



**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF THE*
UNITED CASUALTY AND SURETY INSURANCE COMPANY**

Boston, Massachusetts

As of December 31, 2009

NAIC COMPANY CODE 36226

EMPLOYERS ID NO. 58-1847495

For Informational Purposes Only

UNITED CASUALTY AND SURETY INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Status of Prior Examination Findings	2
History	3
General	3
Capital Stock	3
Dividends to Stockholders	4
Growth of Company	4
Management	4
Annual Meeting	4
Board of Directors	4
Committees	5
Officers	6
Conflict of Interest	6
Corporate Records	6
Articles of Incorporation and Bylaws	6
Disaster Recovery and Business Continuity	6
Board of Directors Minutes	7
Surplus Note	7
Fidelity Bond and Other Insurance	7
Statutory Deposits	7
Territory and Plan of Operations	7
Treatment of Policyholders	8
Reinsurance Ceded	8
Accounts and Records	8
Financial Statements	9
Statement of Assets, Liabilities, Surplus and Other Funds	10
Statement of Income	12
Statement of Capital and Surplus	13
Reconciliation of Capital and Surplus for 2005 – 2009	14
Notes to Financial Statements	15
Acknowledgement	16



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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BARBARA ANTHONY
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October 14, 2010

Honorable Alfred Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Bureau of Insurance
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Honorable James J. Donelon
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Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
Boston, Massachusetts 02118-6200

Honorable Commissioners:

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 the

UNITED CASUALTY AND SURETY INSURANCE COMPANY
Boston, Massachusetts

at its home office located at 170 Milk Street, Boston, Massachusetts 02109. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The United Casualty and Surety Insurance Company (hereinafter referred to as "the Company") was last examined as of December 31, 2004 by the Massachusetts Division of Insurance. The current examination was conducted by the Massachusetts Division of Insurance ("Division") and covers the period from January 1, 2005 through December 31, 2009 including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The 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.

In addition to a review of the financial condition of the Company, the examination also included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and 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 & Degen LLC, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2005 through 2009. A review and use of the certified public accountants' workpapers were made to the extent deemed appropriate and effective. Milliman USA, Inc. is the actuary for the Company and issues the actuarial opinion. The Division's Information Technology Examiner reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on summary information generated by the data processing systems.

Status of Prior Examination Findings

The examination included a review to verify the current status of any exception conditions commented upon in the previous Report of Examination dated December 31, 2004. The Division suggested the Company implement Core Practices and Recommended Practices for Closely Held Insurance Companies into their operations. The Company has implemented the Division's recommendations into their corporate governance structure. The majority of the Board of Directors are independent, the Board meets at least quarterly, there is a written conflict of interest policy and the Board approves the minutes of the Audit Committee.

The Company has elected an Audit Committee composed of three independent directors with extensive accounting knowledge. The Audit Committee meets quarterly, selects the independent auditor and reviews the audit results, approves related party transactions, reviews accounting policies and estimates.

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.

In 2009 Todd Carrigan, President and Timothy Carrigan, Treasurer formed US Indemnity Insurance Agency to receive appointments from other insurance companies. The Company's management intends to form strategic partnerships and relationships with other insurance companies that will allow United Casualty and Surety to better fulfill all surety bond needs of its broker and client base. Any commissions and all other revenue earned by the Agency will be used in the first instance to pay the ordinary and necessary expenses of the Agency. Said expenses shall not include any payments to either Todd Carrigan or Timothy Carrigan unless said payments are for reimbursement of the ordinary and necessary expenses of the Agency. If the Agency generates positive income then the balance of such revenues shall be paid to the Company and treated as miscellaneous income by the Company. The Agency formation and disclosures have been reviewed and accepted by the Board.

Capital Stock

The number of shares of common stock authorized is 20,000 with a par value of \$50 per share. The Company has 14,547 shares of common stock outstanding and 5,453 shares of treasury stock at December 31, 2009. On March 14, 2000, the Company entered into a termination and settlement agreement with Queensway Financial Holdings Limited, Alliance Surety Holdings Inc. and Atlantic Alliance Fidelity and Surety Co. Under the terms of the agreement, Alliance Surety Holdings Inc. surrendered its 25% equity in the common stock of the Company by returning the stock certificate representing 5,000 shares of the Company. Thus, the shares previously owned by Alliance Surety Holdings, Inc. are no longer outstanding shares of the Company.

All other agreements between the Company, The Beacon Family Trust, Queensway Financial Holdings Ltd., Alliance Surety Holdings Inc. and Atlantic Alliance Fidelity and Surety Co. have been cancelled and shall be void and of no further force and effect on the termination and settlement agreement issued and dated March 14, 2000.

United Casualty and Surety Insurance Company

Dividends to Stockholders

There were no declared but unpaid dividends as of December 31, 2009. The following table indicates the dividends paid to stockholders during the exam period:

<u>Year</u>	<u>Amount Paid</u>
2005	\$296,898
2006	247,625
2007	254,738
2008	99,997
2009	199,996

Growth of the Company

The growth of the Company for the years 2005 through 2009 is shown in the following schedule which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus as Regards Policyholders</u>
2005	\$12,548,251	\$2,930,160	\$3,204,952
2006	12,867,364	2,928,170	3,459,836
2007	13,828,910	2,995,997	3,664,000
2008	11,863,188	2,951,733	3,902,613
2009	10,425,281	2,691,108	4,113,399

Management

Annual Meeting

The Bylaws state that the Annual Meeting of the Company shall be held on the third Monday in May of each year; however, the Company typically has their Annual Meeting in December.

Board of Directors

The Bylaws provide that the business and affairs of the Company shall be managed by the Board of Directors except as otherwise provided by the Articles of Incorporation. The Board of Directors shall consist of not fewer than five members. The number of Directors shall be determined at each annual meeting by resolution of the stockholders. Each Director holds office for a term of one year. Upon expiration or resignation, his/her successor is elected at the next Annual Meeting.

United Casualty and Surety Insurance Company

At December 31, 2009 the Board was comprised of seven Directors which is in compliance with the Company Bylaws. The Board of Directors were elected in accordance with the Bylaws.

Directors serving at December 31, 2009, with business affiliations, are as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Todd Carrigan	President of the Company	Quincy, MA
Carol Ann Carrigan	Trustee of Beacon Family Trust	Quincy, MA
Lawrence Carton	Broker, Carton Associates	Waltham, MA
Edward DeFranceschi	Tax Attorney, Professor	Brookline, MA
John Glynn	Attorney	Hingham, MA
John Landry III	Attorney	Hanover, MA
Paul McGee	Reinsurance Consultant	Norwood, MA

The Bylaws do not specify the number of meetings to be held during a year. The minutes of the Board of Directors meetings indicated that meetings were held four times a year during the examination period. At any meeting of the Board, not less than a majority of the Directors constitute a quorum. The minutes indicated that a quorum was present at all meetings of the Board of Directors held during the examination period.

Committees

The Company has an Audit Committee which consists of three independent members of the Board of Directors, duly approved and voted by the full Board of Directors. The Audit Committee, under the direction of its charter, has the authority to approve the selection of the independent auditors, meet in executive session with the independent auditors at least twice a year to review the scope and plan of the audit. In addition, the committee will investigate any matter brought to its attention by management or employees regarding improprieties or other malfeasance within the scope of its duties. The Audit Committee consisted of the following independent Directors at December 31, 2009:

<u>Name of Director</u>	<u>Business Affiliation</u>
John Glynn	Attorney
John Landry III	Attorney
Paul McGee	Reinsurance Consultant

The Board also has a Salary Committee whose function is to approve all salary amounts in excess of \$150,000 in accordance with MGL Chapter 175 Section 35 regarding the compensation of officers, trustees and directors. The Salary Committee consisted of the following individuals at December 31, 2009:

<u>Name of Director</u>	<u>Business Affiliation</u>
Todd Carrigan	President of the Company
Carol Ann Carrigan	Trustee of Beacon Family Trust
Lawrence Carton	Broker, Carton Associates

United Casualty and Surety Insurance Company

Officers

The Bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary and other officers as deemed necessary. Pursuant to the Bylaws, the officers of the Company are elected by the Board of Directors at the first meeting of the Board held after the Annual Meeting. Vacancies among the officers may be filled and new offices created and filled by the Board of Directors, or by the President to the extent authorized by the Board of Directors.

The officers and their respective titles at December 31, 2009 follow:

<u>Name</u>	<u>Title</u>
Todd Shaun Carrigan	President
Timothy Michael Carrigan	Treasurer and Secretary
Thomas Patrick Carrigan, Jr.	Vice President

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict of interest in accordance with Question 16 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any Officer or Director, which is in or is likely to conflict with his/her official duties.

Each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The Company provided completed questionnaires for 2005 and 2006. Questionnaires should be completed, signed and dated on an annual basis.

Corporate Records

Articles of Incorporation and Bylaws

The Bylaws and Articles of Incorporation and amendments thereto were read. There were no changes to the Bylaws since the last examination.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency.

United Casualty and Surety Insurance Company

Board of Directors Minutes

The minutes of the Board of Directors for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company Bylaws and the laws of the Commonwealth of Massachusetts.

SURPLUS NOTE

The Company issued surplus notes of \$800,000 in 1998. These notes are unsecured and subordinate to all present and future indebtedness of the Company, policy claims and prior claims against the Company as provided by Massachusetts General Laws. The Commissioner of Insurance approved the issuance of the notes. The obligations under the surplus notes were reaffirmed, except the due date of the notes is now August 12, 2013, and the interest rate is fixed at 8% per annum. All payments of interest and principal are subject to the prior approval of the Commissioner of Insurance. The Company had made payments totaling \$400,000 during the exam period reducing the outstanding balance of the surplus note to \$400,000 at December 31, 2009.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC's suggested minimum.

The Company has further protected its interests and property by securing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2009.

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2009 are as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Book Value</u>	<u>Market Value</u>
Massachusetts	Massachusetts State	\$500,000	\$500,000
New Hampshire	Mass. State Water		
	Pollution	\$265,520	\$267,360
Florida	Cash	\$100,000	\$100,000

Territory and Plan of Operation

The Company is licensed to write business in the following District and States:

United Casualty and Surety Insurance Company

Connecticut
District of Columbia
Florida
Maryland

Massachusetts
New Hampshire
New Jersey

New York
North Dakota
Pennsylvania

The Company's principal lines of business are surety and fidelity bond coverages.

Treatment of Policyholders

Claims Settlement Practices

Procedures performed in conjunction with the claims testwork 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, 2009 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 \$200,000, but not exceeding an each principal limit of \$2,500,000 and 80% of losses in the layer \$2.5 million to \$3.0 million. 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 \$3,000,000.

The reinsurance treaty contains an insolvency clause in accordance with M.G.L. c.175 s.20A.

ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed. No material deficiencies were noted.

United Casualty and Surety Insurance Company

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2009 Annual Statement. No material exceptions were noted.

The books and records of the Company are audited annually by Stowe & Degon LLC, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the National Association of Insurance Commissioners as of December 31, 2009.

Statement of Assets, Liabilities, Surplus and Other Funds, as of December 31, 2009

Statement of Income, for the Year Ended December 31, 2009

Statement of Capital and Surplus, for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus, For Each Year in the Five Year Period Ended December 31, 2009

United Casualty and Surety Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2009

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 962,458	\$ 0	\$ 962,458
Cash and short-term investments	9,228,860		9,228,860
Subtotals, cash and invested assets	10,191,318		10,191,318
Investment income due and accrued	55,168		55,168
Uncollected premiums and agents' balances in the course of collection	171,900		171,900
Aggregate write-ins for other than invested assets	6,895		6,895
Total Assets	<u>\$ 10,425,281</u>	<u>\$ 0</u>	<u>\$ 10,425,281</u>

United Casualty and Surety Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (continued)
As of December 31, 2009

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 108,000	\$ 0	\$ 108,000	(1)
Commissions payable	5,101		5,101	
Other expenses	49,928		49,928	
Current federal income taxes	61,800		61,800	
Unearned premiums	1,087,593		1,087,593	
Ceded reinsurance premiums payable	41,844		41,844	
Aggregate write-ins for liabilities:				
Funds held as collateral	4,957,616		4,957,616	
Total Liabilities	6,311,882		6,311,882	
Common capital stock	1,000,000		1,000,000	
Surplus notes	400,000		400,000	
Gross paid in and contributed surplus	1,150,000		1,150,000	
Unassigned funds (surplus)	1,651,429		1,651,429	
Less treasury stock, at cost	(88,030)		(88,030)	
Surplus as regards policyholders	4,113,399		4,113,399	
Total Liabilities, Capital and Surplus	\$ 10,425,281	\$ 0	\$ 10,425,281	

United Casualty and Surety Insurance Company
Statement of Income
For the Year Ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 2,727,826	\$ 0	\$ 2,727,826
Deductions:			
Losses adjustment expenses incurred	(1,396)		(1,396)
Other underwriting expenses incurred	2,120,889		2,120,889
Total underwriting deductions	2,119,493		2,119,493
Net underwriting gain	608,333		608,333
Net investment income earned	161,874		161,874
Net realized capital gains (losses)	(4,004)		(4,004)
Net investment gains	157,870		157,870
Aggregate write-ins for miscellaneous income	1,960		1,960
Total other income	1,960		1,960
Net income before dividends to policyholders and before federal and foreign income taxes	768,163		768,163
Net income, after dividends to policyholders but before federal and foreign income taxes	768,163		768,163
Federal and foreign income taxes incurred	260,000		260,000
Net Income	\$ 508,163	\$ 0	\$ 508,163

United Casualty and Surety Insurance Company
Statement of Capital and Surplus
For the Year Ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31 prior year	\$ 3,902,613	\$ 0	\$ 3,902,613
Net income	508,163		508,163
Change in nonadmitted assets	19,037		19,037
Change in surplus notes	(100,000)		(100,000)
Dividends to stockholders	(199,996)		(199,996)
Change in treasury stock	<u>(16,418)</u>		<u>(16,418)</u>
Change in surplus as regards policyholders for the year	<u>210,786</u>		<u>210,786</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 4,113,399</u>	<u>\$ 0</u>	<u>\$ 4,113,399</u>

United Casualty and Surety Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2009

	2009	2008	2007	2006	2005
Surplus as regards policyholders, prior reporting period	\$ 3,902,613	\$ 3,664,000	\$ 3,459,836	\$ 3,204,952	\$ 2,923,715
Net income	508,163	595,445	545,341	515,122	480,908
Change in nonadmitted assets	19,037	(6,366)	13,561	(11,619)	(2,773)
Change in surplus notes	(100,000)	(200,000)	(100,000)		
Dividends to stockholders	(199,996)	(99,997)	(254,783)	(247,625)	(296,898)
Change in treasury stock	(16,418)	(50,209)			
Aggregate write-ins for gains or (losses) in surplus		(260)			
Change in surplus as regards policyholders for the year	210,786	38,823	204,164	254,884	181,237
Surplus as regards policyholders, December 31 current year	<u>\$ 4,113,400</u>	<u>\$ 3,902,613</u>	<u>\$ 3,664,000</u>	<u>\$ 3,459,836</u>	<u>\$ 3,204,952</u>

United Casualty and Surety Insurance Company

NOTES TO FINANCIAL STATEMENTS

Note 1: 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, 2009. Milliman's range of reserve estimates is shown in the table below:

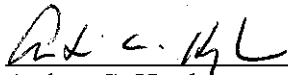
COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/09

	Low Point of Range	Point Estimate	High Point of Range
Milliman's Total Net Loss & Loss Adjustment Expense Reserves	\$54,311	\$108,622	\$2,102,492
Total Company Carried Net Loss & LAE Reserves	108,000	108,000	108,000
Difference	53,689	(2)	(109,244)

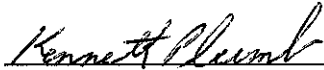
The Company is licensed in the state of New York. New York's statute requires the estimated liabilities for all such losses under surety contracts shall be not less than five percent of the net premiums-in-force thereon. The Company's net in-force premium was \$2,102,492 as of 12/31/09. The Company's carried loss and loss expense reserves of \$108,000 exceed the minimum amount required under the New York statute (5% of \$2,102,492 = \$105,125).

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.



Arthur C. Hughes
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance



Kenneth Plumb, CFE, CPA
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance

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