, by representatives of the Delaware Department of Insurance. This comprehensive financial examination covered the period January 1, 2008, through December 31, 2009, and included a general review of transactions and a determination of the financial condition of the Company at December 31, 2009. In addition, a search for any material transactions and/or events occurring subsequent to the examination date was performed during the course of this examination. The general procedure of the examination followed the rules established by the Committee on Financial Examiners Handbook, NAIC and generally accepted insurance examination standards. The examination was conducted in coordination with examiners from the Lead State of Connecticut (Lead State). Examiners from other participating States also participated. The examination of these companies was conducted concurrently by representatives of the various States of Domicile. Separate Reports of Examination will be issued by the other States with insurance subsidiaries.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with Statutory Accounting Principles, and Annual Statement Instructions (Instructions).

The examinations were conducted concurrently on an inter-company pool basis. The arrangement, described in detail herein, included the Company as a participant. The Company’s specific participation was 0.88% of the pool as of December 31, 2009.

The examination included a review of the Company’s business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we employed a risk focused surveillance approach and gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

The Company and its insurance affiliates were audited annually, for the years 2008 and 2009, by the accounting firm of KPMG LLP. The Companies received an unqualified statutory opinion in both years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Companies also maintain an internal audit department and a Sarbanes Oxley compliance function. Where applicable, audit reports and workpapers were reviewed and portions therefrom were relied upon for this examination.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations would be made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The Company was a participant in a reinsurance pooling arrangement with other affiliated companies within Travelers Reinsurance Pool (TRV Pool). The Travelers Indemnity Company (Indemnity) is the lead Company in the Pool, and several affiliated insurers were also concurrently examined, in conjunction with the Company and Indemnity.

The Company was the recipient of certain services, including investment, administrative, data processing and claims adjusting, underwriting and premium collection from Indemnity, its affiliate. The Lead State examination included a review of Indemnity’s operations, systems and personnel which are the same as the Company’s.

HISTORY

The Company was incorporated on February 22, 1974, as St. Paul Surplus Lines Insurance Company, a stock insurer, under General Corporation Law of the State of Delaware. Business was commenced May 31, 1974. The Charter provides for a perpetual term of existence.

As a specialty carrier, the Company continued underwriting operations nearly exclusively to the writing of excess and surplus lines of insurance. The Company's Certificate of Authority, authorizes the transaction of business health, credit health, property, marine and transportation, and casualty for the following lines: vehicle, liability, burglary and theft, personal property floater, glass, boiler and machinery, credit, leakage and fire extinguisher equipment, malpractice, elevator, congenital defect, livestock, entertainments' surety and workers compensation, employer's liability and miscellaneous.

On November 16, 2003 the ultimate parent, The St. Paul Companies, Inc. (SPC) entered into an agreement and plan of merger with Travelers Property Casualty Corp. (Travelers). The resulting company became known as The St. Paul Travelers Companies, Inc., and remained a Minnesota corporation with its corporate headquarters in St. Paul, Minnesota.

On February 26, 2007, SPC changed its name to The Travelers Companies, Inc. (TRV) and began trading on the New York Stock Exchange under the new symbol "TRV".

CAPITALIZATION

As of December 31, 2009, the Company had issued and outstanding 41,000 shares of common capital stock, each having a par value of $100 per share. Capital paid-in amounted to $4,100,000. All shares were issued to St. Paul Fire and Marine Insurance Company, a wholly owned subsidiary of The Travelers Companies, Inc.

DIVIDENDS TO STOCKHOLDER

During the period under examination, the Company paid dividends as follows:

Year	Type	Amount Paid
2009	Cash	$ 26,000,000
2008	Cash	$ 24,000,000

All dividends paid were approved by the Delaware Insurance Department.

MANAGEMENT

Directors

The Company was managed by a Board of Directors. The By-Laws required the annual shareholders meeting to be held during the second calendar quarter of each year and include an election of board members consisting of not less than three (3) nor more than eighteen (18) members.

The elected Directors of the Company at December 31, 2009, were as follows:

Name and Address	Principal Occupation or Principal Business Affiliation
Jay S. Benet Groton Long Point, CT	Vice Chairman & Chief Financial Officer The Travelers Indemnity Company
William H. Heyman New York, NY	Vice Chairman & Chief Investment Officer The Travelers Indemnity Company
Brian W. MacLean Vernon, CT	Chairman, President & Chief Operating Officer The Travelers Indemnity Company
Michael F. Klein West Hartford, CT	President, Middle Markets The Travelers Indemnity Company
Kenneth F. Spence, III Edina, MN	Executive Vice President, General Counsel The Travelers Indemnity Company

Officers

The Senior Officers of the Company at December 31, 2009, were as follows:

Name	Title
Albano, John J.	Executive Vice President, Business Insurance
Bell, D. Keith	Senior Vice President, Accounting Standards
Benet, Jay Steven	Vice Chairman, Chief Financial Officer
Bessette, Andy Francis	Executive Vice President & Chief Administrative Officer
Bloom, William A.	Executive Vice President, Insurance Operations & Information Technology & Chief Information Officer
Clarke, Charles J.	Vice Chairman
Clifford, John Patrick, Jr.	Executive Vice President, Human Resources
Dave, Smitesh	Vice President & Chief Corporate Actuary
Hannon, William P.	Executive Vice President, Enterprise Risk Management & Business Conduct Officer
Heyman, William Herbert	Vice Chairman & Chief Investment Officer
Liss, Samuel Gersten	Executive Vice President, Strategic Development
MacLean, Brian William	Chairman, President & Chief Executive Officer
Olivo, Maria	Executive Vice President & Treasurer
Russell, Douglas Kenneth	Senior Vice President & Controller
Rynda, Scott William	Senior Vice President, Corporate Tax
Schnitzer, Alan D.	Vice Chairman & Chief Legal Officer
Skjerven, Wendy Constance	Associate Group General Counsel, Corporate & Corporate Secretary
Spadorcia, Doreen	Executive Vice President, Claim
Spence, Kenneth Franklin, III	Executive Vice President & General Counsel
Toczydlowski, Gregory C.	Executive Vice President, Personal Insurance

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees that is, or is likely to be, in conflict with the official duties of such person.

Control

As of the examination date, all of the outstanding shares of common stock were held by Northland Insurance Company. The latter was a wholly owned indirect subsidiary of TRV.

HOLDING COMPANY SYSTEM

St. Paul Surplus Lines Insurance Company is a wholly owned subsidiary of St. Paul Fire and Marine Insurance Company, which in turn is owned by TRV, a Minnesota domiciled corporation.

The following is an organizational chart that reflects the identities and interrelationships between the Company and Parent as of December 31, 2009.

Company	Domiciliary Jurisdiction
The Travelers Companies, Inc.	Minnesota
St. Paul Fire and Marine Insurance Company (24767)	Minnesota
St. Paul Surplus Lines Insurance Company (30481)	**Delaware**

( ) NAIC company number designates an insurance company.

MANAGEMENT SERVICE AGREEMENTS AND RELATED PARTY TRANSACTIONS

The following material agreements were in effect as of December 31, 2009:

Expense Allocation Agreement

Effective January 1, 2007. This agreement provides for sharing and payment of expenses and costs among affiliates. Individual company allocations appear in the Annual Statement, Underwriting and Investment Exhibit, Part 3.

Tax Allocation Agreement

Effective April 1, 2004. The company is a party to the Travelers tax allocation agreement, which sets forth the manner in which the total consolidated federal income tax is allocated. Member companies of the TRV consolidated return group pay taxes annually on their separate taxable income. Companies with a current federal income tax receivable from TRV will receive settlement to the extent that such receivables are for tax benefits that have been utilized in the consolidated federal income tax return. Member companies are reimbursed by TRV in the event the Internal Revenue Service levies upon a member's assets for unpaid taxes in excess of the amount specifically allocated to a member.

Money Market Liquidity Pool

Effective May 24, 2006. The company became a party to a private short-term investment pool, known as the Travelers Money Market Liquidity Pool (TRVMMLP), in which affiliated companies may participate. This pool is managed by Indemnity. Each company may convert its position in the pool into cash at any time and may also use its position in the pool to settle transactions with other affiliated participants in the pool. The position of each company in the pool is calculated and adjusted daily. Each participating insurance company carries its share of the pool as a short-term investment in Schedule DA.

Quota Share Reinsurance Agreement

Effective January 1, 2007. The company participates in the Travelers Reinsurance Pool (TRV Pool), an inter-company pooling arrangement. See the section of the report titled "Retention and Reinsurance" for a detail discussion of this agreement.

SPECIAL DEPOSIT

At December 31, 2009, the Company had $2,940,798 (fair value) in securities held in a special deposit for the benefit of all policyholders.

TERRITORY AND PLAN OF OPERATION

The Company was licensed only in Delaware but produced direct premium in all other states as a surplus lines company or as an authorized non-admitted insurer. Due to the nature of business the Company writes, the St. Paul Surplus Lines Insurance Company distributed its products through independent surplus lines brokers. Therefore, as an authorized non-admitted insurer, the Company does not utilize an agency force. In addition, the Company does not utilize Managing General Agents (MGA's) or Third-party Administrators (TPA's).

The Company's principal writings included primary general liability, umbrella and excess liability, commercial multiple peril, commercial property and inland marine.

As of the examination date, the Company had an AM Best financial strength rating of A+ (Superior). Due to the Company being a participant in the proportional pooling arrangement, the AM Best report represented the Travelers Companies on a consolidated basis.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements:

	Net Admitted Assets	Surplus as Regards Policyholders	Direct Written Premium	Net Income
2009	$610,698,231	$189,601,647	$172,057,835	$30,199,747
2008	$614,584,422	$181,692,157	$200,973,479	$28,122,319

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended during the period under review. The recorded minutes of the meetings of the stockholders and Board of Directors were read and noted. The minutes appeared to be complete and were properly attested.

FIDELITY BONDS AND OTHER INSURANCE

The Company is insured under policies covering TRV. The Company is covered for losses resulting from employee dishonesty by a financial institution bond issued by Federal Insurance Company and by excess policies with various insurers. The limit of liability on the primary layer financial institution bond is $15 million, which exceeds the suggested minimum limits of insurance pursuant to the Handbook.

In addition to fidelity bond coverage, the Company and its affiliates maintain insurance coverages with various insurers including the following lines:

Company (in primary or lead role)*	Coverage
Chubb Group of Insurance Companies	Directors and Officers Liability and Fiduciary Liability
American International Group, Inc.	General Liability, Automobile Liability and Workers' Compensation/Employers Liability
Zurich Financial Services Group	Umbrella/Excess Casualty
Lexington Insurance Company	Property

St. Paul Surplus Lines Insurance Company

* Actual policies may be issued by underwriting subsidiaries of the companies listed above

EMPLOYEES' WELFARE

Since the Company had no employees, there were no employee pension, stock ownership, or insurance plans. All pension, stock ownership, and insurance plans are maintained by TRV or Travelers, and any associated liabilities are recorded by these entities.

RETENTION AND REINSURANCE

The Company participates in the TRV Pool, an inter-company pooling arrangement. Indemnity is the lead company and administers the Pool with all of the other participating companies (the Companies) ceding their business to Indemnity. Indemnity assumes and cedes third party reinsurance on behalf of the Pool, and then Indemnity cedes to the participating companies their percentage share of the net retained pool. The provision for reinsurance and write-off of uncollectible reinsurance are reported in the statutory financial statements of Indemnity and are not allocated to the other Pool participants. The Company is a 0.88% participant in the arrangement which basically required all business produced directly (including expenses and liabilities incurred pursuant thereto) and all expenses related to the conduct of insurance business in general (except investment expenses and federal income taxes) to be ceded 100% to Indemnity.

As of the examination date, there were 35 companies participating in the Pool.

ACCOUNTS AND RECORDS

General

The Company's accounting records were maintained on data processing equipment that included mainframe and client/server platforms. The financially significant systems used for processing premiums, claims policy reserves and most investments have been developed in-house by the Company. The general ledger system is a purchased package that has been modified to fit the Company's special processing requirements. The premium, claim reserve and investment systems are automatically interfaced with the general ledger system.

Safekeeping of Assets

The Company has safekeeping agreements in place with major trust companies. Most of the Companies' bonds, stocks and short-term investments are held in these accounts. The Company's assets were confirmed directly with the appropriate trust company.

Investment Policy

The Company's investment policy meets all requirements of the Delaware Insurance Code.

Reserving Practices

The examination actuaries developed reserve projections and compared them to values carried by the Company at December 31, 2009. The examination consisted of risk focused testing and substantive testing using procedures as determined necessary by the consulting actuary, to provide adequate validation of data. Based on the procedures applied, the loss and loss adjustment expense reserves appear to be reasonably stated and have been accepted for the purposes of this report.

Information provided to the examiners was further tested for consistency with the Annual Statement and compliance with other relative laws and regulations of the State of Delaware.

FINANCIAL STATEMENTS

The financial statements consist of a balance sheet, underwriting and investment exhibit, and capital and surplus account showing the financial condition at December 31, 2009, as determined by this examination. It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narrative descriptions on the individual accounts in the "Notes to the Financial Statements" section of this report are presented on an exception basis. Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

ASSETS

For the Year Ending December 31, 2009

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 539,233,093	$ 0	$ 539,233,093
Cash and short term investments	1,791,153		1,791,153
Subtotal cash and invested assets	$ 541,024,246	$ 0	$ 541,024,246
Investment income due and accrued	7,369,340		7,369,340
Premium and Uncollected premiums and agents' balances in course of collection	9,708,637	1,626,752	8,081,885
Deferred premiums, agents' balances and installments booked but deferred and not yet due	31,705,212	240,107	31,465,105
Accrued retrospective premium	4,272,488	17,859	4,254,629
Net deferred tax asset	16,298,926	4,875,717	11,423,209
Receivable from parent, subsidiaries and affiliates	5,190,501		5,190,501
Aggregate write-ins for other than invested assets:			
Equities and deposits in pools	1,232,261		1,232,261
State surcharges receivable	396,264		396,264
Assumed reinsurance receivable and payable	392,297	118,897	273,400
Amounts recoverable under high-deductible policies	(12,610)	0	(12,610)
Other assets nonadmitted	16,738	16,738	0
Totals	$ 617,594,300	$ 6,896,070	$ 610,698,230

LIABILITIES, SURLUS AND OTHER FUNDS

For the Year Ending December 31, 2009

			Note
Losses	$	259,921,755	1
Loss adjustment expenses		61,027,776	
Commission payable, contingent commissions and similar charges		4,676,565	
Other expenses		4,255,636	
Taxes, licenses and fees		3,682,079	
Current federal and foreign income taxes		803,222	
Unearned premiums		70,495,314	
Dividends declared and unpaid - Policyholders		325,375	
Ceded reinsurance premiums payable		4,409,458	
Amounts withheld or retained by company for account of others		1,118,830	
Remittances and items not allocated		32,211	2
Payable for securities		3,146,963	
Write-in Reinsurance Payable intercompany		6,328,381	3
Write-in Retroactive premium reserve		2,325,882	
Write-in Retroactive reinsurance reserve assumed		20,464	
Write-in Retroactive reinsurance reserve ceded		(1,473,325)	
Total Liabilities	$	421,096,586	
Write-in Special surplus for deferred taxes	$	3,215,586	
Write-in Special surplus from retroactive reinsurance		1,307,291	
Capital stock		4,100,000	
Gross paid in and contributed surplus		56,030,937	
Unassigned funds (surplus)		124,947,833	
Surplus as regards policyholders	$	189,601,647	
Totals	$	610,698,233	

STATEMENT OF INCOME

For the Year Ending December 31, 2009

Underwriting Income	
Premiums earned	$ 159,752,107
Deductions	
Losses incurred	$ 73,647,170
Loss expenses incurred	19,509,873
Other underwriting expenses incurred	51,224,951
Total underwriting deductions	$ 144,381,994
Net underwriting (loss)	$ 15,370,113
Investment Income	
Net investment income earned	$ 23,664,574
Net realized capital gains	55,865
Net investment gain	$ 23,720,439
Other Income	
Net (loss) from agents' or premium balances charged off	$ (536,321)
Finance and service charges not included in premiums	829,042
Write-in Retroactive reinsurance gain/(loss)	(99,351)
Write-in Fines and penalties of regulatory authorities	(403)
Write-in Profit and loss - Miscellanous	(175,488)
Total other income	$ 17,479
Net income before dividends to policyholders and before federal income taxes	$ 39,108,031
Dividends to policyholders	153,832
Net income after dividends to policyholders and before federal income taxes	$ 38,954,199
Federal income taxes incurred	8,754,451
Net income	$ 30,199,747

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2009

Capital and surplus December 31, 2008	$ 181,692,157
Gains and (losses) in surplus	
Net income	$ 30,199,747
Change in net unrealized capital gains or (losses)	31,372
Change in net deferred income tax	(1,020,866)
Change in non-admitted assets and related items	1,483,651
Dividends to Stockholders	(26,000,000)
Change in special surplus from deferred taxes	3,215,586
Change in surplus as regards policyholders for the year	$ 7,909,490
Surplus as regards policyholders December 31, 2009	$ 189,601,647

RECONCILIATION OF EXAMINATION CHANGES IN SURPLUS

No changes were made to the Company surplus as a result of this examination.

NOTES TO THE FINANCIAL STATEMENT

1. Losses and Loss Adjustment Expenses

Loss Reserves	$259,921,755
Loss Adjustment Expenses	$ 61,027,776

The examination liabilities for losses and loss adjustment expenses, totaling $259,921,755 and $61,027,776 respectively, are the same amounts as reported by the Company in its 2009 filed annual statement.

The amounts reported as losses and loss adjustment expenses are a percentage of the TRV Pool. Because the losses and loss adjustment expenses are pooled items, the Company takes only its allocated proportion of the Pool losses on its financial statements. In this case that proportion is 0.88%.

The Lead State engaged Milliman, Inc. (Milliman) to conduct a comprehensive actuarial analysis of the loss and LAE reserves of the Company as of December 31, 2009. This included an assessment of the risks discussed below.

- The reserving risk is the risk that actual losses or other amounts the Pool is contractually liable to pay will be greater than the corresponding carried liabilities. Milliman's assessment of reserve risk included an evaluation of the reconciliation of actuarial data to Schedule P within the Annual Statement, a review of the claim handling procedures and processes used to estimate loss and LAE liabilities for large risks related to asbestos environmental/pollution and cumulative injury other than asbestos and surety, directors and officers and errors and omissions liability claims, and a qualitative review of workpapers and documentation supporting estimates of the loss and loss adjustment expense liabilities for selected business segments and units. Such review included an assessment as to the appropriateness of methodologies and quality of assumptions.

- The assessment of pricing and underwriting risk included an evaluation of the actuarial process for the development of rate indications, an evaluation of price monitoring processes and controls, and a review on the frequency of and processes for reporting price and underwriting considerations to management.

- The assessment of liquidity risk included a qualitative review of the processes for assessing catastrophe exposure and risk concentration, a review on the frequency of and processes for reporting assessments to management, and a qualitative review of the reinsurance program with specific attention to the concentration of protection within individual reinsurers, the aggregation of protection within reinsurers with potential for financial weakness, and the adequacy of reinsurance limits relative to benchmarks such as probable maximum loss, gross policy limits, surplus, etc.

The Lead State performed data validation and inclusion testing in order to gain confidence that the extraction files were complete and correct. It was concluded that the Company's reserves were based upon data files that were complete and free of error.

Based upon the risk-based assessment and review, no material findings were noted which affected the Company's ability to manage its reserving, pricing and underwriting or liquidity risk.

2. Remittances and items unallocated $32,211

While reviewing the composition of the captioned account, it was noted that the Company's current process is to reconcile accounts at a business group level and not at a legal entity level. This resulted in some accounts prepared on a legal entity basis having unsettled amounts due to/from affiliates. It is recommended that the Company implement controls to ensure that the reconciliation of accounts is performed at a legal entity level, including the timely settlement of resulting amounts due to/from affiliates.

Effective December 2010, the Company implemented a new policy to ensure that account reconciliations are performed at a legal-entity level and, when necessary, settled through intercompany timely.

3. Write-ins for reinsurance payable inter-company $6,328,381

The Company reported a "reinsurance payable inter-company" amount of $6,328,381 related to the net unsettled pooled underwriting activity as of December 31, 2009 pursuant to the Quota Share Reinsurance Agreement (Agreement) which the Company is a party to.

As reported in its 2008 Annual Statement, Note 2 to the Financial Statements, “The Company adopted amended guidance in SSAP No. 63, Underwriting Pools and Associations Including Inter-company Pools (SSAP No. 63) effective in 2008, regarding the reporting of amounts due to/from affiliates for reinsurance. Amounts related to reinsurance agreements with affiliates are reported as an aggregate write-in rather than as a receivable from/payable to parent, subsidiaries and affiliates.”

According to SSAP No. 63, paragraph 8 of the NAIC Practices and Procedures Manual (Manual), "Underwriting results relating to voluntary and involuntary pools shall be accounted for on a gross basis where the participant’s portion of premiums, losses, expenses, and other operations of the pools are recorded separately in the financial statements rather than netted against each other. Premiums and losses shall be recorded as direct, assumed, and/or ceded as applicable." In addition, SSAP No. 63, paragraph 9 states that "While it is acceptable that inter-company pooling transactions be settled through inter-company arrangements and accounts, inter-company pooling transactions shall be reported on a gross basis in the appropriate reinsurance accounts consistent with other direct, assumed and ceded business."

> It is recommended that commencing with the 2010 Annual Statement, the Company report inter-company reinsurance receivables in the appropriate reinsurance accounts (e.g., uncollected premiums and agents' balances in course of collection, amounts recoverable from reinsurers, reinsurance paid on paid loss and losses adjustment expenses and ceded reinsurance premiums payable) in accordance with SSAP No. 62R and SSAP No. 63 of the Manual. Additionally, Schedule F and the Notes to Financial Statements should be reviewed and corrected where necessary pursuant to the Instructions. The Company should also amend the "prior year" column in the 2010 Annual Statement to comply with the Manual. Implementation of this recommendation by the Company will not impact the Company's surplus position.

Prior to the March 1, 2011 filing deadline, the Company provided the Division with an example of a 2010 Annual Statement to demonstrate its compliance with the above recommendations.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2009, was determined to be as follows:

Admitted Assets	$610,698,231
Liabilities	$421,096,584
Capital and Surplus	189,601,647
Total	$610,698,231

Since the last examination as of December 31, 2007, total assets have increased $10,632,824. Liabilities have decreased $514,028, and capital and surplus have increased $11,146,852 in the same period.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged. In addition to the undersigned, this examination was done in conjunction with the examination of the Parent company and its domiciled affiliates. Various examiners from other states and examiners, along with actuarial and systems support representing the Connecticut Insurance Department.

Peter Bliss, CFE
Contract Examiner In Charge
Department of Insurance
State of Delaware