

**MARKET CONDUCT EXAMINATION  
OF  
ADMIRAL INSURANCE COMPANY  
AS OF  
SEPTEMBER 18, 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 SEPTEMBER 18, 2005 of the

**ADMIRAL INSURANCE COMPANY**

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

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

*Antoinette Handy*

DATE: 12 APRIL 2007

*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 12TH DAY OF APRIL 2007.



*Matthew Denn*

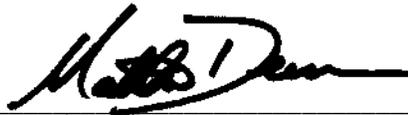
Insurance Commissioner

**REPORT ON MARKET CONDUCT EXAMINATION**  
OF THE  
**ADMIRAL INSURANCE COMPANY**  
AS OF  
**SEPTEMBER 18, 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.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 12TH day of APRIL, 2007.

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## **SALUTATION**

May 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 05.720, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

### **Admiral Insurance Company**

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

- 1255 Caldwell Rd. Cherry Hill, NJ 08034

The examination is as of September 18, 2005.

Examination work was also completed off premises 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

## **Admiral Insurance Company**

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 receives from all sources.

The second component is an analysis of the management of the various business areas subject to 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 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 Jersey/International Group (Group) was formed in 1973 for the purpose of managing specialty lines of business for Insurance Companies where a high degree of underwriting skill and experience is required. In 1974, a management agreement was signed with Admiral Insurance Company. In 1978, Admiral Insurance Company was purchased by the Group. In 1979, the W. R. Berkley Corporation purchased all of the entities of the Group.

Admiral has since grown into a countrywide, multi-cooperate organization with an annual premium in excess of \$150,000,000 making it into one of the ten (10) largest E&S companies in the United States.

The Company specializes in product liability, mainly miscellaneous types of Errors and Omissions; property lines available for capacity, distressed, first-loss and excess of loss risks.

## **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

## **Admiral Insurance Company**

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 were measured using a single type of review, while others used 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 claims reviews and a ten percent (10%) tolerance level is used for 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 the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 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 the 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 examination report is not designed to be a pass/fail report with the exception of the following two standards which read as follows:

- "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 by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company 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.

*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 by “generic” review. This standard has a direct insurance statutory requirement. This standard is aimed at ensuring 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 cost.

*Results: Pass*

*Observations:* During the course of the examination Admiral was provided with fifty-one (51) Information Requests (IRs) 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."

## **Admiral Insurance Company**

*Observations:* The Company provided a database with twenty-nine (29) 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.

### **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. 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 has a written audit procedure. This procedure was last updated on December 31, 2004. The cycle for the review of the audit process is unknown. No conflicts with Delaware's statutes or regulations are noted.

The Company uses an external auditing company to review its Sarbanes-Oxley procedural documentation. This external auditing company conducts a three quarter audit in the fourth quarter and audits the fourth quarter in the beginning of the new-year.

Internal Underwriting audits are performed annually on two (2) of the four (4) Company branches by the Vice President of Underwriting, which is a home office position reporting directly to the President. Each branch is audited once every two (2) years. The audit process reports on underwriting integrity, strengths, areas of improvement, and rate adequacy. Also considered are the underwriters' compliance with prior audit recommendations and compliance with underwriting directives regarding rate initiatives. The team assembled by the VP of Underwriting includes underwriters and senior line managers from branches other than the branch being reviewed. File selection includes approximately thirty (30) to fifty (50)

## **Admiral Insurance Company**

underwriting files per line of business, or approximately twelve (12) files per underwriter. All files are randomly selected for each category.

The results of the audit and the recommendations of the auditors are discussed with the underwriters responsible for each file, the underwriters' line managers, and the regional vice president at the audited branch upon completion. Additionally, a written report of the audit findings is prepared and distributed to each party noted above as well as the President and other members of the Leadership Team.

Home Office Underwriting Audits of policies are coordinated and scheduled by the Home Office Underwriting Department and are performed every year at two branches by underwriters from a separate branch office, but within the same line of business. Each branch is audited at least every other year. Adherence to posted company underwriting guidelines is verified as part of the audit process. Policies are also subject to informal review and audit by line managers on an as needed basis.

### ***Recommendations: None***

#### **Procedure 03 – Company Records, Central Recovery and Backup**

*Observations:* The Company has a process for Company Records, Central Recovery and Backup, but no formal written procedure. This process appears to be largely automated. No conflicts with Delaware's statutes or regulations are noted.

The Company undergoes a full back up of its GENIUS system on a weekly basis. GENIUS backups are recorded into the "SOX" backup manual.

The PC equipment is backed-up one time per week and is rotated through a two-month cycle at the off-site archive location. The PC backup logs are stored in the Backup Executive software application.

All jobs generate a message on successful completion or failure. Backups are monitored for completion. Messages are printed and logged every morning by the operations staff. Any errors or jobs that did not run will generate an alert to the system operator's message queue. This queue is reviewed every morning and the messages related to the scheduled jobs are printed and logged by the operations staff.

See also Disaster Recovery Procedure (P-06).

### ***Recommendations: None***

#### **Procedure 04 – Computer Security**

*Observations:* The Company has written procedures via its external auditor for Computer Security. The procedure was dated December 31, 2004. No conflicts with Delaware's statutes or regulations are noted.

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

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examination workpapers, and as such are considered confidential and not subject to public disclosure. A copy of these procedures was provided to the DOI for their review.

### ***Recommendations: None***

#### **Procedure 05 – Anti-fraud**

*Observations:* The Company has a formally written procedure for Anti-fraud. The procedure is reviewed and updated annually. The procedure is clear and readable. No conflicts with Delaware's statutes or regulations are noted.

The Company has a number of Anti-fraud procedures in place for both its underwriting and claims business. The procedure includes the prevention and detection of fraudulent errors both externally as well as internally throughout the Company.

### ***Recommendations: None***

#### **Procedure 06 – Disaster Recovery**

*Observations:* The Company has a formally written procedure for disaster recovery. The procedure is updated quarterly if significant changes have occurred; otherwise the plan is reviewed and updated annually. It was last updated in April of 2005. The procedure is clear and readable. No conflicts with Delaware's statutes or regulations are noted.

The disaster recovery plan encompasses all critical business functions of the Company. The plan consists of a corporate wide recovery plan and two area recovery plans. These are labeled as plans A, B, and C. Plan A assumes a disaster localized to the Company's main offices, Plan B assumes a loss of functionality at one of the branch locations, and Plan C address a specific response to a disaster affecting a major portion of the local area such as a bio-terrorism attack. The Company maintains Business Continuation Insurance for the expenses necessary to execute the recovery plan.

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 workpapers, and as such are considered confidential and not subject to public disclosure. A copy of these procedures was provided to the DOI for their review.

The Company has tested these three (3) plans. In this test the telephone systems were transferred to another Company branch office and the computer systems were replicated. All tests passed the Company's performance evaluations.

### ***Recommendations: None***

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

*Observations:* The Company does not have a formal written Managing General Agent (MGA) oversight and control procedure. The Company deals solely with wholesale brokerages. In the contract used with its brokers the Company makes clear its expectations for the relationship between the two (2) parties. The Company uses reports that are created at least monthly to monitor accounts. Brokers are granted access to certain parts of the Company's website, which does not connect directly with the Company's databases. The Brokers connect through a secured

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username and password and can only view data for which they are the producer of record. When a Broker's contract has been terminated their ability to access the Company's web page is eliminated.

No conflicts with Delaware's statutes or regulations are noted.

***Recommendations:* It is recommended that the Company formalize in writing its procedure for MGA oversight and control.**

### **Procedure 08 – Vendor Oversight and Control**

*Observations:* Since the Company does not utilize any external vendors to perform significant operations there is no need for a written vendor oversight and control procedure. No conflicts with Delaware's statutes or regulations are noted.

***Recommendations:* None**

### **Procedure 09 – Customer and Consumer Privacy Protection**

*Observations:* The Company does have a formal process for Customer and Consumer Privacy Protection located throughout its various procedures. The Company does not, however, have a formal written procedure in place for Customer and Consumer Privacy Protection.

***Recommendations:* It is recommended that the Company produce a formal written procedure for Customer and Consumer Privacy Protection that includes management controls and review cycles.**

### **Procedure 10 – Insurance Information Management**

*Observations:* Please refer to Procedure 09, Customer and Consumer Privacy Protection.

***Recommendations:* None**

### **Procedure 11 – Complaint Handling**

*Observations:* The Company has a written procedure for complaint handling that is partially automated. The version date of the procedure is unknown. No conflicts with Delaware statutes or regulations are noted.

The Company uses a Complaint Log that is a collection of all Company Complaints received from individual State's Insurance Departments. The log is an internal tracking system for all Company Complaints.

Complaints received by the Company are given to Administration, copied, and then sent to the appropriate person for a response. The complaint is logged into the Complaint Database after it is thoroughly reviewed. The complaint is then entered into a diary system so a follow up can be made with the person handling the complaint prior to the date the response is due. The time period to handle complaints varies but responses are typically provided within ten (10) days but not more than twenty (20) days from the date of receipt. When the Company person handling the complaint sends the response to the State's Insurance Department, a copy of the response is provided to Administration and logged into the database. Once logged, it is filed in the

## **Admiral Insurance Company**

complaint subject file, with the most recent document on top. The logbook is kept updated with the newest version of the report.

The Complaint Log itself tracks the Insurance Department the complaint originated from, the dates received and closed, an Insurance Department ID, the function code (e.g. Claims), the reason code (e.g. Company Underwriting), the line type, the policy number or claim, the Insured or Complainant, the contact person, and the state of origin.

A cycle for review of the procedure was not noted or observed.

***Recommendations:* It is recommended that the Company review its procedure for Complaint Handling on a regular cycle (e.g. annually) to ensure that it continues to work effectively.**

### **Procedure 13 – Advertising, Sales and Marketing**

*Observations:* The Company does not have a formal written procedure for Advertising, Sales and Marketing. The Company does advertise in trade magazines, but is not permitted to advertise to the public. No conflicts with Delaware’s statutes or regulations are noted.

***Recommendations:* It is recommended that the Company formalize a procedure for Advertising, Sales and Marketing that includes measurement structures and cycles for review.**

### **Procedure 14 – Agent Produced Advertising**

*Observations:* The Company does not allow its brokers to advertise on its behalf as stated in its broker contracts.

***Recommendations:* None**

### **Procedure 15 – Producer Training**

*Observations:* The Company does not train its producers. The Company accepts submissions only from wholesale brokerages with brokers that have extensive surplus lines experience. Training is not undertaken as the brokerages are considered to be as specialized as the Company. No conflicts with Delaware’s statutes or regulations are noted.

***Recommendations:* None**

### **Procedure 20 – Producer Selection, Appointment and Termination**

*Observations:* The Company’s procedure for the Selection, Appointment and Termination of its producers/brokers is contained in a section of one of the Company’s underwriting controls document. This procedure is in writing, clear and readable. The document is dated December 31, 2004. No conflicts with Delaware’s statutes or regulations are noted.

The Company retains complete control over the appointment and termination of its brokers. Producers/brokers are appointed only after the approval of the Regional Vice President. At the time of contracting a broker, a questionnaire is completed and it is verified that the broker is fully licensed, insured, and exhibits the proper reputation and standing in the excess and surplus lines community. Broker contracts are open-ended, and can be cancelled by the Company at any time.

## **Admiral Insurance Company**

The Company's administrative department maintains all broker contracts. Broker Activity Reports are produced and reviewed by the Company on a weekly basis.

***Recommendations: None***

### **Procedure 21 – Producer Defalcation**

*Observations:* The Company does not have a full written procedure for Producer Defalcation, but it does have a written process. No conflicts with Delaware's statutes or regulations are noted.

The Company's management reviews a monthly overdue premium report, which ensures that brokers remit payments in a timely fashion. If brokers do not pay the Company premiums due on time, the Regional Vice President related to that specific broker will contact the broker directly for payment. The Company also reserves the right to terminate a broker's contract at any time. When the Company approves brokers, those brokers must provide the Company with proof of Errors and Omissions (E&O) coverage and bonding, both of which are required to be maintained throughout the relationship.

***Recommendations: It is recommended that the Company put in writing its procedure for Producer Defalcation.***

### **Procedure 22 – Prevention of Use of Persons with Felony Conviction**

*Observations:* The Company does not have a written procedure for the Prevention of the Use of Persons with a Felony Conviction. Currently, applications to the Company have a check box that must be checked stating that the applicant has not been convicted of a felony offense; the applicant signs the application. The Company performs no physical background checks.

***Recommendations: It is recommended that the Company develop and implement a written procedure for the Prevention of the Use of Persons with a Felony Conviction.***

### **Procedure 25 – Correspondence Routing**

*Observations:* The Company does not have a formal written procedure specifically for Correspondence Routing; however, the Company does have a process that is addressed peripherally in its other procedures.

All Company mail is received and opened in the Mailroom. Mailroom employees have documented "Mail Sorting Guidelines" which instruct them to route all new claims to one person, a Claims Assistant, who reports to the Administrative Manager.

For underwriting, all submissions for insurance are received via facsimile, e-mail, US mail, or overnight delivery from the Company's contracted wholesale brokers. All submissions other than e-mails are routed to the correct department by members of the office services team. E-mail submissions are received directly by the underwriter or underwriting assistant. Within each department, underwriters are assigned to specific brokers based on the broker's geographical location.

Each underwriting assistant is responsible for using the Genius system to ensure that the Company has not received a previous submission from the same prospective insured. If a

## **Admiral Insurance Company**

submission was previously received by any of the Company's branches, or another broker within the same branch, a notice declining the risk is immediately issued manually from the Genius system and sent to the appropriate broker.

All data entered into the Genius system is automatically assigned a unique identifying number. Once entered into the Genius system, all appropriate paperwork is forwarded to the underwriter for review of the risk. Submissions generally include an application, historical loss expense, prior carrier information and financial information. This information is matched with any prior submissions the Company may have received on the insured in previous years from prior submissions.

***Recommendations: None***

### **Procedure 27 – Reinstatement**

*Observations:* The Company has a written procedure for Reinstatement. The procedure is clear and readable and is reviewed on an as needed basis. No conflicts with Delaware's statutes or regulations are noted.

The Company's Reinstatement procedure is located on the Company's Central Knowledge Database. The procedure is complete and has been distributed to all persons affected by the procedure.

***Recommendations: None***

### **Procedure 28 – Insured or Member Requested Claim History**

*Observations:* The Company does not have a formal written procedure for Insured or Member Requested Claim History; however, the Company does rely upon and use a process.

The preferred method of obtaining loss runs is via the Admiral website. Only current brokers of record with valid user ID's and passwords may obtain an insured's loss history. Loss runs may be requested by brokers, agents or insureds. Each request is routed to a "point person" in the specific branch/department who supplies the information. Loss information may be supplied in electronic or hard copy format. Loss runs will only be supplied to insureds or current brokers of record. Agents or non-brokers of record can only obtain a specific insured's loss history if that request is made on the insured's letterhead.

***Recommendations:* It is recommended that the Company produce in writing its procedure for Insured or Member requested Claim History. The procedure should be clear and readable and be responsive in nature. The procedure should include but not limited to processes for expediting an insured or members request for their claim history.**

### **Procedure 30 – Premium Determination and Quotation**

*Observations:* Please refer to Procedure 32.

***Recommendations: None***

**Procedure 32 – Underwriting and Selection**

*Observations:* The Company has a formally written procedure for Policy Issuance. The procedure is reviewed and updated annually. The procedure is clear and readable. No conflicts with Delaware’s statutes or regulations are noted.

For all risks that a wholesale broker believes meet Admiral’s risk criteria, an application containing all information relevant to the risk is sent by the wholesale broker to Admiral. All applications for insurance are received via facsimile, e-mail, US mail, or overnight delivery from Admiral’s contracted wholesale brokers. All applications received, other than via e-mail, are routed to the correct department by members of the office services team. E-mail applications are received directly by the underwriter or underwriting assistant. Within each department, underwriters are assigned to specific brokers based on the broker’s geographical location.

Each underwriting assistant is responsible for clearing the risk through the Genius system which checks to ensure that Admiral has not received a previous submission from the same prospective insured. If an application was previously received by any of Admiral’s branches, or another broker within the same branch, a notice declining the risk is immediately issued manually from the Genius system and issued to the appropriate broker.

All data entered into the Genius system is automatically assigned a unique identifying number. Once entered into the Genius system, all appropriate paperwork is forwarded to the underwriter for review of the risk. Applications generally include an application, historical loss expense, prior carrier information, and financial information. This information is matched with any prior applications Admiral may have received on the insured in previous years from prior submissions.

A report detailing all policies coming due for renewal one hundred & twenty (120) days in the future is manually generated by an underwriting assistant from Oracle on a monthly basis. This report is forwarded to each underwriter, along with any associated loss runs, for review prior to offering renewal.

Once the required information is received from the broker for a prospective or existing insured, the process of quoting the risk begins. At this point, any additional information which is necessary to evaluate the risk is requested from the broker by the underwriter. Risks are quoted based on a number of factors, including prior loss experience of the insured, expected losses of the insured, operations and exposures presented by the risk. Since Admiral operates in the excess and surplus lines markets, underwriters are not bound by statutory rate structures or forms filing regulations governing standard insurance carriers. Admiral’s underwriters quote (or decline) requested coverage based on their experience, insurance industry guide rates and the information provided by the insured and received from the broker. The underwriter also determines the appropriate rate structure to apply to each individual risk, based upon a completed risk assessment form, or summary of the risk and its exposures, expiring premiums, and coverages.

Once the underwriter has all paperwork related to the prospective insured, they either decline the risk or quote the risk. If they choose to quote the risk, they do so in a specified format which details all insurance coverages, forms and premiums that are being offered by Admiral.

## **Admiral Insurance Company**

Management has documented authority levels related to premium, limits, retentions and extensions of coverage by branch and by underwriting department and individual underwriter. If a risk exceeds the assigned underwriter's premium authority, the department manager, Regional Vice President or Home Office Underwriting Vice President, must approve the quote (via signature or copy of email approval from the approver). Upon quoting the prospective insured to the broker, the prospective insured may accept the quote, decline the quote or negotiate the terms of the prospective policy through Admiral's broker. This process may involve negotiations until a final decision to bind is made.

Once the quote is officially accepted by the applicant, the broker issues a request for Admiral to bind the coverage.

If an applicant is seeking a deductible above a certain threshold, they must first be approved for their credit risk by the Finance Department prior to binding. There are documented underwriting guidelines detailing which deductibles must be approved by the Finance Department. These guidelines have been communicated to all underwriters and are available on the Admiral Central system.

Upon receipt of the Request to Bind Coverage from the broker, the underwriter must approve all details of the binder and agree to coverage under the stated terms and conditions. If there are any changes to the stated terms and conditions, the requested changes must be made, documented and approved by both parties prior to the final binding. Each binder is reviewed by the Vice President of that specific class of business. Assuming there are no further changes, a Binder Confirmation is reviewed for technical accuracy (named insured(s), forms, coverages and premium amounts) and issued by Admiral's underwriting assistant to the broker confirming coverage is bound. The Binder Confirmation is generated through Admiral's Intelligent Text Processor (ITP), which is a reporting tool utilized by the Genius system based on data entered into Genius. The Binder Confirmation is simply a report issued to the broker which displays fields actually populated in Genius.

Binding coverage allows the quote in the Genius system to be authorized by the underwriting assistant and converted into a policy, thus changing the quote's status. The premium is automatically recorded as written premium and is booked to the accounts receivable section of the Genius system upon policy authorization, which typically occurs within several days of binding coverage.

As the month-end approaches, the Information Technology department communicates in advance to all employees via email when the month will be closed in the Genius system. Additionally, the Information Technology department distributes to Underwriting a report of all bound policies with effective dates in the current month which have not yet been authorized in the Genius system in order to ensure that all bound policies which are effective in the current month are properly authorized prior to month end.

Once bound, the policy can then be produced through the Policy Issuance System by the Underwriting Department. This can be accomplished within six (6) weeks of the policy being

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bound. Prior to final printing, underwriting assistants check the named insured(s), forms, coverages and premium amounts listed on the policy against the information in the underwriting file for accuracy. Upon printing the policy, the underwriter reviews the policy for accuracy before issuing the document to the insured.

***Recommendations: None***

### **Procedure 33 – Rate and Form Filing**

*Observations:* N/A

***Recommendations: N/A***

### **Procedure 34 – Terminations**

*Observations:* The Company has a process for Termination. The procedure is clear and readable and has been provided and used by the appropriate persons within the Company. No conflicts with Delaware's statutes or regulations are noted.

Cancellation requests can originate from the insured, the insured's finance company, or Admiral. Both Admiral and the insured can cancel the policy at any point in the term of the policy for any reason, depending on the domicile state of the insured. Finance companies may request cancellation for non-payment of premium by the insured. Admiral gives the insured between ten (10) and sixty (60) days written notification of the cancellation based on state cancellation provisions.

Requests for cancellation for non-payment of premium may originate from the Finance Department. If a premium has not been paid by the broker by the due date, the Finance Department may request via an e-mailed standardized form that the Underwriting Department issue a notice of cancellation (NOC) for non-payment of the overdue premium. These requests are routed directly to the underwriter. The underwriter may issue the NOC immediately, or contact the broker in an attempt to collect the overdue premium. All NOCs are issued by underwriting assistants. The underwriting assistants maintain the potential cancellation date of the policy (again, depending on the particular state cancellation provisions) in their diary. Prior to canceling the insured's policy for non-payment of premium, the underwriting assistant performs a final check with the Finance Department to see if payment has been received.

Cancellation return premiums appear in the accounts section of the Genius system as soon as authorized by the underwriter. They appear on the broker's next statement. Return premium checks are only issued back to the broker upon written request by that broker. This ensures that a return premium is not both taken as a credit by the broker and at the same time issued to the broker via check by Admiral. Once a request is received in writing from the broker for a return premium, the accounts receivable assistant in the Finance Department requests the check through the accounts section of the Genius system. All payments must be approved by at least one supervisor prior to the check being printed from Genius. There are defined authority limits in the Genius system for return premium checks, depending on the amount of the check.

***Recommendations: None***

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### **Procedure 35 – Underwriting File Documentation**

*Observations:* The Company has a process for Underwriting File Documentation. The procedure is clear and readable and has been provided and used by the appropriate persons within the Company. No conflicts with Delaware's statutes or regulations are noted.

The Company's procedure for underwriting file documentation clearly defines what is to be included in the Company's underwriting files before they are completed. The procedure also includes what forms are to be used and where to find them along with whom to contact in the event of any problems experienced during the underwriting process.

The use of this procedure was confirmed during the course of an interview with one of the Company's Underwriters.

***Recommendations: None***

### **Procedure 36 – Underwriting Training**

*Observations:* The Company has a process but no formal written procedure for Underwriter Training. The process was reviewed during the course of an interview with one of the Company's Underwriters. No conflicts with Delaware's statutes or regulations are noted.

Admiral hires only experienced underwriters with at least twenty (20) years of experience. Once an Underwriter has been hired, they are trained on the Company's system primarily through the use of on the job training. There are also underwriting manuals that are used by the Company's underwriters that help to guide them in the event that they have any problems or questions. Also refer to Procedure 40.

***Recommendations: It is recommended that the Company develop and implement some form of Underwriter training procedure that includes but is not limited to the training of Underwriters on the Company's own underwriting system.***

### **Procedure 40 – Staff Training**

*Observations:* Although the Company does not have a formal written procedure, it does have a process in place that is adhered to for Staff training. No conflicts with Delaware's statutes or regulations are noted with regard to this process.

All new employees study with an appointed Genius trainer for system training on the Company's systems, including all Underwriters. Each department has an approved Genius trainer responsible for providing the necessary training for each employee. The first two to three weeks for any new employee is spent doing hands-on training. During the training period, the employee will enter information into and navigate the Genius system with the assistance of the Genius trainer. By the second week of training all new employees are expected to be able to enter information without the constant assistance of the Genius trainer. All information, or data points, entered are checked for accuracy by the Genius trainer. During weeks three (3) through six (6) of training, data input is spot checked by the Genius trainer, with important points checked for accuracy (premium, reserves, etc.). During their training all system questions by the new employee are directed to the Genius trainer or department manager for clarification.

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Although there is no formal written procedure for staff training, the Company does appear to make efficient use of their GENIUS Systems procedures manual. This manual contains procedures related to every function within the Company and includes, but is not limited to, underwriting, claims and complaints. The manual has been thoroughly reviewed by the examiners and appears to be all inclusive of the information needed for any employee within the Company to fulfill their job requirements effectively and efficiently.

***Recommendations:* It is recommended that the Company develop and implement a written Staff Training procedure. The procedure should include but not be limited to: the handling of claims, underwriting and Consumer Services (complaints). The procedure should be clear and readable and should be responsive in nature.**

### **Procedure 42 – Adjuster Training**

*Observations:* The Company uses only local independent adjusters depending on where the claim is located. As such, the Company does not train the adjusters that they use. The Company does however provide guidelines to be used by all adjusters being used by the Company. These guidelines have been reviewed and no conflicts with Delaware’s statute or regulations are noted.

***Recommendations:* None**

### **Procedure 43 – Claim Handling**

*Observations:* All Company mail is received and opened in the Mailroom. Mailroom employees have documented “Mail Sorting Guidelines” which instruct them to route all new claims to one person, a Claims Assistant, who reports to the Administrative Manager. Claims are entered into both the Oracle New Claim Database and into a Microsoft Excel spreadsheet. New claims are most commonly received via facsimile, and such faxes are also routed to the Claims Assistant. A fax machine is centrally located and is checked throughout the day by various Claims employees.

Admiral’s insurance policies contain instructions on how to notify the Company of claims, including a claim facsimile number. The Company’s brokers are also informed of the proper method to inform the Company about a claim.

After receiving a new claim submission, the New Claims Assistant searches the Oracle New Claim database and within the Genius system for the claimant by name to check for duplicates. The Oracle database is also used to pre-populate and create the “face” sheet which is provided to the Unit Manager as part of claim assignment process.

The Microsoft Excel spreadsheet is used by the Claims Assistant to verify that new claims which have been logged have also been entered into the Genius system. The spreadsheet is also used for reporting purposes, including certain claims count reports which the branches request.

For insureds that do not have any previous claims, the claims Assistant makes a judgmental recommendation based on how many of the recent, previous new claims have been assigned to any particular Superintendent. The Claims Assistant forwards the information related to the claim, the policy and any information related to the proposed claims assignment to the Unit Manager of that superintendent. This Unit Manager makes all final decisions with respect to assigning claims to the Claim Superintendents.

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The Superintendent enters claim information into the Genius system such as the date the claim was received, date of loss, Claimant's name, policy number and the Supervisor establishes an Indemnity (Loss) Reserve and a Fee (LAE) Reserve. The Superintendent selects the "type" of claim (for example Products Completed Operations or Premises) and establishes a Next Review Date. This is a field which is included within the Genius claims diary process, and this date and claim number will be included in all reports which Claims Superintendent's and their supervisors (Unit Managers) use to monitor claims activity. The Genius system includes a diary function which is used extensively in the Claims department.

Concurrent with, and as a part of the new claim process, the Claims Assistant also establishes a paper file for each new claim. After the Claims Superintendent has entered the claim into the Genius system and the Genius system has auto-assigned a claim number, the Claims Assistant keys the Genius assigned sequential claim number into the Excel spreadsheet. This control process permits the Claims Assistant to verify that claims which are routed to Unit Managers for assignment have been entered into Genius and assigned claim numbers.

The physical file is labeled and filed in a file room. This physical file includes the Claim Number which is the primary identifier for the claim in both the Genius system and on the physical file.

Twice a month, the New Claims Assistant reviews the Excel spreadsheet to ensure that all claims which have been entered also have a Genius assigned claim number. If not, follow up action is taken.

A documented reserving philosophy exists and is communicated to all claims individuals. Establishment of appropriate reserves is reviewed regularly during the normal course of handling the claim and during the claims audit process. Large Loss reports are prepared by the Claims Superintendents and these are reviewed and approved electronically by the Unit Manager, VP of Claims and/or the Senior Vice President of Claims before they are distributed to senior management at Admiral and reinsurers. Actuarial review of large reserve changes is performed on a quarterly basis by the Company.

***Recommendations: None***

### **Procedure 44 – Internal Claim Audit**

*Observations:* The Company has a process for Internal Claim Audit. The procedure is clear and readable and has been provided and used by the appropriate persons within the Company. No conflicts with Delaware's statutes or regulations are noted.

Random monthly Claims File Reviews are performed by the Unit Managers to verify the accuracy of records and proper claims handling on open and closed claims. Each month, Unit managers randomly select ten (10) to fifteen (15) claims and review these claims for specific quality control items such as; Coverage, Plan of Action, Reserves, Investigation, Damages, Independent Adjuster Management, Litigation Management, Contributions/Subrogation, Case Conferencing, Negotiation/Settlement, Notification to Reinsurers, Documentation, and Customer Service. These random Claims File Reviews involve the Unit Managers making judgmental

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selections of claims files which are handled by the claims technicians who report to them. These judgmental selections involve both closed claims and open claims. These reviews also include a narrative, written feedback process which provides the claims technicians with comments and explanations.

Exception reports are utilized by claims management to monitor claims activity. These reports are most commonly used by claims personnel who are at the Unit Manager level and above. The Vice President of Claims receives, monitors, and takes action resulting from exception reports which include, for example, information about the numbers of claims, the length claims have been open, the size of reserve changes in a particular month, and payment activity.

Large Loss reports are prepared electronically by the Claims Superintendents and these are reviewed and approved electronically by the Unit Manager, VP of Claims and/or the Senior Vice President of Claims before they are distributed to senior management at Admiral and reinsurers. Large Loss reports are available through the Large Loss database on Admiral Central, through Lotus Notes. Guidelines exist for when large loss reports are required to be prepared. Some of the categories which always result in large loss reports include fatalities, property damage greater than \$100,000 and total exposure potential greater than \$500,000, dependent upon the inception date of the policy.

***Recommendations: None***

### **Procedure 45 – Claim File Documentation**

*Observations:* The Company has a process for Claim File Documentation. The procedure is clear and readable and has been provided and used by the appropriate persons within the Company. No conflicts with Delaware's statutes or regulations are noted. Please also refer to Procedure 43.

***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**

Recommendations have been made to address the areas of concern noted during the examination. These are summarized below.

**Recommendation P-07, MGA Oversight and Control** - It is recommended that the Company formalize in writing its procedure for MGA oversight and control. (p. 8)

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**Recommendation P-09, Customer and Consumer Privacy Protection** - It is recommended that the Company produce a formal written procedure for customer and consumer privacy protection that includes management controls and review cycles. (p. 8)

**Recommendation P-11, Complaint Handling** - It is recommended that the Company review its procedure for Complaint Handling on a regular cycle (e.g. annually) to ensure that it continues to work effectively. (p. 9)

**Recommendation P-13, Advertising, Sales and Marketing** - It is recommended that the Company formalize a procedure for Advertising, Sales and Marketing, that includes measurement structures and cycles for review. (p. 9)

**Recommendation P-21, Producer Defalcation** - It is recommended that the Company produce a formal written procedure for producer defalcation. (p. 10)

**Recommendation P-22, Prevention of Use of Persons with Felony Conviction** - It is recommended that the Company develop and implement a written procedure for the prevention of the use of persons with a felony conviction. (p. 10)

**Recommendation P-28, Insured or Member Requested Claim History** - It is recommended that the Company produce in writing its procedure for Insured or Member requested Claim History. The procedure should be clear and readable and be responsive in nature. The procedure should include but not limited to processes for expediting an insured or members request for their claim history. (p. 11)

**Recommendation P-36, Underwriter Training** - It is recommended that the Company develop and implement a written Underwriter training procedure that includes but is not limited to the training of Underwriters on the Company's own underwriting system. (p. 15)

**Recommendation P-40, Staff Training** - It is recommended that the Company develop and implement a Staff Training procedure. The procedure should include but not be limited to: claims handling, underwriting and Consumer Services (complaints). The procedure should be clear and readable and should be responsive in nature. (p. 16)

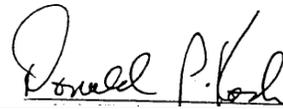
**CONCLUSION**

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



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