MARKET CONDUCT EXAMINATION
OF
XL INSURANCE AMERICA, INC.
AS OF
March 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 MARCH 31, 2006 of the

XL INSURANCE AMERICA, INC.

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

ATTEST BY:   

DATE: 23 JULY 2007


Insurance Commissioner
REPORT ON MARKET CONDUCT EXAMINATION

OF THE

XL INSURANCE AMERICA, INC.

AS OF

MARCH 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 23RD day of JULY, 2007.
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July 24, 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 05.776, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

XL Insurance America, Inc.

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

- 1201 North Market Street, Suite 501; Wilmington, DE 19801
- 520 Eagleview Blvd; Exton, Pennsylvania 19341
- 100 Constitution Plaza, 17th Floor; Hartford, CT 06103
- 13777 Ballantyne Corporate Place, Suite 430; Charlotte, NC 28277

The examination is as of March 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 on 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 a supplemental review focused on the area so noted.

HISTORY AND PROFILE

XL Insurance America, Inc. (formerly known as Winterthur International America Insurance Company) (“XLIA” or the “Company”) is a Delaware domiciled property and casualty insurer. XLIA was originally incorporated on November 10, 1945 under the laws of Texas and began business on December 31, 1945 under the name Republic Indemnity Company. The Company’s name was changed to Republic Casualty Company on May 1, 1950, and then to Vanguard Insurance Company on December 31, 1954. On January 1, 1998, the name was changed to Winterthur International America Insurance Company following the re-domestication of the Company to the State of Wisconsin. Effective December 24, 2002, XLIA was re-domesticated from the State of Wisconsin to the State of Delaware. On the same date, the State of Delaware approved a name change of the Company from Winterthur International America Insurance Company to its present title.

Effective July 1, 2001, there was a change in the ownership structure of XLIA. On that date, X.L. America, Inc., a Delaware corporation (“X.L. America”), purchased all of the outstanding shares of XLIA from General Casualty Company of Wisconsin, a Wisconsin domiciled insurance company (“GCW”). On the same date, X.L. America also purchased from GCW all of the outstanding shares of XL Select Insurance Company, an Oklahoma domiciled insurer (“XL
Effective December 31, 2002, all of the issued and outstanding shares of common stock of XLIA, consisting of 80,000 shares with a par value of $62.50, were contributed by X.L. America to XL Reinsurance America Inc., a New York domiciled insurer ("XLRA"), thereby making XLIA a wholly-owned subsidiary of XLRA.

Effective June 30, 2003, with the approval of the companies’ domiciles, the holding company structure of X.L. America was restructured. As a result of the realignment, XLRA contributed all of the issued and outstanding shares of common stock of XLIA to Greenwich Insurance Company, a Delaware domiciled insurer ("Greenwich"), and contributed all of the issued and outstanding shares of XL Insurance Company of New York, a New York domiciled insurer ("XLINY"), to XLIA. As a result, XLIA and its subsidiaries, namely, XL Select and XLINY, are now wholly owned indirect subsidiaries of Greenwich and XLRA.

XLIA primarily writes liability, property, and professional liability lines of business. The business is currently produced by XL Casualty, XL Property and XL Professional business units. These business units have underwriting, claims and marketing personnel who have expertise with the products and lines of insurance being provided.

XLIA stresses underwriting integrity and profitability. This is accomplished by operating in “niche” areas requiring a significant degree of specialized knowledge and by acquiring experienced and successful operators in those niches. Regardless of the area of specialty, the individuals underwriting on behalf of XLIA are seasoned underwriters. Many of the underwriters have come from the actual industries they are now evaluating as underwriters. These underwriters adhere to a core philosophy to only underwrite business which meets the Company’s underwriting criteria and that can be obtained at adequate rate levels so as to yield a reasonable profit for XLIA.

XLIA distributes its insurance products and services through brokers and agents, appointed and licensed as required by the various jurisdictions in which it operates. The Company accepts business produced by major national brokerage firms, as well as regional and independent producers.

Similar to the underwriting staff, claims personnel working on the Company’s behalf have experience in handling and settling losses and claims in all of the areas engaged. They are knowledgeable, seasoned, and well trained to handle all claims related services tailored to the niche business units they serve. In some areas, due to the extremely specialized skills required, XLIA may not have the appropriate internal resource to handle the potential losses of a certain class of business. In those cases, claims specialists are engaged, usually through a Third Party Claims Administration (TPA) agreement, to ensure that XLIA’s policy of timely claims payments and prudent claim reserving are strictly maintained and in conformance with all applicable law.
XLIA is a member of the XL Reinsurance America Intercompany Pooling Agreement. Under the terms of this Agreement, XLIA and the other intercompany member insurers cede 100% of their premiums and liabilities to the pool leader, XLRA. XLRA cedes 75% of the pool business net of specific reinsurance to its affiliate XL Re Ltd. The remaining 25% of the business is redistributed among the pool members ratable to their surplus.

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" and 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; however, there are two exceptions. Those exceptions are the standards that state:

- “The Company is licensed for the lines of business that are being written” and
- “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 for this standard is by “generic” methodology. This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s Certificate of Authority.

*Results: Pass*

*Observations:* The Company is licensed for the lines of business being written.

*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

Review for this standard is by “generic” methodology. This standard has a direct insurance statutory requirement. This standard is aimed at ensuring 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*

*Observations:* During the course of the examination XL Insurance America, Inc. was provided with sixty-one (61) Information Requests (IR’s) and all responses were provided in a timely manner. The Company’s communication with the examiners was very responsive. The examiners did not experience any delays during the course of the examination.

*Recommendations:* None
B. COMPLAINTS/GRIEVANCES

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."

The Company provided a database with five (5) logged complaints for the period of examination. All complaints were reviewed for any patterns of problems relating to coverage. No patterns were noted and all complaints were resolved in a timely manner. 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
- A measurement function that considers the results of the planning and execution
- 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 has a written audit procedure for internal audits. This procedure is dated January 20, 2003. No conflicts with Delaware’s statutes or regulations are noted.

The Internal Audit Department, which handles all XL companies, has twenty-four (24) employees that are located worldwide. The Internal Audit Department performs, on average,
ninety (90) to one hundred (100) audits per year, with each audit taking approximately six (6) to eight (8) weeks. Approximately seventy percent (70%) of audits are conducted in the field with the remaining thirty percent (30%) completed in the office. The Company does use some contractors to fill resource gaps.

The Internal Audit Department (IAD) develops an audit plan comprised of three phases: the planning phase, testing phase and the executive summary. The planning phase includes the audit process, control evaluation and risk assessment of key controls. In the testing phase, compliance and substantive tests are conducted and information is loaded in Teammate©. The IAD looks specifically at detail issues that include condition, risk and recommendation. The executive summary phase is the finalization of the report. The report is then issued to Executive Management and the findings are inserted into a follow-up database.

The IAD reports to the Audit Committee of the Board of Directors and Management recommendations to improve the Company’s operations are submitted. IAD helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management and internal control processes. IAD conducts an annual enterprise-wide risk assessment. These business risks include all strategic, financial, credit, operational, compliance, and technology. IAD identifies areas of significant risk at a business unit, and process level and makes a preliminary assessment of the current effectiveness of management controls.

PricewaterhouseCoopers (PwC) handles the external audits for the Company. PwC audits the consolidated financial statements of the Company. Their audit focuses on the identification of the core business processes utilized by the Company that support or impact the reliability of financial reporting and the assessment of the risks associated with these core business processes. The IAD and PwC communicate on audits to ensure the audit is performed correctly. The introductory e-mail that IAD sends to the auditees/stakeholders at the pre-planning stage of the audit is also sent to the external auditors. Each region has a designated liaison at PwC. At the time that the final audit report is issued, a copy is also sent to the PwC designate. When an internal audit of a smaller, remote location is conducted IAD meets with PwC at the planning stage to determine what specific procedures IAD will perform.

The Company has quarterly meetings to indicate changes to the internal/external audit plans, review internal audits completed in the previous quarter and key findings expected to relate to the external audit process, and review key findings from PwC’s work. The Audit Committee meets six (6) times per year to discuss all of the audits and discuss any problems that have been identified or changes that need to occur in a specific business segment. In 2006 the Company will develop a peer review process that will involve hiring a firm to review the processes of the internal audit.

Recommendations: None

Procedure 02 – Assertions of Privilege

Observations: The Company does not have a formal written assertion of privilege procedure. Privilege is asserted on a case-by-case basis. The Company maintains that a general assertion of
privilege would be in conflict with the idea of attorney-client privilege. The Company requires each privilege to be requested. In addition, all privilege assertions must be discussed with the Division Lawyer.

**Recommendations:** None

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

*Observations:* The Company has a written Company Records, Central Recovery and Backup Procedure. The procedure is dated September 1, 2005. No conflicts with Delaware’s statutes or regulations are noted.

The Company schedules daily incremental backups to run Monday through Friday and full backups to run on Friday. Restores are made when the Company receives a request to restore data or when a quarterly restore test needs to be performed. The Data Center will accept restore requests for a user’s Home Directory or Shared Directory via a Help Desk ticket but they do require a Service Request for any other type of restore. When a ticket (Service Request or Help Desk) is received, the data is not restored over the top of existing data unless instructed to do by a supervisor. The Company employee is then contacted to review the restore and confirm if the data is what was needed. Upon confirmation that the data is acceptable, the restore request is closed. On a quarterly basis, the operations manager verifies that restores have happened on both AS400 and Windows platforms. If they have not verified that the restores have occurred, the operations manager will initiate a request to complete the request.

The current retention policy for the Company states that all mail, file and application data will be kept off-site indefinitely. This includes all media that include daily, weekly, and monthly backups.

**Recommendations:** None

### Procedure 04 – Computer Security

*Observations:* The Company has a written Computer Security Procedure. The procedure is dated November 14, 2003. No conflicts with Delaware statutes or regulations are noted.

All Company employees are required to maintain the confidentiality of customer and Company Group information, ensure that customer and Company Group information is accurate and secure, adhere to all security, electronic communication, and confidentiality policies as mandated by the Company’s Capital Compliance Program and Policy Statements located on the Company’s website, and immediately report any violation of this policy or known security incident to the employees local IT Help Desk or IT Security Officer.

All Users authenticate their identity prior to initiating a computer session or electronically accessing Company Group information. The required means of identification for most systems and applications is a User ID and password. The Users are prohibited from loading unlicensed or unauthorized software onto any Company owned or leased PC, laptop, workstation, or other
electronic device. Users may not allow Company Group owned or licensed software or other intellectual property to be copied by others and may not themselves make copies other than those provided for in the relevant licensing agreements. All hardware, software, and IT resources supplied by the Company are the property of the Company and as such may at any time, without prior notice, be subject to audit review.

Users should not connect to any third party (i.e. Internet, Extranet) while connected to Company networks except through Company authorized gateways and are prohibited from connecting personally owned computers, laptops, or other electronic devices to the Company’s network without the approval of the IT Department.

Any software or data received from any external source is treated as suspect and not installed until it has been scanned for viruses using the Company’s standard virus detection software. Any actual or suspected virus related problem is reported to the local Help Desk or IT department only. Lost, stolen or damaged Company equipment is reported to the local Help Desk or IT Department. Any equipment other than the individual’s laptop or PDA taken off-site must have management authorization for removal.

Confidential information is destroyed at the end of its useful life cycle. Paper media is disposed of using paper shredders or secure trash disposal providers. Electronic media is destroyed using secure delete, physical destruction or degaussing processes. The exam team did not review this process and no timeframe was given for when something is no longer “useful”.

Recommendations: None

Procedure 05 – Anti-fraud

Observations: The Company has a written Anti-fraud procedure. The procedure is dated June 2003. No conflicts with Delaware’s statutes or regulations are noted.

For the prevention of external fraud, the Company has retained MJM Investigations Inc. (MJM), a nationwide fraud and insurance investigations company, to investigate and evaluate internal and external fraudulent insurance acts. MJM is staffed with a nationwide network of more than two hundred seventy five (275) investigators experienced and trained in the insurance claim operations process, fraud prevention process, and detection and investigative techniques. MJM also trains, motivates and assists personnel, in the prevention of insurance fraud as well as the detection of possible fraudulent actions.

The Company’s prevention of internal fraud is accomplished by both internal and external audit functions and by alerting personnel and agents through instruction, education and public awareness that alleged acts of impropriety will be investigated and, if warranted, prosecuted. Through the use of these methods, employees are informed as to what to look for as indicators of internal fraud, encouraged to report acts of suspected impropriety, and instructed how to report any suspected improprieties.

The Special Investigation Unit, (SIU) and/or claims supervisor meets with the claims adjusters annually, and in periodic meetings to discuss emerging issues and topics regarding fraud
detection, changes to state laws, procedures, and the Company performance in detecting and preventing fraud. These meetings are mandatory.

The investigative staff provides a variety of training services and materials for adjusters, underwriters and management annually, semi-annually or on an as needed basis. These services include Fraud Awareness Training which focuses on the magnitude of the fraud problem, the types of fraud one might expect to encounter, fraud indicators, the types of investigative activity that might be used and may be most cost effective, and case studies illustrating successful investigations and procedures for how referrals can be made.

The Company’s SIU prepares and distributes a bi-weekly “e-business insurance fraud newsletter” to all personnel that provides current industry information on fraud legislation, prosecutions, fraud schemes and detection methods, outside training opportunities, and an educational article addressing an insurance fraud related topic.

**Recommendations:** None

**Procedure 06 – Disaster Recovery**

**Observations:** The Company does not have a formal Disaster Recovery Procedure. They are currently in the process of developing such a procedure.

**Recommendations:** It is recommended the Company develop a formal Disaster Recovery Procedure that includes the Company’s process in the event of a disaster, the recovery process and controls to ensure the procedure is affectively working and that all employees adhere to the procedure.

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

**Observations:** The Company uses MGU, Inc. as its sole MGA in their XL Programs. The agreement is detailed in a thirty-three (33) page contract that addresses oversight of the underwriting manager to solicit, underwrite, bind, issue and service policies and collect premiums for XL America. Except for the authority granted to MGU under the agreement, XL America retains absolute management authority and control over the underwriting and issuance of all policies issued under the terms of the Agreement. This includes any disciplinary actions. XL America reserves the right to audit any file, process or individual at such times and frequency as the Company deems it appropriate. MGU must maintain all licenses, registrations, and bonds required by law to write Business as an underwriting manager. MGU shall annually provide XL America a list of agents and brokers soliciting the business on behalf of MGU. MGU is solely responsible for any fines or assessments levied by regulatory organization for actions or omissions of MGU, where MGU has the responsibility or authority to perform. Upon written notice to MGU, Greenwich may immediately suspend or amend any or all of MGU’s authority under this agreement for such time as XL America may deem necessary. Any modifications to the contract will be implemented by XL America.

**Recommendations:** None
Procedure 08 – Vendor Oversight and Control

Observations: The Company has a written Vendor Oversight and Control Procedure. The procedure is dated January 28, 2004. No conflicts with Delaware’s statutes or regulations are noted.

IT Agreement negotiation involves clarification and mutual agreement on the structure and requirements of the agreement prior to signing. Mutual obligations include responsibilities and authorities, technical and business management approaches, financing, and price. All IT Agreements are reviewed and approved by the appropriate Company Legal organization before execution. The final IT Agreement includes all agreements reached by the specific Company’s legal entity including key clauses and defines and communicates specific roles and responsibilities. Once a vendor has been selected and the IT Agreement signed, the process of managing the vendor relationship begins.

The Company’s IT Agreement administration ensures that the vendor’s performance meets contractual requirements. IT Agreement disputes are handled by the IT Manager who signed the agreement. Vendor performance is reviewed after each project completion. The vendors are held accountable for their service in accordance with the IT Agreement and can be excluded from future selection if their performance does not meet the required standards.

Vendors are evaluated on technological competence, systems capabilities, geographic coverage, volume capacity, financial viability, accuracy of product/service delivery, completeness of product/service delivery, quality of product/service delivery, timeliness of product/service including problem resolution, and record of client satisfaction (both internal and external). However, the exam team did not review the vendors’ evaluations.

TPA’s are also used to handle claims and related issues.

Recommendations: None

Procedure 09 – Customer and Consumer Privacy Protection


The Company verifies and exchanges information regarding their customer’s credit and financial status only for the purposes of underwriting, policy administration, or risk management and only with references and clearinghouse services. The Company does not collect nor use information about their customers and their business other than the amount of information necessary to properly administer the Company’s business. The Company trains their employees to handle information about their customers and their business in a secure and confidential manner and only permit employees authorized to use such information to have access to such information. The Company does not disclose information about their customers or their business to any organization outside the Company or to third party service providers unless the Company first discloses to the customer their intent to do so or they are required to do so by law. The Company will not disclose medical information about their customer, the customer’s employees, or any
claimants under any policy of insurance, unless the customer provides them with written authorization to do so.

The Company will attempt, with their customer’s help, to keep the Company’s records regarding the customer and their business complete and accurate. The Company will also advise them on how and where to access their account information (unless prohibited by law), how to correct errors or make changes to that information, and audit and assess the Company’s operations, personnel and third party service providers to assure that the customer’s privacy is respected. If the Company becomes aware that an item of personal information may be materially inaccurate, it will re-verify the information and correct any error(s). Any Company employee violating the Privacy Policy will be subject to discipline, up to and including, termination.

Recommendations: None

Procedure 10 – Insurance Information Management

Observations: The Company has a written procedure manual for the management of Insurance Information. The manual is dated March 5, 2004. The Internal Audit Committee reviews and tests this procedure annually and the results are provided to both the Audit Committee and the Board of Directors. A review of the audit reports was not conducted during this examination.

The Company manual provides guidance to employees on which records to maintain, the length of time to maintain these records and under what circumstances these records may or may not be discarded or destroyed. The manual also addresses the proper method for destroying such documents. All records are maintained and discarded or destroyed in accordance with corporate procedures. Business units and service units have established Best Practices to implement the corporate policy.

Recommendation: None

Procedure 11 – Complaint Handling

Observations: The Company has a formal written Complaint Handling Procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure is updated annually.

The Company maintains a Consumer Complaint Manual, which details the complaint handling process, and all complaints are logged into the XL Consumer Complaints Database for tracking and analysis. The Company defines consumer complaints as written communications from policyholders or claimants, which primarily express a grievance. These communications may be forwarded to the Company by insurance departments or they may be submitted directly by consumers.

When the Company receives a complaint, the date is recorded and it is scanned into a PDF file. The complaint is logged into the complaint database, assigned a file number by the system, and a hard copy file is created. The Administrator forwards the complaint to the appropriate contact
person for review. Depending on the process that is in place for the particular business unit or program, the contact person either drafts a response or provides the Administrator with information and supporting documentation with which to draft a response. After the response has been sent to the complainant and/or insurance department, an electronic copy of the response is attached to the complaint file record in the database and the file record is closed. The file record may be reopened if follow-up inquiries are received on the complaint matter. If the file record is reopened, a Re-open document record is created by the system under the original file record.

The Company follows the response times that are mandated by each state and those that do not set response times. The Company has set a goal to respond to inquiries within fifteen working days. In a general electronic review no exceptions were noted.

*Recommendations:* None

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

*Observations:* The Company has a written Advertising, Sales and Marketing procedure. The procedure was last revised in August 2005. No conflicts with Delaware’s statutes or regulations were noted.

The Company developed a process that includes eight (8) steps to ensure that the Company’s senior management is aware and appropriately involved in the development of marketing projects and programs, and that all appropriate legal and regulatory groups are included in the process. The eight (8) steps include project inception, marketing service center engagement, determination of complexity of project, project entered into project database, project development, review and approval, revise and complete, and the distribution of copies. The project is reviewed by a number of persons including Marketing management, the requesting client, the requesting client’s management, Legal counsel (US or International, depending on scope of project), Quality Control, Technical review as appropriate and Regulatory personnel as appropriate (policy forms, etc.).

All marketing projects are based on a plan and an approved line of budget. The Company assigns the appropriate marketing center based on expertise, logistics, available time and geography. There is a preliminary screening at this point to determine the scope and size of the project and time available to produce the project. For any project expected to require more than four (4) hours of time involvement by Creative or Marketing Coordination staff, an Analysis of Marketing Project form is completed. This form is sent to Marketing management for review and approval before any further work is started. The Senior Marketing management determines which marketing service center will undertake the project. Once the project is approved it is entered into the Marketing project database. The Company’s Creative Department develops marketing material based on client input and Company branding standards. The project is then reviewed and approved, revisions are made and copies are distributed.

*Recommendations:* None
**Procedure 14 – Agent Produced Advertising**

*Observations:* The Company does not have a written Agent Produced Advertising Procedure. The Company’s marketing and legal personnel review all marketing and advertising material that includes the Company’s name or logo.

*Recommendations:* The Company should develop a formal written Agent Produced Advertising Procedure.

**Procedure 15 – Producer Training**

*Observations:* The Company does not have a formal written Producer Training Procedure. The Company does not write business on a direct basis. A number of their employees are licensed and appointed on behalf of their Company but they do not place business with or solicit business on behalf of the company. Since there is no direct written business and they have no “active” employee agents a formal training procedure has not been developed. The business units work directly with their appointed agents on the products that they write on the Company’s behalf.

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

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

*Observations:* The Company has a written Producer Selection, Appointment and Termination procedure. The procedure is clear and current. No conflicts with Delaware’s statutes or regulations are noted.

The Company’s Sales and Marketing (S&M) and the business units determine from whom they will accept business. Either S&M or the business unit will contact the Regulatory Services Group’s Producer Administration Unit in order to determine whether the producer has an existing appointment with the Company or if an appointment should be made. The assigned Producer Analyst will contact the producer directly for any additional information needed in order to process the appointment (if required). All appointments are made with Kaplan Financial’s Appointpak product; background checks are integrated within Appointpak (GIS is the Company’s background check vendor). Every business unit, except the Company’s Equine and Design Professional, treat their producers as brokers, so if the state permits brokering they will not make an appointment. However, the Companies’ still require securing license information in order to verify that the agency and/or individual holds a valid broker license in the insured’s and producer's state of domicile. The Producer Analyst will advise S&M or the business unit (depending on who made the appointment request) that either the appointment has been made or that no appointment is required (states that permit brokering). The database is updated with the new producer information.

The Producer Administration Manager will secure a listing of all producers. Those who are flagged as not producing business within the past eighteen (18) months will be terminated after confirmation that neither S&M nor any business unit has any objections. The producer is
notified of the termination, the state is notified of the termination (if required), and the database is updated.

Recommendations: None

**Procedure 21 – Producer Defalcation**

*Observations:* The Company has a written Producer Defalcation Procedure. The procedure is dated July 2005.

Producers who are suspected of fraud or illegal conduct are referred to the Legal Department, Internal Audit, and Regulatory Services. The Legal Department/Regulatory Services handles all required communication with state insurance departments regarding the producer. The Internal Audit Department investigates the allegation of fraud.

Generally, a notice of fraudulent or illegal activity will be forwarded to the Producer Administration Unit from the Company’s Legal Department, who receives notice from the state. The Company checks their database and the PDB to see if there is an appointment for the producer with any of the Companies. If so, the Company will advise the Legal Department who will request that the producer’s appointment be terminated and will cancel the producer’s agreement. The Legal Department will advise all business units and Sales & Marketing as to the particulars of the action taken, taking into consideration privacy issues surrounding the circumstance of the defalcation. If there is no active appointment the Company must still provide evidence to the Legal Department that there are no active appointments with any of their Companies, via a screen print from the PDB, as well as show that the producer agreement was cancelled. During the course of this examination the examiners did not review the PDB system. However, no problems were noted in the materials provided for review or mentioned during any of the on-site interviews.

To date, no illegal activity or inappropriate behavior has lead to the termination of an employee. The Company’s Code of Business Conduct and Ethics advises employees on the proper course of action when confronted with any illegal or inappropriate behavior. All Company entities are subject to the Company’s Code of Business Conduct and Ethics, which requires employees to report violations of laws, rules and regulations to a regional compliance officer designated by the Legal Department. The Code further advises that any employee who knowingly permits illegal conduct, or ignores suspicious activity that may indicate money laundering, will be subject to discipline, and can also be subject, along with the Company, to criminal and civil penalties. Employees who have any questions or who become aware of any questionable business activities or circumstances that could suggest money laundering are instructed to promptly consult with a compliance officer. Employees are also encouraged to talk to supervisors, managers, a compliance attorney, a regional compliance officer, the Compliance Director or other appropriate personnel, or call the local compliance hotline, when in doubt about what the best course of action is in any situation.

Recommendations: None
Procedure 22 – Prevention of the Use of Persons with a Felony Conviction

Observations: The Company has a written prevention addressing the Use of Persons with a Felony Conviction Procedure. The procedure is clear and readable and dated July 2005. No conflicts with Delaware’s statutes or regulations are noted.

If an appointment is required, the background check is automatically sent to the Company’s background check vendor (GIS) via Appointpak, which is the tool used to make all appointments. Background checks are performed in all states which require them. The Company uses Kaplan Financial's E-Pal product as their reference tool to determine which states require background checks. The background check criteria are listed below:

- Criminal History: Any misdemeanor convictions found at the county level, any felony convictions found at the county level.
- Credit History: Bankruptcies and tax liens within 1 year totaling $5,000 or more, Bankruptcies and tax liens within 7 years totaling $15,000 or more, Garnishment on earnings within the last 5 years.

Recommendations: None

Procedure 23 – Policyholder Service

Observations: The Company has a written procedure manual for Policyholder Services that is clear and readable. The procedure is accessible to persons subject to its provisions, and adequate training is provided to persons affected by the procedure. No conflicts with Delaware’s statutes or regulations are noted.

Endorsements - with limited, significant exceptions (mid-term cancellation) XL US Risk Management (USRM) requires that endorsements be pended for processing until the end of the policy. Endorsements will be handled at the time of premium audit.

Audits - all policies are subject to audit. USRM is utilizing a nationally recognized premium audit company to conduct on-site audits of client books and records. USRM is just completing its first audit/renewal season. As such, specific procedures are still in development.

Renewals - the renewal process begins approximately one hundred, twenty (120) days prior to expiration. The TDA prepares a conditional notice of renewal (from Oden) and sends it to the Insured. The underwriter and broker open discussions regarding a renewal strategy.

All three types of transactions are and will be reviewed/underwritten/invoiced (if appropriate) in a manner similar to new business transactions.

USRM requires that endorsements be pended for processing until the end of the policy. Endorsements will be handled at the time of premium audit. USRM is utilizing a nationally recognized premium audit company to conduct on-site audits of client books and records. USRM is just completing its first audit/renewal season. As such, specific procedures are still in
The renewal process begins approximately one hundred, twenty (120) days prior to expiration. The underwriter and broker open discussions regarding a renewal strategy.

USRM holds management meetings approximately twice per month. These are informal in structure and nature, and allow for interactive, roundtable discussions. The focus of the meeting is more strategic/overview (rather than tactical or agenda-driven discussions). The Company uses it as an opportunity to promote awareness and level understanding among all groups within USRM and to discuss problems and issues that may be impacting the Company.

Recommendations: None

Procedure 24 – Premium Billing

Observations: The Company has a premium billing procedure. The procedure is clear and dated March 23, 2005. No conflict with Delaware statutes and regulations was noted.

The Company’s Specialty Casualty Americas and General Property standard due dates are determined by the type of transaction: direct or assumed. If, however, the underwriter instructs a different due date (see Exception below), then the (Deal Administrator) DAM or (Policy/Deal Administrator) PAM must be sure to reflect the same payment terms on the invoice as on the binder.

Direct Premiums- The most recent change to the Company’s collection procedures is that all premiums are due either 30 days after the date of the invoice or 30 days after the effective date of the transaction (whichever is later). Exception: On Global Property and Energy accounts the underwriter may select either a 30- or 60-day payment option. On General Property and Energy accounts the underwriter may select either a 30 or 60-day payment option. Any exceptions to this rule must be approved.

Assumed Premiums- For policies where the Company is reinsure another insurance company, the due date on the reinsurance premiums will be 60 days from the invoice date or the effective date of the transaction (whichever is later).

Recommendations: None

Procedure 25 – Correspondence Routing

Observations: The Company has a written correspondence routing procedure for the XL General Property business unit. The XL Specialty Casualty Americas, a business unit, does not have a formal written correspondence routing procedure.

XL General Property the underwriter receives the submission from a broker or client and performs the name clearance in their system. If the name is a positive match they are downloaded into GENIUS (Company Computer System). If the name is not recognized then a declinature is sent back to the broker or client. The current version date of this procedure is March 23, 2005.
XL Specialty Casualty Americas correspondence is generally received in their offices and is directed to the appropriate individual by the mailroom or other responsible party at the respective branch location. Unidentifiable mail researched and forwarded to the appropriate individual once that person/department has been identified.

Recommendations: It is recommended that XL Specialty Casualty Americas develop a formal correspondence routing procedure.

Procedure 26 – Policy Issuance

Observations: The Company has a written policy issuance procedure. No conflict with Delaware statutes and regulations was noted.

The Company’s Specialty Casualty Americas, a business unit, “based on the underwriter’s instructions contained in the Underwriting Workbook and working off the binder letter, the (Deal Administrator) DAM will issue the policy using the forms that have been filed and approved in the risk’s headquarter state. The underwriter must clearly state which policy form should be used (commercial umbrella, excess umbrella, claims made or occurrence) as well as which legal entity should be used. The underwriter will review the policy that the DAM prepared noting any corrections to be made. After the underwriter OK’s the policy, DAM will apply the underwriter’s electronic signature to the policy.” Policies incepting in December or January: policies should be issued within 90 days from inception date (applicable to Incoming Unit). Policies incepting in any other month should be issued within 25 days from date of binding. The current version is dated October 2005.

The Company’s General Property policies are issued within 45 days of binding pending receipt of all underwriting information. The current version is dated March 2005.

Recommendations: None

Procedure 27 – Reinstatement

Observations: The Company has a written reinstatement procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in July 2005.

According to the Company, they use ODEN Terminator and ODEN Online Cancellation, Non-renewal and Conditional Renewal Manuals to terminate policies and reinstate when that information is available.

The procedure does not appear to conflict with Delaware statutes or regulations. The procedure is provided to all employees as necessary and the Internal Audit reviews and submits to an Audit Committee and Board of Directors quarterly and annual basis.

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 procedure. No information regarding measurement structures and how management exercises oversight and control were provided to the Examiner.

XL Specialty Casualty America’s, a business unit, process utilizes the underwriting unit, which handles requests that are received directly from brokers, the insured or loss runs provided in accordance with statute. The underwriter forwards this request to the Deal Administrator or Policy Administrator and the loss run is produced in Genius and forwarded to the requestor via fax, pdf, email or U.S. mail.

The General Property Unit’s general practice is to pull the file and provide the insured with the claims history at any time, but on a standard basis they run the loss history before renewal to help formulate the renewal.

*Recommendations:* It is recommended that the Company adopt and implement a written insured or member requested claim history procedure for General Property and Specialty Casualty Americas. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure, how management exercises oversight and control of the process as well as procedures for revising and/or updating the procedure when so indicated.

**Procedure 30 – Premium Determination and Quotation**

*Observations:* The Company does have a formal written premium determination and quotation procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in February 12, 2003.

According to XL Specialty Casualty business unit, new submissions are forwarded to the Incoming Manager, who will review and assign the submissions to an underwriter. The underwriter will log new liability submissions and clear the account by checking the policy files and quotations to see if the account has been written or quoted previously. The file clerk will type a quote label and place in a folder. The quote file is then returned to the designated underwriter and the underwriter emails the producer a request for renewal information. The underwriter will secure a loss run from GENIUS 120 days prior to expiration.

The procedure does not appear to conflict with Delaware statutes or regulations. The procedure is provided to all employees as necessary and the Internal Audit reviews and submits to an Audit Committee and Board of Directors quarterly and annual basis.

*Recommendations:* None

**Procedure 31 – Policyholder Disclosures**

*Observations:* The Company has a formal written policyholder disclosure procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by
the procedure. The procedure was initially adopted in 2001 and was last revised November 2004.

According to the Company, “the General Business Practice has developed an online resource to assist the business units with producing the policies using the appropriate rates, rule and forms. A function of this site is the Statutory Policyholder Notice Section which provides the underwriter and/or policy production team with the appropriate notices by state to satisfy the statutory requirements.”

XL Specialty Casualty Americas, a business unit, does not have a formal written procedure; however the procedure is to refer to Regulatory Services Department Website on XL Portal for Policyholder disclosures by state.

The procedure does not appear to conflict with Delaware statutes or regulations. The procedure is provided to all employees as necessary and the Internal Audit reviews and submits to an Audit Committee and Board of Directors quarterly and annual basis.

Recommendations: None

Procedure 32 – Underwriting and Selection

Observations: The Company has a written underwriting and selection procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in April 5, 2005.

The General Property business unit procedure consists of the underwriter taking a file and performing a clearance to make sure that the account is cleared before quoting to make sure that another branch (or Bermuda) is not working on the same account. A skeleton quote is set to be worked on if being pursued or declined if not being pursued. The underwriter then performs an analysis and pricing in the company’s Global Data Reservoir (GDR). The GDR provides an integrated and standardized, yet flexible underwriter analysis and pricing tool which, allows global reporting on location and portfolio levels. The GDR master status drives the automated updates to GENIUS and a policy is created.

Specialty Casualty business unit establishes underwriting and selection guidelines for casualty on a global basis. Umbrella and International guidelines tailor those guidelines on a regional basis. Umbrella and International Guidelines are newly developed, and will continue to evolve as new chapters are added.

The procedure does not appear to conflict with Delaware statutes or regulations. The procedure is provided to all employees as necessary and the Internal Audit reviews and submits to an Audit Committee and Board of Directors quarterly and annual basis.

Recommendations: None
Procedure 33 – Rate and Form Filing

Observations: The Company has a written rate and form filing procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in July 2005.

The Company provided the Examiner with a State Filings and Compliance Procedure Manual. XLIA processes timely and accurate submissions in order to obtain prompt approval of rate, rule and form filings for the Operating Business Units and Program Managers. They accomplish this by pursuing education in the areas of state filing, contract analysis, insurance regulations and insurance operations.

The procedure does not appear to conflict with Delaware statutes or regulations. The procedure is provided to all employees as necessary and the Internal Audit reviews and submits to an Audit Committee and Board of Directors quarterly and annual basis.

Recommendations: None

Procedure 34 – Termination

Observations: The Company has a written premium determination and quotation procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in November 1, 2005 and has several business units that have a procedure. No conflict with Delaware statutes or regulations was noted.

It is the general practice of XL companies businesses to use the ODEN Policy Terminator to termination policies. In addition, XL businesses use the ODEN On-line product to determine the guidelines for each state. The ODEN On-line products are available to the business unit through the Regulatory Resource Center (RRC).

General Property and Specialty Casualty Americas, a business unit, has specific instructions highlighted in Excess Casualty or other departmental procedures, all departments use ODEN Policy Terminator software as well as referral to Regulatory Resource Center. Interpretation of the law is referred to Legal Department.

Recommendations: None

Procedure 35 – Underwriting File Documentation

Observations: The Company has an underwriting file documentation procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in February 13, 2003.

The Specialty Casualty business unit is based on the underwriter’s instructions contained in the Underwriting Workbook and working off the binder letter. The Deal Administrator will issue the policy using the forms that have been filed and approved in the Risk’s headquarter state. The
underwriter must clearly state which policy form should be used (commercial umbrella, excess umbrella, claims made or occurrence) as well as which legal entity should be used.

The General Practice unit of the XL Insurance business is using the Regulatory Resource Center (RRC) to understand the necessary file documentation and processes.

According to the Company, the General Property unit has a comprehensive underwriting thought process document that every underwriter uses to document the account-specific exposure assessment as well as discuss why an account was written or declined and how any amendments from submission to quote to binder policy were determined.

The procedure does not appear to conflict with Delaware statutes or regulations. The procedure is provided to all employees as necessary and the Internal Audit reviews and submits to an Audit Committee and Board of Directors quarterly and annual basis.

Recommendations: None

Procedure 36 – Underwriting Training

Observations: The Company does not have a written Underwriting Training Procedure. XL Environmental has each Underwriter undergo training when hired. The training process is a collaborative effort involving the line of business the Underwriter is assigned, Human Resources, IT, and Corporate Underwriting.

XL General Business Practice and XL Programs provide on-site training for new employees. XL Insurance offers a tuition reimbursement program, which encourages employees to advance their careers with job related courses. The Company also provides management training via XL HR developed management training programs such as, Global Development Program, Performance Development Program, and Leadership Development Program. Training is part of every manager’s goals and objectives. Further, development is rated at all performance reviews, all employees, and all levels.

Recommendations: The Company has a detailed process but needs to develop a formal written Underwriting Training Procedure that encompasses those processes.

Procedure 40 – Staff Training

Observations: The Company does not have a Staff Training Procedure. XLIA provides on-site training for their new employees. XL offers a tuition reimbursement program which encourages employees to advance their careers with job related courses. XL also provides management training via XL Human Resource developed management training programs, such as, Global Development Program, Performance Development Program, and Leadership Development Program.

Recommendations: The Company should develop a formal written Staff Training Procedure.
Procedure 42 – Adjuster/Claims Adjudicator Training

**Observations:** XLIA does not have a formal written procedure regarding Adjuster Training. XL Insurance provides internal training for the newly hired adjusters. It is the Company’s general practice to hire seasoned adjusters who have a background adjusting claims similar to those experienced by the Company. XL supports and promotes continued education and on-going training. Claim staff attends various insurance seminars and classes offered around the country. XL Insurance is currently developing a written procedure.

**Recommendations:** It is recommended that the Company develop a formal written Adjuster Training Procedure.

Procedure 43 – Claim Handling

**Observations:** The Company has a written Claim Handling Procedure. The procedure is clear and has been in place for ten (10) years. The Company appoints a Process Improvement Committee annually to review and revise the procedure, which includes changing any area that might be affected by any recent legal changes. No conflicts with Delaware’s statutes or regulations are noted.

All XL Companies claims are handled at the Exton, PA office. XL receives approximately 4,000 claims per year; 2,600 of those are open or pending. Of the open claims seventy percent (70%) are automobile liability, twenty-five percent (25%) are general liability and the remaining five percent (5%) are divided among Property, Inland Marine and Marine. XL has eleven (11) in-house adjusters that handle claims, including independent adjusters across the United States. XL receives the majority of claims via facsimile, with the other claims received through mail, telephone and email.

Upon receipt of a claim the supervisor reviews it, assigns the claim an approximate reserve and an adjuster. The claim is given to the claim transfer center to be logged into the WINS, the Company’s system used to process a claim, a file folder is created and a claim number assigned. The file is given to the adjuster to be worked. This process occurs within two hours.

The supervisor uses his/her discretion as to which adjuster will work each claim depending on the adjuster’s experience. The Company’s environmental consultants are involved with the remediation of all claims involving hazardous materials, spills, etc.

Once the adjuster receives the claim they must contact the insured within twenty-four (24) hours and begin the investigation process. Each adjuster is assigned a maximum reserve and before any claim is paid a supervisor reviews the claim. A ledger is produced each day including all payments sent to the Accounting Department. All clean claims are paid within one day, and can be mailed out that same day depending on the urgency. A paper copy of the check is usually given back to the adjuster for their records.

To ensure claims are handled effectively, each quarter the Company randomly selects and reviews five (5) claims per adjuster. The Company’s Global Audit Company also conducts an annual review by selecting claims at random to review in detail. No results from the audit were requested or provided by the Company for review.
Procedure 44 – Internal Claim Audit

Observations: The Company has a written Internal Claim Audit Procedure. The procedure is updated annually or as needed. No conflicts with Delaware’s statutes or regulations are noted.

Each quarter, the Company selects five (5) claims per adjuster to review. The Company’s Global Audit Company also conducts an annual review by selecting claims at random to review in detail. Each claim unit is audited on a two year cycle to measure compliance with claims standards and requirements. Any claim units receiving a Needs Improvement rating that will have a follow-up review within 1 year to ensure it meets minimum compliance standards. An annual review of the risk factors impacting the business is considered and if management deems it necessary a unit may be reviewed again in less than two years.

The techniques used during an audit include: reviewing a sample of claims against standards (complaint compliance, internal and external), interviews of claims and non-claims personnel, process analysis and a review of management reporting and customer service requirements.

An annual reconciliation is performed across the entire claims network to verify and make corrections between the claim files and the key data fields in the claim systems.

The areas audited include: claim office operations, TPA/Vendor’s qualifications and performance, and other claim functions reporting to the Global Claims Executive (GCE).

Recommendations: None

Procedure 45 – Claim File Documentation

Observations: The Company has a written Claim File Documentation Procedure. The procedure has been in place for ten (10) years. The Company appoints a Process Improvement Committee annually to review and revise the procedure, which includes changing any area that might be affected by any recent legal changes. Please refer to the observations in Procedure 43, Claim Handling, for more information on claim file documentation. No conflicts with Delaware’s statutes or regulations are noted.

Recommendations: None

Procedure 46 – Subrogation and Deductible Reimbursement

Observations: The Company does not have a written Subrogation and Deductible Reimbursement Procedure. However, the Company uses the Special Distribution Channel Movements Report, which identifies all proceedings (reserve amendments, payments reducing reserves). The Claims Manager reviews the report on a weekly basis and action plans are also
followed-up. The Claims Manager keeps a binder containing all the reports and written evidence of each review.

Recommendations: It is recommended that the Company formalize, adopt and implement a written procedure for the Subrogation and Deductible Reimbursement Process. It is also recommended that the Company adopt measurement structures to test all aspects of this procedure.

Procedure 47 – Reserve Establishment

Observations: The Company does not have a written Reserve Establishment Procedure, however, they do have a process in place.

The Company reserves subsequent amendments, which are automatically posted by GENIUS/WINS (system used) into the individual case reserves account (unpaid losses), which is reduced when the actual payments have been executed. Each payment in GENIUS/WINS generates a posting in both the claims bucket account and the respective claims expenses account. GENIUS/WINS show whether the payment is a regular claims settlement or a loss adjustment expense. Once an appropriate level of Senior Claims Management and claim payments approves reserves are authorized in GENIUS/WINS, these process steps are supervised by the Central and Local Finance Department.

Recommendations: It is recommended that the Company develop a formal written Reserve Establishment Procedure. Included in this procedure should be measurement structures to test its effectiveness on a regular basis.

SUMMARY

XL Insurance America, Inc. (XLIA) 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 Disaster Recovery. (P-6)
- Need to formalize a written procedure for Agent Produced Advertising (P-14)
- Need to formalize a written procedure for Producer Training (P-15)
- Need to formalize a written procedure for Correspondence Routing. (P-25)
- Need to formalize a written procedure for Insured or Member Requested Claims History and to develop measurement structures for management to exercise oversight and control. (P-28)
- Need to formalize a written procedure for Underwriting Training (P-36)
- Need to formalize a written procedure for Staff Training (P-40)
- Need to formalize a written procedure for Adjuster/Claims Adjudicator Training (P-42)
- Need to formalize a written procedure for Subrogation and Deductible Reimbursement (P-46)
- Need to formalize a written procedure for Reserve Establishment (P-47)

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

**LIST OF RECOMMENDATIONS**

**Recommendation P-06, Disaster Recovery**
It is recommended the Company develop a formal Disaster Recovery Procedure that includes the Company’s process in the event of a disaster, the recovery process and controls to ensure the procedure is affectively working and that all employees adhere to the procedure.

**Recommendation P-14, Agent Produced Advertising**
The Company should develop a formal written Agent Produced Advertising Procedure.

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

**Recommendation P-25, Correspondence Routing**
It is recommended that XL Specialty Casualty Americas develop a formal correspondence routing procedure.

**Recommendation P-28, Insured or Member Requested Claim History**
It is recommended that the company adopts and implements a written insured or member requested claim history procedure for General Property and Specialty Casualty Americas. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure, how management exercises oversight and control of the process as well as procedures for revising and/or updating the procedure when so indicated.

**Recommendation P-36, Underwriter File Documentation**
The Company has a detailed process but needs to develop a formal written Underwriting Training Procedure that encompasses those processes.

**Recommendation P-40, Staff Training**
The Company should develop a formal written Staff Training Procedure.

**Recommendation P-42, Adjuster Training**
It is recommended that the Company develop a formal written Adjuster Training Procedure.

**Recommendation P-46, Subrogation and Deductible Reimbursement**
It is recommended that the Company formalize, adopt and implement a written procedure for the Subrogation and Deductible Reimbursement Process. It is also recommended that the Company adopt measurement structures to test all aspects of this procedure.
**Recommendation P-47, Reserve Establishment**  
It is recommended that the Company develop a formal written Reserve Establishment Procedure. Included in this procedure should be measurement structures to test its effectiveness on a regular basis.

**CONCLUSION**

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

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