

MARKET CONDUCT EXAMINATION

OF

MAXUM INDEMNITY COMPANY

AS OF

MARCH 5, 2007

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of MARCH 5, 2007 of the

MAXUM INDEMNITY COMPANY

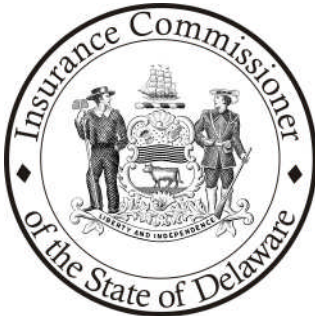
is a true and correct copy of the document filed with this Department.

ATTEST BY: _____

Antoinette Handy

DATE: 10 OCTOBER 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 10TH DAY OF OCTOBER 2007.



Matthew Denn

Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
MAXUM INDEMNITY COMPANY
AS OF
MARCH 5, 2007

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

Consideration has duly been 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 "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 10TH day of OCTOBER, 2007.

TABLE OF CONTENTS

SALUTATION 1

EXECUTIVE SUMMARY 2

SCOPE OF EXAMINATION..... 2

HISTORY AND PROFILE 3

METHODOLOGY 3

A. COMPANY OPERATIONS/MANAGEMENT..... 4

 Standard A 08 4

 Standard A 09 4

B. COMPLAINTS 5

REVIEW OF PROCEDURES 5

 Procedure 01 – Audit (Internal and External) 6

 Procedure 02 – Assertions of Privilege 6

 Procedure 05 – Anti-Fraud 6

 Procedure 07 – Managing General Agent (MGA) Oversight and Control 7

 Procedure 08 – Vendor Oversight and Control 7

 Procedure 09 – Customer and Consumer Privacy Protection 7

 Procedure 10 – Production of Business 8

 Procedure 11 – Complaint Handling 8

 Procedure 13 – Advertising, Sales and Marketing 9

 Procedure 14 – Agent Produced Advertising 9

 Procedure 20 – Producer Selection, Appointment and Termination 9

 Procedure 21 – Producer Defalcation 10

 Procedure 22 – Prevention of the Use of Persons with a Felony Conviction 10

 Procedure 24 – Premium Billing 10

 Procedure 26 – Policy Issuance 11

 Procedure 28 –Requesting Claim History 11

 Procedure 30 – Premium Determination and Quotation 11

 Procedure 32 – Underwriting and Selection 12

 Procedure 34 – Termination 12

 Procedure 35 – Underwriting File Documentation 13

 Procedure 40 – Staff Training 13

 Procedure 43 – Claim Handling 14

 Procedure 44 – Internal Claim Audit 14

 Procedure 45 – Claim File Documentation 15

 Procedure 48 – Catastrophic Claim Handling 15

SUMMARY OF RECOMMENDATIONS 15

CONCLUSION..... 16

SALUTATION

May 21, 2007

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 07-701, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Maxum Indemnity Company

The examination was performed as of March 5, 2007. Maxum Indemnity Company, hereinafter referred to as the "Company" or as "Maxum," is incorporated under the laws of the State of Delaware. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

- 6455 East Johns Crossing, Suite 325, Duluth GA 30097

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable location.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

Maxum Indemnity Company is a Delaware domiciled company. Maxum is an excess and surplus lines specialty carrier writing small to medium sized property and casualty business on a non-admitted basis. The Company currently operates in forty-six (46) states and the District of Columbia.

Maxum Indemnity Company employs approximately fifty-six (56) persons and writes business through general agents, brokers and surplus lines brokers. The Company utilizes a management structure that involves its management personnel in the direct supervision of its operational components. This approach, coupled with a high level of communication among the operating units, allows the Company to maintain a tight control of its operations. The Company operates through three Divisions: the Casualty Brokerage Division, the Professional Liability Division and the Binding/Programs Division. All writings are subject to well controlled underwriting criteria.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For all insurers these areas include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to a Market Conduct examination through a review of the written procedures and operating processes of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its operational echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis focus is then made on those areas where review indicators suggest that the processes used by management do not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed, to some extent, by one or more of the procedures reviewed, thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and results indicated. Substantial departure from the norm may result in a supplemental review focused on the area so noted.

HISTORY AND PROFILE

In January 2003, Maxum Indemnity Company was created with the acquisition of Caliber One Indemnity Company. As part of the acquisition of Caliber One, Maxum entered into a reinsurance agreement with Caliber One and its former parent PMA Capital Insurance Company, stipulating that PMA would assume, reinsure and indemnify Caliber One for one hundred percent (100%) of all losses, loss adjustment expenses and other obligations as of the sale date.

Maxum Indemnity Company and Maxum Casualty Insurance Company are part of the Holding Company, Northlands Homelands Company.

Maxum began its operations as an Excess and Surplus Lines specialty carrier writing small to medium sized property and casualty business on a non-admitted basis. Maxum Indemnity Company is composed of three divisions: Casualty Brokerage, Professional Liability and Binding/Programs. A fourth division, Transportation, was founded in 2004 via the acquisition of the former Golden Isles Insurance Company. Golden Isles Insurance Company was renamed and is now Maxum Casualty Insurance Company, a Georgia domiciled insurer. Maxum Casualty's operations were not subject to this examination.

Maxum Indemnity Company utilizes a management structure that involves its management personnel in the direct supervision of its operational components. This fact, coupled with a high level of communication among the operating units, allows the Company to maintain tight control of its operations.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property & Casualty Insurer found in Chapter VIII of the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Conduct Examiners' Handbook*.

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Conduct Examiners' Handbook*. Samples of complaint files, underwriting files and claim files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination only two standards were directly tested. Standards and procedures were tested through a combination of "generic" review and direct observation of the processes used.

Each Standard contains a brief description of the purpose or reason for the Standard. The Procedure review does not include this feature. The examiners' "Observations" are noted following each Standard or Procedure tested. In some cases a "Recommendation" is made. Results, Observations and Recommendations are reported with the appropriate Standard or Procedure.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report with the exception of the following two standards dealing with appropriate licensure and cooperation with the examination process.

Standard A 08

NAIC's Market Conduct Examiners' Handbook - Chapter VIII, §A, Standard 8

The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b)

The review methodology for this standard is "generic." This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company's operations are in conformance with the Company's Certificate of Authority.

Results: Pass

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company's Delaware Certificate of Authority.

Recommendations: None

Standard A 09

NAIC's Market Conduct Examiners' Handbook - Chapter VIII §A, Standard 9

The Company cooperates on a timely basis with the examiners performing the examination.

18 Del. C. §318(a), §320(c), §508(b), §520(b)3

The review methodology for this standard is "generic." This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is cooperating with the state in the completion of an open and cogent review of the Company's operations.

Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely manner thereby minimizing cost.

Results: **Pass**

Observations: The Company cooperated with the examiners in the conduct of the examination. Access to persons pertinent to completion of the examination was provided and persons interviewed were open and informative.

Recommendations: None

B. COMPLAINTS

The evaluation of the Standards in this business area is based on the Company's response to various information requests (IRs) and complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "...any written communication primarily expressing a grievance."

Observations: The Company provided a listing of five (5) complaints for review. No pattern was observed in these complaints and the complaints are generally directed against the producer rather than the Company. The NAIC's listing of complaints for the same period reflected four (4) complaints from states other than the ones noted in the Company files, however, after contact with the various states reporting complaints these were reconciled in favor of the Company.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes usually take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow this section of the report. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce an inconsistent application of the intended process. The same is generally true of the absence of a means to measure the results of the application of procedures and a means to determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 01 – Audit (Internal and External)

Observations: Maxum Indemnity does not have a formal written audit procedure for functions related to market regulation. The Company suggests that there has been no need for a written general audit since the number of complaints has been minimal. The Company does perform limited audits utilizing internal and external resources. Audits consist of a review of the Company's underwriting, premium and claim file handling practices.

The Company conducts audits in each of its Underwriting divisions. Audits of each of its General Agents are conducted annually but may be conducted more frequently if management deems it necessary. During the audits, management reviews production and underwriting goals, selected files are reviewed and a report of the findings is issued. The Company's new Corporate Underwriting Product Management Officer will be implementing a more focused audit and review process for the Underwriting divisions. This role will add a new dimension to the audit process and enable a better focus of, and control of, the producers' underwriting practices.

Premium audits are performed, at a minimum, on an annual basis. Much of the Company's business is written on an estimated premium basis requiring an audit at policy expiration. Such audits are conducted by telephone or mail using Company employees and using a vendor. Vendors conduct physical (on-site) audits, where required.

The Vice President of Claims conducts claim file audits. An independent consultant conducts external audits at six-month intervals. See Procedure 44.

Recommendations: None

Procedure 02 – Assertions of Privilege

Observations: The Company does not have a written policy for the Assertion of Privilege. The process used is informal but appears to be adequate. The Company makes determinations regarding assertions of the attorney/client privilege and other privileges on a case-by-case basis. The General Counsel and the Vice President of Claims are responsible for making such determinations.

Recommendations: None

Procedure 05 – Anti-Fraud

Observations: The examiners reviewed the Anti-Fraud Plan (Plan) implemented by the Company in October 2006. According to the Introduction Section the intended use of the Plan is for "the prevention, detection and investigation of prospective insurance fraud problems including, internal fraud of employees or company representatives, fraud resulting from misrepresentation

on applications or insurance coverage and claims fraud.” The Plan is clearly written and comprehensive.

The Fraud Task Force, consisting of members from management, reviews The Plan every twenty-four (24) months. The Plan is also used to train personnel and aid in identifying questionable fraudulent activities. Any suspected fraudulent activity is reported to the Anti-Fraud Committee and also referred to the General Counsel, who notifies the appropriate state Fraud Bureaus. During the examination period there were two cases of suspected fraud and both were reported to the appropriate state Fraud Bureau.

Recommendations: None

Procedure 07 – Managing General Agent (MGA) Oversight and Control

Observations: The Company does not use MGAs and does not have a written procedure for MGA Oversight and Control. Maxum utilizes General Agents through its Binding/Programs Division and currently has contracts with forty-two (42) General Agents. The Company provided a list of the current General Agents and the geographic area that each covers. Production arrangements are limited so that there is little to no overlap in the area covered by each General Agent. Detailed Underwriting Guidelines for the General Agents are included in the Producer Management Guide provided by the Company. A member of management visits each General Agent on an annual basis to review production and underwriting goals. Selected files are reviewed during the visits and a report is issued. When the replacement of a General Agent is necessary, management prefers to contract with an experienced General Agent to fill the vacancy. Management also receives regular feedback from reports updating the productivity and risks that are involved with their General Agents, which allows them to closely monitor the business produced.

Recommendations: None

Procedure 08 – Vendor Oversight and Control

Observations: The Company has a written Vendor Oversight Policy. The policy is focused on contracting for goods and services required for the operation of the Company. The Company uses vendors in limited aspects of its operations. Vendors currently utilized include ISO for forms, other rating information and premium audit functions. Outside claims adjusters and claim services are used as needed, as discussed in the Claim Handling Section of this report. Each department is responsible for the vendors it employs. The General Counsel is responsible for general contract review and content.

Recommendations: None

Procedure 09 – Customer and Consumer Privacy Protection

Observations: The Company does not have a written Privacy policy but does have a process that is being used. This process appears to be working adequately for the Company since, as a Surplus Lines writer, the Company only writes business operations. As such, there is very little, if any, personal information collected. The structure of the Company databases provides security

to the information contained there, including limitations on who can access that information. A Producer's access to personal information is restricted to the information that they collect for their own clients. The Company's servers and systems require an identification and password from all employees before they can access stored information.

Recommendations: None

Procedure 10 – Production of Business

Observations: The Company does not have a written procedure for the Production of Business; however, the structure of the Company provides a reasonable level of control. The Company has three Divisions for the production of business. The first of these is the Casualty Brokerage Division. This Division accepts business from brokers on a submission basis within guidelines clearly stated in the Company's underwriting guidelines. Company underwriters review submissions for acceptance or declination.

The second Division is the Binding/Programs Division. This Division accepts business from general agents who have limited binding authority outlined in the Company's underwriting guidelines. The binding of business not meeting the criteria in the binding guidelines is not permitted and is subject to submission for decision. Company underwriters review business bound to ensure that Company criteria are met and review submissions for acceptance or declination.

The third Division is the Professional Liability Division. This Division accepts business from brokers on a submission basis within guidelines clearly stated in the Company's underwriting guidelines. Company underwriters review submissions for acceptance or declination.

The examiners note that the small size of the Company has allowed and encouraged the non-traditional exchange of information and knowledge among the various Divisions in the Company. This allows a fuller utilization of the broad experience of management and the senior members of staff in areas that may not necessarily be limited to the particular area in which the experienced person works. Underwriting, for example, has resources available to it in the Claims, Legal, Actuarial and Finance departments.

Recommendation: None

Procedure 11 – Complaint Handling

Observations: The Company does have a written procedure for Complaint Handling. The guidelines for the procedure explain the steps taken when the company receives a complaint. The complaint is forwarded to the Legal Department where it is entered into a complaint log, assigned a tracking number and a due date for disposition. The Legal Department assigns the complaint to the proper department for handling. The assigned department addresses the area concerning the complaint, prepares a response and describes the action the Company will take or explains why no action will be taken. The response is returned to the Legal Department for review and if all concerns have been addressed the response is mailed to the Complainant by the due date.

The Company complaint log contained only five (5) reported complaints during the examination period. The five complaints originated from five separate states and were from two different classifications. All complaints involved different reasons so no patterns were detected. The Legal Department, which includes the General Counsel, oversees and controls the tracking of the complaints from the time the complaint is received until its resolution. Complaint files are retained in the Legal Department for a five (5) year period.

Recommendations: None

Procedure 13 – Advertising, Sales and Marketing

Observations: The Company does not have a written procedure for Advertising, Sales and Marketing. Advertising, Sales and Marketing is directed toward three (3) separate categories: the general public, the broker for the general public and the producer of the Company. A Surplus Lines company is generally prohibited from conducting direct solicitation or advertising to the general public. Maxum does advertise in insurance industry trade journals to help attract potential business for the Company through their brokers. Producers receive brochures from the Company which are produced quarterly. The brochures report new agent appointments, update current sales goals and compare sales figures for the previous years.

Recommendations: None

Procedure 14 – Agent Produced Advertising

Observations: The Company is a Surplus Lines insurer and under most state laws is not permitted to directly advertise its products to the public. Through its written producer agreements, the Company prohibits brokers or producers from advertising the Company's name without acquiring prior written approval.

Recommendations: None

Procedure 20 – Producer Selection, Appointment and Termination

Observations: The Company procedure for the Selection, Appointment and Termination of producers is described in the Producer Management Guide. The Guide provides considerable detail of the process used to determine with which producers the Company is willing to contract.

The Company has projected marketing goals for the geographic areas where it writes. It appoints as few producers as necessary to attain those goals. This strategy tends to prevent producers from competing for the same business with each other in the same territory. Management focuses on producer agreements with high quality, reputable and financially sound producers in areas needed. The low number of general agents and brokers reflect the controlled growth approach to the Company's production of business.

Management closely monitors its general agents and brokers by reviewing reports regularly and making annual visits to the producer to review production and underwriting goals. The termination of producers is minimal with the largest cause for termination being the lack of production.

Recommendations: None

Procedure 21 – Producer Defalcation

Observations: The Company has a written Anti-Fraud Procedure and a written Accounts Receivable Procedure that addresses producer and financial theft. The Accounts Receivable Procedure contains sufficient components and controls to promptly address producer defalcation indications.

The Accounts Receivable Procedure outlines the Agency Accounts Payable process. The procedure stipulates that premium payments are due from the producer forty-five (45) days after month-end after being processed by the Company. The handling of overdue payment events start the day after the payment is due. This activity identifies producers who did not pay on time and ranges from determining the reason for late payment, notification of managers, notification to the producer of pending cancellation, to cancellation on the fifth day the payment is overdue.

All financial discrepancies and suspected producer defalcation indications are reported to the Chief Financial Officer for investigation. Depending on the results of an investigation the Chief Financial Officer and the General Counsel will determine an appropriate response to the findings.

Recommendations: None

Procedure 22 – Prevention of the Use of Persons with a Felony Conviction

Observations: The Company does not have a written policy regarding the Prevention of Use of Persons with a Felony Conviction. The process utilized by the Company is that a vendor, General Information Systems, performs criminal background checks on new employees and producers in order to comply with the requirements of 18 USC § 1033. The Company confirmed that it relies on individuals to disclose any subsequent issues that take place following the hiring process and that no follow-up checks are performed after an employee is hired.

***Recommendations:* It is recommended that the Company implement an annual review process to verify and maintain assurance that all employees and producers are not in conflict with 18 USC § 1033.**

Procedure 24 – Premium Billing

Observations: The Company is a Surplus Lines insurer and does not bill insureds directly. All billing by the Company is made to its producers, who in turn are responsible for the billing, collecting and remitting of premiums. Maxum utilizes a forty-five (45) day accounting cycle with its producers. Business that is booked during the month is billed to the producers at the end of the month and is due to the Company forty-five (45) days later. Policy information is downloaded on a monthly basis from the Company's Enterprise System into the accounts receivable system. After all data is reconciled a monthly statement is produced and printed by the Producer. The Statement includes all of the premium activity on policies that have not been paid in full.

Details are reported to management concerning unpaid producer premiums. The Company's process for unpaid accounts overdue for payment commences the day after premiums are due and culminates with payment or cancellation within five (5) days. The process includes direct contact with the producer by the Accounting Department, documentation of information developed during this process, followed by direct contact from the appropriate Underwriting Division manager. Reinstatement of a cancelled policy is only considered with an approval from the respective Underwriting Division manager. Collection activity is reviewed and considered monthly by the Vice President/Controller, the Senior Vice President, Chief Financial Officer and the President/Chief Operating Officer. This team then provides a report to Management.

Recommendations: None

Procedure 26 – Policy Issuance

Observations: The Company does not have a written procedure for Policy Issuance but does have a process that is used. Guidelines for the process are in place and are being used by the Underwriting Services Department that is responsible for processing policy information, issuance and endorsements. A policy issuance checklist that is used by the Underwriting Department, containing mandatory data and form requirements, was provided. Statistics are maintained in policy run data that include the timeliness of policy issuance. After the required information is downloaded into the system and approved, the policy is printed and issued. Producers are also trained and have the capability of downloading and printing issued policies.

Recommendations: None

Procedure 28 –Requesting Claim History

Observations: The Company does not have a written procedure or process for providing insured loss runs to its policyholders. It does, however, maintain loss run data in a computer system that is available and accessible to its producers. The Company provides training on the system to its producers upon entering into a producer agreement with the Company. This allows the producer to use the system efficiently in providing service to the policyholder. The IT and Underwriting Services Divisions are responsible for maintaining the system.

Recommendations: None

Procedure 30 – Premium Determination and Quotation

Observations: The Company does not have a written procedure for Premium Determination and Quotation, however, the process that is used by the Company for rating its policies is working effectively. The underwriting Division calculates the rates manually, with electronic support as needed. Experienced staff members from the Claims, Legal, Actuarial and Finance departments provide input when needed to support decisions about rate quotations. One of the benefits of the small size of this Company is that it allows and encourages all employees to engage in a non-traditional exchange of information and knowledge. This exchange of information occurs throughout all of the separate divisions of the Company. The examiners were provided rating

guidelines during interviews with management. The guidelines reviewed appear to be reasonable in view of the nature of business written and the potential for the severity of high losses.

Recommendations: None

Procedure 32 – Underwriting and Selection

Observations: The Company has three underwriting divisions - the Casualty Brokerage Division, the Binding/Programs Division and the Professional Liability Division. As previously noted, the Company operates as a non-admitted insurer in all states in which it has business. The business selected is generally not acceptable to the standard market and is focused on placements with low loss frequency but with potential loss severity exposure. Using its own proprietary system, the Company determines which exposures within these conditions they are able to underwrite, price and effectively offer through their producers.

There is no written procedure as such; however, Management exercises consistent control using the Underwriting Guidelines and audits of files. The Underwriting Guidelines are a principal working document for underwriters and production forces alike. The Underwriting Guidelines define risks that are acceptable or unacceptable. Underwriters have direct daily interaction with management through the Vice President in charge of the particular Division in which they work. The Company uses a team approach on many of its operational functions making use of the applicable process unavoidable.

Brokers and surplus lines brokers produce the business for the Casualty Brokerage Division. This business is all submission business in which coverage is not bound until accepted by an underwriter of the Company.

The business for the Binding/Programs Division is written through General Agents who have authority to bind coverage within express guidelines as to coverage and limits provided by the Company. Business outside of the express guidelines may be considered on a submission basis and bound only after acceptance by the Company.

Brokers and surplus lines brokers produce the Professional Liability Division business. This business is all submission business in which coverage is not bound until accepted by an underwriter of the Company.

Recommendations: None

Procedure 34 – Termination

Observations: Regulatory concerns with terminations by a Surplus Lines insurer generally focus on cancellations and rescissions. An Insured's request for cancellation is also of interest.

Most cancellations are for non-payment of premium. The producer handles the cancellation for an insured's non-payment of premium on General Agent produced business. The company handles cancellation for an insured's non-payment of premium on Broker produced business except in those instances where the Company has provided the Broker with written approval to send notice on its behalf. The Company handles the cancellation for producer non-payment of

an account. See the Observations in Procedure 24 - Premium Billing. All cancellations for non-payment are on a pro-rata basis with unearned premiums returned through the broker.

A number of the Company's applications for coverage contain language warning the applicant that false information on an application may be grounds for a rescission. The Company indicated that it has exercised some rescissions, usually because a required supplemental application has not been completed on a bound contract as required. The Company states that its standard for review is "...whether the policy would have been written at the indicated premium had the information been accurately represented." The Company does not maintain statistics on the number of rescissions it has exercised.

Underwriters review all files subject to renewal at least seventy-five (75) days prior to the month in which the contract expires. If the policy is not to be renewed, notice is sent by certified mail sixty (60) days prior to the month of expiration.

Recommendations: None

Procedure 35 – Underwriting File Documentation

Observations: The Company does not have a written procedure for Underwriting File Documentation. Each Division involved in underwriting is responsible for the content of the underwriting file. Each Division utilizes a written guideline form to control the content of the file and to ensure that the content is adequate to its needs. The guidelines address: Decision Making, Authority, Pricing, Timely Response and Policy Construction.

Documentation for the Decision Making component includes a completed application, an operations narrative, claim history, proper classification and inspection, where appropriate. The Authority component considers whether the limits used are within the scope of authority and whether the class guidelines are met. Pricing documentation includes the appropriate use of worksheets, correct use of the Loss Cost Multiplier (LCM), and appropriate surcharges for class and limits. Timely Response generally refers to the length of time the producer takes to respond to Company inquiries. The Policy Construction component considers whether the correct forms and endorsements have been used in constructing the policy.

The Brokerage Division files are in paper format. A sample of these files was reviewed to determine whether the Company adheres to its guidelines. No exceptions are noted. The Professional/Binding Division files are in an electronic format in the Company's Enterprise system. The same is true for the Company's Professional Liability Division files. These files were likewise sampled and tested against the Company's guidelines and no exceptions are noted.

Recommendations: None

Procedure 40 – Staff Training

Observations: The Company states that it does not have a written process or policy regarding Staff Training. However, it does have a policy of supporting and encouraging training. The Company does offer reimbursement for staff that enrolls in a variety of classes including Certified Property Casualty Underwriter (CPCU) and Associate Surplus Lines Insurance

(ASLI) coursework. Training is the responsibility of Division managers who are generally vice presidents.

The Company is fairly small with a staff including management totaling fifty-six (56) persons. The Company has a flat management structure that has management persons directly working at the operational level. The management team has a high level of experience which coupled with the Company's structure is conducive to an effective use of on-the-job-training.

The examiners observed numerous occasions where a team effort or discussion on a subject is used as a direct training opportunity that is particularly pertinent to the needs of the Company.

Recommendations: None

Procedure 43 – Claim Handling

Observations: The Company does not have a written claim manual but it does have processes and some written procedures that result in a well structured and controlled process. The Company's Claim Unit is small with a considerable experience base. The unit is managed by a Vice President who is directly involved with the operations of the unit. The Company inventory of claims is likewise small allowing for oversight on a global basis. The set up for all files begins with the Vice President who assigns the adjuster to handle the claim. The Company uses a number of procedures, forms and controls to ensure the claim is handled promptly and appropriately. Ninety-eight percent (98%) of the Company's writings are liability policies; therefore the majority of claims are expected to be third party claims.

Starting in May of 2006, all open claims are subject to an anniversary review at three (3) months and annually thereafter. Each claim examiner must prepare a report that outlines his or her projected plan for resolution of the claim and submit it to the Claims Vice President. The Vice President then adds to, amends or concurs in the plan and returns it to the claim examiner with comments. Weekly, monthly and annual reports are used to ensure the consistent, timely and appropriate resolution of claims.

A sample of claim files was selected from the list of paid claims to test the process being used by the Company and to determine if the processes described to the examiners are indeed being utilized. The files were tested for consistent set up, prompt handling, consistent diary dates, existence of prescribed reports, deductible follow-up and file documentation. No exceptions are observed. Each file contains a full copy of the policy providing coverage. Copies of payment checks and releases are in the files. Files are well organized and notes are orderly and informative.

Recommendations: None

Procedure 44 – Internal Claim Audit

Observations: The Company does not have a written process or procedure for Claims Audit. They do undertake an audit of claims on a semi-annual basis through an independent auditor. Internally the Vice President of Claims sets up all claim files. If the claim remains open after

three (3) months a report describing the resolution plan by the claim handler is provided to the Vice President to which he offers comments and instructions. Thereafter, the same process ensues on an annual basis until the claim is resolved. The Company's treaty reinsurers also review claims at any time but usually on an annual basis. In view of the Company's size and low claim inventory, the oversight and audit process is sufficient. A claims file audit is performed twice a year by an independent consultant. This audit is conducted for input on the claim handling process.

Recommendations: None

Procedure 45 – Claim File Documentation

Observations: The Company does not have a written claim manual but it does have processes and some written procedures that result in a well structured and controlled process. See discussion in Procedure 43 – Claim Handling. The Company's procedures do outline documentation expectations. Claims files are maintained in paper with supplementary information contained in the Company's database. The examiners reviewed a sample of files to confirm that the process and procedures described, including those related to file documentation, are actually being utilized. No exceptions are noted. The files are well organized and documentation appears complete. The various reports required by the process are also in the files.

Recommendations: None

Procedure 48 – Catastrophic Claim Handling

Observations: The Company does not have a written procedure or process to address potential losses from a catastrophic event. As noted in the Observations for Procedure 43 the Company has a small inventory of open claims and its method of production essentially spreads potential exposure to loss over a wide geographic area. The Company believes that this greatly limits the need to address losses that might arise from a potential catastrophic event. Further, the majority of the Company writings are in Liability lines of business and the Company has not been able to identify any potential catastrophic exposure in that line of business except that assumed on an individual risk basis.

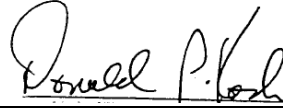
Recommendations: None

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company implement an annual review process to verify and maintain assurance that all employees and producers are not in conflict with 18 USC § 1033. (p.10)

CONCLUSION

The examination was conducted by Donald P. Koch and Steve E. Misenheimer and is respectfully submitted,

A handwritten signature in black ink that reads "Donald P. Koch". The signature is written in a cursive style with a large initial "D" and a distinct "K".

Donald P. Koch, CIE
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware