

MARKET CONDUCT EXAMINATION
OF
ALLIED WORLD ASSURANCE COMPANY, (U.S.) INC.
AS OF
JANUARY 1, 2007

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of JANUARY 1, 2007 of the

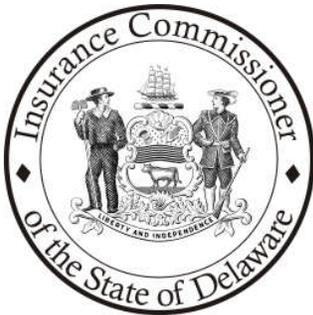
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.

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

ATTEST BY: Antoinette Hardy

DATE: 20 NOVEMBER 2008

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 20TH DAY OF NOVEMBER 2008.



Matthew Denn
Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
AS OF
JANUARY 1, 2007

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

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

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 20TH day of NOVEMBER, 2007.

TABLE OF CONTENTS

SALUTATION..... 1

EXECUTIVE SUMMARY 2

SCOPE OF EXAMINATION..... 2

HISTORY AND PROFILE 3

METHODOLOGY 4

A. COMPANY OPERATIONS/MANAGEMENT..... 4

 Standard A 08 4

 Standard A 09 5

B. COMPLAINTS 5

REVIEW OF PROCEDURES 6

 C.1. Procedures Reviewed but with No Recommendations 6

 C.2. Procedures Reviewed with Recommendations 7

CONCLUSION..... 7

SALUTATION

January 17, 2008

Honorable Matthew Denn
State of Delaware
Insurance Commissioner
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 06.718, and pursuant to statutory provisions including 18 Del. C. §318-322, a Market Conduct Examination has been conducted of the affairs and practices of:

ALLIED WORLD ASSURANCE COMPANY, (U.S.) INC.

The examination was performed as of January 1, 2007. Allied World Assurance Company, (U.S.) Inc., hereinafter referred to as the "Company" or as "AWAC US," is incorporated under the laws of the State of Delaware. The examination consists of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following location:

225 Franklin St., Boston, MA 02110

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI" and other appropriate locations.

The report of examination thereon is respectfully submitted.

EXECUTIVE SUMMARY

AWAC US, formerly known as Commercial Underwriters Insurance Company (CUIC), was incorporated on March 25, 1992 as a California domiciled insurer. Through a series of acquisitions and purchases CUIC eventually became Allied World Assurance Company (U.S.) Inc. on October 23, 2002. AWAC US redomesticated from the State of California to the State of Delaware effective July 16, 2003.

Effective July 15, 2002, Lexington Insurance Company (an AIG subsidiary) provided various claims and underwriting services to AWAC US and its sister company Newmarket Underwriters Insurance Company (NUIC). Allied World became a publicly traded company on July 12, 2006. Following the initial public offering the agreement between Lexington and AWAC US was terminated on December 31, 2006.

Because of the overlap between the termination of the agreement between Lexington and AWAC US and the scope of this present examination, no procedures or files dated after December 31, 2006 were reviewed.

AWAC US is a Surplus Lines carrier in forty-seven (47) states and an admitted carrier in three states, Delaware, California and New York. AWAC US provides the following property coverages:

- Commercial Real Estate and Office Buildings
- Municipalities and Institutional Risks
- Healthcare Facilities Risks
- Retail and Wholesale
- Hotel / Motel Risks
- Manufacturing Risks

This is a Delaware Baseline Examination in which the processes, procedures and controls utilized by the Company are reviewed and evaluated.

There were no areas of concern noted during this examination.

SCOPE OF EXAMINATION

While the basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer, all baseline examinations include, Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting & Rating and Claims.

This baseline examination is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This review is not a pass/fail test, rather, it determines whether or not 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 and operating processes of the Company. This component also includes an analysis of how the Company communicates its instructions and intentions to its operational echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether or not this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus can be directed on those areas where review indicators suggest that the process used by management does not appear to be achieving the appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed, to some extent, by one or more of the Procedures reviewed, thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by exception rather than a report by test. This means that only those areas where Recommendations for improvement were noted are detailed in this report.

HISTORY AND PROFILE

AWAC US, formerly known as Commercial Underwriters Insurance Company (CUIC), was incorporated on March 25, 1992 as a California domiciled insurer. At that time, CUIC was owned directly by Underwriters Insurance Company, an affiliated company of Swiss Reinsurance America Corporation (Swiss Re). In March of 2001, Underwriters Insurance Company transferred ownership directly to Swiss Re. On July 15, 2002, CUIC, and its sister company Newmarket Underwriters Insurance Company (NUIC), a New Hampshire domiciled insurer, were acquired by Allied World Assurance Holdings (Ireland) Ltd (Allied Ireland). Allied Ireland is a wholly-owned subsidiary of Allied World Assurance Company Holdings, Ltd, formerly known as Allied World Assurance Holdings, Ltd (Allied World).

The July 15, 2002 acquisition was consummated pursuant to a Stock Purchase Agreement dated February 13, 2002 by and between Swiss Re and Allied World. Allied World subsequently assigned its rights to acquire AWAC US to Allied Ireland pursuant to the terms of the Purchase Agreement. The California Insurance Department, CUIC's domiciliary regulator, approved the application.

CUIC changed its name to Allied World Assurance Company (U.S.) Inc. on October 23, 2002. AWAC US redomesticated from the State of California to the State of Delaware effective July 16, 2003. Applications were filed with and approved by both Insurance Departments.

The original shareholders of Allied World, the parent company, included American International Group Inc., The Chubb Corporation, and Goldman Sachs, among others. Effective July 15, 2002, Lexington Insurance Company (an AIG subsidiary) provided various claims and underwriting services to AWAC US and NUIC. Allied World became a publicly traded company on July 12, 2006. Following the initial public offering the agreement between Lexington and AWAC US was terminated on December 31, 2006.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property & Casualty Insurer found in Chapter VIII of the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the NAIC's *Market Conduct Examiners Handbook* (2004 edition).

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 direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC's *Market Conduct Examiners Handbook*. Samples of complaint files, underwriting files and claim files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "electronic" review is conducted through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination only two Standards were directly tested. The Procedures were tested through a combination of "generic" review and direct observation of the processes used. Each Standard contains a brief description of the purpose or reason for the Standard. The Procedure review does not include this description. The examiners' "Observations" are noted following both Standards and for each Procedure where a "Recommendation" for corrective action is made.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report except for the following two Standards dealing with appropriate licensure and cooperation with the examination process.

Standard A 08

<p>NAIC's <i>Market Conduct Examiners Handbook</i> - Chapter VIII, §A, Standard 8 The Company is licensed for the lines of business that are being written. 18 Del. C. §318(a), §505(b), §508(b)</p>

The review methodology for this standard is "generic." This Standard has a direct insurance statutory requirement. This Standard determines whether or not the Company's operations are in conformance with the Company's Certificate of Authority.

Results: Pass

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company's Delaware Certificate of Authority.

As previously noted, AWAC US is a Surplus Lines carrier in forty-seven (47) states and an admitted carrier in three. AWAC US provides the following property coverages:

Commercial Real Estate and Office Buildings
Municipalities and Institutional Risks
Healthcare Facilities Risks
Retail and Wholesale
Hotel / Motel Risks
Manufacturing Risks

Recommendations: None

Standard A 09

NAIC's *Market Conduct Examiners Handbook - Chapter VIII, §A, Standard 9*
The Company cooperates on a timely basis with the examiners performing the examination.
18 Del. C. §318(a), §320(c), §508(b), §520(b)3

The review methodology for this Standard is "generic." This Standard has a direct insurance statutory requirement. This Standard determines whether the Company is cooperating with the examiners in the completion of an open and cogent review of the Company's operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely manner thereby minimizing cost.

Results: Pass

Observations: The Company cooperated with the examiners in the conduct of the examination. All persons involved with the examination were cooperative and provided all requested information on a timely basis.

Recommendation: None

B. COMPLAINTS

The evaluation of the Standards in this business area is based on the Company's response to various information requests (IRs) and their handling of complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints which it has received." This statute also requires that "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "... any written communication primarily expressing a grievance."

Observations: The Company did not have any complaints during the period of examination. The NAIC's listing of complaints for the same period also shows no complaints received from any state.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes usually take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of these procedures or the ineffective application of them is often reflected in the failure of various examination Standards. The processes usually include:

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

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce an 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.

The following list itemizes all Procedures that were reviewed, but for which no concerns or recommendations were noted. There were no recommendations noted for this examination.

C.1. Procedures Reviewed but with No Recommendations

Procedure 01 – Audit (Internal and External)
Procedure 05 – Anti-Fraud
Procedure 07 – Managing General Agent (MGA) Oversight and Control
Procedure 08 – Vendor Oversight and Control
Procedure 09 – Customer and Consumer Privacy Protection
Procedure 10 – Production of Business
Procedure 11 – Complaint Handling
Procedure 13 – Advertising, Sales and Marketing
Procedure 14 – Agent Produced Advertising
Procedure 15 – Producer Training
Procedure 20 – Producer Selection, Appointment and Termination
Procedure 21 – Producer Defalcation
Procedure 22 – Prevention of the Use of Persons with a Felony Conviction
Procedure 24 – Premium Billing
Procedure 25 – Correspondence Routing
Procedure 26 – Policy Issuance
Procedure 27 – Reinstatement
Procedure 30 – Premium Determination and Quotation
Procedure 31 – Policyholder Disclosures
Procedure 32 – Underwriting and Selection

- Procedure 33 – Rate and Form Filing
- Procedure 34 – Termination
- Procedure 35 – Underwriting File Documentation
- Procedure 36 – Underwriter Training
- Procedure 40 – Staff Training
- Procedure 42 – Adjuster Training
- Procedure 43 – Claim Handling
- Procedure 44 – Internal Claim Audit
- Procedure 45 – Claim File Documentation
- Procedure 46 – Subrogation and Deductible Reimbursement
- Procedure 48 – Catastrophic Claim Handling

C.2. Procedures Reviewed with Recommendations

None

CONCLUSION

The examination was conducted by Brian Tinsley, Sean Connolly, Nobu Koch and Cynthia Amann and is respectfully submitted.



Brian Tinsley
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware



Cynthia M Amann
Market Conduct Supervising Examiner
Insurance Department
State of Delaware