MARKET CONDUCT EXAMINATION

OF

GEMINI INSURANCE COMPANY

AS OF

DECEMBER 31, 2006
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of DECEMBER 31, 2006 of the

GEMINI INSURANCE COMPANY

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

ATTEST BY: Antoinette Handy

DATE: 18 SEPTEMBER 2007


Matthew Denn
Insurance Commissioner
REPORT ON MARKET CONDUCT EXAMINATION
OF THE
GEMINI INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

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 18TH day of SEPTEMBER, 2007.
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March 13, 2007

SALUTATION

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

Gemini Insurance Company

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

• 200 West Madison Street; Suite 2700; Chicago, IL 60606

The examination is as of December 31, 2006.

Examination work was also conducted 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 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 property and casualty 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 but rather 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 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 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 supplemental review focused on the area so noted.

HISTORY

The Company was incorporated on November 9, 1995, as the Gemini Reinsurance Company. Effective June 5, 1997, the Company amended the original Certificate of Incorporation by changing its name to Gemini Insurance Company (Gemini). Gemini
Gemini Insurance Company

attained an admitted carrier status in Delaware on September 30, 1997. 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., a Delaware holding company. Signet Star Holdings, Inc., (Holdings) is a wholly-own subsidiary of W.R. Berkley Corporation (WRBC), a Delaware insurance holding company. Gemini has two affiliate underwriting managers, Berkley Underwriting Partners (BUP) and Vela Insurance Services, Inc. (Vela).

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 in the NAIC’s Market Conduct Examiners’ Handbook.

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

A "Generic" review is conducted 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 is conducted through the direct review of a random sample of files using the sampling methodology described in the Delaware Market Conduct Examiners’ Handbook and the NAIC’s Market Conduct Examiners’ Handbook. 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 tested are representative of the entire set of records from which it was drawn.

An "Electronic" review is conducted through the use of a computer program or computer 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.

The complaints pattern review is conducted using all three methodologies. The various procedures are reviewed using a "Generic" review methodology.

The Introduction to the Review of Procedures section describes the basis for the analysis methodology. Each procedure review is described and the result of the review is provided under the appropriate procedure. Each procedure is supported by 18 Del. C. §318(a) and 18 Del. C. §508(b). In some cases there is additional specific statutory support, however, these references have not been listed. The reference source for each procedure found in the NAIC’s Market Conduct Examiners’ Handbook (NAIC MCEH Reference) is noted.
Each procedure is accompanied by examiner "Observations." In some cases a "Recommendation" is made. Reference, 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 two exceptions. Those exceptions are 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 examiners performing the examinations."

Standard A 07

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

18 Del. C. §318(a), §505(b), §508(b).

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure 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

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

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

Comment: Review for this standard is by “generic” methodology. This standard has a direct insurance statutory requirement. This standard is aimed at assuring that the company is cooperating with the state in the completion of an open and cogent review of the company’s operations. Cooperation with 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 minimizing cost.

Results: Pass
Gemini Insurance Company

**Observations:** During the course of the examination Gemini was provided with forty-one (41) Information Requests (IR’s), twenty-six (26) memos and criticisms. The Company’s responses were timely and the Company cooperated fully with the examination.

**Recommendations:** None

**B. COMPLAINTS/GRIEVANCES**

**Comments:** Evaluation of the Standards in this business area is based on Company 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 definition of a complaint is: "…any written communication primarily expressing a grievance."

**Observations:** The Company provided six (6) logged complaints for the period of examination. The complaints were reviewed and all were resolved in a timely manner with an appropriate action. The review of the complaint process is noted in Procedure 11.

**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 where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements; and
- 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 of the absence of a means to measure the results of the application of procedures and a means to determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.
**Procedure 01 - Audit (Internal and External)**

*Observations:* The Company does have a written Audit (Internal and External) Procedure. The procedure is clear and is dated May 2003. No conflict with Delaware statutes and regulations was noted. Vela has a process but does not have a written procedure. BUP has a written Audit (Internal and External) Procedure.

Vela’s Chief Financial Officer (CFO) manages all audits performed by the parent company, W.R. Berkley Corporation (WRBC) Auditors and external audits (KPMG, Delaware). All informational requests are sent to the CFO and the information is provided to the auditors. Once the audit is performed, any findings are discussed with the CFO and President and if necessary a plan is developed to remediate any issues.

WRBC performed an audit in 2005. There were no items that needed immediate remediation. All items in the report were recommendations on process improvement and all recommendations are currently being worked on or have been completed.

BUP has annual financial audits conducted on Program Administrators (PA) using a risk-based approach. The audits are on-site and are based upon the identification of higher risk PAs. The audits focus on verifying PAs are financially stable, identifying and mitigating any credit risk, verifying that data is being booked accurately, walking through premium processing including premium receipt processing, depositing and reporting and analyzing the overall effectiveness of the PA’s control environment.

BUP’s audit report is the vehicle used to communicate findings and recommendations to management. The report is issued within 30 days from the end of fieldwork and is addressed to the Program Manager, CEO, CFO, and VP of Business Development for review.

*Recommendations:* None

**Procedure 02 – Assertion of Privilege**

*Observations:* The Company does not have a formal written Assertion of Privilege Procedure; however, both subsidiary companies, BUP and Vela, have the same process.

The Company defers to its Home Office Legal or Litigation Counsel for any assertions of privilege for work product on behalf of Gemini Insurance Company. To date the Company has not had any assertion requests. In the rare event that the Company needs to execute an assertion of privilege, the individual involved would contact Legal Counsel. At that point, the Legal Counsel would handle the situation and document the event as necessary and make any adjustment to the process as the counsel sees fit.

*Recommendations:* None
Procedure 05 – Anti-Fraud

Observations: The Company has a written Anti-Fraud Procedure for BUP. The procedure is clear and dated June 2002. No conflict with Delaware statutes and regulations was noted.

Vela does not have a procedure;

Vela’s Third Party Administrator (BRAC) and WRBC are responsible for ensuring that any instances of fraud are addressed. Vela only writes Commercial General Liability policies and is not involved with claims dealing with any first party type insurance fraud. However, Vela recognizes the possibility of fraud and instructs (BRAC) to observe each file for the possibility of fraud and to act as needed to properly handle a fraud type claim. If fraud is suspected, a complete investigation is initiated and an independent fraud investigator is assigned to further investigate.

The Underwriting and Claims department of BUP are responsible for the interaction with the prevention and detection of fraudulent activity by BUP’s insured’s and claimants. Responsibilities include compiling state requirements for fraud compliance, responding to insurance department requests for anti-fraud related inquiries, acting as a liaison between internal staff, contracted Administrators, SIU contacts, fraud bureaus and related associations and reporting suspected or alleged fraudulent activity to the proper regulatory authority.

BUP has an external and internal fraud department, which generally utilizes contracted Third Party Administrators for the underwriting and claims handling of its business. All of BUP’s employees are required to annually review and attest to Company policies regarding conflicts of interest and a statement of business ethics.

Recommendations: None

Procedure 07 – MGA Oversight and Control

Observations: The Company does not have a written MGA Oversight Control Procedure.

Vela does not have a procedure or a process; however, BUP has a process for the MGA Oversight Control Procedure.

BUP utilizes Program Administrators (PA) to underwrite specialty insurance products. BUP maintains agreements with each PA that contain standard provisions regarding premiums, commissions, authority, premium reporting and statement accounting. PAs that desire to write businesses outside of their authority are required to refer the business through the Program Manager for approval. BUP’s PAs are audited at least annually for financial and underwriting. BUP adopted this process in 2003.

Recommendations: None
Procedure 08 – Vendor Oversight and Control

Observations: Vela and BUP do not use any Venders. However, Vela does use two TPA’s and does not have any controls in place. In the event that BUP would need to use vendors for insurance company processes, the specific department utilizing the vendor would monitor the vendor for contract compliance.

Recommendations: The Company does not have a formal written Vendor Oversight or a Control Procedure. It is recommended that the Company formulate, adopt and implement a written Vendor Oversight or a Control Procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 09 – Privacy Protection

Observations: The Company’s Vela subsidiary has a written Production of Business Procedure. BUP does not. BUP has stages of program development. The Vela procedure is clear and is dated December, 2005. No conflict with Delaware statutes and regulations was noted.

The underwriters look at approximately 2,000 submissions monthly. Premium volume averages about $10 million monthly, which represents about 250-300 policies (at an average of $38,000 per policy). Risks are bound from submissions that come in over a rolling three-month period. Approximately eighty percent (80%) of the business is contracting/general liability and twenty percent (20%) is product liability. The majority of the contractors insured are involved in the construction of residential, single-family dwellings or commercial construction exposures. Vela has not historically underwritten townhouses or condo developments.

All controls related to the production of business are tested twice a year and results are documented and reviewed by management.

BUP’s stage of program development has five steps: The Initial Receipt and Review, Program Review, Various Department Due Diligence, Agreement in Principle and Program Implementation.

Recommendations: None
Procedure 10 – Production of Business

Observations (as applicable to Vela): The Company does not have a written Production of Business Procedure, however, the Company utilizes independent producers that are either functioning as a wholesaler or retailer. The Company’s business is not direct with the insured and there are agency agreements that are sent to the producers.

The policy management system has an indicator that is required to be satisfied to ensure that the producers or agencies are properly licensed. If a producer is participating on a policy, and the system does not find proper licensing, the system will flag the user to attach licensing to the policy. If the search results in an expired license, the user will consult the compliance department log to see if updated licensing has been received. If so, it will be updated in the policy maintenance system. If not, the user will contact the producer and ask them to forward updated licensing to the attention of the compliance department. The policy is not issued unless proper licensing has been received.

The policy services manager and operations manager review the information on at least six policies per region monthly. Quality audits are conducted on a sampling of policies. Licensing issues are addressed during these audits.

Recommendations: None

Procedure 11 – Complaint Handling

Observations: Vela does not have a formal written complaint handling procedure. Vela has a written complaint handling process. Vela logs complaints into the Berkley Risk Administrators Company, LLC (BRAC) spreadsheet and then forwards them to the appropriate supervisor or manager. The complaint is reviewed and a response is written and approved. The response is forwarded to the Claim Manager for their review and final approval. The Claim Manager sends the response to the Department of Insurance, if involved, and a copy is filed in the Vela complaint log. Complaints that are not related to claims are sent directly to the Company’s legal counsel and responded to by them. The Company’s General Counsel and the affected department maintain the records of the complaints not related to claims.

Berkley Underwriting Partners (BUP) has a written complaint handling procedure. Their complaints fall into two categories, claims related and non-claims related. The Director of Claims works with the applicable Third Party Administrator (TPA) to formulate a written response to all claims related complaints and sends this response to the Department of Insurance, if involved. A copy of the response is submitted to the Regulatory Department for their records. The Regulatory Department handles all non-related claims. They investigate the complaint and work with the Program Administrator to develop a response that is sent to the Department of Insurance.

The complaints are recorded by the specific company and the date the complaint was received into the Complaint log. The original complaint and a copy of the response is
kept in a folder and filed in the Underwriting Support Unit of the Company. The Complaint logs are reviewed by Corporate annually.

**Recommendations:** Vela Insurance Services, Inc. should develop a formal written complaint handling procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

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

**Observations:** The Company does not have a formal written advertising, sales and marketing procedure. The Company informally forwards proposed advertising and marketing material to Corporate General Counsel for review and approval prior to use.

**Recommendations:** The Company should develop a formal written advertising, sales and marketing procedure. The formal written advertising, sales and marketing procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Procedure 14 – Agent Produced Advertising**

**Observations:** The Company does not have an agent-produced advertising procedure. All advertising material produced by the Company’s Program Administrator or any other sources must be submitted for written approval.

**Recommendations:** The Company should develop a formal written agent-produced advertising procedure. The formal written agent-produced advertising procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
Procedure 15 – Producer Training

Observations: The Company does not have a formal Producer Training Procedure. The Company’s brokers are provided with the types of risks they are interested in writing and the necessary documents that would need to be submitted for a possible quote.

Recommendations: The Company should develop a formal written Producer Training Procedure. The formal written Producer Training Procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 20 – Producer Selection, Appointment and Termination

Observations: The Company does not have a written Producer Selection, Appointment and Termination Procedure; however, there is a process.

Wholesale brokers approach Vela requesting appointments. Vela requires the potential brokers to fill out a new broker application, provide financial information, proof of licensure and proof of errors and omissions insurance. Once approved by the President or the Executive V.P. of Underwriting, the broker must annually provide updated financials and proof of errors and omissions insurance. Per the brokerage agreement, Vela may terminate a broker appointment at anytime, for any reason, with written notice. Brokers are reviewed semi-annually by the Underwriting Department. During these reviews, the broker’s performance is evaluated and it is determined whether or not to continue the brokerage agreement.

BUP writes Program Business through appointed Program Administrators (PA). The Business Development Vice President initially screens all new potential PAs, including their reputation, the type of business they write and how the business fits with BUP’s strategic plan. The Program Manager coordinates due diligence from Claims, Finance, Actuarial, and Underwriting Support. If any issues cannot be resolved and prevent the success of the program, a declination letter would be sent to the PA applicant. Acceptance or denial of a new PA is discussed in the new business meeting conducted semi-monthly.

Recommendations: The Company does not have a formal written Producer Selection Procedure. (Gemini is not required to appoint brokers.) It is
recommended that the Company formulate, adopt and implement a written Producer Selection Procedure for both Vela and BUP. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 21 – Producer Defalcation

Observations: The Company does not have a formal producer defalcation procedure. The Company’s Finance Department monitors and reconciles all broker statements and payments monthly.

Recommendations: The Company should develop a formal written producer defalcation procedure. The formal written producer defalcation procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 24 – Premium Billing

Observations: The Company has a written Premium Billing Procedure. The procedure is clear and is dated December, 2005. No conflict with Delaware statutes and regulations was noted. Both Vela and Gemini have a procedure but they utilize different computer systems to support their process.

Vela’s billing and collection activity is handled by the accounting staff. Effective 08/01/2005, Vela implemented a new billing system called FAB which receives a daily feed from the policy issuance system (VUS, BUS) as of 11/01/05. Once VUS, BUS is closed for the month, accounting prints and reviews all Broker statements. With the new FAB system, these statements are mailed to each Broker by the 3rd business day of the month after closing. Balances are then due 45 days from the statement date.
The broker is responsible for remitting all premiums (net of commission) and collecting the funds from the retail producer/agent. If the broker is unable to collect the premiums, the broker notifies Vela and requests cancellation of the policy. In the case of audit premiums, the broker requests balances that are over 90 days old be sent to Vela’s direct collections. Direct collection requests are passed to the underwriters for their approval and then to the Controller for review and approval. A letter is then sent to the broker indicating that the amount has been approved for direct collection and that their commission has therefore been forfeited.

BUP has the same balancing process as Vela but uses the issuance system Cobra instead of FAB.

Recommendations: None

Procedure 25 – Correspondence Routing

Observations: The Company does not have a formal written Correspondence Routing Procedure. Vela and BUP do not have written procedures, however they do have a process.

All correspondences come directly to the Vela offices or the WRBC Corporate Office. Vela’s claims correspondences are then routed to the Vela claims manager, underwriting related correspondence is sent to the underwriting area and policyholder service information is sent to the policyholder service area.

BUP’s process is to handle correspondence received via mail, courier, or electronic messaging by levels of priority. Priority is determined by the type of correspondence and its content. The highest level of priority is claims-related correspondence, regulatory correspondence and home office correspondence. An intermediate level of priority is given to agent appointments and statistical inquiries. The lowest priority includes all newspapers, advertising correspondence, and periodicals.

Recommendations: It is recommended that Vela and BUP formulate, adopt and implement a written Correspondence Routing Procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.
Procedure 26 – Policy Issuance

Observations: The Company’s Vela subsidiary has a written Policy Issuance Procedure. The procedure is clear and current as of December 2005 and was initially adopted and documented in December 2004. No conflict with Delaware statutes and regulations was noted. BUP has an undocumented process.

Vela’s Technical Assistant (TA) inputs the policy information into VUS, BUS for Gemini business and into Genius for the Admiral Insurance Company. Once all the input screens have been completed, the TA initials the “Policy Issuance” line on the bottom right of the policy checklist. The TA then saves the data and views the policy in PDF format, comparing the data back to the policy file to check for input errors and prints four copies of the actual policy and endorsements on the policy checklist. One copy of the printed policy goes to the policy file and three are sent to the broker. The standard time period in which the policies are mailed is within 14 days of the policy effective date.

If the policy is not received prior to binding and policy issuance, a signed application, surplus lines filing letter and other pertinent underwriting material should be received within 30 days. The signed application evidences that the insured both understands and accepts the policy and affirms the accuracy of the data submitted. The surplus lines filing letter is signed by the broker who also includes the appropriate license number of the person making the filing, verifying that the appropriate state filings have been completed. If the documents are not all received within 30 days, the TA’s follow up for 30 days and then the underwriters begin contacting the broker. After 90 days, the underwriters threaten policy cancellation, which generally produces any remaining outstanding documents quite quickly.

All controls relating to policy issuance are tested twice a year and reviewed by management.

BUP has a similar procedure but instead of using Technical Assistants to input the information in the system, Program Administrators rate, quote, bind and issue policies. BUP receives either electronic information sufficient to verify that the risk selection and rating are in compliance with the Company filings or a hard copy of the policy and all forms requiring typed entries, to include the application, any supplementary applications, declarations page, applicable endorsements and rating worksheets within 30 days of the effective date of coverage.

Recommendations: None

Procedure 27 – Reinstatement

Observations: The Company does not have a written Reinstatement Procedure. Neither Vela nor BUP have a written procedure; however they do have processes.
Vela’s reinstatements are handled in the same manner as endorsements. All reinstatements are requested by an authorized external party, as Vela does not provide premium installments. Vela processes a relatively high volume of policy endorsements. The endorsements requests from the brokers go to the TAs who attach them to the policy file and pass them to the underwriters.

When BUP’s policy is canceled because of underwriting issues, the program administrator has the discretion to reinstate once underwriting compliance has been received and confirmed in writing by the insured, if such reinstatement is done prior to the cancellation effective date.

Recommendations: It is recommended that the Company formulate, adopt and implement a written Reinstatement Procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 28 – Requesting Claim History

Observations: The Company has does not have a written Requesting Claim History Procedure. Vela and BUP both have the same process for the Requesting Claim History Procedure.

Vela’s and BUP’s process is initiated when the insured e-mails or faxes request for their loss history to the Company. Each office has a designated individual who performs this task within 5 days of receipt. The loss runs are then e-mailed to the requester. The Underwriting officer in each office monitors the individuals that perform this task and any issue is to be addressed as need be. This process has been in place since 2005.

Recommendations: None

Procedure 30 – Premium Determination and Quotation

Observations: The Company’s Vela subsidiary has a written quotation process, but does not have a premium determination procedure. The quotation process was documented in 2005. BUP does not have written procedures for either quotations or premium determinations. BUP does provide the rating process to the Program Administrator and at times, it is embedded in the specific underwriting guidelines.
Vela’s process entails the TA requesting additional information to underwrite the submission. Once all information has been received, the submission goes to the underwriter who reviews the file, determines the rates, calculates the premium and assigns a quote number and creates the quote sheet. The quote sheet is then faxed directly from the underwriter’s computer to the broker. Rates are all manually derived. Vela has established and approved minimum premiums and minimum rates for the various classes of business. The minimum premiums are documented in meeting minutes approved by the President and/or Executive Vice President. The actual premium calculation is done manually by the underwriters.

Once completed, the underwriter prints the quote sheet, attaches it to the submission and forwards it to receptionist or to the TA who changes the status in the system to quote or decline. While quotes are valid for 30 days, the quoted and declined submissions are kept for 13 months so that prior year information can be accessed should the same risk be submitted the following year.

On a monthly basis, a sample of policy files for the Quotation Procedure are audited and management reviews the rates and file documentation. Controls are tested twice a year and reviewed by management.

**Recommendations:** BUP does not have a formal written Premium Determination and Quotation Procedure and Vela does not have a Quotation Procedure. It is recommended that the Company formulate, adopt and implement a written Premium Determination Procedure for BUP and a Quotation Procedure for both BUP and Vela. It is also recommended that the procedures address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Procedure 31 – Policyholder Disclosures**

**Observations:** The Company does not have a written Policyholder Disclosure Procedure. Vela does not have a procedure or a process; however, BUP utilizes Program Administrators (PAs) for any correspondence with policyholders. PA’s prepare policyholder notices as needed.

BUP routinely monitors the PA’s compliance with policyholder notices, notifications, and disclosure forms as mandated by each home state and by the characteristics of the program itself.
Recommendations: None

Procedure 32 – Underwriting and Selection

Observations: Vela has a written underwriting and selection procedure. BUP does not have a written underwriting and selection procedure. BUP does provide program specific underwriting guidelines that address underwriting eligibility.

Vela implemented an Underwriting Imaging system (VA3I) in November 2005. Brokers send in new submissions via email or fax that are directed into the File Net imaging system. Submissions that are mailed in are scanned into the imaging system by the underwriter support staff. The submissions are then entered into Berkley Underwriting System (BUS) and assigned an id. Each submission is then indexed into File Net’s indexing station and then routed to the appropriate underwriter. In Chicago, the underwriter reviews the submissions and in Solvang the technical assistant reviews the submissions. Any submissions that fall outside of the Company’s parameters are issued a declination letter. All other submissions are completed and additional questions are issued if needed. Submissions are worked based on the effective date of coverage and are accepted ninety days prior to the effective date. The Company’s underwriting results are reviewed on a monthly basis and a formal reserve analysis is performed quarterly. Senior management will communicate any changes to the Underwriting Department if needed.

BUP does not have a uniform workflow because each Program Administrator (PA) is different and handles different business. The workflow varies depending on state rules and regulations, automation issues, and the clientele. The Company’s Program Management (PM) and Underwriting Support (US) conduct desk and site audits of the PA’s to determine compliance with the Company’s business practice and underwriting guidelines.

Recommendations: BUP should develop a formal written underwriting and selection procedure. Both Vela and BUP procedures should also address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 33 – Rate and Form Filing

Observations: The Rate and Form filing procedure is not applicable to the Company.

Recommendations: None
Procedure 34 – Termination

Observations: The Company does not have a written Termination Procedure. Neither Vela nor BUP have a written procedure, but they do have processes.

Requests are received from brokers to cancel policies mid-term. Once approved, cancellations are processed similarly to endorsements and the same internal controls apply. Requests for mid-term cancellations are forwarded along with the policy file to the applicable underwriter for review and approval.

BUP’s flat policy cancellations are allowed prior to the effective date of coverage. Automatic renewals may be cancelled up to 15 days after effective date due to non-payment of premium. Cancellation requested by the insured must be accompanied by the original policy or a lost policy release signed by the insured. Any unearned premium is returned on a pro-rata basis.

Recommendations: None

Procedure 35 – Underwriting File Documentation

Observations: Vela does not have a written underwriting file documentation procedure. The Company uses an image system to maintain policy files, which contain an application, loss information, supplemental questionnaires, Underwriter worksheet, quote, broker request to bind, binder, copy of the policy, Underwriter notes, and miscellaneous documentation. On a daily basis the Technical Assistants are responsible for ensuring that all files are properly documented. On a monthly basis a sample of policy files are picked and audited. Part of the audit is to check for proper documentation. Underwriting Officers conduct audits and keep a copy of their findings in the Company’s records.

BUP underwriting files must contain a copy of the policy including any endorsements, schedule rating, experience rating, underwriting commentary, loss control reports and underwriting recommendations, Terrorism Risk Insurance Act (TRIA) compliance, independent verification of application information, application for insurance, certificates of insurance, and cancellation and non-renewal. It is the Third Party Administrators (TPA) responsibility to ensure the claimant receives all claims payments and the needed release is documented. It is the policyholder’s responsibility to ensure that any return premium is returned to the appropriate person or organization and all unclaimed property or policy benefits is turned over to the Company and recorded.

The Company pulls random samples of files to ensure compliance with file documentation. Improvements and criticism is noted in the report of the review. At the exit interview these criticisms are discussed with the PA and a plan and timetable is established for compliance.
Recommendations: The Company should develop a formal written underwriting file documentation procedure. The formal written underwriting file documentation procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 36 – Underwriter Training

Observations: The Company does not have an underwriter training procedure. The Company asserts they hire underwriters with experience and that the Company assigns the underwriter to the area of business for which they have experience. All underwriting performance is evaluated quarterly by senior management, and all individual underwriters are reviewed by their manager.

Recommendations: The Company should develop a formal written underwriter training procedure. The formal written underwriter training procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Procedure 40 – Staff Training

Observations: The Company does not have a formal staff training procedure. There is not a formal training process that employees must complete. The Company’s department managers train new employees their process, procedures and systems. If more industry or job specific training is necessary, the Company sends the employee to classes, seminars, and conferences.

The employees are informally evaluated periodically throughout the year and formally reviewed annually. It is the Department Manager’s responsibility to address and develop action plans for performance issues. The current review process has been in place since January 2005.
**Recommendations:** The Company should develop a formal written staff training procedure. The formal written staff training procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Procedure 42 – Adjuster and Claim Processor Training**

**Observations:** The Company does not have a written adjuster and claim processor training procedure. The Company’s TPA is responsible for adjuster and claim processor training. The adjuster claim processes are reviewed during quarterly audits conducted by the Company. Based on the results, the Company will recommend any training needs.

**Recommendations:** None

**Procedure 43 – Claim Handling**

**Observations:** The Company does not have a written Claim Handling Procedure. However, there is a process and it has been in existence since September 2003 and has been documented December 2004.

Both Vela and BUP share the same process for the Claim Handling Procedure.

Vela and BUP do not employ any claims personnel to handle Gemini claims and depend on Third Party Administrators (TPAs) to administer the Vela and BUP Gemini claims. The claims are handled under the provisions set forth in the claims service contract between Gemini and Berkley Risk Administrators Company, LLC (BRAC). The current TPA, BRAC complies with various licensing requirements along with abiding by the fair claims handling acts of the various states involved.

Vela employs a Claims Manager to oversee the handling of the Vela Gemini claims by BRAC. BUP employs a Senior Vice President and Director of Claims and they have responsibility for this process. All the controls set forth in the above-mentioned documents are tested twice a year and reviewed by management.

**Recommendations:** None
**Procedure 44 – Internal Claim Audit**

*Observations:* The Company does not have a written Internal Claim Audit Procedure. However, there is a process and it has been in existence since September 2003 and has been documented December 2004.

Vela and BUP are subsidiaries from Gemini Insurance and they both share the same process for the Internal Claim Audit Procedure.

Please refer to Procedure 43, Claim Handling Procedure.

*Recommendations:* None

**Procedure 45 – Claim File Documentation**

*Observations:* The Company does not have a formal written claim file documentation procedure. A Third Party Administrator handles the Company’s claims. Vela’s Claim Manager oversees all claim handling procedures. Berkley Underwriting Partners (BUP) reviews their claims during their quarterly audits.

*Recommendations:* The Company should develop a formal written claim file documentation procedure. The formal written claim file documentation procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Procedure 46 – Subrogation and Deductible Reimbursement**

*Observations:* The Company does not have a formal subrogation and deductible reimbursement procedure. A Third Party Administrator (TPA) handles all subrogation and deductible reimbursements.

*Recommendations:* The Company should develop a formal written subrogation and deductible reimbursement procedure. The formal written subrogation and deductible reimbursement procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
• Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
• Utilization of the measurement structures to revise the procedure when indicated.

SUMMARY

Gemini Insurance Company (Gemini) is a Property and Casualty Company domiciled in Delaware.

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.

Significant issues arising during the course of the examination include:

• Need to formalize a written procedure for Vendor Oversight and Control (P-08)
• Need to formalize a written procedure for Complaint Handling (P-11)
• Need to formalize a written procedure for Advertising, Sales and Marketing (P-13)
• Need to formalize a written procedure for Producer Produced Advertisements (P-14)
• Need to formalize a written procedure for Producer Training (P-15)
• Need to formalize a written procedure for Producer Selection, Appointment and Termination (P-20)
• Need to formalize a written procedure for Producer Defalcation (P-21)
• Need to formalize a written procedure for Correspondence Routing (P-25)
• Need to formalize a written procedure for Reinstatement (P-27)
• Need to formalize a written procedure for Premium Determination and Quotation (P-30)
• Need to formalize a written procedure for Underwriting and Selection (P-32)
• Need to formalize a written procedure for Underwriting File Documentation (P-35)
• Need to formalize a written procedure for Underwriter Training (P-36)
• Need to formalize a written procedure for Staff Training (P-40)
• Need to formalize a written procedure for Claim File Documentation (P-45)
• Need to formalize a written procedure for Subrogation and Deductible Reimbursement (P-46)

The following Recommendations have been made to address the areas of concern noted during the examination.
RECOMMENDATIONS

Recommendation P-8, Vendor Oversight and Control
The Company does not have a formal written Vendor Oversight or a Control Procedure. It is recommended that the Company formulate, adopt and implement a written Vendor Oversight or a Control Procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-11, Complaint Handling
Vela Insurance Services, Inc. should develop a formal written complaint handling procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-13, Advertising, Sales and Marketing
The Company should develop a formal written advertising, sales and marketing procedure. The formal written advertising, sales and marketing procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-14, Producer Produced Advertisements
The Company should develop a formal written agent-produced advertising procedure. The formal written agent-produced advertising procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
• Management exercise of oversight and control of the procedure.
• Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
• Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-15, Producer Training
The Company should develop a formal written Producer Training Procedure. The formal written Producer Training Procedure should address:

• Revision and audit history of the procedure.
• Adequate training for persons affected by the procedure.
• Management exercise of oversight and control of the procedure.
• Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
• Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-20, Producer Selection, Appointment and Termination
The Company does not have a formal written Producer Selection, Appointment and Termination Procedure. It is recommended that the Company formulate, adopt and implement a written Producer Selection, Appointment and Termination Procedure for both Vela and BUP. It is also recommended that the procedure address:

• Revision and audit history of the procedure.
• Adequate training for persons affected by the procedure.
• Management exercise of oversight and control of the procedure.
• Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
• Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-21, Producer Defalcation
The Company should develop a formal written producer defalcation procedure. The formal written producer defalcation procedure should address:

• Revision and audit history of the procedure.
• Adequate training for persons affected by the procedure.
• Management exercise of oversight and control of the procedure.
• Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
• Utilization of the measurement structures to revise the procedure when indicated.
Recommendation P-25, Correspondence Routing
It is recommended that Vela and BUP formulate, adopt and implement a written Correspondence Routing Procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-27, Reinstatement
It is recommended that the Company formulate, adopt and implement a written Reinstatement Procedure. It is also recommended that the procedure address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-30, Premium Determination and Quotation
BUP does not have a formal written Premium Determination and Quotation Procedure and Vela does not have a Quotation Procedure. It is recommended that the Company formulate, adopt and implement a written Premium Determination Procedure for BUP and a Quotation Procedure for both BUP and Vela. It is also recommended that the procedures address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P-32, Underwriting and Selection
The Company (Berkley Underwriting Partners) should develop a formal written underwriting and selection procedure. The Company’s (Vela and Berkley Underwriting Partners) should also address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
• Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
• Utilization of the measurement structures to revise the procedure when indicated.

**Recommendation P35 – Underwriting File Documentation**
The Company should develop a formal written underwriting file documentation procedure. The formal written underwriting file documentation procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Recommendation P-36, Underwriter Training**
The Company should develop a formal written underwriter training procedure. The formal written underwriter training procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Recommendation P-40, Staff Training**
The Company should develop a formal written staff training procedure. The formal written staff training procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

**Recommendation P-45, Claim File Documentation**
The Company should develop a formal written claim file documentation procedure. The formal written claim file documentation procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
Gemini Insurance Company

- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

Recommendation P46, Subrogation and Deductible Reimbursement

The Company should develop a formal written subrogation and deductible reimbursement procedure. The formal written subrogation and deductible reimbursement procedure should address:

- Revision and audit history of the procedure.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended, and
- Utilization of the measurement structures to revise the procedure when indicated.

CONCLUSION

The examination was conducted by Donald P. Koch, Parker W. B. Stevens, Susanna R. Stevens, and Candace R. Pickens and is respectfully submitted,

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