



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, 2004

NAIC COMPANY CODE 36226

EMPLOYERS ID NO. 58-1847495

For Information Purposes Only

UNITED CASUALTY AND SURETY INSURANCE COMPANY

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

One South Station • Boston, MA 02110-2208
(617) 521-7794 • FAX (617) 521-7771
TTY/TDD (617) 521-7490
<http://www.state.ma.us/doi>

MITT ROMNEY
GOVERNOR

KERRY HEALEY
LIEUTENANT GOVERNOR

BETH LINDSTROM
DIRECTOR, CONSUMER AFFAIRS
AND BUSINESS REGULATION

JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

October 25, 2005

Honorable Alfred Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
Office of the Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Julianne M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Division of Insurance
Commonwealth of Massachusetts
One South Station
Boston, Massachusetts 02110

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.

United Casualty and Surety Insurance Company

SCOPE OF EXAMINATION

The United Casualty and Surety Insurance Company (hereinafter referred to as “the Company”) was last examined as of December 31, 2003 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, 2004 through December 31, 2004 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 & Degon, an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company’s financial statements for calendar year 2004. 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.

For a summary of findings contained within this report, refer to the “Comments and Recommendations” section.

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, 2003. There were outstanding exceptions as of the current examination, and those exceptions are either included in this report or the Summary Review Memorandum.

United Casualty and Surety Insurance Company

HISTORY

General

The Company (formerly United Casualty and Surety Company, Inc.), a stock Company, 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 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.

Capital Stock

The number of shares of common stock authorized is 20,000. The number of shares of common stock outstanding was 14,859 at December 31, 2003. The number of Treasury Stock shares was 141 at December 31, 2003. 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 canceled and shall be void and of no further force and effect on the termination and settlement agreement issued and dated March 14, 2000.

Dividends to Stockholders

There were no declared but unpaid dividends as of December 31, 2004. The Company paid total dividends of \$97,474 during 2004.

Growth of the Company

The growth of the Company for the years 1999 through 2004 is shown in the following schedule which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

United Casualty and Surety Insurance Company

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Capital and Surplus</u>
1999	\$5,495,876	\$1,336,057	\$2,439,254
2000	5,316,410	1,021,141	2,509,007
2001	5,301,406	1,436,936	2,568,962
2002	8,626,135	1,824,676	2,861,072
2003	9,164,860	1,947,818	2,910,422
2004	14,184,726	2,720,736	3,023,715

Management

Annual Meeting

In accordance with the Bylaws, the Annual Meeting of the Company shall be held on the third Monday in May of each year.

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.

At December 31, 2004 the Board was comprised of ten 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, 2004, with business affiliations, are as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Berge Avadanian	Retired, US Coast Guard	Waltham, MA
Thomas P. Carrigan, Jr.	Vice President of the Company	Quincy, MA
Timothy Michael Carrigan	Treasurer and Secretary of the Company	Quincy, MA
Todd Shaun Carrigan	President of the Company	Quincy, MA
Carol Ann Carrigan	Office Manager of the Company	Quincy, MA
Lawrence John Carton	Broker, Carton Associates	Waltham, MA
Edward DeFranceschi	Tax Attorney, Professor	Brookline, MA
Paul John McGee	Assistant Vice President, ITT Hartford Insurance Co	Norwood, MA
James Joseph Sullivan III	Managing Director, American Express Tax and Business Services	Braintree, MA
Robert Tello	Broker, Massachusetts Insurance Agency	Stoneham, MA

United Casualty and Surety Insurance Company

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 once 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 a Salary Committee which consists of three members of the Board of Directors, duly approved and voted by the full Board of Directors. The Salary Committee has the authority to set and approve the salaries and compensation of all employees, officers and directors. The Salary Committee consists of the following directors at December 31, 2004:

<u>Name</u>	<u>Title</u>
Todd Shaun Carrigan	President
Timothy Michael Carrigan	Treasurer/Secretary
Carol Ann Carrigan	Office Manager

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, 2004 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 14 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.

United Casualty and Surety Insurance Company

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed and no discrepancies were noted.

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.

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.

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 does not meet the NAIC 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, 2004.

United Casualty and Surety Insurance Company

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2004 are as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Book Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	U.S. Treasury Notes	\$500,000	\$503,001	\$501,306

Territory and Plan of Operation

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

District of Columbia
Massachusetts
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 XL Reinsurance America, Inc, a New York domiciled company, for the ceding of its Surety business. Effective January 1, 2005, the Company terminated its reinsurance agreement with XL Reinsurance America, Inc., and entered into a reinsurance agreement with Transatlantic Reinsurance Company, a New York domiciled company.

United Casualty and Surety Insurance Company

The reinsurance agreement in effect at December 31, 2004 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 \$1,850,000. 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 \$2,000,000.

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 EDP systems environment. The questionnaire was completed by the Company and reviewed. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2004 Annual Statement. No material exceptions were noted.

The books and records of the Company are audited annually by Stowe & Degon, 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, 2004.

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2004

Statement of Income, for the Year Ended December 31, 2004

Reconciliation of Capital and Surplus, For the One Year Period Ended
December 31, 2004

United Casualty and Surety Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2004

Assets	Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 997,676		\$ 997,676	
First liens - mortgage loans on real estate	193,773		193,773	
Other than first liens - mortgage loans	41,390		41,390	
Cash and short-term investments	<u>12,620,280</u>		<u>12,620,280</u>	
Subtotals, cash and invested assets	13,853,119		13,853,119	
Investment income due and accrued	4,907		4,907	
Agents' balances and uncollected premiums:				
Premiums and agents' balances in course of collection	297,418		297,418	
Aggregate write-ins for other than invested assets	<u>29,282</u>		<u>29,282</u>	
Total Assets	<u>\$ 14,184,726</u>	<u>\$ 0</u>	<u>\$ 14,184,726</u>	

United Casualty and Surety Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2004

Liabilities	Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 93,255	\$ (6,255)	\$ 87,000	(1)
Loss adjustment expenses		6,255	6,255	(1)
Commissions payable	2,577		2,577	
Other expenses	15,296		15,296	
Taxes, licenses and fees	19,639	(19,639)	-	(2)
Current federal income taxes	51,410		51,410	
Unearned premiums	1,004,632		1,004,632	
Advance premiums	945		945	
Ceded reinsurance premiums payable	117,485		117,485	
Amounts withheld or retained by company for account of others		19,639	19,639	(2)
Aggregate write-ins for liabilities:				
Funds held as collateral	9,855,772		9,855,772	
Total Liabilities	11,161,011		11,161,011	
 Common capital stock	 1,000,000		 1,000,000	
Aggregate write-ins for other than special surplus funds	(155,756)		(155,756)	
Surplus notes	800,000		800,000	
Gross paid in and contributed surplus	1,150,000		1,150,000	
Unassigned funds (surplus)	250,874		250,874	
Treasury stock	(21,403)		(21,403)	
Surplus as regards policyholders	3,023,715		3,023,715	
 Total Liabilities, Capital and Surplus	 <u>\$ 14,184,727</u>	 <u>\$ 0</u>	 <u>\$ 14,184,727</u>	

United Casualty and Surety Insurance Company
Summary of Operations
For the Year Ended December 31, 2004

	Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 2,320,920		\$ 2,320,920	
Deductions:				
Losses incurred	67,845		67,845	
Other underwriting expenses incurred	2,135,482		2,135,482	
Total underwriting deductions	2,203,327		2,203,327	
Net underwriting gain (loss)	117,593		117,593	
Net investment income earned	165,237		165,237	
Net realized capital gains	(6,317)		(6,317)	
Net investment gain	158,920		158,920	
Aggregate write-ins for miscellaneous income	4,258		4,258	
Total other income	4,258		4,258	
Net income before dividends to policyholders and before federal and foreign income taxes	280,771		280,771	
Net income, after dividends to policyholders but before federal and foreign income taxes	280,771		280,771	
Federal and foreign income taxes incurred	79,410		79,410	
Net Income	\$ 201,361	\$ 0	\$ 201,361	

United Casualty and Surety Insurance Company
 Capital and Surplus
 For the Year Ended December 31, 2004

	<u>Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>	<u>Notes</u>
Surplus as regards policyholders, December 31, 2003	\$ 2,910,422		\$ 2,910,422	
Net income	201,361		201,361	
Change in nonadmitted assets	9,406		9,406	
Dividends to stockholders	<u>(97,474)</u>		<u>(97,474)</u>	
Change in surplus as regards policyholders for the year	<u>113,293</u>		<u>113,293</u>	
Surplus as regards policyholders, December 31, 2004	<u>\$ 3,023,715</u>	<u>\$ 0</u>	<u>\$ 3,023,715</u>	

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COMMENTS AND RECOMMENDATIONS

Comment No.1:

The Company is incorrectly including Loss adjustment expenses in the Loss reserves amount in the Annual Statement, Page 3 Line 1. Loss adjustment expenses should be separated from the Loss reserves, and should be properly disclosed on Page 3 Line 3.

Recommendation:

It is recommended that the Company properly separate and disclose Loss adjustment expenses on Page 3 Line 3 of the Annual Statement.

Comment No.2:

The Company is not following the Quarterly and Annual Statement Instructions in properly disclosing Amounts withheld or retained by company for account of others.

Recommendation:

It is recommended that the Company follow the Quarterly and Annual Statement Instructions in properly disclosing Amounts withheld or retained by company for account of others.

Comment No.3:

The Company does not maintain fidelity coverage in compliance with the NAIC suggested minimum coverage. The Company maintains fidelity coverage in the amount of \$75,000 (Seventy-five thousand dollars). Per NAIC suggested minimum, the Company should maintain minimum fidelity coverage in the amount of \$150,000 (One hundred fifty thousand dollars.)

Recommendation:

It is recommended that the Company obtain fidelity coverage in compliance with the NAIC suggested minimum coverage.

SUBSEQUENT EVENTS

Subsequent to the date of the current examination, in July and August 2005, the Company submitted certain information and comments relative to the Massachusetts Division of Insurance's recommended Best Practices for Closely-Held Insurance Companies. A summary of the Division's suggested Core Practices and Recommended Practices for Closely-Held Insurance Companies, as well as the Company's comments to the same follows.

United Casualty and Surety Insurance Company

Core Practices

Board of Directors

- Independent directors should comprise the majority of the Board.

Company Comments:

Members of the current Board of Directors:

<u>Name</u>	<u>Title</u>
Todd Shaun Carrigan	President/Director
Timothy Michael Carrigan	Treasurer/Secretary/Director
Carol Anne Carrigan	Director
Thomas Patrick Carrigan Jr.	Vice-President/Director
Edward DeFranceschi, Esq.	Director
James Joseph Sullivan III	Director
Lawrence John Carton	Director
Robert Tello	Director
John Paul McGee	Director
John Brian Glynn, Esq.	Director
John Thomas Landry, III, Esq.	Director

The Company identified directors Todd S. Carrigan, Timothy M. Carrigan, Carol A. Carrigan and Thomas P. Carrigan, Jr., as the non-independent members of the Company's management team. The Company identified directors Lawrence J. Carton, Paul J. McGee, John B. Glynn and John T. Landry III as independent members of the Company's management team. The Company identified directors Robert Tello, Edward DeFranceschi and James J. Sullivan, III as direct shareholders or the trustee of a trust that is a shareholder or a family member of a family that owns shares through a trust. The Company indicated that directors DeFranceschi and Sullivan either directly, or through firms in which they are principals, provide services for the Company and that director Tello has a commission relationship with the Company. The Company asserts that 7 of their 11 directors are independent.

- Minimum of quarterly meetings.

Company Comments: The Company represented that the Board of Directors meets quarterly and has had two quarterly meetings as of August of 2005.

- Must meet in Executive Session.

Company Comments: The Company represented that the Board of Directors meets in executive session.

- The Board should review and approve the minutes of the Audit Committee.

United Casualty and Surety Insurance Company

Company Comments: The Company represented that the Board reviewed and approved the minutes of the Audit Committee at its last meeting and will continue to do so in the future.

- There should be a written Conflict of Interest Policy.

Company Comments: The Company represented that the Board has established a written conflict of interest policy.

Audit Committee

- Audit Committee should be separate from the Board and any other Board committee.

Company Comments: The Company represented that it has established an Audit Committee. The members of the Audit Committee are:

<u>Name</u>	<u>Title</u>
Timothy Michael Carrigan	Treasurer/Secretary/Director
John Brian Glynn	Director
John Thomas Landry	Director

- Comprised of independent directors.

Company Comments: The Company represented that, due to the nature and size of the Company, Company Treasurer, Timothy Carrigan, is serving as one of the members of the Audit Committee.

- Audit Committee meeting should be held at least quarterly.

Company Comments: The Company represented that the Audit Committee had met twice as of August 2005, and that it will continue to meet quarterly.

- Members should be financially literate.

Company Comments: The Company represented that Director Glynn, in addition to his law practice, is a board member of the Commonwealth of Massachusetts Board of Registration of Public Accountancy. The Company further represented that Director Glynn was instrumental in preparing the Audit Committee charter.

- Involved in the performance evaluation and compensation of the internal audit director.

Company Comments: The Company represented that it does not have an Internal Audit Director.

- The Audit Committee must meet in executive session with external and internal auditors.

United Casualty and Surety Insurance Company

Company Comments: The Company represented that the Audit Committee has met in executive session with the internal auditor and will meet with the external auditor in the coming months.

- There should be a written Audit Committee charter.

Company Comments: The Company represented that the Audit Committee charter has been drafted and that a draft was approved at the last Board of Directors meeting, as of August 2005.

- Formally approve selection of audit firm.

Company Comments: The Company represented that the Audit Committee will perform this function.

- Approve all related party transactions.

Company Comments: The Company represented that the Audit Committee will perform this function.

- Review major accounting policies, judgments and estimates.

Company Comments: The Company represented that the Audit Committee will perform this function.

Recommended Practices

- Policy for rotation of outside audit firm.

Company Comments: The Company represented that its current outside audit firm has only been retained on a year by year basis and that relationship will now be under the supervision of the Board of Director's Audit Committee.

- Policy on non-audit work allowed by outside auditor.

Company Comments: The Company represented that its auditors have never performed non-audit work for the Company. The Company further represented that the Board of Directors will adopt a resolution forbidding the outside auditors from performing non-audit work at the Board's next meeting.

- Whistle-blower policy.

Company Comments: The Company represented that four of the six Company employees are a mother and her three sons, and that Mrs. Carrigan is the majority shareholder of the Company. The Company asserted that a whistleblower policy appears

United Casualty and Surety Insurance Company

inapplicable, however, the Company represented that Company management will draft a policy and present it to the Board of Directors for approval at its next meeting.

The Division asserts that because Company Board of Directors members DeFranceschi and Sullivan, either directly or indirectly, provide services for the Company and member Tello has a commission relationship with the Company, the United Casualty Board of Directors is not composed of a majority of independent members. Moreover, the Company's Audit Committee includes an officer (the Treasurer) of the Company. For these reasons, the Division is requiring each member of the Company's Audit Committee to submit a statement of attestation, along with the Company's annual statements, as filed with the Division each year. Such annual statements of attestation must be signed by each member of the Audit Committee under the pains and penalties of perjury.

For Information Purposes Only

United Casualty and Surety Insurance Company

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.

Ravinder S. Chana
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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