REPORT OF

MARKET CONDUCT EXAMINATION

OF

EXECUTIVE RISK INDEMNITY INC.

AS OF

NOVEMBER 13, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of NOVEMBER 13, 2005 of the

EXECUTIVE RISK INDEMNITY INC.

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

ATTEST BY: ______________________

DATE: 9 FEBRUARY 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 9TH DAY OF FEBRUARY 2007.

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Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION

OF THE

EXECUTIVE RISK INDEMNITY INC.

AS OF

NOVEMBER 13, 2005

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.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 9TH of FEBRUARY, 2007.

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SALUTATION

August 1, 2006

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 05.734, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Executive Risk Indemnity Inc.

hereinafter referred to as the "Company" or as "Executive Risk." Executive Risk Indemnity is incorporated under the laws of the State of Delaware. This examination reviewed the operations of Executive Risk Indemnity. The on-site phase of the examination was conducted at the following location:

15 Mountain View Road Warren, NJ 07059

The examination is as of November 13, 2005.

Examination work was also completed off-site and at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

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

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

Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

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 of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its lower 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 process used by management does 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

The Chubb Group traces its origins to the partnership of Chubb & Son (an underwriting management organization founded in New York in 1882) and its successor Chubb & Son Inc.(incorporated under the laws of New York State in 1959) and since 1967 a wholly owned subsidiary of The Chubb Corporation.

The principle property and casualty insurance company in the group is Federal Insurance Company (Group), a successor to the New York Marine Underwriters, which was incorporated in 1901.

Companion domestic property and casualty companies include:

Vigilant Insurance Company (founded in 1939)

The Great Northern Insurance Company (acquired in 1960)

The Pacific Indemnity Company and its 2 subsidiaries, Northwestern Pacific Indemnity Company and Texas Pacific Indemnity Company (acquired in 1967)

Chubb Lloyds Insurance Company of Texas (established in 1973)

Chubb Custom Insurance Company (established in 1980)

Chubb Insurance Company of New Jersey (established in 1982)

Chubb Indemnity Insurance Company (established in 1994)

Chubb National Insurance Company (established in 1993)

Executive Risk Indemnity Inc. and its 2 subsidiaries, Quadrant Indemnity Company and Executive Risk Specialty Insurance Company (acquired in 1999)

Originally Chubb & Son Inc. managed the property and casualty insurance companies within the Chubb Group. In 1998 the Federal Insurance Company replaced Chubb & Son, Inc. as the manager of the member insurers of the Group.

The Group is engaged in full multiple line operations, including property, liability, marine, fidelity, surety and accident. Members of the Group subscribe to virtually all rating and advisory bureaus. Multiple companies afford the ability to provide specialized coverages and rates to insureds.

The Group divides its business into three categories: personal, commercial and specialty commercial.

- Chubb's personal insurance (CPI) products provide more coverage choices and higher limits than standard insurance policies and are designed for individuals with high priced homes and possessions. Chubb's premier product is *Masterpiece*^{R}, which covers homes, automobiles, watercraft, valuable possessions and collections, and personal liability.
- Chubb's Commercial Insurance (CCI) provides coverage that is crafted for specific industries and their unique exposures, such as law firms, hospitals, museums and cultural institutions to a broad array of mono-line policies for lines of business such as cargo or excess liability. CCI provides more than ninety (90) commercial products.

- The Chubb Specialty Insurance (CSI) division offers a wide array of specialized executive protection and professional liability insurance products for privately held and publicly owned companies, financial institutions, health care organizations, professional firms and not-for-profit organizations.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and 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 Market Conduct Examiners' Handbook.*

Some standards are measured using a single type of review, while others use a combination of all of the types of review. 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 sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC Market Conduct Examiners' Handbook.* For statistical purposes, an error tolerance level of seven percent (7%) is used for claim reviews and a ten percent (10%) tolerance level is used for other types of reviews. The sampling techniques used are based on a ninety-five percent (95%) confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI's actual tolerance for deliberate error.

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 evaluates 100% of the records of a particular type.

Standards are measured using tests designed to adequately determine how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners' Handbook for a Property and Casualty Insurer. Each standard applied is described and the result of the testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the *NAIC Market Conduct Examiners' Handbook* are stated and contained within a bold border.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. The "Result" is indicated and examiners "Observations" are noted. In some cases a

"Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate Standard.

A. COMPANY OPERATIONS/MANAGEMENT

This report is designed as a summary of Observations and Recommendations; however, the following two standards are evaluated on a pass/fail basis:

- "The Company is licensed for the lines of business that are being written."
- "The Company cooperates on a timely basis with examiners performing the examinations."

Standard A 07

NAIC Market Conduct Examiners' Handbook - Chapter XV §A, Standard 7 & Chapter XVII §A, Standard 7

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

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

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 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 fashion and thereby minimizing cost.

Results: **Pass**

Observations: During the course of the examination Executive Risk was provided with fifty-one (51) Information Requests (IR's) and all responses were returned timely. The Company's communication with the examiners was very responsive. The examiners experienced no delays during the course of the examination.

Recommendations: None

B. COMPLAINTS/GRIEVANCES

The evaluation of the Standards, in this business area, is based on the Company's response to various information requests (IR items) 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 database with one hundred twenty-four (124) logged complaints for the period of examination. All complaints in the complaint log were reviewed to compare the accuracy of the database and to look for any complaint patterns. After the review was completed no complaint patterns were present in the master log. The review of the complaint process is noted in Procedure 11 below.

Seventy-four percent (74%) of the complaints, or ninety-two (92), were generated from business written in a non-standard personal automobile program that is explained below.

Cencal Insurance Services (Cencal), located in San Remo, California, was the administrator of a program written in Executive Risk Indemnity Inc. (ERII) that offered automobile liability and physical damage coverage for the non-standard personal automobile market in California and Arizona. Because of the program's poor loss experience, the agreement between Cencal and ERII was terminated as of June 30, 2003.

Since the agreement was terminated, Cencal has been replacing the business originally written in ERII with another carrier. As of today, the program remains in run-off and the Company has stated that the program has a lost renewal rate of sixty-one percent (61%). By the end of 2006, the Company anticipates that there will be less than 500 policies with ERII. Because of the worsening results of the business that has remained with ERII, the Company filed a number of rate increases since 2003.

The nature of the non-standard personal automobile business written in the program has generated a higher number of consumer complaints, when compared to complaints received for other business written in that company. Seventy-four percent (74%), or 92, were generated from business written in the non-standard personal automobile program.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes generally 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 wherein 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 inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and 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: The Company provided the examiners several documents that detail the scope of the underwriting audits conducted by the Quality Assurance Departments as well as the process before, during, and after the review. Additional documents included file evaluation forms used by the Quality Assurance Departments, Operational Effectiveness Review documents, Risk/Control/Testing Matrices that outline the testing approach and audit planning documents provided by Ernst & Young.

The Company has Quality Assurance Departments in both Chubb Commercial Insurance (CCI) and Chubb Specialty Insurance (CSI). These departments were formed in April 2000 and April 2002 respectively. Each department is a full-time, dedicated unit responsible for organizing and overseeing the underwriting audit process for their individual business unit. Prior to this the Home Office underwriting departments conducted underwriting audits using ad hoc teams of underwriters from any one of the Chubb worldwide branches. The CCI and CSI audit process and methodology are generally consistent, the main difference being the types of business and coverage reviewed.

Subsequent revisions to these procedures occurred several times to adjust scoring methodology and audit components. The current process was adjusted in March 2005. The matrices and procedures utilized by Internal Audit have been in place for the last three (3) years.

CCI conducts “New Business only” audits as well as full audits which include a review of new business, renewals and compliance. Full underwriting audits for each branch and business area are conducted within a four (4)-year audit cycle. Individual account evaluation forms are combined into an overall result (findings, scores, and recommendations by category and total score) and are incorporated into the audit report.

Reports are distributed to branch offices and the Home Office senior management. The branch is required to submit a formal response within thirty (30) days outlining plans for improvement and compliance. Approximately twelve (12) months after the audit, an underwriting follow-up audit is conducted on customer groups within the branches that did not receive a satisfactory result of a target score of eighty (80) or better; assessing adherence to recommendations and compliance.

New business audits are conducted on branches in the year where they are not scheduled to receive a full or follow-up audit. Training materials are developed based upon audit results and presented to all Underwriters, Underwriting Associates and Customer Service Representatives countrywide. Additionally, a self audit process has been developed and is recommended as a best practice for the branches to implement at a local level.

A follow-up audit is conducted approximately twelve (12) months after the initial review to assess implementation of recommendations and compliance. A written report is provided to local and Home Office management. New Business audits are communicated through a written report to local management with a copy to the Home Office management.

Executive Risk Underwriting audits focus on adherence to underwriting guidelines and quality along with authority, and include a compliance review focusing on the adherence to state rules, regulations and filings.

Policy compliance is defined by the issuance of accurate filed rates and plans. This review includes items such as producer licensing, use of filed rating plans, adherence to conditional renewal procedures, and consistency of quotes, rating and issuance of policies, rating documentation for all exposures on lines of business reviewed, and state mandatory forms attachment to policies.

The CSI Quality Assurance Team consists of five (5) individuals who are responsible for the ongoing process of review and implementation of procedures, training, and measurement.

Audits of each branch and business area are conducted within a three (3)-year audit cycle. After the audit report is issued, a formal response is required from the branch within thirty (30) days outlining their plans for improvement and compliance. Approximately twelve (12) months after the audit, a follow-up review is conducted for branches that did not receive a satisfactory result, that being a target score of eighty (80) or better. The follow-up will adhere to recommendations and compliance. In a typical month, the Quality Assurance Department conducts one (1) or two (2) audits and a follow-up audit. Local branch department managers are accountable for audit results and for establishing a “self audit” process within their operation. These are incorporated into the manager’s individual performance goals.

All files are maintained electronically in the Company's Commercial Underwriting Workstation (CUW), thus the file review is performed on a remote basis. The goal is to have a minimum of ten percent (10%) of the branch's or business area's policy count reviewed. The files selected for review will reflect a mix of new business and renewals, and a cross section of underwriters. The business areas reviewed are: Executive Protection, Department of Financial Institutions, Healthcare, and ChubbPro. The CSI audited lines of business are: Directors & Officers coverages, Fiduciary Liability, Employment Practices, Crime, Kidnap Ransom/Extortion, and various types of Errors & Omissions Insurance.

A written response from local management outlining their plans for improvement and compliance with recommendations is required within thirty (30) days of the audit.

Approximately twelve (12) months after the initial audit the Quality Assurance Department will conduct a follow-up review of the branch to assess implementation of recommendations and compliance.

Operations audits are conducted under the direction of the Home Office Operations Services Division (OSD) Audit Manager. The OER audits assess the effectiveness of "business-critical" branch OSD processes. The audits evaluate adherence to standardized workflows, roles and responsibilities in addition to quality, service measurement and customer satisfaction levels.

Audit Leaders for the on-site audit are the OSD Field Regional and Zone Managers in addition to the Home Office Corporate OSD managers. Teams are comprised of field supervisors, managers and Home Office business analysts. Auditors are selected based on expertise in assigned areas and are trained during an annual Audit School held in the Home Office. A representative from the Home Office Operations Audit and Quality Services oversees each audit in order to ensure procedural and evaluation consistency from audit to audit. Audit process time frames are outlined in the self-review. Depending on branch size, an on-site audit lasts from three (3) to five (5) days and audit teams are staffed accordingly. Auditors interview branch OSD staff using standard audit questions in conjunction with specific SBU policy issuance workflows. Underwriting managers are interviewed to assess customer satisfaction and partnership on achieving business goals.

The OER audits are scored using a comprehensive scoring process that balances branch results with audit findings. The resulting points in the audit score are earned based on year to date numbers and measured against established point scales (Quality, Service and Collection Performance Report).

A wrap up meeting is held in the branch office on the last day of the audit with the OSD Manager, OSD Leadership team and the Branch manager in attendance.

A written report to the OSD Manager is issued within fourteen (14) days. The distribution for this report includes the branch manager, the OSD manager, OSD's division head, the OSD U.S. Field Manager and other Home Office department managers. A response detailing action taken on audit findings is due back to the Home Office Audit Manager within thirty (30) days.

Frequency of the OER audit is every four (4) years, although branches scoring a "C" or below are re-audited the year following the initial audit to validate improvement efforts.

Every internal audit is subject to the appropriate supervisory review to ensure that audit procedures are in compliance with internal standards. In addition, it is also subject to review by external auditors. Internal audits are summarized in an audit report that is issued to the branch with a copy sent to senior management and external auditors. All audits require responses from the branch, noting the corrective action that will be taken to address any findings. Internal audit has a follow-up system to ensure that all corrective action items are addressed in a timely manner.

Internal Audit performs three major types of audits. An operational audit focuses on a business unit's operating procedures and practices. A financial audit ensures that the company's accounting records accurately reflect the financial position and results of operations. An information systems audit evaluates the internal control over the Company's information systems and assesses the reliability of data. Audits can range from a limited review to an in-depth review of an area depending on risk analysis.

The Auditors review all audit results and any recommendations with appropriate staff members and management to ensure that they accurately reflect the business area. The final audit report describes the important aspects of the audit in concise terms. It documents exceptions to standard procedures and comments on areas operating effectively. It is distributed to managers for their review, action and written response. The report is also distributed to senior and department management. Feedback is used to enhance department processes to improve upon the level of service provided to the Company's customers.
Each Quality Assurance Department provides senior management and underwriting management with both an annual and a mid-year report of results, trends, and priorities. In addition, the Company provides Home Office underwriting management with copies of all branch audit reports as they are completed.

The Audit and Quality Services unit provides senior management with monthly status reports and an annual summary of results and trends. The branch OER reports are also distributed to the branch manager, the OSD manager, OSD's division head, the OSD U.S. Field Manager and other Home Office department managers.

The Internal Audit Director prepares a quarterly report to Chubb's Audit Committee, summarizing the audit results and other relevant information. The Internal Audit Department reports to the Audit Committee of the Board of Director's and the Corporation's CEO.

Recommendations: None

Procedure 03 – Company Records, Central Recovery and Backup

Observations: The examiners were provided thirty eight (38) separate documents that pertain directly and indirectly to the Company's Records, Central Recovery and Backup procedures. These documents do not appear to conflict with Delaware's statutes or regulations.

In 1992, the Records Management Unit was formed to establish corporate procedures for the retention of records. A Records Retention Committee was created with representatives from General Counsel, Tax, Claims, Commercial and Personal Lines, QA/RC, Internal Audit, Information Technology, Accounting, Actuarial and Senior Management to set policy retention timeframes for the Company's business records. The records retention program covers the retention of all records of the Chubb Corporation and its subsidiaries. Records include all paper, microfilm and microfiche, electronic or other information media created and received by the company in the course of its business.

Records Management Unit responsibilities include:

- Completing legal research on 50 state and federal retention laws and regulations
- Maintaining a database of laws and regulations
- Working with the Records Retention Committee to determine retention requirements for all corporate records
- Maintaining and updating retention schedules
- Supporting branches in the field and the Branchburg Records Center in applying retention to paper claim and underwriting files in a consistent fashion when destruction requirements and budget constraints permit
- Publishing "Destruction Holds" for litigation, government investigation and audit
- Providing program support to the Branchburg Records Center
- Providing litigation support

The majority of commercial underwriting information is maintained electronically in the form of an electronic customer file in the Commercial Underwriting Workstation (CUW). The guidelines identify limited instances where information can be maintained in hard copy. An additional document was developed during the implementation of the CUW that identifies legal, audit, compliance and security considerations pertaining to the use of the CUW and prescribes the associated business rules. The Records Management Unit worked with the business owners during the development of the CUW to ensure the file structure reflected retention requirements.

Because not all departments utilize the CUW the Company has separate procedures for boxing and sending files off-site. The Branchburg records center stores records for the Company's branches in the NJ-NY-PA area. Information is electronically uploaded for local branches using the Chubb controlled records center. The automated process has a built-in self checking feature and prints error reports that indicate when files with differing retentions are boxed together. For branches using the commercial records center, information is checked and recorded manually by the staff doing the purge and their managers.

The retention guidelines and schedules were developed to ensure retention of necessary business and legal information and removal of unnecessary information.

On January 1, 2005 the Company began the process of transitioning ownership and responsibility of the Company's IT Infrastructure Services and Operations to Affiliated Computer Services (ACS). In March 2005, the recovery plan was reformatted to include the transition of IT Infrastructure Services and Operations to ACS. The Company still continues to maintain oversight over all processes and procedures.

The recovery plan was developed in partnership with ACS and incorporated he Company's procedures and technology previously in place. Procedures are periodically scheduled to be reviewed and updated.

The plan is comprised of the following components:

- Identifying those individuals who are responsible for disaster recovery activities.
- An explanation of the different levels and plan of action for each, including notification, escalation and recovery procedures.
- Procedures for continuous back up and storage of vital data at an off-site facility to ensure recoverability at the backup location until the data center can be renovated or rebuilt.
- Alternate processing methods for maintaining continuity of the business transactions that have been identified as critical for corporate survival. These methods are planned for interim use following any disaster until regular information processing can be performed at an alternate site.

Record retention procedures and adherence to standardized file structure guidelines are evaluated and measured during the Operational Effectiveness Review conducted by Audit and Quality Services as well as the audits performed by each Quality Assurance department.

An annual recovery exercise is performed to ensure procedures are followed as outlined in the recovery plan. Additionally, the Company identifies specific back-up activities that ACS is required to report data to Chubb on a regular basis.

Recommendations: None

Procedure 04 – Computer Security

Observations: Because of the sensitive nature of the information related to this Procedure the details of this review are not provided in this report. The procedures that were reviewed are contained in the examination work papers, and as such are considered confidential and not subject to public disclosure. A summary of these procedures has been provided to the Delaware DOI for their review.

Recommendations: None

Procedure 05 – Anti-fraud

Observations: The Company provided the examiners a copy of their Anti-fraud plan which is contained in the Corporate Anti-fraud plan. The Anti-fraud plan was initially developed in 1988. According to the Company, it has had a number of revisions since that time; however, no revisions have been made in the last three (3) years.

This plan contains specific sections pertaining to prevention, detection/investigation, handling guidelines, law enforcement and civil actions. This information is available to the claims staff to enable them to properly identify and resist fraudulent claims. This document does not appear to conflict with Delaware's statutes or regulations.

The Special Investigations Unit (SIU) oversees the Corporate Anti-fraud plan. The SIU thoroughly investigates suspicious claims to either verify the legitimacy of the claim or to gather proof of a fraudulent claim. According to the Company the SIU partners with claims staff, insureds, agents and law enforcement to ensure appropriate, timely, and fair investigation and resolution of claims.

The controls utilized to ensure that the written procedure is performing as intended include file reviews by line supervisors, periodic claim audits, and internal audits. The process and tools used to measure and review the written procedure include a distribution of the audits as well as the tracking of the volume of claims identified as suspicious as a percentage of total claims per line of business The SIU measures the effectiveness of the written procedure by its overall review of claim files as well as the numerical results. Additional information regarding these audits and numerical results were not provided to the examiners.

Recommendations: None

Procedure 06 – Disaster Recovery

Observations: The Company provided the examiners three documents regarding Disaster Recovery procedures. The documents included the Warren Township Office Disaster Recovery Plan, an Emergency Response Plan and a Business Continuity Planning Guide. Utilizing the Business Continuity Planning Guide, the Business Continuity department is presently working with each office to develop business continuity plans.

The Warren Township Office Disaster recovery plan, created July 25, 1995, summarizes how the Company would respond to a variety of emergency situations, including significant property and equipment loss. No detailed procedures were included within this document. However, in 2003 Chubb formed a Business Continuity department responsible for the development, implementation and testing of emergency response and business continuity plans for each office.

The Emergency Response Plan, which was revised in April 2005, is the standard format used to create plans for each Chubb location. All domestic Company offices have an Emergency Response Plan (ERP) in place. These plans document critical information about each office, including evacuation routes from the building, assembly points for employees, first aid equipment stored in the building, telephone trees for contacting all employees, and emergency contact lists for local police and fire departments, hospitals, and any other emergency numbers that might be needed. Each location has a Local Incident Management Team, made up of Senior Managers in that office, who are in charge during an incident.

The Business Continuity department also identifies and trains individuals throughout Chubb to manage the process of response, recovery and restoration of operations after a business disruption, and to establish communications between the Company and its employees, their families, customers, producers, shareholders and suppliers.

Emergency response plans are reviewed and revised every quarter. Changes are based on feedback from the field, consultant advice, lessons learned from incidents, and best practices in the industry. Standard procedures for reporting an incident are documented in the spreadsheets in the emergency response plan. Each office is instructed to contact the business continuity team immediately following an incident (either via telephone or pager), and are expected to complete a standard incident report form.

The Business Continuity Manager provides regular updates to the corporate incident management team (CIMT) and senior management.

Recommendations: None

Procedure 07 – MGA Oversight and Control

Observations: The Company does not use Managing General Agents therefore this procedure is not applicable.

Recommendations: None

Procedure 08 – Vendor Oversight and Control

Observations: The Company provided the examiners documents and procedures directly related to vendor management. The documents include contract cycle procedures and a best practices document issued by Vendor Management. Both documents are available on the Company's Vendor Management intranet web site.

The Company created the Vendor Management Unit and all subsequent procedures in May 2002. According to the Company this unit was established to ensure that best practices are followed and to assist Company staff in the procurement of outside services and goods and the management of relations with the vendors that provide those goods and services. These documents do not appear to conflict with Delaware's statutes or regulations.

The contract cycle document provided to the examiners contains the overall contract workflow and step by step procedures for the employees to follow regarding the vendor management work cycles. These work cycles include: project creation, request for proposals, contract generation, and vendor compliance with contracts, renewal and termination practices. These procedures also differentiate between vendor management and business owner responsibilities.

The Company also provided the examiners a best practices document that describes the core values, regulations, laws and protocols all employees are required to follow regarding vendor management. This document was revised and updated July 1, 2005. No other version or revision history was provided to the examiners.
According to the Company, all prospective vendors involved with the Vendor Management Unit are screened through the U.S. Department of Treasury Office of Foreign Control. All contracts are imaged, filed and maintained in Chubb's contract repository residing in the Vendor Management Unit. No other information regarding control and measurement of these procedures was provided to the examiners.

Recommendations: None

Procedure 09 – Customer and Consumer Privacy Protection

Observations: The Company has a written procedure for Customer and Consumer Privacy Protection. The examiners reviewed the procedure and supplementary information provided by the Company including, the Company's privacy procedures for all employees and departments, the Company's Privacy Notice (original and revised) and memos and mandates directed to employees regarding consumer privacy.

These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure. These procedures were adopted in 2001 and have essentially remained the same since that time, with minor revisions made as appropriate on an annual basis. The Company provides privacy notices as required by state and federal requirements.

The Privacy Policy states that the Company cannot use or disclose such information in any capacity other than in a business capacity for Chubb. Company employees are not permitted to take any information off-site. Such an action could be considered theft and the Company enforces its rights of prosecution in the event of any breach of its practices. Sensitive information including customer lists or other customer information, producer information and strategic plans, are marked "proprietary" or "confidential." Information about employees' duties with respect to customer privacy is contained in the Company's Code of Business Conduct, which must be adhered to by all employees.

Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures. The procedure does not appear to conflict with Delaware's statutes or regulations. According to the Company, several methods and tools are used to track and measure the effectiveness of the privacy procedures, these include:

- For employees within the Chubb Personal Insurance (CPI) Strategic Business Unit (SBU), the employee's manager must approve and request appropriate system access to policy data via an electronic form as part of the Company's procedures for granting such access rights. The manager must also control the level of access to *Masterpiece®* policy information by assigning the appropriate security level for each employee in the system's staff profile section. The security level will dictate both the amount of policy information that an employee can view and the types of policy transactions the employee can process.

- For Chubb employees outside CPI and all non-Chubb employees requiring access to CPI systems, all requests must be approved by the CPI Workflow and Systems Manager via a special internal workflow. Access rights will only be granted to those individuals having a valid business need which must be included as a business justification on the system access request forms.

- CPI and the claim department have established system access standards in conjunction with Sarbanes-Oxley requirements with which field managers and staff must comply.

Recommendations: None

Procedure 10 – Insurance Information Management

Observations: The Company has a written procedure for Insurance Information Management. The examiners reviewed the procedure and supplementary information provided by the Company including:

- The Company's Non-Disclosure Agreement and subsequent policy
- Security breach reporting policy and procedures
- Company approach to corporate information security
- Employees' responsibilities and guidelines regarding corporate information security
- Responsibility and accountability processes for employees regarding information security
- Guidelines and responsibilities regarding information access for all employees

- Definitions of proprietary information
- Guidelines and procedures for paper document protection

These procedures are clear, organized and available to persons needing access to or affected by the procedure. The Company's Information Security Department implemented a global, corporate-wide Security Awareness Program in the third quarter of 2003. Other updates include Confidentiality, Protection of paper documents, System administrators / elevated access and a Non-disclosure agreement policy.

The Company's Information Security Policy and Guidelines were last updated in August 2005.

Information security encompasses all measures taken by the Company to keep corporate information confidential and to safeguard it from loss or theft. It is the Company's policy that all persons having physical or electronic access to corporate information take responsibility for safeguarding this information. This means that such a person must:

- Know and comply with Chubb's security policies and guidelines
- Keep all information confidential
- Obtain appropriate authorization to access information
- Report any actions and/or incidents that could threaten the security of corporate information

Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures. The procedure does not appear to conflict with Delaware's statutes or regulations. Several methods and tools are used to track and measure the effectiveness of the procedure, such as:

- The Director of Information Security monitors and reports on the Company's compliance with corporate security policies, procedures, guidelines and standards, including oversight of incident reporting and response.

- U.S. Information Technology Security, an outside vendor, develops methods and procedures to measure the effectiveness of existing security techniques and the overall effectiveness of the Company's Corporate Information Security implementation.

- Company managers and/or supervisors are responsible for communicating and monitoring staff compliance with Corporate Information Security Policy and Guidelines.

Recommendations: None

Procedure 11 – Complaint Handling

Observations: The Company has a written procedure for Complaint Handling. The examiners reviewed the procedure and supplementary information such as the Consumer and Department of Insurance complaint guidelines and procedures, Consumer Complaint overview and State timeline requirements.

These procedures are clear, organized and available to persons needing access to or affected by the procedure. The procedure for handling consumer complaints has been in existence since 1998. The current procedures became effective on January 31, 2003; minor revisions have been implemented since that time due to technology efficiencies. Prior to 2003, hard copies of all complaints were maintained in the marketing department's file cabinets in the Home Office located in Warren, New Jersey. Since January 1, 2003, copies of the complaints are archived to a separate computer drive. Any complaints received prior to January 1, 2003 are still stored off-site in hard-copy.

Specific procedures are documented for response to Complaints within two specific areas:

- Consumer Complaints received directly from a policyholder, third party claimant or via the telephone; and
- Consumer Complaints received by the Department of Insurance.

The complaint procedure/workflow is as follows:

- The coordination of responding to consumer complaints is centralized in the Marketing Department of the Company's Home Office located in Warren, NJ.

- The Company's Consumer Complaint Coordinator receives all consumer complaints and distributes them to the appropriate business unit / area for response.

- The Coordinator maintains an electronic consumer complaint database, which is in an Excel format. This database is used to track all complaints from receipt through to resolution or closure.

- Company standards for the timeliness of response to consumer complaints are based on specific state guidelines.

- The Coordinator reports the findings on a review of consumer complaints to senior management at least once a year.

All complaint files are maintained indefinitely and summary reports are furnished to senior management at six (6) month intervals. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures. The procedure does not appear to conflict with Delaware's statutes or regulations. Annual performance goals for the Consumer

Complaint Coordinator include a goal for the reporting of findings to senior management. These goals remain consistent from year to year due to the requirements of the position.

Recommendations: None

Procedure 13 – Advertising, Sales and Marketing

Observations: The Company does not have a written procedure for Advertising, Sales and Marketing; however, it does have a process. No conflicts with Delaware's statutes or regulations are noted.

The Company states in its written process that its Corporate Communications Department is responsible for the development, design and delivery of communications company-wide and maintaining the Company's image as it is conveyed through print materials, videos, multimedia presentations and web site as well as through external media. In conjunction with the Company's advertising agency, the Corporate Communications Department develops the Company's print campaigns that appear in consumer trade magazines. That department also produces advertisements to help support key producers who wish to advertise their alliance with the Company in local publications.

The Company's written advertisement creation process includes:

- Creating a document that outlines the goal of the communication, target audience, message and creative concept of an advertisement
- Sharing the document with a creative advertising firm
- Procedures for submitting the document to the General Counsel for review once it is drafted.
- Incorporating suggestions from the General Counsel and returning the advertisement to the Corporate Communications Department for sign off before releasing the advertisement to the media
- Agreeing to and monitoring licensing agreements and fees for use of photography, models, etc. on all advertisements in use, year round

Up-to-date advertising booklets are made available to branch managers and branch marketing managers, who are responsible for showing it to the agent/broker interested in co-operative advertising. These booklets do not remain with the agent/broker nor are they posted on any internal or external web site.

The Company's written process for advertising includes:

- Working with the Company's appointed agent/broker to determine if there is a joint interest in promoting the agent's expertise and highlighting specific reasons customers might choose the Company
- Limiting the number of advertisements an agent/broker may use in a given marketplace

- Having the branch office request assistance from Corporate Communications in the creation of every co-op advertisement
- Oversight by Corporate Communications to ensure the advertisement is not modified in any way (the only permissible change is to customize an advertisement with the agent's name and logo)
- Submitting a request form to Corporate Communications that includes the deadline, number of the advertisement requested, insertion order, advertisement specification and contact information at the publication
- Obtaining a camera ready logo from the agency

Finally, the Company indicated in its written process that the Corporate Communications department is responsible for the graphic design and oversees production of marketing collateral materials (literature) for the Company's strategic business units (SBU). Content development is the first stage of this process and involves working with editorial staff to create the text for the material. Once the business unit approves the content, a designer drafts a proposed advertisement. After the business unit approves the design the advertisement moves to the final stage of production, which involves finalizing, approving, proofreading, printing and legal review. Once the materials are printed Corporate Communicates helps coordinate the distribution.

The examiners observed examples of the Company's final advertisements during the course of the examination. No conflicts with Delaware's statutes are noted.

Recommendations: None

Procedure 14 – Agent Produced Advertising

Observations: The Company has a written process for Agent Produced Advertising. The Company's Corporate Communications Department is responsible for the development, design and delivery of communications company-wide and maintaining the company's image as it is conveyed through print materials, videos, multimedia presentations and web site as well as through external media.

The Communications Department produce advertisements to help support key producers who wish to advertise their affiliation with Chubb in local publications. Advertising booklets are kept and made available to branch managers and branch marketing managers, who are responsible for showing it to the agent/broker interested in co-operative advertising. These booklets are not left with the agent/broker and are not posted on any internal or external web site.

The following are measures taken by the Company in order to maintain oversight of agent produced advertising:

- Working with the company appointed agent/broker to determine if there is a joint interest in promoting the agent's expertise and highlighting specific reasons customers might choose Executive Risk.

- Limiting the number of advertisements an agent/broker may use in a given marketplace.
- Having the branch request assistance from Corporate Communications in the creation of every advertisement.
- Oversight by Corporate Communications to ensure the advertisement is not modified in any way (the only permissible change is to customize an advertisement with the agent's name and logo).
- Submitting a request form to Corporate Communications that includes the deadline, number of the advertisement requested, insertion order, advertisement specification, and contact information at the publication.
- Obtaining a camera ready logo from the agency.

All other advertising is forbidden unless approved by and coordinated with the Company's Corporate Communications department. Please refer to Procedure 13, Advertising, Sales and Marketing, for more information regarding this process.

Recommendations: None

Procedure 15 – Producer Training

Observations: Producers used by the Company are not employees of Executive Risk, and subsequently the Company does not have primary responsibility for their training and as such do not have formal training procedures. However, Chubb branch offices conduct insurance classes that qualify participating agents and brokers for continuing education credit. The company provided the examiners a list of the approved continuing education seminars for Delaware.

All of the Company's new agency appointments must receive training on the Company's products. The agency education team provides a range of education opportunities to fulfill these requirements. These programs focus on technical insurance knowledge in relation to the Company's products, management and leadership skills, and sales skills and develop specific curriculums for agency/broker executives, the agency/broker management team, experienced producers, new producers and support staff.

The Company also provided the examiners a list of the 2004 schedule of programs for agents, producers and brokers. The document provided a detailed list of descriptions, curriculums, phases and objectives for each specific class. Specific dates and locations for these classes were also provided to the examiners.

Recommendations: None

Procedure 20 – Producer Selection, Appointment and Termination

Observations: The Company has a written procedure for Producer Selection, Appointment and Termination. The examiners reviewed the procedure, a "Managing the Chubb Agent/Broker

Relationship" handbook, producer profile documents, agency appointment information forms and appointment information forms.

These procedures are clear, organized and available to persons needing access to or affected by the procedure. The "Managing the Chubb Agent/Broker Relationship" handbook was adopted in 1994 and is now available on the Marketing intranet web site. According to the Company, the remaining Producer Selection, Appointment and Termination procedures have been in existence in various forms for a number of years, but not officially documented until 2002.

According to the Company, the Producer Selection, Appointment and Termination procedures include the following steps:

- The branch gathers information, meets with the principal owners and makes an evaluation as to whether or not an agency appointment is desired. The data gathering is performed using the producer profile form, and includes such required information as a proof of licensure, proof of Errors & Omissions Insurance, financial data concerning the agency and a review of potential Chubb business opportunities
- Information such as the volume of business and the loss ratios of the various Property and Casualty markets the producer currently represents.

Producers are required to complete agency information forms for the agency and individual agents. These forms are returned to the Company's Agency Services department where they are reviewed by management. Agency Services orders a credit report using an outside vendor and reviews the results utilizing the Choicepoint Investigation Report.

The producer's responses to various questions on the Company's agent and agency information forms are relied upon to determine if there have been any adverse situations that need further investigation, such as a criminal report from an outside vendor. If there are no situations requiring further review, the Agency Services Department will follow the appointment procedures and process an individual and/or agency appointment.

Producers representing the various Chubb underwriting companies can be terminated for a variety of reasons including Agency or Company determination. The Company's Agency Services staff follows the appointment termination procedure, processing the terminations electronically in internal systems which generate a batch request that is sent to the state.

If the termination is "for cause," the Company Licensing Specialist completes the Delaware Appointment/Termination form with the appropriate information and mails it to the state.

Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures. The procedures do not appear to conflict with Delaware's statutes or regulations. Individuals in the branch are responsible for reviewing appointment and licensing information.

Adherence to the Company's standard workflow is addressed during an operational effective review conducted by the OSD Audit and Quality Services unit and addressed further during the audits conducted by the Quality Assurance department.

In 2002, automated licensing edits were implemented in the various commercial rating systems.

Recommendations: None

Procedure 21 – Producer Defalcation

Observations: Producers are responsible for billing, collecting and remitting payment to Executive Risk for policies that are on agency bill. Once a policy is booked the billing information is electronically passed to the billing system. Premiums are due and payable within the time frame indicated in the agency agreement, which is typically forty-five (45) days.

There are two primary reporting methods that are used: agency prepared account current or company prepared account current. For agency prepared account current statements, on a monthly basis an agent submits an account current that includes all transactions for the prior month. With the company prepared account current statements, the Company provides the broker with a statement of premium amounts due.

The designated premium account specialist will reconcile the account current against premium entries. Any policy that has not been paid will be listed on a non-payment list resulting in the issuance of a cancellation for non-payment notice to the insured.

If there is a discrepancy with the payment that was received (e.g., payment less than premium booked), the accounting specialist will bring this to the attention of the appropriate individual in the branch office, utilizing the automated Discrepancy Management Tool (DMT). The branch office is responsible for researching and resolving premium discrepancies. A timeline for agency bill transactions is available in the "Understanding the Premium Accounting Service Center" manual.

To ensure the producer remits premiums when due, the Company monitors the number of days to collect the premium from the producer as well as the premiums that are past due through the on-line Collection Performance Report (CPR) and Payment Performance Report (PPR). The CPR is a cash flow measurement tool that reflects the average number of days to collect premiums. The PPR provides a summary of premium payments received by day and identifies late payments that negatively impact CPR results. An "over 60 days" report is generated each month for follow-up and resolution with the agent.

The Operations Services Department managers, supervisors and premium accounting specialists are responsible for prompt billing, discrepancy resolution and premium collections. Accountability is incorporated into the annual goal setting and performance review process. Branch premium discrepancy resolution and collection performance is evaluated and measured during the Operational Effectiveness Review conducted by the Audit and Quality Services unit as outlined in IR 001.

Recommendations: None

Procedure 22 – Prevention of Use of Persons with Felony Conviction

Observations: The Company uses three (3) forms and/or reports, Agent Appointment Information Form, Appointment Information Form Procedures and Checkpoint Investigation reports, during the appointment process of its producers to determine if any applicant has any felony convictions, or if there have been any adverse situations that merit further investigation by the Company, such as the finding of a unreported criminal record by an outside vendor.

All producers seeking an appointment with Executive Risk are required to complete an agent application form which requires the disclosure of any felony convictions. These forms are reviewed by the Company's Agency Services Department. The appointment information form procedure outlines the review process and corresponding action taken by the Agency Services department. An example of this form was reviewed by the examiners and no conflicts with Delaware's statutes or regulations are noted.

In instances where a question is answered in the affirmative, Executive Risk follows an escalation process which includes ordering credit reports to determine if an appointment is warranted.

Please refer to Procedure 20**,** Producer Selection, Appointment and Termination for additional information regarding this Procedure.

Recommendations: None

Procedure 25 – Correspondence Routing

Observations: The Company provided their written procedure for Correspondence Routing to the examiners for review. These procedures are clear, organized and available to all persons needing access to or affected by the procedure. These procedures were originally adopted in 1997. Revisions have been limited to the changes in roles and responsibilities of employees or improvements in automation.

According to the Company, the majority of correspondence with an insured is through the producer. Communication with the producer is made either electronically or in hard copy.

In 1997, the Commercial Underwriting Workstation (CUW) was introduced to all U.S. branches of the Company, beginning the transition from paper to electronic customer files. The CUW enables the Company to receive and maintain information sent via hard or soft copy in an electronic customer file. Since the introduction of CUW the Company has continually promoted the use of electronic communication as the preferred method for receiving and sending information.

Documents are received electronically through e-mail or fax. The Fax Administrator periodically reviews the public fax log for all incoming faxes and routes documents to the appropriate individual based upon the assignment list. Documents received via e-mail are responded to by the recipient.

The Company's Central Indexing Workflow applies to any document that was received in hard copy or electronically. The recipient reviews the document, completes the file index form and places the document in the designated bin. The Central Index Administrator (CIA) retrieves the documents from the bins and follows the instructions outlined in the Central Index Administrator Workflow, scanning the documents to be filed into the electronic customer file.

Outgoing correspondence can be electronic (fax or e-mail) or hard copy. All documents are filed in the electronic customer file in accordance with the corporate file structure guidelines.

Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures. The procedures do not appear to conflict with Delaware's statutes or regulations.

Adherence to Company standard workflows is addressed during an Operational Effective Review conducted by the OSD Audit and Quality Services unit outlined in Procedure 01, Audit Procedures. Any problems with misrouted mail, fax or digital sender (scanner) are addressed locally at the branch and escalated to the company helpdesk as necessary.

Recommendations: None

Procedure 26 – Policy Issuance

Observations: The Company has written procedures for Policy Issuance. The examiners reviewed the procedures and supplementary information including standardized customer group workflow and procedures utilized by Chubb Specialty Insurance for processing professional liability business, standardized customer group workflow and procedures utilized by Chubb Commercial Insurance for processing standard commercial business, defined procedures, roles and responsibilities for all employees involved within policy issuance and a sample goal documents for a manager/supervisor, Underwriting Associate and Customer Service Representatives.

The procedures within these documents are clear, organized and available to persons needing access to or affected by the procedure. The workflow and roles and responsibilities procedures were originally developed in 1997 as part of the introduction of the Commercial Underwriting Workstation (CUW). The CCI workflows and roles and responsibilities were updated in January 2005 to reflect the introduction of the Underwriting Associate role. The CSI workflows and roles and responsibilities were updated in May 2005 to reflect the introduction of the Specialty Underwriting Associate role.

The procedures in these documents provide detailed step-by-step instructions and roles and responsibilities for all staff involved in the policy issuance process. The CUW is designed to manage the inventory of work and provides the ability to track the status of a transaction. It is also the repository for all documents stored in the electronic customer files and contains corporate templates used in the processing of business.

Each line of business has its own rating and issuance system. Policies are booked and issued in the applicable system and archived in the *Docunet* database. *Docunet* is used to view commercial policies electronically and provides the underwriter the ability to preview a policy prior to issuance or review transaction history and forms issued for a policy. Policies are issued based upon the issuance instructions and then printed, collated and mailed from the Branchburg, New Jersey facility.

Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures.

OSD managers and supervisors are responsible for monitoring and ensuring that new lines, renewals and endorsements are processed within the stated timeframes. The CUW has a work manager facility that allows them to generate various reports and identify the status of any open item. An on-line facility (branch scorecard) exists for branches to measure their service results and determine whether they are meeting the established service standards.

Adherence to standardized workflows, roles and responsibilities and service standards is evaluated during the Operational Effective Review conducted by the Audit and Quality Services unit and evaluated further during the audits conducted by the Quality Assurance department. Both of these audit procedures are outlined above in Procedure 01 Internal Audit. Accountability for adherence to the service standards is incorporated into the annual goal setting and performance review process for all operations staff.

Recommendations: None

Procedure 27 – Reinstatement

Observations: The Company has a written Reinstatement procedure that is clear and readable. The procedure manuals were originally adopted in 1996 and later transitioned to on-line documents. The procedure was updated in 2001 and has been each subsequent year. No conflicts with Delaware's statutes or regulations are noted.

For direct bill policies, a "notice of reinstatement" is automatically generated and mailed to the bill payer, producer and interested parties upon receipt of payment. Copies of invoices, cancellation notices and reinstatement notices are electronically accessible. For agency-billed policies, the specialist completes the reinstatement notice available through General Counsel Cancellation system (GCCANCL) which is then filed in the electronic customer file.

Payment received after the effective date of cancellation requires approval from the underwriter before issuing a reinstatement. Upon receipt of the written approval, a “notice of reinstatement” is issued and communicated to the branch so that the appropriate transaction can be processed in rating and policy issuance.

The Company indicated that management monitors reinstatements and randomly selects policies for review. The Electronic Customer File is then accessed to determine if the completed reinstatement notice has been appropriately filed. The Commercial Direct Bill Key Metrics Report monitors cancellation of non-payment and reinstatement issuance trends on a monthly basis.

A training and procedures committee exists in the Premium Accounting Service Center to review the effectiveness of all workflows/procedures.

Recommendations: None

Procedure 28 – Insured or Member Requested Claim History

Observations: The Company does not have a written procedure for Insured or Member Requested Claim History, although it does have a process in place. No conflicts with Delaware’s statutes or regulations are noted.

The Company stated that when the producer of record makes a request for loss information it is typically received by the fax administrator and then routed to the appropriate employee’s fax log. The employee will review the loss information accessible through the electronic customer file and issue one of two letters available in the template manager. If there are no known losses, the corresponding letter is sent to the producer. If there are losses, the employee will generate the loss runs based upon the available policy history with the Company and send the information to the producer along with the appropriate letter. This process has been included in the Company’s training since 1997. The majority of the Company’s correspondence with the insured is through the producer.

Recommendations: None

Procedure 30 – Premium Determination and Quotation

Observations: The Company has a written Premium Determination and Quotation procedure that is clear and readable. Several workflows, procedure documents, and guidelines are combined to create this procedure. No conflicts with Delaware’s statutes or regulations are noted.

Each policy and associated filing is supported by a separate rating and policy issuance system. After the Underwriter/Underwriting Associate (UA/UW) gathers and analyzes all of the information, it is given to the Customer Service Representative (CSR). The CSR utilizes the application, rating instructions and other supportive documents to enter data into the rating system. If information required to rate and quote the policy is missing, the UA/UW is to be notified. All risks are evaluated by the underwriter for appropriate company placement and premium modification.

For professional liability policies (Directors and Officers, Fiduciary, etc.) the quote letter is created utilizing the templates that reside in the rating system. Issued quote letters are transferred from the rating system to the electronic customer file. In May 2005, the package quote letter process was automated. Information is also obtained from the rating system and then included in the quote letter, which is maintained in the electronic customer file.

Adherence to this procedure is evaluated and measured by the internal audits addressed in Procedure 01 (Internal and External Audit), and results are conveyed to branch and Home Office management. The field staff has been educated on the value of utilizing the automated package quote letter.

The workflows were introduced in 1997 in conjunction with the introduction of the Commercial Underwriting Workstation (CUW) and have remained relatively consistent. Changes have been made over the past two years to incorporate the role of an Underwriting Associate (UA) and Specialty Underwriting Associate (SUA). The most recent version date is October 12, 2005. The CSI Express system and procedure, used to rate and quote professional liability policies, was introduced in 2001. The automated quote letter process used to quote package policies was introduced in May 2005.

Recommendations: None

Procedure 31 – Policyholder Disclosures

Observations: The Company has a written Policyholder Disclosure procedure that is clear and readable. The most current version is dated October 15, 2005. The procedure is available on the Company's intranet web site. No conflicts with Delaware statutes or regulations are noted.
When disclosure is required, the Underwriting Associate/Underwriter (UA/UW) reviews and mails the notice based upon the state requirements as outlined in the General Counsel Cancellation System (GCCANCL). The procedure addresses both conditional renewal and non-renewal processes. The UA/UW initiates the renewal process approximately ninety (90) to one hundred twenty (120) days in advance, reviewing GCCANCL to determine the state specific requirements, and processing the notice utilizing the link available in GCCANCL or the appropriate template. The notice is automatically filed in the electronic customer file and then printed and mailed based upon state requirements.

When a change impacts a group of policyholders, for example a filing change, the requirements and process for creating and issuing procedures is determined in the Home Office. The Home Office and the General Counsel draft a notice and a corresponding procedure is communicated to the branch offices via Talking Points Central or e-mail. Talking Points Central provides a centralized, searchable, accessible archive of communications regarding products, systems and workflows that support branch processes. For some lines of business the process has been automated. The examiners observed printouts of the system used by the Company.

Rejection and signature forms are handled via the policy issuance system or as a template in the CUW. Forms are mailed to the insured and then suspended either using the automated feature available in the electronic customer file or some other tool (paper, e-mail etc.).

For those lines of business where the process is automated, the Company conducts tests in the coding unit during test and user acceptance development phases prior to application.

Adherence to the Company's standard workflow is addressed during an Operational Effective Review conducted by the Operations Services Division, Audit and Quality Services unit and addressed further during the audits conducted by the Internal Audit and Quality Assurance departments, as outlined above in Procedure 01 - Internal and External Audit Procedure.

Recommendations: None

Procedure 32 – Underwriting and Selection

Observations: The Company has a written procedure for Underwriting and Selection that is clear and readable. No conflicts with Delaware's statutes or regulations are noted.

The Company states that its underwriters utilize the skills they have gained from the various training programs, as well as on-the-job training and guidance from managers to assist them in the underwriting and selection process. The criteria for evaluating a risk is dependant upon the line of business. Consideration is given to financial condition, loss history, catastrophe exposures, spread of risk, and other supplementary supportive underwriting information. All evaluations are documented and maintained in the electronic customer file utilizing the appropriate risk analysis report. Underwriters are subject to the limitations set forth in their authority statement. Any violation is subject to the Code of Conduct and can result in disciplinary action, up to and including termination.

The Company's specialty line maintains a manual that serves as a guide to underwriting and selection for its different business units. The manual contains risk selection matrices, memorandums and other information to assist underwriters in the risk selection process. The Company also maintains various underwriting manuals for the line of business, which help the underwriter in the risk selection process including a risk classification and retention manual.

Additionally, each business unit issues underwriting memorandums that provide important underwriting information. These memorandums are maintained on the appropriate business unit's intranet web site. Guidelines have also been incorporated into the workflows and business rules that are mandated by the Home Office business unit.

Risk selection and adherence to underwriting guidelines are evaluated and measured during the audits conducted by the individual Quality Assurance department as outlined above in Procedure 01, Internal and External Audit.

Underwriting manuals and guidelines have been in existence in paper form, but were transitioned to web based versions with the introduction of the Internet. They are updated to reflect the Company's results in specific business segments and as the industry collects revised exposure/peril information. The business rules were originally adopted in 1997 with the introduction of the CUW and are updated to reflect changes in underwriting guidelines. The most recent updates took place in August and December of 2004 and again in 2005.

Recommendations: None

Procedure 33 – Rate and Form Filing

Observations: The Company has a written procedure for Rate and Form Filing that is clear and readable. The procedure has been used for approximately five (5) years and another portion of the written procedure has been in place since 1997. The Company does not maintain records of revisions to the written filing procedure since only the current written procedures are relevant to any filings made. No conflicts with Delaware's statutes or regulations are noted.

The Company utilizes an outside service organization to prepare the filing instructions based on the requirements established by the DDOI and the insurance laws of the state of Delaware. The Company employs another procedure for its specialty lines when making a rule, rate and form filing. Before making a filing the Company reviews these instructions for recent changes prior to preparing each filing to ensure that it complies with DDOI standards. The instructions include information regarding what must be filed, what is not required to be filed, required filing timeframes, filing fees (if any), special filing requirements, transmittal forms, interrogatories, etc.

After each filing is completed it is reviewed prior to mailing by one of the Company's filing analysts. When the Company receives the DDOI's response to a filing it is reviewed to determine if the DDOI has objected to any portions of the filing. If there have been no objections from the DDOI, the Company considers the filing properly completed in accordance with the written instructions. If there are objections to any of the procedures, it is then reviewed and discussed with the DDOI, if necessary. Also, the services used by the Company are notified of the discrepancy between the DDOI's requirements and their written instructions. If this discrepancy results in a change to the Company's written instructions the changes are circulated to all State Filings staff and implemented immediately.

The Company reviews the procedures provided to them by the utilized services before each filing and will re-review them after the filing has been completed, and before it is mailed to ensure compliance with the procedures.

The effectiveness of the written procedures is measured with every filing. Inadequate or incorrect procedures result in disapproved filings. Therefore, required changes to the written filing procedures are made continuously and corrections are made immediately upon recognition of the problem. Every member of the State Filings Department is responsible for recognizing problems with the written procedures and bringing them to the attention of the rest of the staff, and to the vendor, as necessary.

Recommendations: None

Procedure 34 – Termination

Observations: The Company has a written procedure for Termination that is clear and readable. The procedure is available to the appropriate individuals on the Company's intranet system. The standardized customer group workflows were originally adopted in 1997 with the introduction of the Commercial Underwriting Workstation. They have been updated to include changes in roles and responsibilities. The General Counsel Cancellation (GCCANCL) system was implemented in 1986. The workflow was originally adopted in 2001 and updated in 2004. The Company's two premium accounting manuals were originally adopted in 1996 and later transitioned to on-line documents. The "Understanding the Premium Accounting Service Center" manual was updated in 2001 and each subsequent year thereafter. No conflicts with Delaware's statutes or regulations are noted.

The Company noted that although the mechanism used to communicate a rejection, declination, cancellation, conditional renewal or non-renewal is different, the workflow is essentially the same.

The rejection and declination procedures are covered in the customer group workflows. Upon receipt of the submission the Underwriting Associate or Underwriter (UA/UW) contacts the producer, gathers necessary information and conducts an initial evaluation. If the submission is declined, the UA/UW will communicate with the producer and take the appropriate steps, documenting the reason for declination and sending a request to the Customer Service Representative to have a declination letter processed and the submission closed out in the system with the appropriate code and reason.

If a quote is offered and subsequently rejected, the UA/UW documents the reason and sends a request to the CSR to have the submission closed out in the Company's system with the appropriate code and reason, as well as identifying it as a prospect for the following year.

The cancellation, non-renewal and conditional renewal procedures are covered in the renewal section of the workflows. The UA/UW initiates the renewal process approximately ninety (90) to one hundred twenty (120) days out and reviews the GCCANCL to determine state specific requirements regarding cancellation, non-renewal and conditional renewal. After reviewing GCCANCL, the UA/CSR processes the notice utilizing the link available in GCCANCL or the appropriate template. The notice is automatically filed in the electronic customer file and then printed and mailed based upon state requirements. If the policy is being cancelled the appropriate transaction is processed in rating and policy issuance.

The Company's Premium Accounting Service Center (PASC) handles cancellation for non-payment of premium. The Company has two billing options: agency bill or direct bill.

Premiums for direct bill policies are billed and collected by the Company directly from the insured. If payment is not received the direct bill system automatically generates a notice of cancellation and is placed on the pending cancellation report.

The GCCANCL system is utilized in conjunction with the procedures outlined above and contains each states' requirements for declination, cancellation, non-renewal, and conditional renewal as well as a link to CCH/Uniform Information Services forms and automatically files the notice in the electronic customer file.

Adherence to Company standard workflows is addressed during an Operational Effective Review conducted by the OSD Audit and Quality Services unit and addressed further during the audits conducted by the Internal Audit and Quality Assurance departments as outlined above in Procedure 01, Internal and External Audit Procedure.

Recommendations: None

Procedure 35 – Underwriting File Documentation

Observations: The Company has a written procedure for Underwriting File Documentation that is clear and readable. No conflicts with Delaware's statutes or regulations are noted.

The Company uses a system called the Commercial Underwriting Workstation (CUW) to store all electronic customer files (ECF) used by its two commercial strategic business units. Most customer information is stored in the individual's ECF. In those instances when a document must be maintained in a paper file the branches maintain those files locally.

The procedures were developed in conjunction with the General Counsel, Records Management, Internal Audit, and the individual underwriting departments of the Company. The Company also has a document that is used while reviewing the legal, audit, security and compliance considerations surrounding the use of electronic underwriting files. The procedure lists the types of documents needed in a file universally, and specifically. The legal necessity is also made clear in the procedure.

Both the underwriting and operation audits validate the use of the CUW to electronically store customer information. Areas of focus include usage, correct naming conventions, correct filing locations, timeliness of filing and overall file organization. Accountability for adherence is incorporated into the annual goal setting and performance review process for both the underwriting and operations staff. Management receives written audit reports which include issues related to the use of the CUW's ECF. Branch offices are then responsible for providing their action plan for addressing issues identified during the audit. A review of file documentation is a component of all underwriting and operations audits and the audit team members are responsible for evaluating a branch office's adherence to the procedures.

The electronic file documentation procedures were developed in 1997 in conjunction with the national roll-out of the CUW. Minor revisions have been made to reflect new documents that are material to the integrity of the underwriting file. One piece of the procedure is labeled with a date of March 26, 1998.

Recommendations: None

Procedure 36 – Underwriting Training

Observations: The Company has a written procedure for Underwriting Training that is clear and readable. The procedure's most recent version date is February 24, 2005. No conflicts with Delaware's statutes or regulations are noted.

While on-site the examiners observed portions of the Company's training documents via the Company's intranet system.

Underwriters receive on-the-job training from their supervisors and branch managers on an ongoing basis. Training programs for this area include, the Specialty School for new hire trainees, intermediate and advanced levels offer a number of classes including underwriting analysis, case studies, and financial analysis; Product Training, classes relating to specific insurance products that are offered; and Ad Hoc Training is offered to meet specific needs.

Written feedback is solicited from the participants after each training session. That feedback is shared with the instructor and management. When appropriate this feedback is used to implement process improvements in the next training session. Training courses and schedules are reviewed as needed to reflect current products, exposure issues and supportive tools.

Underwriting audits of branch offices that are conducted by the Home Office determine if underwriters are following the concepts and processes taught in the various training sessions and classes. The results of these audits are shared with the product managers, who are the instructors in the schools, and senior management along with branch underwriters. The product managers will then incorporate a particular issue in their training that may have been highlighted during the audit as an area needing improvement.

Recommendations: None

Procedure 40 – Staff Training

Observations: The Company has a written Staff Training procedure that is clear and readable. No conflicts with Delaware's statutes or regulations are noted.

While on-site the examiners observed portions of the Company's training documents via the Company's intranet system.

The Company offers various programs for employees at all levels to enhance leadership and general business skills. Each strategic business unit has its own training department with a staff dedicated to learning and development.

The Company's programs include training to establish a level of management, technical and sales competence in not only commercial underwriting, but also loss control, operations services and information technology, through ongoing partnership with business clients around the world. The Underwriter Associate (UA) training program consists of five phases: orientation, commercial insurance fundamentals, UA Business School, targeted development, and continuing development.

The Company is implementing a new program for its CSI Customer Service Representatives (CSR) designed to provide a set of skills that will enable them to accept more of the transactional activities previously performed by the Underwriter. Upon completion, the CSR will advance into a Specialty Underwriting Associate (SUA) role. This training is comprised of three phases: pre-work (reading materials, webcasts, and review sessions with coaches), SUA Specialty School (class), and targeted development (on-the-job training). Training materials were created this year and will be reviewed upon completion of the upcoming classes.

The mission of the Company's Learning & Development division is to partner with Operations Services Department (OSD) managers and supervisors to develop learning situations for OSD's employees. This is a blended learning environment, mixing instructor-led schools and other traditional methodologies with interactive online materials. The CSR training consists of five (5) components: new hire orientation, line of business training, facilitated classroom training, practicum (complete live work in a controlled, monitored setting), and intermediate topics (links, job aids, and instructional material to help the CSR as they process work).

More experienced staff may also participate in their own training sessions, directed towards areas such as leadership, expectations, workflow within the Company and management skills.

Written feedback is solicited from the participants after each training session. That feedback is then shared with the instructor and management. When appropriate this feedback is used to implement process improvements in the next training session.

The Underwriting and OSD audits mentioned above in Procedure 01, Internal and External Audit, will determine whether individuals are adhering to the concepts and processes taught in the various training sessions and classes. The results of these audits are shared with the branch office and Home Office senior management.

Recommendations: None

Procedure 42 – Adjuster Training

Observations: The Company has a written Adjuster Training procedure that is clear and readable. No conflicts with Delaware's statutes or regulations are noted.

While on site the examiners observed portions of the Company's training materials via the Company's intranet system.

The training of adjusters at the Company occurs in various situations and methods. The format may be informal and take place between and adjuster and his or her supervisor when the need arises, or the format may be formal training, offered on certain topics via classroom delivery or via E-learning. Approximately eight (8) to ten (10) seminars are offered on an annual basis in the Company's Home Office by the senior claim technicians in the follow lines of business within Claims: Casualty, Property, and Specialty (all other liability). Content for these seminars is determined by the Home Office senior technicians and generally focuses on recent trends for a line of business and/or utilizes actual case studies during presentations of topical issues. Attendance at these seminars is by invitation only, managed by senior management, for the line of business in the field as well as in the Home Office.

Materials for most topics covered in formal classroom training were designed and developed by the Claim Learning & Development (CL&D) department beginning in 1996. Since January 2004, e-learning resources have been designed and developed by CL&D in conjunction with the appropriate subject matter experts within the claim line of business department (D&O, EPL and Property, as examples).

The Home Office audit and training manager compiles a report of training activities mid-year and year end, and presents this information to Home Office claim senior management. The report includes the number of attendees at seminars, the number of claim e-learning resources created and the number of individuals that accessed e-learning.

Recommendations: None

Procedure 43 – Claim Handling

Observations: The Company does not have a formal written procedure for Claim Handling; however, a process does exist and the Company's expectations for this process are included in the audit forms and narratives that are used to oversee and control the process. These expectations are provided to staff by a variety of means including one-on-one training provided by the supervisors and are supported by classroom training, e-learning, or both. The handling of claims is subject to audit by the Home Office Claims audit manager. Audit results are compiled at mid-year and year-end, and presented to the Home Office Claims senior management. The results are broken down by service and technical grades. The forms the Company uses were last amended for use in 2005 (specialty and fidelity) and in 2003 (property). Interviews were conducted on site by the examiners to confirm that the Company's written process is in place. No conflicts with Delaware's statutes or regulations are noted.

The Company uses two claims service centers to handle approximately eighty percent (80%) of the claims it receives. Routing rules are in place for the centers. For example, automobile claims are handled geographically, but if there is a bodily injury claim, the claim will be rerouted to an office that handles those types of claims. For claims of low severity, the Company works on sending the claim out the same day it is received. Diaries are kept for each claim. Depending on the severity of the claim it can possibly have a double diary. The service centers have a full-time Claims Audit employee on site.

Recommendations: None

Procedure 44 – Internal Claim Audit

Observations: The Company has a written Internal Claim Audit procedure that is clear and readable. The Company utilizes audit forms with accompanying narratives for each of the forms. The property audit forms were last amended for use in 2003, and the other liability and audit documents were last amended for use in 2005. The format has been in existence since 1998. Interviews were conducted on site by the examiners to confirm the Company's written procedure. No conflicts with Delaware's statutes or regulations are noted.

The Company has two claims service centers with a full-time Claims Audit individual on site. Targeted reviews are conducted to ensure adherence to specific state insurance statutes and regulations. A targeted "mini-audit" may consist of approximately fifty (50) or one hundred (100) files to ensure one aspect within the claims is executed correctly, for example whether the 30-45 day letters are sent out on time.

From 2003 through 2005, U.S. specialty claims offices (which handle other liability and fidelity claims) were audited every two years by the Home Office claim audit manager and selected specialty claims personnel from other specialty offices (those not being audited). These audits include a remote review of closed files (both hard copy and electronic) as well as an on site review in the branch of open files (both hard copy and electronic). The results were tabulated and a report submitted for each line of business audited. Specialty and fidelity audit forms were used during these audits.

From 2003 through 2005, U.S. property offices were also audited every two years by selected senior property staff in the field. The Home Office claim audit manager manages this process.

The audit forms each include categories for claim service, loss assessment, supervision, and case management. Investigation and coverage categories also are included. Audit results are compiled at mid-year and year-end, and presented to the Home Office claim senior management.

Recommendations: None

Procedure 45 – Claim File Documentation

Observations: The Company does not have a formal written procedure for Claim File Documentation; however, it does have a written set of guidelines in the form of its audit documents for Specialty, Fidelity and Property lines that serve as the basis for the Company's documentation expectations. The Company audits review Service, Investigation, Coverage, Loss Assessment, Supervision, and Case Management. These functions are all required to be documented in the electronic claim file. The claim file documentation is subject to audit by the Home Office claims audit manager. Audit results are compiled at mid-year and year-end, and presented to the Home Office claim senior management. The results are reported by service and technical grades. The Specialty and Fidelity audit documents were last amended for use in 2005, and the Property audit documents were last amended for use in 2003. The format for each of these has been in existence since 1998. No conflicts with Delaware's statutes or regulations are noted.

Recommendations: None

Procedure 46 – Subrogation and Deductible Reimbursement

Observations: The Company has a partly written formal procedure for Subrogation and a formal written procedure for Deductible Reimbursement. Both written procedures are clear and readable. No conflicts with Delaware's statutes or regulations are noted.

The subrogation process is first handled by the claim department and then the operations services department. The claim department determines if there is recovery potential. A separate claim recovery unit exists within the claims department consisting of personnel who specialize in the handling of subrogation claims. The adjuster that handles the claim is responsible for the initial identification of subrogation potential. Claims identified as having subrogation potential are handled in one of three ways:

1) *Workers' Compensation claims* - the recovery examiner conducts the initial subrogation investigation as well as the pursuit of recovery.

2) *Non-Workers' Compensation claims valued over $25,000* - these claims are immediately reported to the Recovery Department through the Company's Early Intervention Program (EIP). The recovery examiner coordinates the subrogation investigation with the handling adjuster and then ultimately directs the pursuit of recovery.

3) *Non-Workers' Compensation claims valued under $25,000* - these claims are sent to the Recovery Department when the final adjustment is complete at which time subrogation is pursued.

If the pursuit of the recovery is successful the Operations Services Department (OSD) then handles the loss receipt (incoming funds).

The internal claim audit procedures include a review of the recognition of recovery potential. Procedure 44, Internal Claim Audit, contains additional detail on this issue. During internal audits a review of the recovery unit is included. In the course of the audit the recovery unit manager and the recovery adjusters are interviewed, and workflows and procedures are reviewed against audit procedures.

The claim department's procedure for the handling of subrogation was created in 1997. There have been no changes to the procedure in the last three (3) years. The OSD loss receipts workflow was adopted prior to 1997 and revised in 2000 and 2004.

The Deductible Billing Unit (DBU) within the Company is responsible for billing insureds for amounts paid within the deductible on policies and the oversight of working funds associated with the deductible programs.

Recommendations: None

SUMMARY

The examination was a limited scope market conduct examination of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

LIST OF RECOMMENDATIONS

No Recommendations have been given.

CONCLUSION

The examination was conducted by Donald P. Koch, Brian T. Tinsley, Sean Connolly, Cindy Amann and Nobu Koch and is respectfully submitted.

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