

REPORT ON EXAMINATION
OF THE
COMMERCIAL GUARANTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2009



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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

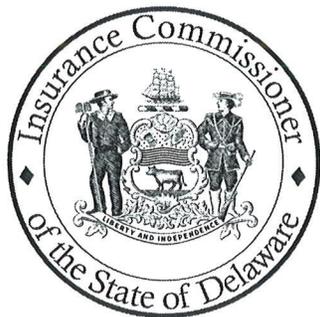
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

COMMERCIAL GUARANTY INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 30 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Honorable Karen Weldin Stewart, CIR-ML
Commissioner of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No 09.042, dated October 28, 2009, an examination has been made of the affairs, financial condition and management of

COMMERCIAL GUARANTY INSURANCE COMPANY

(hereinafter referred to as the “Company”) incorporated under the laws of the state of Delaware as a stock company with its statutory office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808. The examination was conducted at the main administrative office of the Company located at One Tower Square, Hartford, Connecticut. The report of the examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2006, by representatives of the Delaware Department of Insurance. This comprehensive financial examination covered the period January 1, 2007, through December 31, 2009, and included a general review of transactions and a determination of the financial condition of the Company at December 31, 2009. In addition, a search for any material transactions and/or events occurring subsequent to the examination date was performed during the course of this examination. The general procedure of the examination followed the rules established by the Committee on Financial Examiners Handbook, NAIC and generally accepted insurance examination standards. The examination was conducted in coordination with examiners from the Lead State of Connecticut (Lead State). Examiners from other participating States also participated. The examination of these companies was conducted concurrently by representatives of the various States of Domicile. Separate Reports of Examination will be issued by the other States with insurance subsidiaries.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying 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 compliance with Statutory Accounting Principles, and Annual Statement Instructions (Instructions).

The examinations were conducted concurrently on an inter-company pool basis. The arrangement, described in detail herein, included the Company as a participant.

The examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we employed a risk focused surveillance approach and gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

The Company and its insurance affiliates were audited annually, for the years 2007, 2008 and 2009, by the accounting firm of KPMG LLP. The Companies received an unqualified statutory opinion in both years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Companies also maintain an internal audit department and a Sarbanes Oxley compliance function. Where applicable, audit reports and workpapers were reviewed and portions therefrom were relied upon for this examination.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations would be made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The company was a participant in an intercompany reinsurance agreement with affiliate American Equity Insurance Company (American Equity), whereby all of the Company's outstanding loss and loss adjustment expenses are ceded to American Equity. American Equity cedes all of its direct and assumed business to affiliate The Travelers Indemnity Company (Indemnity).

Commercial Guaranty Insurance Company

Effective October 24, 2002, Company management discontinued writing all business, which included non-renewing in-force policies, ceasing the writing of new business, and terminating agency contracts. There are no remaining loss reserves or loss adjustment expense reserves related to the business written prior to October 25, 2002.

Concurrent examinations were conducted of the Company, Indemnity and affiliates of the intercompany pooling agreement.

The Company was the recipient of certain services, including investment, administrative, data processing and claims adjusting, underwriting and premium collection from Indemnity, its affiliate. The Lead State examination included a review of Indemnity's operations, systems and personnel which are the same as the Company's.

HISTORY

The Company was incorporated on January 9, 1980 under the laws of Delaware under the name of Emmco Insurance Company. Effective December 8, 1987, the Company's name was changed to Commercial Guaranty Insurance Company. On October 31, 1989, Ford Holdings, Inc. (Ford), a subsidiary of Ford Motor Company, purchased the Company's upstream parent, Associates First Capital Corporation (Associates). On April 7, 1998, Ford distributed to its stockholders all of its shares in Associates. As result of this action, Associates was no longer a subsidiary of, or controlled by Ford.

On September 5, 2000, Citigroup, Inc. merged with Associates. On October 1, 2001, the Company and its parent Associates Insurance Company were contributed to Indemnity directly from Travelers Property Casualty Corporation (TPC), and indirectly from Citigroup, Inc. Effective August 20, 2002, Citigroup, Inc. completed the spin-off of TPC.

Effective September 30, 2002, Associates was contributed from Indemnity to The Northland Company, a Commercial Guaranty Insurance Company downstream

Commercial Guaranty Insurance Company

noninsurance holding company affiliate. Associates Insurance Company was renamed Commercial Guaranty Casualty Insurance Company in September 2004.

As more fully described in the "Territory and Plan of Operation" section of this report the Company was placed in a run-off status effective October 25, 2002.

On November 16, 2003 the ultimate parent, The St. Paul Companies, Inc. (SPC) entered into an agreement and plan of merger with TPC. The resulting company became known as The St. Paul Travelers Companies, Inc., and remained a Minnesota corporation with its corporate headquarters in St. Paul, Minnesota.

On February 26, 2007, The St. Paul Travelers Companies, Inc. changed its name to The Travelers Companies, Inc. (TRV) and began trading on the New York Stock Exchange under the new symbol "TRV".

CAPITALIZATION

As of December 31, 2009, the Company had issued and outstanding 18,000 shares of common capital stock, each having a par value of \$100 per share. All shares were issued to the Company's parent. Capital paid-in amounted to \$1,010,019.

DIVIDENDS TO STOCKHOLDER

During the period under examination, the Company paid dividends as follows:

<u>Year</u>	<u>Amount Paid</u>
2009	\$ 1,760,000
2008	\$ 0
2007	\$ 300,000

All dividends paid were approved by the Delaware Insurance Department.

MANAGEMENT

Directors

The bylaws state that the business and affairs shall be managed by a Board of Directors, consisting of one or more directors. The directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the directors to be stockholders or residents of Delaware. The Company's bylaws have not been amended during this examination period. The elected Directors of the Company at December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Principal Occupation or Principal Business Affiliation</u>
Jay S. Benet Groton Long Point, CT	Vice Chairman & Chief Financial Officer The Travelers Indemnity Company
William H. Heyman New York, NY	Vice Chairman & Chief Investment Officer The Travelers Indemnity Company
Brian W. MacLean Vernon, CT	Chairman, President & Chief Operating Officer The Travelers Indemnity Company
Doreen Spadorcia Avon, CT	Executive Vice President Claim The Travelers Indemnity Company
Gregory C. Toczydlowski North Granby, CT	Executive Vice President, Personal Insurance The Travelers Indemnity Company

Committees

The Company's Board of Directors established an executive committee. The following persons were serving as members as of December 31, 2009:

Executive Committee

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

The Company's Board of Directors established an investment committee. The following persons were serving as members as of December 31, 2009:

Investment Committee

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

Officers

The Senior Officers of the Company at December 31, 2009, were as follows:

<u>Name</u>	<u>Title</u>
Albano, John J.	Executive Vice President, Business Insurance
Bell, D. Keith	Senior Vice President, Accounting Standards
Benet, Jay Steven	Vice Chairman, Chief Financial Officer
Bessette, Andy Francis	Executive Vice President & Chief Administrative Officer
Bloom, William A.	Executive Vice President, Insurance Operations & Information Technology & Chief Information Officer

Clarke, Charles J.	Vice Chairman
Clifford, John Patrick, Jr.	Executive Vice President, Human Resources
Dave, Smitesh	Vice President & Chief Corporate Actuary
Hannon, William P.	Executive Vice President, Enterprise Risk Management & Business Conduct Officer
Heyman, William Herbert	Vice Chairman & Chief Investment Officer
Liss, Samuel Gersten	Executive Vice President, Strategic Development
MacLean, Brian William	Chairman, President & Chief Executive Officer
Olivo, Maria	Executive Vice President & Treasurer
Russell, Douglas Kenneth	Senior Vice President & Controller
Rynda, Scott William	Senior Vice President, Corporate Tax
Schnitzer, Alan D.	Vice Chairman & Chief Legal Officer
Skjerven, Wendy Constance	Associate Group General Counsel, Corporate & Corporate Secretary
Spadorcia, Doreen	Executive Vice President, Claim
Spence, Kenneth Franklin, III	Executive Vice President & General Counsel
Toczydlowski, Gregory C.	Executive Vice President, Personal Insurance

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees that is, or is likely to be, in conflict with the official duties of such person.

Commercial Guaranty Insurance Company

Control

As of the examination date, all of the outstanding shares of common stock were held by Indemnity. The latter was a wholly owned indirect subsidiary of TRV.

HOLDING COMPANY SYSTEM

The Company is a wholly owned subsidiary of Indemnity, which in turn is owned by TRV, a Minnesota domiciled corporation.

The following is an organizational chart that reflects the identities and interrelationships between the Company and Parent as of December 31, 2009.

<u>Company</u>	<u>Domiciliary Jurisdiction</u>
The Travelers Companies, Inc.	Minnesota
Travelers Property Casualty Corporation	Connecticut
Travelers Insurance Group Holdings Inc.	Delaware
The Travelers Indemnity Company (25658)	Connecticut
<u>Commercial Guaranty Insurance Company</u> (38385)	Delaware

() NAIC company number designates an insurance company.

MANAGEMENT SERVICE AGREEMENTS AND RELATED PARTY
TRANSACTIONS

The following significant agreements were in effect as of December 31, 2009:

Commercial Guaranty Insurance Company

Expense Allocation Agreement

Effective January 1, 2007. This agreement provides for sharing and payment of expenses and costs among affiliates. Individual company allocations appear in the Annual Statement, Underwriting and Investment Exhibit, Part 3.

Tax Allocation Agreement

Effective April 1, 2004. The company is a party to the Travelers tax allocation agreement, which sets forth the manner in which the total consolidated federal income tax is allocated. Member companies of the TRV consolidated return group pay taxes annually on their separate taxable income. Companies with a current federal income tax receivable from TRV will receive settlement to the extent that such receivables are for tax benefits that have been utilized in the consolidated federal income tax return. Member companies are reimbursed by TRV in the event the Internal Revenue Service levies upon a member's assets for unpaid taxes in excess of the amount specifically allocated to a member.

Money Market Liquidity Pool

Effective May 24, 2006. The company became a party to a private short-term investment pool, known as the Travelers Money Market Liquidity Pool (TRVMMLP), in which affiliated companies may participate. This pool is managed by The Travelers Indemnity Company (Indemnity). Each company may convert its position in the pool into cash at any time and may also use its position in the pool to settle transactions with other affiliated participants in the pool. The position of each company in the pool is calculated and adjusted daily. Each participating insurance company carries its share of the pool as a short-term investment in Schedule DA.

Quota Share Reinsurance Agreement

The Company was a participant in an intercompany reinsurance agreement with affiliate American Equity, whereby all of the Company's outstanding loss and loss adjustment expenses are ceded to American Equity. American Equity cedes all of its direct and assumed business to affiliate Indemnity.

Effective October 24, 2002, Company management discontinued writing all business, which included non-renewing in-force policies, ceasing the writing of new business, and terminating agency contracts. There are no remaining loss reserves or loss adjustment expense reserves related to the business written prior to October 25, 2002. Please see “Plan of Operation” for more detail.

SPECIAL DEPOSIT

At December 31, 2009, the Company had \$1,359,115 (fair value) in securities held in a special deposit for the benefit of all policyholders.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to write business in nine states and was an admitted surplus lines carrier in Louisiana. The Company was licensed to write commercial auto liability and physical damage coverage, with a small amount of personal property and credit insurance, as well as occurrence specific liability on radon gas contamination for an affiliate's relocation business.

Plan of Operation

At December 31, 2009, the Company reported no direct premiums written. Effective October 24, 2002, management of the Company announced it was exiting its current book of business, which included non-renewing in-force policies, a cessation from writing new business, and terminating agency contracts. The decision was a result of the spin-off from Citigroup, Inc., and the incompatibility of the Company's product distribution channels with those of TRV.

Commercial Guaranty Insurance Company

Going forward, all of the Company's business will be in a run-off status. The current plan of the ultimate controlling entity is to preserve the state licenses of the Company and explore future uses of the Company to write business.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements:

	<u>Net Assets</u>	<u>Surplus as Policyholders</u>	<u>Direct Premium</u>	<u>Net Income</u>
2009	\$33,863,821	\$33,648,579	\$0	\$1,148,220
2008	\$34,933,416	\$34,268,574	\$0	\$1,118,327
2007	\$33,427,474	\$33,153,557	\$0	\$1,953,971

CORPORATE RECORDS

The Articles of Incorporation and bylaws were not amended during the period under review. The recorded minutes of the meetings of the stockholders and Board of Directors were read and noted. The minutes appeared to be complete and were properly attested.

FIDELITY BONDS AND OTHER INSURANCE

The Company is insured under policies covering TRV. The Company is covered for losses resulting from employee dishonesty by a financial institution bond issued by Federal Insurance Company and by excess policies with various insurers. The limit of liability on the primary layer financial institution bond is \$15 million, which exceeds the suggested minimum limits of insurance pursuant to the Handbook.

Commercial Guaranty Insurance Company

In addition to fidelity bond coverage, the Company and its affiliates maintain insurance coverages with various insurers including the following lines:

<u>Company (in primary or lead role)*</u>	<u>Coverage</u>
Chubb Group of Insurance Companies	Directors and Officers Liability and Fiduciary Liability
American International Group, Inc.	General Liability, Automobile Liability and Workers' Compensation/Employers Liability
Zurich Financial Services Group	Umbrella/Excess Casualty
Lexington Insurance Company	Property

* Actual policies may be issued by underwriting subsidiaries of the companies listed above

EMPLOYEES' WELFARE

Since the Company had no employees, there were no employee pension, stock ownership, or insurance plans. All pension, stock ownership, and insurance plans are maintained by TRV, or TPC, and any associated liabilities are recorded by these entities.

RETENTION AND REINSURANCE

The company was a participant in an intercompany reinsurance agreement with affiliate American Equity, whereby all of the Company's outstanding loss and loss adjustment expenses are ceded to American Equity. American Equity cedes all of its direct and assumed business to affiliate Indemnity.

Effective October 24, 2002, Company management discontinued writing of new business, which included non-renewing in-force policies, ceasing the writing of new business, and terminating agency contracts. There are no remaining loss reserves or loss adjustment expense reserves related to the business written prior to October 25, 2002. Please see “Notes to Financial Statement”, Note 1 for more detail.

ACCOUNTS AND RECORDS

General

The Company’s accounting records were maintained on data processing equipment that included mainframe and client/server platforms. The financially significant systems used for processing premiums, claims policy reserves and most investments have been developed in-house by the Company. The general ledger system is a purchased package that has been modified to fit the Company’s special processing requirements. The premium, claim reserve and investment systems are automatically interfaced with the general ledger system.

Safekeeping of Assets

The Company has safekeeping agreements in place with major trust companies. Most of the Companies’ bonds, stocks and short-term investments are held in these accounts. The Company’s assets were confirmed directly with the appropriate trust company.

Investment Policy

The Company's investment policy meets all requirements of the Delaware Insurance Code.

Information provided to the examiners was further tested for consistency with the Annual Statement and compliance with other relative laws and regulations of the State of Delaware.

FINANCIAL STATEMENTS

The financial statements consist of a balance sheet, underwriting and investment exhibit, and capital and surplus account showing the financial condition at December 31, 2009, as determined by this examination. It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narrative descriptions on the individual accounts in the “Notes to the Financial Statements” section of this report are presented on an exception basis. Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

ASSETS

For the Year Ending December 31, 2009

	Assets	Assets Not Admitted	Net Admitted Assets
	<u>Assets</u>	<u>Not Admitted</u>	<u>Assets</u>
Bonds	\$ 31,532,212	\$ -	\$ 31,532,212
Cash and short term investments	<u>1,943,251</u>	<u> </u>	<u>1,943,251</u>
Subtotal cash and invested assets	\$ 33,475,463	\$ -	\$ 33,475,463
Investment income due and accrued	387,755		387,755
Guaranty funds receivable or on deposit	<u>603</u>	<u>0</u>	<u>603</u>
Totals	<u>\$ 33,863,821</u>	<u>\$ -</u>	<u>\$ 33,863,821</u>

LIABILITIES, SURLUS AND OTHER FUNDS

For the Year Ending December 31, 2009

Loss Reserves	\$	0	<u>Note</u> 1
Loss Adjustment Reserves		0	1
Other expenses		30,366	
Taxes, licenses and fees		678	
Current federal and foreign income taxes		171,913	
Net deferred tax liability		9,191	
Payable to parent subsidiary and affiliates		<u>3,094</u>	
Total Liabilities	\$	<u>215,242</u>	
Common capital stock		1,800,000	
Gross paid in and contributed surplus		1,010,019	
Unassigned funds (surplus)		<u>30,838,561</u>	
Surplus as regards policyholders		<u>33,648,579</u>	
Totals	\$	<u><u>33,863,821</u></u>	

STATEMENT OF INCOME

For the Year Ending December 31, 2009

<u>Underwriting Income</u>	
Premiums earned	<u>\$ 0</u>
Deductions	
Other underwriting expenses incurred	<u>12,283</u>
Total underwriting deductions	<u>\$ 12,283</u>
Net underwriting (loss)	<u>\$ (12,283)</u>
Investment Income	
Net investment income earned	<u>\$ 1,296,189</u>
Net realized capital gains	<u>24,982</u>
Net investment gain	<u>\$ 1,321,171</u>
Net income before dividends to policyholders and before federal income taxes	<u>\$ 1,308,888</u>
Net income after dividends to policyholders and before federal income taxes	<u>\$ 1,308,888</u>
Federal income taxes incurred	<u>160,667</u>
Net income	<u>\$ 11,448,220</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2009

Capital and surplus December 31, 2008	\$ 34,268,574
<u>Gains and (losses) in surplus</u>	
Net income	\$ 1,148,220
Change in net unrealized capital gains or (losses)	(2,522)
Change in net deferred income tax	(5,693)
Dividends to Stockholders	<u>(1,760,000)</u>
Change in surplus as regards policyholders for the year	<u>\$ (619,995)</u>
Surplus as regards policyholders December 31, 2009	<u>\$ 33,648,579</u>

RECONCILIATION OF EXAMINATION CHANGES IN SURPLUS

No changes were made to the Company surplus as a result of this examination.

NOTES TO THE FINANCIAL STATEMENT

1. Losses and Loss Adjustment Expenses

Loss Reserves	\$0
Loss Adjustment Expenses	\$0

Effective October 25, 2002, Company management discontinued writing all business, which included non-renewing in-force policies, a cessation from writing new business, and terminating agency contracts. There are no remaining loss reserves or loss adjustment expense reserves related to the business written prior to October 25, 2002.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2009, was determined to be as follows:

Admitted Assets	<u>\$33,863,821</u>
Liabilities	\$ 215,242
Capital and Surplus	<u>33,648,579</u>
Total	<u>\$33,863,821</u>

Since the last examination as of December 31, 2006, total assets have increased \$1,029,564. Liabilities have decreased \$1,114,692, and capital and surplus have increased \$2,144,257 in the same period.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged. In addition to the undersigned, this examination was done in conjunction with the examination of the Parent company and its domiciled affiliates. Various examiners from other states along with actuarial and systems support representing the Connecticut Insurance Department are acknowledged.

A handwritten signature in black ink, appearing to read "P. Bliss", is written above a horizontal line.

Peter Bliss, CFE

Contract Examiner In Charge

Department of Insurance

State of Delaware