



RLI Insurance Company

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February 4, 2011

Mr. Ronald Pastuch, CPA
Holding Company Manager, Company Supervision Division
Washington Office of Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA 98501

***Re: Form A dated December 22, 2010 – Proposed Acquisition of Control of
Contractors Bonding & Insurance Company by RLI Insurance Company;
RLI Response to WOIC Letter of January 19, 2011.***

Dear Mr. Pastuch:

We are in receipt of your letter dated January 19, 2011 (“*Comment Letter*”) with comments and requests relating to the Form A filed by RLI Insurance Company (“*RLI*”) in connection with its proposed acquisition of Contractors Bonding & Insurance Company (“*CBIC*”) via acquisition of its parent company Data Staff & Service Company (“*DSS*”).

Below we provide responses to the itemized requests in the *Comment Letter*. Certain items require further action, and we also enclose two exhibits with supplementary information. We will provide an executive summary of the transaction by separate letter/ filing.

Section I

1. Following is a description of the RLI subsidiaries and any business intended to be done by those subsidiaries and CBIC. This information supplements the information provided in the Form A.

RLI Group. The RLI group of insurance companies (“*RLI Group*”) includes RLI Insurance Company (“*RLI*”), Mt. Hawley Insurance Company (“*Mt. Hawley*”), and RLI Indemnity Company (“*RLIC*”). RLIC is a wholly-owned subsidiary of Mt. Hawley, which in turn is a wholly-owned subsidiary of RLI. Each of such entities is an Illinois corporation and domesticated in Illinois. RLI is a wholly-owned subsidiary of RLI Corp., a public company traded on the New York Stock Exchange. RLI Corp. and each of the RLI insurance companies have principal headquarters in our corporate offices in Peoria, Illinois. The RLI insurance companies conduct business through our branch offices in over 40 offices nationwide. None of the RLI insurance companies has international offices.

Mt. Hawley Insurance Company. Mt. Hawley is a surplus lines property and casualty insurance company operating in all 50 states and District of Columbia. Mt. Hawley writes property and casualty insurance on an excess and surplus basis. After the acquisition of CBIC, Mt. Hawley will continue to conduct business as currently done, with no expected material changes in strategy,



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operations or personnel. Likewise we do not anticipate any material change in CBIC's business plan to coordinate business activities between Mt. Hawley and CBIC.

RLI Indemnity Company. RLIC is an admitted property and casualty insurance company operating in all states except Alaska. RLIC writes surety bonds, principally miscellaneous and contract bonds. After the acquisition of CBIC, RLIC will continue to conduct business as currently done, with no expected material changes in strategy, operations or personnel. However, in the near term following the acquisition, we expect to analyze the necessity of maintaining the RLIC entity. RLIC currently is not utilized at a significant level within the RLI Group, and if we determine that RLIC is redundant or otherwise not necessary in our post-acquisition corporate structure and strategy, we will consider selling the entity.

Safe Fleet Insurance Services, Inc. ("Safe Fleet"). Safe Fleet is a California corporation and is based out of RLI's Los Angeles office. Safe Fleet produces business for our transportation division (based in our Atlanta, Georgia office). Safe Fleet is also a licensed California surplus lines broker, doing business as RLI Insurance Services (RLIIS). In that capacity, Safe Fleet /RLIIS brokers mainly earthquake and difference in condition coverages provided by Mt. Hawley and in some cases other non-RLI carriers. After the acquisition of CBIC, Safe Fleet will continue to conduct business as currently done, with no expected material changes in strategy, operations or personnel. However, we expect to pursue opportunities to utilize Safe Fleet to enhance business for CBIC.

RLI Underwriting Services, Inc. ("RLIUS"). RLIUS is an Illinois corporation with agency and surplus lines broker licenses. This entity previously operated with a trade name of Target Market Specialists, acting as a producing and marketing front end for RLI program business, but is no longer operating in that capacity. RLIUS does not operate independently of RLI, and is currently utilized primarily for administrative activities such as countersignature, surplus lines stamping and related activities. We expect to pursue opportunities to utilize RLIUS to enhance business for CBIC.

RLI Insurance Ltd. ("RLI Bermuda.") RLI Bermuda is a Bermuda corporation and licensed Bermuda insurance company. This entity is essentially dormant, and does not issue new policies. We do not currently anticipate activating this carrier for new business.

RLI Insurance Agency, Ltd. ("RLI Canada"). RLI Canada is Canadian corporation, and is dormant with no business activities. Although it was originally intended to pursue business in Canada, we do not currently anticipate activating this entity for business activities.

Underwriters Indemnity General Agency, Inc. This Texas corporation is dormant with no business activities, and we do not anticipate activating it in the near future.

RLI Aviation, Inc. This Illinois corporation is dormant with no business activities, and we do not anticipate activating it in the near future.



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2. Following is our proposed list of directors and officers of CBIC and Data & Staff Service Company (“DSS”):

CBIC

Directors

Jonathan E. Michael
Michael J. Stone
Joseph E. Dondanville
Kirk Eland
Robert Ogle
Carol Denzer
Roy Die

Officers

Jonathan E. Michael	Chairman / Chief Executive Officer
Michael J. Stone	President / Chief Operating Officer
Joseph E. Dondanville	Sr. Vice President / Chief Financial Officer
Jean Stephenson	Asst. Vice President / Corporate Secretary
Craig Kliethermes	Sr. Vice President
Roy Die	Sr. Vice President
Dave Sandoz	Vice President
Kirk Eland	Vice President
Robert Ogle	Vice President
Daniel O. Kennedy	Vice President / General Counsel
John Robison	Vice President / Treasurer
Todd Bryant	Vice President / Controller
Don Driscoll	Vice President, Claim

* *The above lists are different from what was filed in the initial Form A*

DSS

Directors

Jonathan E. Michael
Michael J. Stone
Joseph E. Dondanville
Kirk Eland
Robert Ogle

Officers

Jonathan E. Michael	Chairman / Chief Executive Officer
Michael J. Stone	President / Chief Operating Officer
Joseph E. Dondanville	Sr. Vice President / Chief Financial Officer
Jean Stephenson	Asst. Vice President / Corporate Secretary
Craig Kliethermes	Sr. Vice President
Daniel O. Kennedy	Vice President / General Counsel
John Robison	Vice President / Treasurer
Todd Bryant	Vice President / Controller
Kirk Eland	Vice President
Robert Ogle	Vice President

Biographical affidavits for Kirk Eland and Robert Ogle are already on file with the WOIC, and affidavits for the other persons identified above are submitted with this letter.

3. We are utilizing General Information Services for background verification as requested, which company is NAIC approved and identified on the NAIC website. The reports will be sent directly to the OIC from such firm.



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4. We are in the process of securing a disclaimer of control statement from State Street Corporation ("*State Street*") on behalf of each of the State Street affiliated entities including State Street Bank and Trust Company which is the trustee of RLI's Employee Stock Ownership Plan.
5. No entity or person other than State Street owns (beneficially or of record) ten percent or more of RLI Corp. capital stock.
6. Audited statutory financial statements of RLI from 2005 through 2009 are *enclosed with this letter*.
7. The Schedules and the Disclosure Schedule (the "*Schedules*") to the Stock Purchase Agreement, dated December 22, 2010, should be given confidential treatment and not be made available to the public as part of the Form A. These Schedules are attached to the Stock Purchase Agreement, which was provided as part of the Form A filing. We do not request confidential treatment for the Stock Purchase Agreement or Exhibits thereto or the Form A itself.

The Schedules contain highly sensitive, proprietary and confidential information about CBIC's business strategy, operations, material contracts, producer/agent/broker arrangements including compensation, personnel, compensation and benefits, information technology systems, litigation and disputes, liabilities and potential liabilities, intellectual property, key business partners, and other information not otherwise available to the public ("*Confidential Information*").

We believe the Confidential Information (the Schedules) qualify as Trade Secrets under RCW 19.108.010 (4), and as such should be accorded special treatment in this matter. Section 284-03-060 of the Washington Administrative Code specifically exempts Trade Secrets from public inspection. "*Trade Secrets*" are defined as: (a) deriving independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy [RCW 19.108.010 (4)]. The Schedules / Confidential Information clearly qualify under this definition.

First, the Confidential Information clearly has independent economic value from not being generally known by others who could obtain such economic value (competitors). The Confidential Information is confidential, proprietary and highly sensitive, and disclosure of it would place CBIC at a genuine competitive disadvantage to its competitors. Giving the Confidential Information to CBIC's competitors is not fair and not reciprocated by other carriers -- CBIC does not have similar access to analogous information and data on its competitors. All other competitor carriers carefully protect their analogous information, just like CBIC. CBIC's competitors could easily use this information to undercut its business, copy its business methods, identify and hire away its key executives / employees, interfere with its producer relations, interfere with its business partners, exploit perceived weaknesses, disseminate sensitive or harmful information about CBIC into the marketplace. Likewise, not only competitors but also persons/entities with which CBIC is in



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dispute (litigation or otherwise) could unfairly harm CBIC by disseminating the information or otherwise use it to unfair or improper advantage. This information would clearly be valuable to CBIC competitors, and unfairly harmful to CBIC. CBIC is a successful insurance company with decades of profitable operation, excellent service to its policyholders and a first rate compliance record, and thus giving its proprietary and sensitive information away to competitors would be patently unfair and materially harmful to CBIC. Such competitive harm is clearly not in the best interests of CBIC's policyholders or the insurance markets in which it operates.

Secondly, this Confidential Information is the subject of efforts to maintain its secrecy. The Confidential Information in the Schedules is not disclosed to the public and is very carefully guarded by CBIC. In fact, in addition to company policies, codes and procedural safeguards mandating that the company's proprietary and trade secret information be kept strictly confidential, CBIC has taken the extra step of requiring executives, officers and certain other key employees to execute specific confidentiality agreements seeking to protect this information. The Schedule information was never intended to be available to the public, and is currently not disclosed as a matter of regular course by CBIC or other Washington domiciled insurance companies. Similarly, the Schedules were not disclosed to the public in RLI's filings with the Securities and Exchange Commission (SEC) in connection with this transaction, although the Stock Purchase Agreement itself was disclosed to the SEC. The SEC expressly (by rule) does not require the Schedules to be disclosed. The Schedules were prepared and provided to RLI in the context of an acquisition, and were not intended to be disclosed to the public.

We believe that the Confidential Information in the Schedules conversely is not material or necessary information for CBIC policyholders. This information is not of a nature that generally that is provided to policyholders, and thus is not necessary in this case.

In summary, we believe disclosure of the Schedules and the Confidential Information would be a disclosure of CBIC's Trade Secrets, would cause real competitive harm to CBIC and is not necessary for the reasonable protection or benefit of CBIC's policyholders or the public at large.

Section II

1. Mr. Gerald Stephens is currently the Chairman of the Board of Directors at RLI Corp., but is not on the Board of any of the RLI Group insurance companies or other RLI affiliates. Likewise, he is not an officer or employee of any of such companies. Mr. Stephens was the Chief Executive Officer of RLI Corp. until December 31, 2000. Mr. Stephens is not a member of any committee of the Board of Directors. Other than his position as Chairman, Mr. Stephens has no formal position or role at RLI Corp. and affiliates. Mr. Stephens has no contractual employment, voting, management or other arrangements with RLI Corp. and affiliates.

Regarding his power to direct or cause the direction of management and policies of RLI Corp. and affiliates, Mr. Stephens has the typical influence of a Chairman of the Board at the Board of Directors level. As Chairman, Mr. Stephens assists in setting Board meeting agendas and chairs



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Board meetings, but otherwise does not have any extraordinary influence or power over the companies or their management or policies. Mr. Stephens is one of ten directors, and his vote counts as one vote along with all other directors. Other than Mr. Stephens and Mr. Jon Michael (CEO), the Board is comprised of independent directors with no current or previous affiliation with RLI outside their directorships.

2. Neither RLI Corp. nor any affiliate has any contractual or other arrangements of any type with any institutional (or other) investors. No board member of RLI Corp. or any affiliate was appointed by an institutional or other investor.

3. Following is a restatement of information provided in our initial Form A, supplemented with additional information.

Corporate Structures. RLI has no current plans to cause CBIC to liquidate, sell its assets, wind down operations, merge with RLI or any other entity, or make any other material change in its business operations or corporate structure. RLI's plans to integrate CBIC into the RLI corporate structure are described herein, with a "Best of Both Companies" approach. Overall, RLI intends to continue the business operations of CBIC as presently conducted, with selective modifications to bring CBIC into the RLI family of companies and coordinate with RLI's operating procedures as described herein. Regarding timing, we anticipate implementing our integration plans over a reasonable and sensible timeframe, taking steps in a process that minimizes disruption while maximizing continuity and business success. Certain aspects will be readily accomplished within a month, while others may take a year or more.

RLI has no present plans to make any material changes in the operations of the business of CBIC. However, RLI will blend the operations of CBIC with and into RLI Applicant over time so as to appropriately join CBIC into RLI's family of companies. Following acquisition, RLI and CBIC will begin exploring how to most effectively combine their operations with strict attention to not disrupting insureds, in force bonds and policies, or agent relations.

Business Integration. CBIC has had success in combining surety with a property/casualty product for contractors and Applicant hopes to continue this model by keeping this pairing under common product leadership. RLI is specifically interested in replicating the success of CBIC in cross-selling bonds and property/casualty coverages for contractors. Applicant and CBIC will collectively focus on identifying new markets and positioning our combined agency sales force to utilize CBIC's technology and underwriting expertise. CBIC's cross-selling will be significantly enhanced by expanding into geographic areas not previously explored but where RLI has a significant agent base. RLI holds in high regard the underwriting expertise of CBIC in this product and expects to capitalize on this knowledge as we position this product for geographic expansion. The combination of RLI and CBIC will create more surety opportunities for CBIC agents. We intend to work towards integrating system capabilities and offering more automated products to agents.



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Location/Domicile; Personnel. RLI intends to maintain CBIC's principal home in Seattle, Washington. We do not currently have plans to redomesticate CBIC from Washington to Illinois or any other state in the near term following closing. However, we anticipate that certain support functions will be provided to CBIC through RLI's home office in Peoria, Illinois in connection with existing procedures in place at RLI. RLI's current business plan contemplates mapping responsibilities to our current organizational structure. We recognize that this migration needs to be done carefully and expects to apply several principles including the following: Appropriately balance the need for efficiencies that may exist by having "home office" versus "home market" employees; best employee for a position is considered without regard to RLI or CBIC background; and be open to alternative organizational structures that offer improvements with unique skill sets. We do not anticipate material reductions in the employee base at CBIC. Prior notice will be provided to the WOIC of any agreements involving any transactions between CBIC and RLI or any affiliates for the provisions of such support services, which would require notice to or prior approval of the WOIC.

Key Personnel. In the immediate term, the existing reporting structure within CBIC will remain the same, with certain exceptions. Mr. Don Sirkin, CEO and Chairman of the Board, will not remain with CBIC or DSS following the closing, and will not be joining RLI. Kirk Eland (CBIC officer) and Robert Ogle (CBIC officer) will enter into employment arrangements on terms acceptable to both parties. Mr. Eland and Mr. Ogle will remain in place at CBIC, and will report up through Roy Die at RLI. The employment agreements will insure a smooth transition of the management and operation of CBIC following the acquisition. In the longer term, RLI's business plan contemplates combining overall product management under one business leader but with underwriting expertise resident in two supporting roles.

4. Following is a description of the principal intercompany business arrangements between RLI and its insurance company affiliates within the holding company system.

(a) Tax Allocation Agreement. RLI, Mt. Hawley and RLIC are parties to a Tax Allocation Agreement for the purpose of allocating the consolidated federal income tax liability of the members of the holding company system among such members of the basis of the percentage of tax liability for which each member would be responsible if separate tax returns were filed. It is anticipated that CBIC will become a party to this agreement following consummation of the acquisition. This agreement was provided as part of the initial Form A filing.

(b) Intercompany Services Agreement. RLI, Mt. Hawley and RLIC are parties to a Restated Intercompany Services Agreement pursuant to which RLI provides certain administrative services to Mt. Hawley and RLIC, including reinsurance placements, investment and accounting services, claims supervision and handling, data processing, legal and regulatory compliance services, actuarial services, and payroll and human resource services. The costs for such services are shared among the companies on a pro rata basis based on earned premium. It is anticipated that CBIC will become a party to this agreement following consummation of the acquisition. This agreement is attached as Exhibit A hereto.



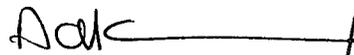
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5. RLI will use cash to pay the purchase price set forth in the Stock Purchase Agreement. The cash will come from a combination of available cash plus funds raised from the sale of securities in its investment portfolio. No financing, loans or intercompany transfers will be required to raise the cash for the purchase price payment.
6. We do not currently have plans to redomesticate CBIC from Washington to Illinois or any other state in the near term following closing.

We appreciate your assistance in this matter, and we trust the above responds properly to your Comment Letter.

Please contact the undersigned with any further comments, questions or request.

Very truly yours,


Daniel O. Kennedy, General Counsel
On behalf of RLI Insurance Company

cc: Jonathan Michael (RLI)
Carol Denzer (RLI)
Jim Jorgensen (RLI)
Marc Tract (Katten Muchin Rosenman)