

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
UNITED CASUALTY AND SURETY INSURANCE COMPANY

Quincy, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 0000

NAIC COMPANY CODE 36226

EMPLOYER ID NUMBER 58-1847495

UNITED CASUALTY AND SURETY INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

November 23, 2015

The Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

UNITED CASUALTY AND SURETY INSURANCE COMPANY

at its home office located at 1250 Hancock Street, Quincy, Massachusetts, 02169. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

United Casualty and Surety Insurance Company ("Company") was last examined as of December 31, 2009, by the Massachusetts Division of Insurance ("Division"). The current examination also was conducted by the Division and it covers the five-year period from January 1, 2010, through December 31, 2014, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The current examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook* ("Handbook"), the examination standards of the Division and with Massachusetts General Laws. 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.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Stowe & Degon LLC ("Stowe & Degon"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2010 through 2014. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

General

The Company, a stock corporation, was organized on March 7, 1988, and incorporated on May 1, 1989 under the laws of the State of Georgia for the purpose of engaging in the business of insurance and surety. An amendment to the original company charter, dated March 7, 1988, was filed on March 13, 1989 and approved by the Secretary of the State of Georgia on April 27, 1989. The primary reasons for the amendment were to change the company name (formerly United Casualty and Surety Company, Inc.) and to change the types of insurance the Company was initially authorized to write. On June 28, 1993, the Company re-domesticated to the Commonwealth of Massachusetts from the State of Georgia. Pursuant to this, a merger, under the laws of the Commonwealth of Massachusetts, between United Casualty and Surety Insurance Company and United Casualty and Surety Company, Inc. into one continuing corporation was duly certified, with the former being the surviving corporation.

Dividends

The following amounts were distributed as dividends to stockholders during the period covered by this examination:

2014	\$ 174,998
2013	\$ 202,916
2012	\$ 198,053
2011	\$ 100,000
2010	\$ 199,019

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

United Casualty and Surety Insurance Company

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. There have been no amendments to the articles of organization or the bylaws during the period under examination.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the Articles of Incorporation, by law, or the bylaws. The Board of Directors shall consist of not fewer than (5) Directors. The Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Carol Ann Carrigan	Director
John Brian Glynn	Director
Todd Shaun Carrigan	President & Chief Executive Officer
John Thomas Landry III	Director
Edward DeFranceschi	Director
Samuel Louis Black	Director
Paul John McGee	Director

Officers

Officers and management of the Company as of December 31, 2014 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Todd Shaun Carrigan	President & Chief Executive Officer
Timothy Michael Carrigan	Secretary and Treasurer
Thomas Patrick Carrigan Jr.	Vice President

TERRITORY AND PLAN OF OPERATION

The Company is licensed in eleven jurisdictions, with the largest numbers of insurance risks written in Massachusetts, Florida and New York. The Company uses independent agents to sell surety bond coverage in these states. The Company reported 2014 direct written premium of \$2,505,443 in Massachusetts.

Treatment of Policyholders – Market Conduct

Procedures performed in conjunction with the claims test work indicated that the company investigates and settles claims on a timely and equitable basis.

REINSURANCE

Ceded Reinsurance

The Company has one reinsurance agreement with Transatlantic Reinsurance Company, a New York domiciled company.

The reinsurance agreement in effect at December 31, 2014 is a per risk excess of loss contract, under which the reinsurer shall pay the company 100% of the net retained loss on the surety business of each principal in excess of the Company retention of \$150,000, but not exceeding an each principal limit of \$2,350,000. The reinsurer's total liability under the excess of loss reinsurance contract for all principals for an annual period, and for each subsequent annual period that the agreement is in effect shall not exceed the reinsurer's annual aggregate limit and total liability for all principals of \$2,500,000.

In addition, pursuant to the above agreement, the excess of \$2,500,000 on any one principal is ceded to the reinsurer subject to a maximum cession of \$500,000. The Company's retention on this layer is 20%.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2014. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

Statement of Income for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2014

United Casualty and Surety Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2014

	Per Annual Statement
ASSETS	
Bonds	\$ 817,899
Cash, cash equivalents and short-term investments	8,195,831
Subtotals, cash and invested assets	9,013,730
Investment income due and accrued	26,581
Uncollected premiums and agents' balances	236,415
Aggregate write-ins	37,263
Total Assets	\$ 9,313,989

United Casualty and Surety Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued) As of December 31, 2014

	Per Annual Statement
LIABILITIES	
Losses	\$97,000
Commissions payable	2,024
Other expenses	24,611
Taxes, licenses and fees	24,500
Current federal and foreign income taxes	12,500
Unearned premiums	992,568
Advance premium	1,615
Stockholders' dividends declared and unpaid	7,541
Ceded reinsurance premiums payable	33,909
Amounts withheld for others	931
Aggregate write-ins	3,377,331
Total Liabilities	4,574,530
Common capital stock	1,500,000
Gross paid in and contributed surplus	1,150,000
Unassigned funds (surplus)	2,193,714
Less treasury stock, at cost	(104,255)
Surplus as regards policyholders	4,739,459
Total Liabilities, Surplus and Other Funds	\$ 9,313,989

United Casualty and Surety Insurance Company

Statement of Income
For the Year Ended December 31, 2014

	Per Annual Statement
Net Premiums Earned	\$ 2,383,071
Deductions:	
Net Losses Incurred	17,851
Net Other underwriting expenses incurred	1,902,990
Total net underwriting deductions	1,920,841
Net underwriting gain/(loss)	462,230
Net investment income earned	83,166
Net realized capital gains or (losses) less capital gains tax	(266)
Net investment gain/(loss)	82,900
Aggregate write-ins for miscellaneous income	3,000
Total other income	3,000
Net income after dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	548,130
Federal and foreign income taxes incurred	211,271
Net income/(loss)	\$ 336,859

United Casualty and Surety Insurance Company

Reconciliation of Capital and Surplus
For Each Year in the Five-Year Period Ended December 31, 2014

	2014	2013	2012	2011	2010
Capital and surplus, December 31, prior year	\$4,602,992	\$4,452,573	\$4,300,880	\$4,126,774	\$4,113,399
Net income (loss)	336,859	460,836	504,839	376,186	335,454
Change in nonadmitted assets	(25,394)	(7,501)	(55,093)	(2,080)	(6,835)
Change in surplus notes	0	(100,000)	(100,000)	(100,000)	(100,000)
Dividends to stockholders	(174,998)	(202,916)	(198,053)	(100,000)	(199,019)
Change in treasury stock	0	0	0	0	(16,225)
Net change in capital and surplus for the year	136,467	150,419	151,693	174,106	13,375
Capital and surplus, December 31, current year	<u>\$4,739,459</u>	<u>\$4,602,992</u>	<u>\$4,452,573</u>	<u>\$4,300,880</u>	<u>\$4,126,774</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes to the amounts reported in the Annual Statement.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Summary of Loss and Loss Adjustment Expense Reserves ("Loss and LAE Reserves")

The Company's Actuarial Opinion is prepared by Milliman. Milliman's report concluded that the Company's carried reserves make a reasonable provision for all unpaid loss obligations as of December 31, 2014. Milliman's range of reserve estimates is shown in the table below:

COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES AS OF DECEMBER 31, 2014

	Low Point of Range	Point Estimate	High Point of Range
Milliman's Total Net Loss & Loss Adjustment Expense Reserves	\$43,000	\$86,000	\$176,000
Total Company Carried Net Loss & LAE Reserves	97,000	97,000	97,000
Difference	54,000	11,000	(79,000)

SUBSEQUENT EVENTS

Subsequent to December 31, 2014, there were no material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

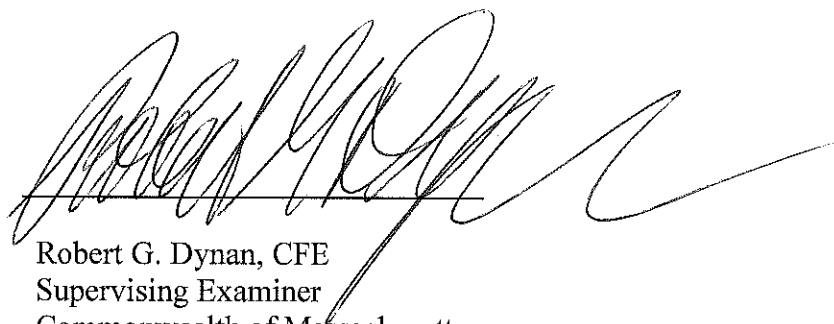
There are no recommendations being made as part of this examination report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following examiner participating in this examination is acknowledged.

Steven Tsimitsos, CFE, Financial Examiner II

A handwritten signature in black ink, appearing to read 'Robert G. Dynan', is written over a horizontal line. The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Robert G. Dynan, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance