

STATE OF INDIANA )  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Chubb Insurance Company )  
15 Mountain View Road )  
Warren, New Jersey 07059 )

Examination of **Chubb Insurance Company**

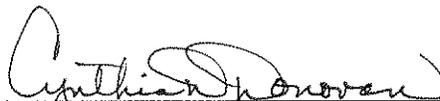
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Chubb Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **Chubb Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

May 22, 2013  
Date

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0014 9504 34**

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Chubb Insurance Company )  
1099 North Meridian Street )  
Indianapolis, Indiana 46204 )

Examination of **Chubb Insurance Company**

**FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **Chubb Insurance Company** (hereinafter "Company") for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on February 21, 2012.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on March 27, 2013 and was received by the Company on April 2, 2013.

On April 29, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

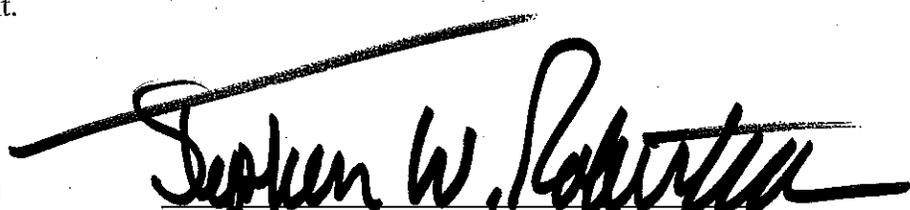
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2011.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 22<sup>nd</sup> day of May, 2013.

  
Stephen W. Robertson  
Insurance Commissioner

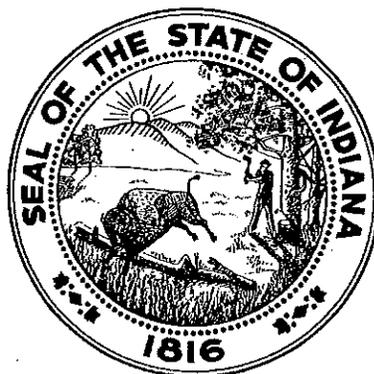
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**CHUBB NATIONAL INSURANCE COMPANY**

NAIC Co. CODE 10052  
NAIC GROUP CODE 0038

As of

December 31, 2011



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# STATE OF INDIANA

MICHAEL R. PENCE, Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

February 21, 2013

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3698, an examination has been made of the affairs and financial condition of:

**Chubb National Insurance Company**  
**One Indiana Square**  
**211 North Pennsylvania Street, Suite 1350**  
**Indianapolis, Indiana 46204-1927**

hereinafter referred to as the "Company", or "Chubb National", an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the corporate offices of The Chubb Corporation in Warren, New Jersey.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395  
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## **SCOPE OF EXAMINATION**

The Company was last examined by Noble Consulting Services, Inc. (Noble) as of the period ending December 31, 2006. The present risk-focused examination was conducted by Noble and covered the period from January 1, 2007 through December 31, 2011.

David M. Shepherd, FCAS, MAAA, of Merlinos and Associates, Inc., a consulting actuary appointed by the Indiana Department of Insurance (INDOI), conducted a review of the Company's loss and loss adjustment expense reserves as of December 31, 2011. There were no actuarial adjustments resulting from the review performed by Merlinos and Associates, Inc.

Noble conducted the examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook 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. An 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 accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **HISTORY**

The Chubb Corporation (the Corporation) was incorporated as a business corporation under the laws of the State of New Jersey in June, 1967. Its headquarters are in Warren, New Jersey. The Corporation is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the Group). In addition to the thirteen (13) domestic property and casualty companies, the Group has various international affiliates.

The Company was incorporated on March 23, 1993 and began writing business on December 14, 1993. The Company is a wholly owned subsidiary of Federal Insurance Company (Federal) with the Corporation as the ultimate parent.

## **CAPITAL AND SURPLUS**

During the examination period, 100% of the Company's 10,000 authorized shares, with a par value of \$450 per share, were issued and outstanding to Federal.

## **DIVIDENDS TO STOCKHOLDERS**

No dividends were declared or paid during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Corporation ranks among the largest insurance organizations in the United States and is recognized as an industry leader in providing specialized insurance coverages for select commercial customer groups, as well as, unique products and services for the upscale personal lines market. The Group is divided into three (3) strategic business units, Chubb Personal Insurance (CPI), Chubb Commercial Insurance (CCI), and Chubb Specialty Insurance (CSI). The business composition within these three (3) units is approximately 34% personal insurance, 43% commercial insurance, and 23% specialty insurance.

CPI offers coverages of fine homes, automobiles, and other personal possessions along with options for high limits of personal liability coverage. CPI also provides supplemental accident and health insurance in niche markets. CCI offers a full range of commercial insurance products, including coverage for multiple peril, casualty, workers' compensation, property, and marine. CSI offers a wide variety of specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms, and healthcare organizations. CSI also includes surety business.

The Group offers products through independent insurance agencies and accepts business on a regular basis from insurance brokers. The Group's branch and service offices assist these agencies and brokers in producing and servicing the Group's business. Business for the Group is also produced through participation in certain underwriting pools and syndicates.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted</u>		<u>Surplus and</u>		<u>Premiums</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Other Funds</u>	<u>Earned</u>	<u>Net Income</u>	
2011	\$ 244,803,097	\$137,224,595	\$ 107,578,502	\$ 42,003,870	\$ 9,116,889	
2010	228,022,616	129,371,310	98,651,306	41,329,239	10,322,043	
2009	213,624,588	127,249,466	86,375,122	43,073,924	12,603,382	
2008	201,357,531	129,041,028	72,316,503	44,677,798	8,837,272	
2007	189,134,057	124,382,371	64,751,686	46,079,057	11,096,753	

Invested assets total \$208.6 million as of year end 2011, which is an increase of \$57.7 million or 38.2% throughout the exam period. The 2011 annual increase was \$12.6 million or 6% primarily due to cash from operations. Agents' balances increased \$4.0 million or 15.4%, which appears reasonable given gross written premiums increased 13.7%.

Loss and loss adjustment expense reserves increased \$1.6 million or 1.9%, which appears reasonable given net written premium increased to \$42.6 million for 2011, an increase of 3.4%.

Surplus increased \$8.9 million, to \$107.6 million, or 9% in 2011 primarily due to net income of \$9.1 million for the year.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of no less than five (5) and no more than twenty-five (25) members. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board of Directors.

The following is a listing of persons serving as directors at December 31, 2011, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Joel David Aronchick Madison, New Jersey	Senior Vice President Chubb & Son, a Division of Federal Insurance Company
Walter Brian Barnes Annandale, New Jersey	Senior Vice President and Chief Actuary Chubb & Son, a Division of Federal Insurance Company
Gerard Michael Butler Southlake, Texas	Executive Vice President Chubb & Son, a Division of Federal Insurance Company
Paul Joseph Krump Mendham, New Jersey	Executive Vice President The Chubb Corporation
William Andrew Macan Yardley, Pennsylvania	Vice President, Corporate Counsel, and Secretary The Chubb Corporation
Allison Williams Meta Fishers, Indiana	Vice President Chubb & Son, a Division of Federal Insurance Company
Harold Lawrence Morrison, Jr. Basking Ridge, New Jersey	Executive Vice President The Chubb Corporation
Douglas Alan Nordstrom Cranford, New Jersey	Vice President and Treasurer The Chubb Corporation
Dino Ennio Robusto Short Hills, New Jersey	Executive Vice President The Chubb Corporation
Richard Glenn Spiro White Plains, New York	Executive Vice President and Chief Financial Officer The Chubb Corporation
April Ann Sterling Fishers, Indiana	Elected Officer Chubb & Son, a Division of Federal Insurance Company

## Officers

The Bylaws state that the elected officers of the Company shall consist of a Chairman, a President, one (1) or more Vice Presidents, a Treasurer, and a Secretary. The Board of Directors may also elect one (1) or more Vice Chairman, and may designate Vice Presidents as Executive or Senior Vice Presidents and may elect from time to time such other officers as is deemed necessary. Each of these officers is elected by the Board of Directors and shall hold office one (1) year, or until such time as they might be removed.

The following is a list of key officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Paul Joseph Krump	Chairman
Dino Ennio Robusto	President
William Andrew Macan	Vice President and Secretary
Douglas Alan Nordstrom	Vice President and Treasurer
Walter Brian Barnes	Vice President and Actuary
Richard Glenn Spiro	Senior Vice President

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that one (1) director and one (1) officer had not signed a 2011 Conflict of Interest statement. There were no other issues related to Conflict of Interest statements identified during the examination.

## OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that while each director does have an Oath of Office statement on file, not all were current as of their last elected date. There were no other issues related to Oaths of Office identified during the examination.

## CORPORATE RECORDS

### Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

## Bylaws

There were no amendments made to the Bylaws during the examination period.

## Minutes

The Board of Directors' quarterly meeting and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws specify the Annual Meeting of Shareholders is to be held in the month of March. For each year under review, written consent of the sole Shareholder, in lieu of an annual meeting, was given within five (5) months following the close of each fiscal year.

The Corporation committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Corporate Governance and Nominating Committee, and Organization and Compensation Committee.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart shows the Company's upstream and downstream affiliates as of December 31, 2011:

	<u>NAIC</u> <u>Co. Code</u>	<u>Domiciliary</u> <u>State/Country</u>
The Chubb Corporation		
Federal Insurance Company	20281	IN
Executive Risk Indemnity Inc.	35181	DE
Executive Risk Specialty Insurance Company	44792	CT
Great Northern Insurance Company	20303	IN
Chubb Custom Insurance Company	38989	DE
Pacific Indemnity Company	20346	WI
Texas Pacific Indemnity Company	20389	TX
Northwestern Pacific Indemnity Company	20338	OR
Chubb Insurance Company of New Jersey	41386	NJ
<b>Chubb National Insurance Company</b>	<b>10052</b>	<b>IN</b>
Chubb Indemnity Insurance Company	12777	NY
Chubb Lloyds Insurance Company of Texas (A)	27774	TX
Vigilant Insurance Company	20397	NY
Chubb De Colombia Compania De Seguros, S.A. (B)		Colombia
Chubb Investment Holdings, Inc.		NJ
Chubb Argentina De Seguros, S.A. (C)		Argentina
Chubb Insurance Investment Holdings, Ltd.		UK
Chubb European Investment Holdings, SLP (D)		Scotland
Chubb Insurance Company of Australia, Ltd.		Australia
Chubb Pacific Underwriting Management Services PTE, Ltd.		Singapore
PT Asuransi Chubb Indonesia (E)		Indonesia
CC Canada Holdings, Ltd.		Canada
Chubb Insurance Company of Canada		Canada
Chubb De Chile Compania De Seguros Generales, S.A. (F)		Chile
Chubb De Mexico Compania Afianzadora, S.A. DE C.V.		Mexico
Chubb De Mexico Compania De Seguros, S.A. DE C.V.		Mexico
Federal Insurance Company Escritorio De Representacao No Brasil, Ltd. (G)		Brazil
Chubb Financial Solutions (Bermuda), Ltd.		Bermuda
Chubb Insurance (China) Company, Ltd.		China

(A) Lloyds Company/Syndicate

(B) 88.31% Owned by Vigilant, 6.13% Owned by Federal, 4.22% Owned by The Chubb Corporation, 0.92% Owned by Pacific Indemnity, 0.42% Owned by Great Northern

(C) 99.9% Owned by Federal

(D) Scottish Limited Partnership. Two partners: Federal - Founding Partner; Vigilant - General Partner

(E) 80% owned.

(F) 99.97% Owned by Federal, 0.03% Owned by The Chubb Corporation

(G) 99.99% Owned by Federal.

Note: *Non-insurance affiliate/subsidiary in italics*

### Affiliated Agreements:

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### Management Agreement

The Company has a Management Agreement with Federal, whereby Federal, through its Chubb & Son division, acts as manager of the insurance business and provides financial advisory services. An addendum was effective December 31, 2007, (filed with the INDOI February 19, 2008) updating settlements to be performed utilizing quarterly statements and payments to be made within sixty (60) days following quarter end, as well as, to comply with SSAP #96. During 2011, the Company incurred \$10,113,000 for services provided pursuant to this agreement.

#### Consolidated Federal Income Tax Allocation Agreement

The Corporation, per the Consolidated Federal Income Tax Allocation Agreement dated July 30, 1981, and Addendums, files a consolidated federal income tax return on behalf of the Company and various affiliates. Under the terms of the agreement, each company's income tax liability is calculated in accordance with the ratio of its taxable income to the total taxable income of group members having taxable income.

#### Intercompany Pooling Agreement

The Company is a member of an Intercompany Pooling Agreement with affiliated insurers. The Intercompany Pooling Agreement dated October 1, 2006, covers substantially all business. Business is apportioned among the member companies based upon pre-determined rates of participation. As of December 31, 2011, the Company's pooling percentage was 0.5%.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Westchester Fire Insurance Company. The bond has a single loss coverage limit of \$15,000,000, with a \$25,000,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011, including but not limited to management indemnity/directors and officers liability, professional indemnity liability, commercial property liability, ERISA liability, employment practices liability, and workers' compensation liability.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Corporation has a sponsored non-contributory defined benefit pension plan, which covers U.S. employees of the Group. The benefits are currently based on a cash balance formula where a notional account for each employee is credited twice a year with amounts based on eligible compensation, age, and years of service. Employees hired prior to 2001 have the option of receiving benefits based on average compensation for their last five (5) years of service (pre-2001 benefit calculation method) or the current method, whichever is higher.

Certain other postretirement benefits, principally health care and life insurance, are provided to retired employees and their beneficiaries and covered dependents. Substantially all employees hired before January 1, 1999, may become eligible for these benefits upon retirement if they meet minimum age and years of service requirements. Health care coverage is contributory. Retiree contributions vary based upon a retiree's age, type of coverage, and years of service. Life insurance coverage is non-contributory.

In addition to the defined benefit plan, the Corporation has a defined contribution benefit plan, the Capital Accumulation Plan, in which substantially all U.S. employees of the Corporation are eligible to participate. Under this plan, the employer makes an annual matching contribution equal to 100% of each eligible employee's pre-tax elective contributions, up to 4% of the employee's eligible compensation. Contributions are invested at the election of the employee in the Corporation's common stock or in various other investment funds.

## STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 2,765,413	\$ 3,038,328
All Other Special Deposits:		
Arizona	855,976	956,366
California	3,032,922	3,381,098
Delaware	101,768	117,789
Georgia	72,691	84,135
Massachusetts	159,944	163,974
Nevada	337,114	378,402
New Hampshire	521,103	566,600
New Mexico	600,914	695,516
North Carolina	312,087	361,220
Oregon	368,302	426,284
South Carolina	227,766	263,623
Virginia	510,820	523,693
Total Deposits	<u>\$ 9,866,820</u>	<u>\$ 10,957,028</u>

## REINSURANCE

### Chubb Reinsurance Pool:

The Company and eight (8) affiliates participate in an Intercompany Pooling Agreement, the Chubb Group Reinsurance Pool (the Chubb Pool). The Intercompany Pooling Agreement covers substantially all business with the exception of foreign business and the run-off of an old aircraft voluntary pool. Federal is the lead company with a 68.5% participation in the Chubb Pool and the Company has a 0.5% share of the Chubb Pool.

The Chubb Pool differs from traditional pooling arrangements whereby participants cede all of their business to a lead reinsurer, and the lead reinsurer retrocedes to each company a portion of all net business written. In the case of the Chubb Pool, each participating company retains a designated percentage of their own business, ceding the remainder of their business to the participating companies. Each participating company also assumes a designated percentage of all other pool participants' business. To illustrate, the Company, which has a 0.5% share of the Chubb Pool, cedes 99.5% of their business to the other eight (8) pool participants. The Company, in turn, then assumes 0.5% of the subject business from each of the remaining eight (8) pool participants. Although the methodology utilized by Chubb management differs from a "traditional" pooling arrangement, the net financial results are identical.

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

<u>Name of Subsidiary</u>	<u>Percentage of Pool</u>	<u>State of Domicile</u>
Federal Insurance Company	68.5%	Indiana
Pacific Indemnity Company	17.0%	Wisconsin
Executive Risk Indemnity Inc.	8.0%	Delaware
Great Northern Insurance Company	4.0%	Indiana
Chubb Custom Insurance Company	0.5%	Delaware
Chubb Indemnity Insurance Company	0.5%	New York
Chubb National Insurance Company	0.5%	Indiana
Executive Risk Specialty Insurance Company	0.5%	Connecticut
Vigilant Insurance Company	0.5%	New York
Total	<u>100.0%</u>	

There are four (4) other affiliated companies which cede 100% of their business to one (1) of the participating pool members where it is, in turn, then included within the Chubb Pool. These companies are: Texas Pacific Indemnity Company and Northwestern Pacific Indemnity Company, both wholly owned subsidiaries of Pacific Indemnity, which cede 100% of their business to Pacific Indemnity, who retains 17% and cedes the remaining 83% of their business to the other eight (8) pool participants, Chubb Insurance Company of New Jersey which cedes 100% of its business to Federal, who retains 68.5% and cedes the remaining 31.5% to the other eight (8) pool participants, and Chubb Lloyds Insurance Company of Texas which cedes 100% of its business to Great Northern who retains 4% and cedes the remaining 96% to the other eight (8) pool participants.

### Ceded Reinsurance:

The Group purchases ceded 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 component of the Group's ceded reinsurance program is directed at per-risk (excess of loss) and per-event (catastrophe) risks associated with property risks. Additional specifics regarding each of these elements of the Group ceded reinsurance program follow:

#### Property Per-risk Reinsurance

The Group also reinsures property limits above \$25 million through a series of per risk reinsurance layers providing approximately \$625 million excess of \$25 million per risk. During 2011, the Chubb Group placed all but a negligible portion of this reinsurance with various reinsurers.

#### Property Per-event (Catastrophe) Reinsurance

The Group's primary reinsurance program involves the placement of catastrophe protection covering its North American (i.e. United States and Canadian) property business. The Group maintains an initial per catastrophe retention of \$500 million per event and places approximately 64% of the excess above this retention, between \$500 million and \$1.65 billion, with various reinsurers.

The Group also reduces their overall exposure through a combination of area specific supplemental reinsurance contracts, as well as two (2) catastrophe bond arrangements consisting of: a \$150 million arrangement expiring in March, 2012, providing coverage for homeowners-related hurricane losses in Florida and a \$475 million arrangement, a portion of which expires in March, 2014, and the remainder in March, 2015, which provides coverage for homeowners and commercial exposures for loss events in the Northeastern United States. On a combined basis for catastrophic events in the Northeastern United States, the combination of the North American Catastrophe treaty, catastrophe bond arrangements, and other area-specific supplemental reinsurance provide coverage of approximately 64% of losses (net of recoveries from other available reinsurance) between \$500 million and \$3.55 billion.

### Assumed Reinsurance:

With the exception of business assumed from the various participants of the Chubb Pool as discussed on the preceding page, the Company reported no financially significant assumed reinsurance balances or activity during the current examination period.

## **ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2011 and 2011, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2007 through December 31, 2011, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

**CHUBB NATIONAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

Assets

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 208,638,120	\$ -	\$ 208,638,120	\$ 171,585,505
Cash, cash equivalents and short-term investments	5,392	-	5,392	24,389,008
Subtotals, cash and invested assets	<u>\$ 208,643,512</u>	<u>\$ -</u>	<u>\$ 208,643,512</u>	<u>\$ 195,974,513</u>
Investment income due and accrued	2,425,679	-	2,425,679	2,074,210
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	10,119,008	-	10,119,008	9,663,377
Deferred premiums, agents' balances and installments booked but deferred and not yet due	19,849,821	-	19,849,821	16,273,168
Reinsurance:				
Amounts recoverable from reinsurers	449,082	-	449,082	642,619
Net deferred tax asset	3,306,133	-	3,306,133	3,266,781
Aggregate write-ins for other than invested assets	9,862	-	9,862	127,948
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>244,803,097</u>	<u>-</u>	<u>244,803,097</u>	<u>228,022,616</u>
<b>Total</b>	<u><b>\$ 244,803,097</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 244,803,097</b></u>	<u><b>\$ 228,022,616</b></u>

**CHUBB NATIONAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	As of December 31, 2011			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Liabilities:</b>				
Losses	\$ 61,208,720	\$ -	\$ 61,208,720	\$ 59,915,128
Loss adjustment expenses	20,631,530	-	20,631,530	20,364,928
Commissions payable, contingent commissions and other similar charges	687,825	-	687,825	578,280
Other expenses	1,272,681	-	1,272,681	1,413,699
Taxes, licenses and fees	243,700	-	243,700	245,333
Current federal and foreign income taxes	416,591	-	416,591	39,616
Unearned premiums	22,792,785	-	22,792,785	22,151,378
Dividend declared and unpaid:				
Policyholders	372,502	-	372,502	388,918
Ceded reinsurance premiums payable	21,139,345	-	21,139,345	18,960,122
Funds held by company under reinsurance treaties	154,460	-	154,460	146,692
Amounts withheld or retained by company for accounts of others	12,212	-	12,212	9,868
Provision for reinsurance	402,514	-	402,514	330,400
Payable to parent, subsidiaries and affiliates	7,889,730	-	7,889,730	4,744,408
Aggregate write-ins for liabilities	-	-	-	82,540
<b>Total liabilities</b>	<b>\$ 137,224,595</b>	<b>\$ -</b>	<b>\$ 137,224,595</b>	<b>\$ 129,371,310</b>
Aggregate write-ins for special surplus funds	584,528	-	584,528	572,158
Common capital stock	4,500,000	-	4,500,000	4,500,000
Gross paid in and contributed surplus	11,000,000	-	11,000,000	11,000,000
Unassigned funds (surplus)	91,493,974	-	91,493,974	82,579,148
<b>Surplus as regards policyholders</b>	<b>107,578,502</b>	<b>-</b>	<b>107,578,502</b>	<b>98,651,306</b>
<b>Totals</b>	<b>\$ 244,803,097</b>	<b>\$ -</b>	<b>\$ 244,803,097</b>	<b>\$ 228,022,616</b>

**CHUBB NATIONAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

Summary of Income

	As of December 31, 2011			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Premiums earned	\$ 42,003,870	\$ -	\$ 42,003,870	\$ 41,329,239
DEDUCTIONS:				
Losses incurred	22,218,500	-	22,218,500	18,823,343
Loss adjustment expenses incurred	6,498,913	-	6,498,913	6,657,351
Other underwriting expenses incurred	12,425,944	-	12,425,944	12,165,039
Aggregate write-ins for underwriting deductions	1,045	-	1,045	802
Total underwriting deductions	<u>41,144,402</u>	<u>-</u>	<u>41,144,402</u>	<u>37,646,535</u>
Net underwriting gain (loss)	859,468	-	859,468	3,682,704
Net investment income earned	9,461,618	-	9,461,618	8,905,255
Net realized capital gains (losses) less capital gains tax	552,135	-	552,135	99,547
Net investment gain (loss)	<u>10,013,753</u>	<u>-</u>	<u>10,013,753</u>	<u>9,004,802</u>
Net gain (loss) from agents' or premium balances charged off	(22,934)	-	(22,934)	(30,374)
Aggregate write-ins for miscellaneous income	1,244	-	1,244	1,925
Total other income	<u>(21,690)</u>	<u>-</u>	<u>(21,690)</u>	<u>(28,449)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	10,851,531	-	10,851,531	12,659,057
Dividends to policyholders	155,846	-	155,846	137,870
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	10,695,685	-	10,695,685	12,521,187
Federal and foreign income taxes incurred	1,578,796	-	1,578,796	2,199,144
Net income	<u>\$ 9,116,889</u>	<u>\$ -</u>	<u>\$ 9,116,889</u>	<u>\$ 10,322,043</u>
<b>Capital &amp; Surplus Account:</b>				
Surplus as regards policyholders, December 31 prior year	\$ 98,651,306	\$ -	\$ 98,651,306	\$ 86,375,122
Net income	9,116,889	-	9,116,889	10,322,043
Change in net unrealized capital gains or (losses) less capital gains tax	(2,181)	-	(2,181)	(2,388)
Change in net deferred income tax	29,785	-	29,785	(141,242)
Change in nonadmitted assets	(157,553)	-	(157,553)	2,083,735
Change in provision for reinsurance	(72,114)	-	(72,114)	26,026
Aggregate write-ins for gains and losses in surplus	12,370	-	12,370	(11,990)
Change in surplus as regards policyholders for the year	<u>8,927,196</u>	<u>-</u>	<u>8,927,196</u>	<u>12,276,184</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 107,578,502</u>	<u>\$ -</u>	<u>\$ 107,578,502</u>	<u>\$ 98,651,306</u>

**CHUBB NATIONAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Reconciliation**

<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>	<b><u>As Of</u></b> <b><u>12/31/2011</u></b>	<b><u>As Of</u></b> <b><u>12/31/2010</u></b>	<b><u>As Of</u></b> <b><u>12/31/2009</u></b>	<b><u>As Of</u></b> <b><u>12/31/2008</u></b>	<b><u>As Of</u></b> <b><u>12/31/2007</u></b>
Capital and surplus, Dec 31, prior year	\$ 98,651,306	\$ 86,375,122	\$ 72,316,503	\$ 64,751,686	\$ 53,742,507
Net income	9,116,889	10,322,043	12,603,382	8,837,272	11,096,753
Change in net unrealized capital gains (losses)	(2,181)	(2,388)	451,602	(270,265)	(174,043)
Change in net deferred income tax	29,785	(141,242)	(907,676)	355,610	11,188
Change in nonadmitted assets	(157,553)	2,083,735	383,743	(932,641)	(188,140)
Change in provision for reinsurance	(72,114)	26,026	189,716	328,545	263,421
Aggregate write-ins for gains and losses in surplus	12,370	(11,990)	1,337,852	(753,704)	-
Net change in capital and surplus for the year	<u>8,927,196</u>	<u>12,276,184</u>	<u>14,058,619</u>	<u>7,564,817</u>	<u>11,009,179</u>
Capital and surplus, Dec 31, current year	<u>\$ 107,578,502</u>	<u>\$ 98,651,306</u>	<u>\$ 86,375,122</u>	<u>\$ 72,316,503</u>	<u>\$ 64,751,686</u>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to the financial statements as of December 31, 2011, based on the results of this examination.

### **OTHER SIGNIFICANT ISSUES**

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that one (1) director and one (1) officer had not signed a 2011 Conflict of Interest statement. All officers and directors should review and sign Conflict of Interest statements on an annual basis in accordance with Company policy.

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that while each director does have an Oath of Office statement on file, not all were current as of their last elected date. It is recommended that every director shall take and subscribe to an Oath of Office at the time of annual election to the Board of Directors.

### **SUBSEQUENT EVENTS**

#### **Hurricane Sandy**

In October 2012, the Northeastern United States suffered a catastrophic impact from Hurricane Sandy. In early December, the Corporation announced that it anticipated eventual losses from this event to be approximately \$880 million on a pre-tax basis and \$570 million on a net-of-tax basis. Each individual member of the Chubb pool will incur losses approximate to their share of the Chubb Pool. For the Company, this equates to gross and net losses of approximately \$4.4 million gross and \$2.9 million net of tax respectively.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos and Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Chubb National Insurance Company, as of December 31, 2011.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of Chubb National Insurance Company as of December 31, 2011, as determined by the undersigned.

Nadine Treon  
Nadine Treon, CFE  
Noble Consulting Services, Inc.

State of:  
County of:

On this 22 day of February 2013, before me personally appeared, Nadine Treon, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the

My commission expires July 04, 2019



Samantha Leigh Dougherty  
Notary Public