

**MARKET CONDUCT EXAMINATION REPORT**

**ON**

**STARNET INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2005**

I, Karen Weldin Stewart, CIR-ML, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of December 31, 2005 of the

**STARNET INSURANCE COMPANY**

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

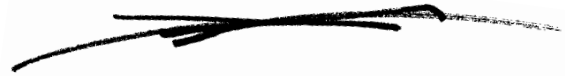


ATTEST BY: \_\_\_\_\_

DATE: May 18, 2010



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 18TH DAY OF MAY 2010.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

**REPORT ON MARKET CONDUCT EXAMINATION**  
OF THE  
**STARNET INSURANCE COMPANY**  
AS OF  
**DECEMBER 31, 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.



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS 18TH  
DAY OF MAY 2010.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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## **SALUTATION**

December 20, 2009

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

Dear Commissioner Stewart;

In compliance with the instructions contained in Certificate of Examination Authority Number 05.739, and pursuant to statutory provisions including 18 Del. C. §318-322, a Market Conduct Examination has been conducted of the affairs and practices of:

### **StarNet Insurance Company**

The examination was performed as of December 31, 2005. StarNet Insurance Company, hereinafter referred to as the "Company" or as "StarNet," is incorporated under the laws of the State of Delaware. This examination consisted of two phases, an onsite phase and an offsite phase. The on-site phase of the examination was conducted at the following Company location:

- 475 Steamboat Road, Greenwich, CT 06839

The offsite examination phase was completed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI," and other suitable locations.

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 of insurer. For all insurers these areas include:

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

Additional areas may be included for an insurer writing Health coverage. 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 has received 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 its 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 exception rather than a report by test. This means that only those areas that resulted in exceptions or recommendations are detailed here. Substantial departure from the norm may result in a supplemental review focused on the area so noted.

## **HISTORY AND PROFILE**

On June 11, 1998, StarNet Casualty Company, a wholly-owned subsidiary of Signet Star Reinsurance Company ("Signet Star"), was incorporated in the State of Delaware. The purpose of the Delaware incorporation was to merge StarNet Casualty Company with StarNet Insurance Company, a New York domiciled company and a wholly-owned subsidiary of Signet Star, allowing the surviving company to be a Delaware Corporation.

On June 30, 1998, Signet Star acquired one-hundred percent (100%) of the outstanding common stock of Resolute Reinsurance Company ("Resolute Re"), a New York corporation, from National Indemnity Insurance Company, through a Stock Purchase Agreement. Contemporaneous with the sale of the Resolute Re to Signet Star, National Indemnity assumed one-hundred percent (100%) of Resolute Re's gross liabilities and obligations under all policies of insurance and contracts of reinsurance written or reinsured by Resolute Re on or prior to the date of Resolute Re's sale. On July 6, 1998, the name was changed from Resolute Reinsurance Company to StarNet Insurance Company.

On February 28, 1999, StarNet Casualty Company merged with StarNet Insurance Company. The surviving company's name was changed to StarNet Insurance Company ("StarNet"), now a Delaware domiciled company.

As of December 31, 2003, the Company is a wholly owned subsidiary of Berkley Insurance Company ("Berkley"), a Delaware domiciled insurance company. Berkley is a wholly-owned subsidiary of Signet Star Holdings, Inc. ("Holdings"), a Delaware holding company. Holdings is a wholly-owned subsidiary of W.R. Berkley Corporation (WRBC), a Delaware insurance holding company.

## **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's Market Conduct Examiners' Handbook*. The primary methodology utilized in this examination is a review and analysis of the procedures used by the Company to manage its operations.

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 a sampling methodology described in the Delaware Market Conduct Examiners'

Handbook and the *NAIC's 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 all other types of review. The sampling techniques used are based on a ninety-five percent (95%) confidence level. This means that there is a ninety-five percent (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 use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically evaluates one hundred percent (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. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the *NAIC's 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 the examiners' "Observations" are noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported within the appropriate Standard.

## **A. COMPANY OPERATIONS/MANAGEMENT**

This examination report is not designed to be a pass/fail report with one exception. That exception regards the Standards that state:

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

### **Standard A 07**

*NAIC's 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)

*Comments:* 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**



Starnet Insurance Company

*Observations:* The Company is licensed for the lines of business being written based upon a review of premium schedules. The Company did not provide a copy of its Delaware Certificate of Authority.

*Recommendations:* None

**Standard A 09**

<i>NAIC's Market Conduct Examiners' Handbook - Chapter VIII §A, Standard 9</i>
<b>The Company cooperates on a timely basis with the examiners performing the examinations.</b>
18 Del. C. §318(a), §320(c), §520(b)3

*Comment:* The review for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute it is conducive to completing the examination in a timely fashion and thereby minimizing costs.

*Results:* **Pass with comment**

*Observations:* StarNet relies upon its affiliate, Berkley Underwriting Partners, LLC (“BUP”), as its Managing General Agent (MGA). BUP in turn delegates business to third-party, unaffiliated MGAs, which in turn delegates business to third-party, unaffiliated Program Administrators. As a result of this management structure, responses to many interrogatories were delayed or incomplete.

*Recommendations:* It is recommended that StarNet respond to all requests made by future examinations in a timely and complete manner.

**B. COMPLAINTS/GRIEVANCES**

*Observations:* 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. 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."

In response to **Procedure 11 – Complaint Handling Procedure**, the Company provided information that indicated “[t]here is no indication of a single, central location of complaint files and their records. In this complaint procedure, there exists extensive risk of failure to quickly and completely resolve complaints.” The review of the complaint process is noted in Procedure 11.

It was also noted in Procedure 11 that only complaints involving a demanded response from a state insurance department are recorded and stored in accordance with 18 Del. C. §2304(17). A review of the complaint files provided by the Company supported this conclusion. All complaint files provided by the Company were generated in response to various insurance department demands. There were no complaints provided that were initiated and pursued by insureds who had not contacted an insurance department. This indicates that there is no recognition of complaints unless the complaint was generated by correspondence from a state insurance department.

A review of the state insurance department demands for Company explanations regarding claim denials, claim reductions, cancellations, premium increases, etc., indicate in some instances discrepancy between the issuing agents/brokers representations and actual actions by StarNet. A review of the recommendations provided in subsequent sections of the report reinforce an impression of lack of management and control of delegation of insurance operations to an MGA, subsequent delegation to other MGAs, and subsequent delegation to brokers/producers. In this management structure of layered delegation, the reminder that StarNet is ultimately responsible for MGA oversight is made more imperative.

*Recommendations:* It is recommended that the Company comply with 18 Del. C. §2304(17), and maintain a complete record of all complaints received.

## **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 review. The processes usually include:

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

The absence of written procedures that provide direction for the Company's 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 a means to determine that the process is performing as intended.

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

## Management Structure

Specific to this examination and subsequent findings and recommendations in the Procedures below is the management operating profile of StarNet. StarNet has granted its affiliate Berkley Underwriting Partners, Inc. (“BUP”) rights as its Managing General Agent (MGA). BUP has contracted with third-party Program Administrators (“PA”s) to perform all sales, marketing, reserving and claims processes on behalf of StarNet. The PAs are both retailers and wholesalers to brokers of their assigned insurance lines. StarNet appoints PAs (through BUP) as its authorized producers in each state where StarNet underwritten insurance is sold. All states require due diligence by the appointing insurer regarding the character and integrity of its producers. BUP handles this entire process. These PAs/Producers are carefully designated agents of BUP, rather than StarNet, despite the fact that the producers deal directly with StarNet insurance products.

StarNet is an accounting entity managed by the affiliate BUP. All sales, claims, underwriting, reserving and complaints are handled by PAs solely managed by BUP through intermediary MGAs. The examination process experienced problems associated with Starnet’s total delegation of its responsibilities to BUP and the subsequent reliance upon the MGAs appointed by BUP, and the subsequent reliance on agents/brokers assigned by the MGAs. StarNet is reminded that effective July 1, 2006 as stipulated in 18 Del. Admin Code 1214 sections 6.4.2, the responsibility to monitor the third party representatives falls to the Company.

The Examination Coordinator is an employee of BUP representing StarNet. Any written procedure produced by either company, as long as it is apparently used for the benefit of StarNet, is considered sufficient. The effect of this ‘dual’ consideration is to give StarNet a favorable review where there existed written, auditable (and audited) procedures that exhibited knowledgeable management control.

*Recommendation:* It is recommended that the Company review 18 Del. Admin Code 1214 sections 6.4.2, and ensure compliance and proper oversight of all MGAs.

## SUMMARY

**Starnet Insurance Company (“Starnet”)** is a Delaware domiciled company. As of December 31, 2003, the Company is a wholly owned subsidiary of Berkley Insurance Company (“Berkley”), a Delaware domiciled insurance company. Berkley is a wholly-owned subsidiary of Signet Star Holdings, Inc. (“Holdings”), a Delaware holding company. Holdings is a wholly-owned subsidiary of WR. Berkley Corporation (“WRBC”), a Delaware insurance holding company.

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.

The following procedures were reviewed and no material exceptions noted or recommendations proposed:

- Procedure 01 – Audit Procedure (Internal and External)**
- Procedure 02 – Assertion of Privilege Procedure**
- Procedure 03 – Company Records, Central Recovery and Backup Procedure**
- Procedure 04 – Computer Security Procedure**
- Procedure 05 – Anti Fraud Procedure**
- Procedure 06 – Disaster Recovery Procedure**
- Procedure 07 – MGA Oversight and Control Procedure**
- Procedure 08 – Vendor Oversight and Control Procedure**
- Procedure 09 – Customer and Consumer Privacy Protection Procedure**
- Procedure 10 – Production of Business**
- Procedure 11 – Complaint Handling Procedure (see “Complaints/Grievances” section)**
- Procedure 13 – Advertising, Sales and Marketing Procedure**
- Procedure 14 – Agent Produced Advertising Procedure**
- Procedure 15 – Producer Training Procedure**
- Procedure 20 – Producer Selection, Appointment and Termination Procedure**
- Procedure 21 – Producer Defalcation Procedure**
- Procedure 22 – Prevention of Use of Persons with Felony Conviction Procedure**
- Procedure 24 – Premium Billing Procedure**
- Procedure 25 – Correspondence Routing Procedure**
- Procedure 26 – Policy Issuance Procedure**
- Procedure 27 – Reinstatement Procedure**
- Procedure 28 – Insured or Member Requested Claim History Procedure**
- Procedure 30 – Premium Determination and Quotation Procedure**
- Procedure 31 – Policyholder Disclosures Procedure**
- Procedure 32 – Underwriting and Selection Procedure**
- Procedure 33 – Rate and Form Filing Procedure**
- Procedure 34 – Termination Procedure**
- Procedure 35 – Underwriting File Documentation Procedure**
- Procedure 36 – Underwriting Training Procedure**
- Procedure 40 – Staff Training Procedure**
- Procedure 42 – Adjuster Training Procedure**
- Procedure 43 – Claim Handling Procedure**
- Procedure 44 – Internal Claim Audit Procedure**
- Procedure 45 – Claim File Documentation Procedure**
- Procedure 46 – Subrogation and Deductible Reimbursement Procedure**

**CONCLUSION**

The examination was conducted by Peter K. Schaeffer, Jr., Esq., CFE, and assisted by Keith Perry, AFE, AES, CIE, CISA and is respectfully submitted.

A handwritten signature in black ink, appearing to read 'Peter K. Schaeffer, Jr.', with a long, wavy horizontal line extending to the right.

Peter K. Schaeffer, Jr., Esq., CFE  
Supervisor  
Insurance Department  
State of Delaware