

Report
of the
Examination of
St. Paul Fire and Casualty Insurance Company
St. Paul, Minnesota
As of December 31, 2009

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Theodore K. Nickel, Commissioner

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February 15, 2011

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Commissioners:

In accordance the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

ST. PAUL FIRE AND CASUALTY INSURANCE COMPANY
St. Paul, Minnesota

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of St. Paul Fire and Casualty Insurance Company (SPFC) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2009, and included a review of such 2010 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including

corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of The Travelers Companies, Inc. Representatives of the Connecticut Department of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Connecticut Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Connecticut Department of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the Connecticut Department of Insurance examiner-in-charge. The examination of SPFC relied on the lead-state review of the consulting actuary's conclusions.

II. HISTORY AND PLAN OF OPERATION

St. Paul Fire and Casualty Insurance Company (SPFC) was organized in 1982 under the laws of Wisconsin and commenced business on March 15, 1982. All outstanding stock is held by its parent, St. Paul Fire and Marine Insurance Company. The St. Paul Companies, Inc., parent of St. Paul Fire and Marine Insurance Company, merged with The Travelers Property Casualty Corporation on April 1, 2004, forming The St. Paul Travelers Companies, Inc. On February 26, 2007, The St. Paul Travelers Companies, Inc., was renamed The Travelers Companies, Inc., which is a publicly traded holding company.

The Travelers Companies are organized into three primary reportable business segments: 1) Business Insurance, 2) Financial, Professional and International Insurance, and 3) Personal Insurance. These segments reflect the manner in which the business is currently managed and represent an aggregation of products and services based on customer type, marketing and underwriting approaches. SPFC's business is primarily aligned with the Business Insurance segment.

The company is licensed in two states, Wisconsin and Georgia. The company is eligible to write surplus lines coverage in Connecticut and Delaware. In 2009, the company specifically wrote direct premium in the following states:

Delaware	\$278,581
Wisconsin	<u>(11,510)</u>
Total	<u>\$267,071</u>

The \$(11,510) return worker's compensation premium was the company's only Wisconsin business.

III. MANAGEMENT AND CONTROL

Board of Directors

The company's current board of directors consists of six members. The six directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. As executive employees of the holding company system, the board members currently receive no compensation specific to their services on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jay S. Benet Groton Long Point, Connecticut	Vice Chairman and Chief Financial Officer	2011
Vicki A. Danahey Hartland, Wisconsin	Managing Director Commercial Lines	2011
William H. Heyman New York, New York	Vice Chairman and Chief Investment Officer	2011
Michael F. Klein West Hartford, Connecticut	President Commercial Accounts	2011
Brian W. MacLean Vernon, Connecticut	Chairman of the Board, President, and Chief Executive Officer	2011
Kenneth F. Spence, III Edina, Minnesota	Executive Vice President and General Counsel	2011

Officers of the Company

Key officers serving at the time of this examination are as follows:

Name	Office	2009 Compensation
Brian W. MacLean	Chairman of the Board, President and CEO	\$5,258,412
Jay S. Benet	Vice Chairman and Chief Financial Officer	4,358,623
William H. Heyman	Vice Chairman and Chief Investment Officer	6,013,110
John J. Albano	EVP – Business Insurance	3,463,895
Alan D. Schnitzer	Vice Chairman and Chief Legal Officer	3,940,632

The 2009 compensation represents consolidated amounts as reported on The Travelers Companies, Inc., holding company filings and includes all salaries, bonuses and other compensation based on the company's filing of the Report on Executive Compensation.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Jay S. Benet
Brian W. MacLean

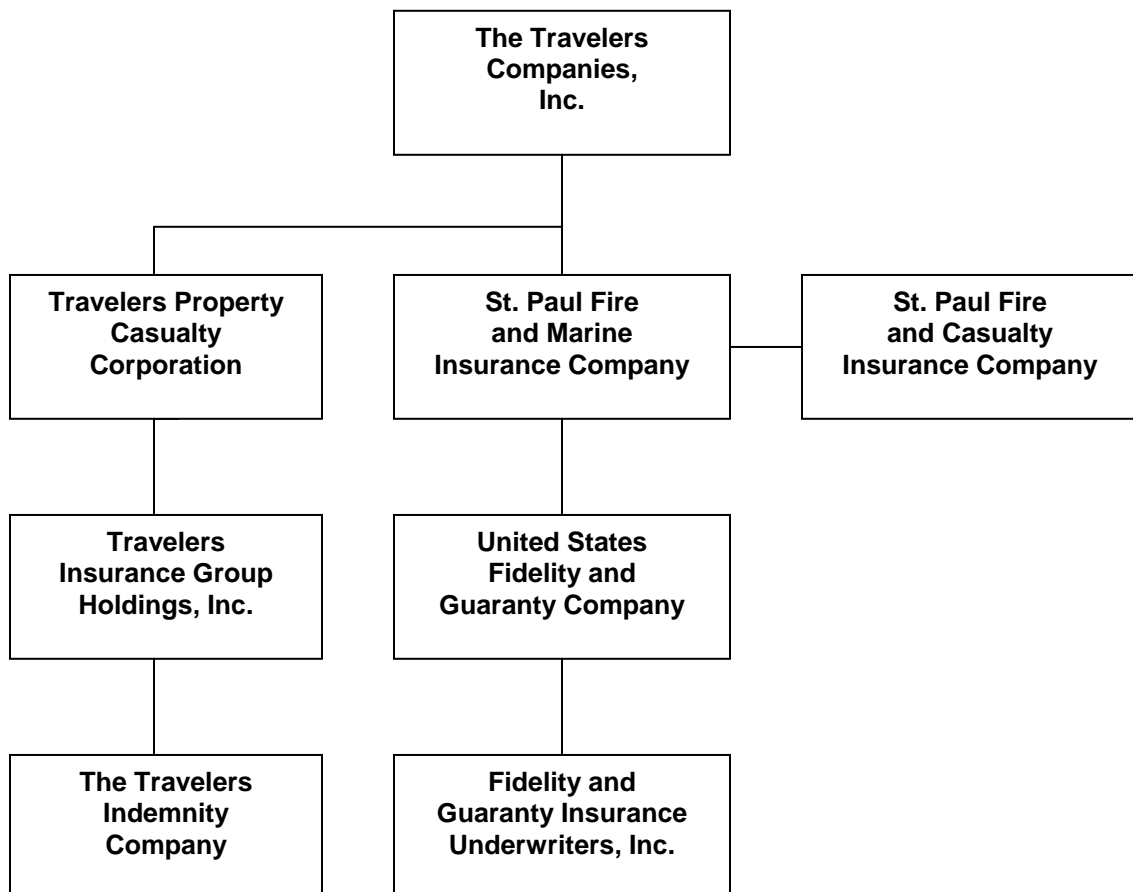
Investment Committee

Jay S. Benet
William H. Heyman
Brian W. MacLean

IV. AFFILIATED COMPANIES

SPFC is a member of The Travelers Companies, Inc., holding company system. The Travelers Companies, Inc., is the second largest writer of commercial U.S. property and casualty insurance as well as U.S. personal insurance written through independent agents. Travelers offers a wide variety of property and casualty insurance, surety products, and risk management services to businesses, organizations and individuals in the United States and selected international markets. The organizational chart below depicts the relationships among the affiliates in the group that control SPFC or with which the company has a reinsurance or service agreement relationship. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart
Wisconsin Domestic Affiliate Company Relationships
As of December 31, 2009**



The Travelers Companies, Inc.

The Travelers Companies, Inc., a publicly traded holding company incorporated in Minnesota, is the ultimate parent of the Travelers Group including the Wisconsin-domiciled companies. The Travelers Companies, Inc., is organized into three major reportable segments which encompass: 1) Business Insurance, 2) Financial, Professional and International Insurance, and 3) Personal Insurance. The Business Insurance segment offers a broad array of property and casualty insurance and related services to various commercial accounts ranging from small businesses to Fortune 500 corporations, including specialized industry focused and target risk underwriting products. The Financial, Professional and International Insurance segment provides various surety and financial liability coverages, which typically require a credit-based underwriting process, as well as property and casualty products that are primarily marketed on an international basis. The Personal Insurance segment provides automobile, homeowner's and other property and casualty insurance coverage to individuals. The Travelers Companies, Inc., statutory basis combined financial statements as of December 31, 2009, reported assets of approximately \$75.1 billion, liabilities of \$52.6 billion, and surplus as regards to policyholders of \$22.5 billion. Operations for 2009 produced net income of \$3.8 billion.

St. Paul Fire and Marine Insurance Company

St. Paul Fire and Marine Insurance Company is a property and casualty insurer domiciled in Minnesota, which was incorporated under the laws of Minnesota in 1925. On December 31, 2010, an Order of Approval was granted by the Minnesota Department of Commerce to redomesticate St. Paul Fire and Marine Insurance Company from Minnesota to Connecticut. The majority of direct business written includes other liability – occurrence, other liability – claims made, ocean marine, and commercial auto liability. St. Paul Fire and Marine Insurance Company is the direct parent of SPFC. It is also the direct parent of United States Fidelity and Guaranty Company, which in turn is the 100% owner of Fidelity and Guaranty Insurance Underwriters, Inc., the other Wisconsin-domiciled company within the Travelers Group. St. Paul Fire and Marine Insurance Company audited financial statements reported assets of

\$19 billion, liabilities of \$12.4 billion, and surplus as regards policyholders of \$6.6 billion, as of December 31, 2009. Operations for 2009 produced net income of \$722 million.

United States Fidelity and Guaranty Company

United States Fidelity and Guaranty Company is a property and casualty insurance company domiciled in Connecticut. The majority of United States Fidelity and Guaranty Insurance Company direct business writings include worker's compensation, other liability – occurrence, and inland marine. United States Fidelity and Guaranty Company is the direct parent of Fidelity and Guaranty Insurance Underwriters, Inc., the other Wisconsin-domiciled company within the Travelers Group. Audited financial statements reported admitted assets of \$4.6 billion, liabilities of \$2.2 billion, and surplus as regards policyholders of \$2.4 billion, as of December 31, 2009. Operations for 2009 produced net income of \$212.3 million.

The Travelers Indemnity Company

The Travelers Indemnity Company is a property and casualty insurance company domiciled in Connecticut. It is a direct subsidiary of the Travelers Insurance Group Holdings, Inc., a 100% owned subsidiary of Travelers Property Casualty Corporation, which encompasses ownership of various insurance- and noninsurance-related investment, finance and real estate companies or trusts. The majority of The Travelers Indemnity Company direct business written includes worker's compensation, other liability – occurrence, and commercial multiple peril. The Travelers Indemnity Company is the administrator of the Travelers reinsurance pool. The company also administers all external reinsurance. The Travelers Indemnity Company reported assets of \$21.3 billion, liabilities of \$12.9 billion, and surplus of \$8.4 billion, as of December 31, 2009. Operations for 2009 produced net income of \$1.2 billion.

Fidelity and Guaranty Insurance Underwriters, Inc.

Fidelity and Guaranty Insurance Underwriters, Inc., is a property and casualty insurance company domiciled in Wisconsin. The majority of Fidelity and Guaranty Insurance Underwriters, Inc., direct business includes worker's compensation, commercial auto liability, commercial multiple peril, other liability – occurrence, and auto physical damage. Fidelity and Guaranty Insurance Underwriters, Inc., reported assets of \$84.6 million, liabilities of \$48.4 million,

and surplus as regards policyholders of \$36.2 million, as of December 31, 2009. Operations for 2009 produced net income of \$4.2 million.

Agreements with Affiliates

St. Paul Fire and Casualty Insurance Company operates under the following major affiliated agreement relationships.

Expense Allocation Agreement

SPFC reimburses The Travelers Indemnity Company for administrative services under an expense allocation agreement. Administrative services include all management, accounting, treasury, audit, investment, legal, and policy administration. These expenses are allocated on the basis of premiums, losses or other relevant measures in a manner consistent with applicable statutory provisions. The Travelers Indemnity Company furnishes the company with a monthly statement for services provided. Reimbursement is required within 30 days. This agreement became effective January 1, 2007, and has an automatic annual renewal. The agreement may be terminated by either party with 90 days' advance written notice.

Reinsurance Allocation Agreement

The Travelers Indemnity Company is the administrator of the Travelers reinsurance pool. SPFC cedes 100% of its direct business to the pool. This agreement became effective January 1, 2007, and has an automatic annual renewal. The agreement may be terminated by either party with 30 days' advance written notice.

Intercompany Netting Agreement

The Travelers Indemnity Company is the administrator of the Travelers pool netting agreement. Travelers Indemnity determines the net amount of outstanding eligible obligations between the parties; these obligations are netted. This agreement became effective April 1, 2004. A party may withdraw from this agreement by written notice to Travelers Indemnity. Withdrawal shall be effective the first day of the month following the month that the notice is given.

Money Market Liquidity Pooling Agreement

The Travelers Indemnity Company administers an investment pool on behalf of affiliated companies under an agreement amended on January 1, 2005, to include SPFC. The

position of each affiliate in the pool is calculated daily with a book value apportionment. Interest earned is allocated on a daily basis and credited monthly. This investment agreement may be terminated by SPFC at any time with written notice. The agreement may be terminated by The Travelers Indemnity Company with 180 days' advance written notice.

Tax Allocation Agreement

The Travelers Companies, Inc., provides consolidated federal and state tax return filing on behalf of affiliated companies under an intercompany tax allocation agreement, effective on April 1, 2004. Allocations for the consolidated tax filing are made based upon individual company pro forma income tax returns. SPFC is required to pay its portion of the consolidated tax within 15 days after the end of each quarterly payment month.

V. REINSURANCE

SPFC cedes 100% of its direct business to The Travelers Indemnity Company and assumes 0% of the combined pool. The terms of the affiliated reinsurance agreement in force at the time of the examination are summarized below. The contract contained proper insolvency provisions.

Affiliated Ceding Contracts

1. Type: 100% Quota Share
Reinsurer: The Travelers Indemnity Company
Scope: All insurance business written
Retention: None
Coverage: 100%
Premium: 100%
Commissions: 100%
Effective date: January 1, 2007
Termination: By either party with 90 days' advance written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2009, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

St. Paul Fire and Casualty Insurance Company
Assets, Liabilities, and Surplus
As of December 31, 2009

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$15,388,354	\$	\$15,388,354
Cash, cash equivalents, and short-term investments	326,001		326,001
Investment income due and accrued	224,500		224,500
Write-ins for other than invested assets:			
Reinsurance receivable intercompany	<u>292,485</u>	—	<u>292,485</u>
Total Assets	<u>\$16,231,340</u>	<u>\$0</u>	<u>\$16,231,340</u>

Liabilities and Surplus

Other expenses (excluding taxes, licenses, and fees)		\$ (31)
Current federal and foreign income taxes		66,935
Net deferred tax liability		16,350
Remittances and items not allocated		(98)
Payable to parent, subsidiaries, and affiliates		<u>293,118</u>
Total liabilities		376,274
Common capital stock	\$2,000,000	
Gross paid in and contributed surplus	7,433,000	
Unassigned funds (surplus)	<u>6,422,066</u>	
Surplus as regards policyholders		<u>15,855,066</u>
Total Liabilities and Surplus		<u>\$16,231,340</u>

St. Paul Fire and Casualty Insurance Company
Summary of Operations
For the Year 2009

Underwriting Income		
Premiums earned		\$ 0
Deductions:		
Other underwriting expenses incurred	\$ 1	
Total underwriting deductions		<u>1</u>
Net underwriting (loss)		(1)
Investment Income		
Net investment income earned	672,554	
Net realized capital gains (losses)	<u>9,634</u>	
Net investment gain (loss)		682,188
Other Income		
Write-ins for miscellaneous income:		
Profit and loss, miscellaneous	<u>(833)</u>	
Total other income		<u>(833)</u>
Net income before federal income tax		681,354
Federal income tax incurred		<u>60,128</u>
Net Income		<u>\$621,226</u>

St. Paul Fire and Casualty Insurance Company
Cash Flow
For the Year 2009

Net investment income		\$ 718,366
Miscellaneous income		<u>(834)</u>
Total		717,532
Commissions, expenses paid, and aggregate write-ins for deductions	\$ 1	
Federal and foreign income taxes paid	<u>69,984</u>	
Total deductions		<u>69,985</u>
Net cash from operations		647,547
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$1,571,003</u>	
Total investment proceeds		1,571,003
Cost of investments acquired (long-term only):		
Bonds	<u>1,672,055</u>	
Total investments acquired		<u>1,672,055</u>
Net cash from investments		(101,052)
Cash from financing and miscellaneous sources:		
Dividends to stockholders	(714,000)	
Other cash provided (applied)	<u>64,540</u>	
Net cash from financing and miscellaneous sources		<u>(649,460)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(102,965)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>428,966</u>
End of Year		<u>\$ 326,001</u>

**St. Paul Fire and Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2009**

Assets		\$16,231,340
Less security surplus of insurance subsidiaries		0
Less liabilities		<u>376,274</u>
Surplus		15,855,066
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$13,855,066</u>
Adjusted surplus (from above)		\$15,855,066
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (or Deficit)		<u>\$13,055,066</u>

St. Paul Fire and Casualty Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2009

The following schedule is a reconciliation of total surplus as reported by the company in its filed annual statements:

	2009	2008	2007	2006	2005
Surplus, beginning of year	\$15,951,002	\$15,777,852	\$ 9,310,490	\$9,261,723	\$9,480,473
Net income	621,226	625,359	470,471	373,633	363,295
Change in net deferred income tax	(3,126)	(2,209)	(3,109)	(24,866)	17,955
Capital changes:					
Paid in surplus			6,000,000		
Dividends to stockholders	<u>(714,000)</u>	<u>(450,000)</u>	<u> </u>	<u>(300,000)</u>	<u>(600,000)</u>
Surplus, End of Year	<u>\$15,855,066</u>	<u>\$15,951,002</u>	<u>\$15,777,852</u>	<u>\$9,310,490</u>	<u>\$9,261,723</u>

St. Paul Fire and Casualty Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2009

The company's NAIC Insurance Regulatory Information System (IRIS) results are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2009	2008	2007	2006	2005
#1 Gross Premium to Surplus	2%	6%	4%	3%	17%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	4.3	4.5	4.4	4.8	4.6
#7 Gross Change in Surplus	-1	1	69*	1	(2)
#8 Change in Adjusted Surplus	-1	1	5	1	(2)
#9 Liabilities to Liquid Assets	2	5	1	0	9
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio #7, the gross change in surplus ratio, was exceptional in 2007 due to \$6 million paid in surplus adjustment. There are no other exceptional IRIS ratios in the latest five-year period.

Growth of St. Paul Fire and Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2009	\$16,231,340	\$376,274	\$15,855,066	\$621,226
2008	16,801,882	850,881	15,951,002	625,359
2007	15,868,300	90,448	15,777,852	470,471
2006	9,328,916	18,426	9,310,490	373,633
2005	10,165,313	904,590	9,261,723	363,295

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2009	\$ 267,071	\$0	\$0	0.0%	0.0%	0.0%
2008	908,888	0	0	0.0	0.0	0.0
2007	680,898	0	0	0.0	0.0	0.0
2006	244,273	0	0	0.0	0.0	0.0
2005	1,595,632	0	0	0.0	0.0	0.0

The above tables show no unusual operating results. The examination noted that the company reported net income in each of the past five years. Before dividends, surplus increased in each of the past five years.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one suggestion in the previous examination report. The suggestion contained in the last examination report and action taken by the company is as follows:

1. Articles of Incorporation—It is suggested that the articles of incorporation be updated to correct inconsistent identification of the current statutory home office.

Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Aggregate Write-ins for Other Than Invested Assets **\$292,485**

The captioned account was comprised of a "reinsurance receivable intercompany." This balance represents the net unsettled affiliated reinsurance balances as of December 31, 2009, related to the company's 100% Quota Share Reinsurance Agreement with The Travelers Indemnity Company.

According to SSAP No. 62R of the NAIC Accounting Practices and Principles Manual and the NAIC Annual Statement Instructions – Property & Casualty, the amounts included as amounts due to/from affiliates for reinsurance shall be reported in the appropriate reinsurance accounts (i.e., reinsurance recoverables, uncollected premiums, assumed reinsurance payable on paid losses and ceded reinsurance premiums payable).

It is recommended that commencing with the 2010 Annual Statement the company report unsettled affiliated reinsurance balances in the appropriate reinsurance accounts in accordance with SSAP No. 62R of the Manual and the Instructions. Additionally, Schedule F and the Notes to Financial Statements should be reviewed and changed where necessary pursuant to the Instructions. The company should also amend the "prior year" column in the 2010 Annual Statement to comply with the Manual. Implementation of this recommendation by the company will not effect the company's surplus position. The company has changed the presentation of the various reinsurance amounts in its 2010 Annual Statement to conform to the above recommendation, including changes to the 2009 balances to conform to the 2010 presentation.

Remittances and Items Not Allocated **\$(98)**

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

that the reconciliation of accounts is performed at a legal entity level, including the timely settlement of resulting amounts due to/from affiliates.

VIII. CONCLUSION

St. Paul Fire and Casualty Insurance Company reported admitted assets of \$16,231,340, liabilities of \$376,274, and surplus as regards policyholders of \$15,855,066, as of December 31, 2009.

The company is a member of The Travelers Companies, Inc., holding company system. The Travelers Companies, Inc., was formed as a result of the completion of a previously announced merger between the St. Paul Companies, Inc., with The Travelers Property Casualty Corporation on April 1, 2004, forming the St. Paul Travelers Companies, Inc., which was renamed The Travelers Companies, Inc., on February 26, 2007. All company outstanding stock is held by its parent, St. Paul Fire and Marine Insurance, a direct subsidiary of The Travelers Companies, Inc.

The company cedes 100% of its business to the Travelers reinsurance pool, which is administered by its affiliate, The Travelers Indemnity Company, and assumes 0.0% of the pool.

Admitted asset and liability growth trends in 2009 reflect the impact of the company allocation of its proportionate share of pool assets and liabilities in conjunction with becoming a participant in the above Travelers reinsurance pool, effective January 1, 2007.

The examination of St. Paul Fire and Casualty Insurance Company resulted in two recommendations with no adjustments to surplus or reclassifications. The two recommendations were a result of the Travelers Companies, Inc., coordinated examination with other states.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Aggregate Write-ins for Other Than Invested Assets—It is recommended that commencing with the 2010 Annual Statement the company report unsettled affiliated reinsurance balances in the appropriate reinsurance accounts in accordance with SSAP No. 62R of the Manual and the Instructions. Additionally, Schedule F and the Notes to Financial Statements should be reviewed and changed where necessary pursuant to the Instructions. The company has changed the presentation of the various reinsurance amounts in its 2010 Annual Statement to conform to the above recommendation, including changes to the 2009 balances to conform to the 2010 presentation.
2. Page 21 - Remittances and Items Not Allocated—It is recommended that the company implement controls to ensure that the reconciliation of accounts is performed at a legal entity level, including the timely settlement of resulting amounts due to/from affiliates.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ana Careaga	Insurance Financial Examiner
Victoria Chi	IT Specialist
Jerry DeArmond	Reserve Specialist
Fred Thornton	Workpaper Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge