

**MARKET CONDUCT EXAMINATION**

**OF**

**FIREMEN'S INSURANCE COMPANY**

**OF**

**WASHINGTON, D.C.**

**AS OF**

**AUGUST 22, 2005**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of AUGUST 22, 2006 of the

**FIREMEN'S INSURANCE COMPANY OF WASHINGTON, D.C.**

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

ATTEST BY:

*Antoinette Handy*

DATE: 24 SEPTEMBER 2007

*In Witness Whereof,* I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 24TH DAY OF SEPTEMBER 2007.



*Matthew Denn*

*Insurance Commissioner*

**REPORT ON MARKET CONDUCT EXAMINATION**  
OF THE  
**FIREMEN'S INSURANCE COMPANY OF WASHINGTON, D.C.**  
AS OF  
**AUGUST 22, 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.

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

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 25TH day of SEPTEMBER, 2007.

## TABLE OF CONTENTS

SALUTATION .....	1
SCOPE OF EXAMINATION.....	2
HISTORY AND PROFILE .....	2
METHODOLOGY .....	3
A. COMPANY OPERATIONS/MANAGEMENT .....	5
Standard A 07 .....	5
Standard A 09 .....	5
B. COMPLAINTS/GRIEVANCES .....	6
REVIEW OF PROCEDURES.....	6
Procedure 01 – Audit (Internal and External).....	7
Procedure 02 – Assertion of Privilege .....	8
Procedure 03 – Company Records, Central Recovery and Backup.....	9
Procedure 05 – Anti-Fraud.....	11
Procedure 06 – Disaster Recovery .....	12
Procedure 07 – MGA Oversight and Control .....	13
Procedure 08 – Vendor Oversight and Control.....	13
Procedure 09 – Customer and Consumer Privacy Protection .....	14
Procedure 10 – Insurance Information Management .....	15
Procedure 11 – Complaint Handling.....	16
Procedure 13 – Advertising, Sales and Marketing.....	17
Procedure 14 – Agent Produced Advertising.....	18
Procedure 15 – Producer Training .....	18
Procedure 16 – Replacements .....	19
Procedure 17 – Illustrations .....	19
Procedure 20 – Producer Selection, Appointment and Termination .....	19
Procedure 21 – Producer Defalcation .....	21
Procedure 22 – Prevention of Use of Persons with Felony Conviction.....	22
Procedure 23 – Policyholder Service .....	23
Procedure 24 – Premium Billing.....	24
Procedure 26 – Policy Issuance .....	26
Procedure 27 – Reinstatement .....	27
Procedure 28 – Insured or Member Requested Claim History .....	28
Procedure 30 – Premium Determination and Quotation .....	29
Procedure 31 – Policyholder Disclosures .....	30
Procedure 32 – Underwriting and Selection .....	30
Procedure 33 – Rate and Form Filing.....	31
Procedure 34 – Terminations .....	32
Procedure 35 – Underwriting File Documentation .....	33
Procedure 36 – Underwriting Training.....	34
Procedure 40 – Staff Training.....	35
Procedure 42 – Adjuster/Claims Adjudicator Training .....	36
Procedure 43 – Claim Handling.....	37
Procedure 44 – Internal Claim Audit .....	38

Procedure 45 – Claim File Documentation.....	39
Procedure 46 – Subrogation and Deductible Reimbursement .....	40
Procedure 47 – Reserve Establishment.....	41
Procedure 01 – Audit (Internal and External).....	43
Procedure 04 – Computer Security .....	43
Procedure 06 – Disaster Recovery .....	43
Procedure 08 – Vendor Oversight and Control.....	43
Procedure 09 – Customer and Consumer Privacy Protection .....	44
Procedure 11 – Complaint Handling.....	44
Procedure 13 – Advertising, Sales and Marketing.....	44
Procedure 15 – Producer Training .....	44
Procedure 20 – Producer Selection, Appointment and Termination .....	44
Procedure 21 – Producer Defalcation .....	45
Procedure 22 – Prevention of Use of Persons with Felony Conviction.....	45
Procedure 24 – Premium Billing.....	45
Procedure 27 – Reinstatement .....	45
Procedure 28 – Insured or Member Requested Claim History .....	46
Procedure 34 – Termination Procedure .....	46
Procedure 36 – Underwriting Training Procedure .....	46
Procedure 40 – Staff Training Procedure.....	46
Procedure 42 – Adjuster Training Procedure.....	47
Procedure 46 – Subrogation and Deductible Reimbursement Procedure .....	47
CONCLUSION.....	47

## **SALUTATION**

August 17, 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 05.732, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

### **Firemen's Insurance Company of Washington, DC**

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

- 4820 Lake Brook Drive, Suite 300 Glen Allen, VA 23060
- 1 Acadia Commons, Westbrook, ME 04098

The examination is as of August 22, 2005.

Examination work was also performed off-site and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

This 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

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 review is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to 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 upon 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 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**

Firemen's Insurance Company of Washington, D.C. (the Company) was chartered in 1837 by a special Act of Congress of the United States of America as "The President and Directors of the Firemen's Insurance Company of Washington and Georgetown," a District of Columbia property and casualty insurance company. In July 1957, the Company adopted its present name, Firemen's Insurance Company of Washington, D.C.

In 1982, the Company became a member of the W. R. Berkley Corporation (Berkley) holding company system. At that time, the Company merged with WRB Acquirer, Inc. and the Company remained the surviving entity. WRB Acquirer, Inc. was a wholly owned subsidiary of Union Insurance Company, which was in turn a wholly owned subsidiary of Berkley. The Union Insurance Company then contributed all of the issued and outstanding shares of the Company's capital stock to another of its wholly owned subsidiaries, Signet Reinsurance Company. In 1993, all of the other Company's issued and outstanding shares of capital stock were transferred to Berkley, and the Company became a directly owned subsidiary of Berkley.

In 1994, the Company re-domesticated from the District of Columbia to the State of Maryland. On October 19, 1994 the Maryland Insurance Commissioner approved the Articles of Re-domestication and Reincorporation of the Company to the State of Maryland. Effective November 30, 1994 the Company's Articles of Dissolution were accepted by the District of Columbia Business Regulation Administration.

According to the Company's Articles of Re-domestication and Reincorporation, the primary purpose for which the Company was formed is to transact property and casualty insurance and reinsurance business, and to engage in any other lawful related business.

In 1995, the Company revised its charter for the purpose of increasing the par value of its common stock from \$25 per share to \$35 per share. The amendment was approved by the Maryland Insurance Administration.

In 1996, Berkley contributed 100% of the Company's issued and outstanding stock to Berkley Regional Insurance Company (BRIC), a wholly owned subsidiary of Berkley. As a result, the Company became a direct subsidiary of BRIC and Berkley remained the ultimate parent.

On January 31, 2001 the Company re-domesticated from the State of Maryland to the State of Delaware with approval that the home office would be located in Glen Allen, Virginia.

The Company is authorized to write insurance policies covering virtually all property and casualty lines of business in the states where it holds a license.

## **METHODOLOGY**

This examination is based on the Standards and Tests for a Market Conduct Examination found in Chapter XVII 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*.

Some standards are measured using a single type of review, while others use a combination of all of the types of review. The types of review used in this examination fall into three general categories: "generic," "sample" and "electronic."

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Conduct Examiners' Handbook*. For statistical purposes, an error tolerance level of seven percent (7%) is used for claim reviews and a ten percent (10%) tolerance level is used for other types of review. The sampling techniques used are based on a ninety-five percent (95%) confidence level. This means that there is a ninety-five percent (95%) confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance level is not indicative of the DDOI's actual tolerance for deliberate error.

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

Standards are measured using tests designed to adequately determine how the examinee met the standard. Each standard applied is described and the result of the testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the *NAIC's Market Conduct Examiners' Handbook* are provided.

Each Standard contains a brief description of the purpose or reason for the Standard. The "Result" is indicated and the examiners' "Observations" are noted. In some cases a "Recommendation" is made. Results, Observations and Recommendations are reported with the appropriate Standard.

The Company operates two divisions in two locations: Richmond, VA herein referred to as "Richmond," and Westbrook, ME herein referred to as "Portland." The two divisions are under separate management and both issue binding coverage in the Fireman's Insurance Company of Washington, DC. For each procedure reviewed, the appropriate location will be identified.

## A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report with the exception of the following two standards which read as follows:

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

### Standard A 07

*NAIC Market Conduct Examiners Handbook - Chapter XV §A, Standard 7 & Chapter XVII §A, Standard 7*

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

18 Del. C. §318(a), §505(b), §508(b)

The review methodology for this Standard is “generic.” This Standard has a direct insurance statutory requirement. This Standard is intended to ensure that the Company’s operations are in conformance with the Company’s certificate of authority.

*Results:* Pass

*Observations:* The Company appears to be licensed for the lines of business being written based upon a review of premium schedules and the Company’s Delaware Certificate of Authority.

*Recommendations:* None

### Standard A 09

*NAIC 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 is intended to ensure that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and thereby minimizing costs.

*Results:* Pass

*Observations:* During the course of the examination the Company was provided with memorandums and exceptions. If a response could not be provided in the required time frame set forth by the examiners the Company responded with an expected due date and

reason for the delay. The Company's communication with the examiners was very responsive. The examiners experienced no delays during the course of the examination.

*Recommendations:* None

## **B. COMPLAINTS/GRIEVANCES**

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."

### **Richmond**

*Observations:* The Company provided a database with one hundred seventy (170) logged complaints for the period of examination. A sample was selected based upon the population size of logged complaints and reviewed to compare the accuracy of the databases and to look for any complaint patterns. During the review of complaints the following two (2) patterns were noted: 1) claim related complaints where liability has not been established - 17%; and 2) complaints related to termination/cancellations - 22%.

### **Portland**

*Observations:* The Company did not have any complaints registered against them during the scope of the examination.

## **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 of the report. These 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 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 as well as the absence of 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)**

#### Richmond

*Observations:* The Company does not maintain a written procedure for Internal/External Audits. The external audit function is handled by and through the Company's parent, W.R. Berkley. W.R. Berkley obtains the services of a third party accounting firm to perform external audits, the audit results remain with the Company's parent. The Internal audit process is focused on two areas, Underwriting and Claims, but is not limited to only claims and underwriting. Underwriting audits cover quality control reviews of individual underwriters to assess performance. Additionally, underwriting covers Corporate Services for file reviews, business trends, actual or potential problem areas, specific lines of business, audit grading based on results, recommendations to regions including suggesting additional education or training, as appropriate. These audits are similar to field audits however they are performed by region rather than an individual basis. The claim section of internal audit is designed to promote consistency in the handling of claim files.

Reviews performed on underwriting and claim files occur on a monthly basis. Managers from both business unit areas assist in the file reviews to judge employee and regional performance. Management uses the reviews to assist in determining the training needs of both underwriting and claim business unit areas. The Company is removed from the external audit process and does not obtain the audit results for review.

*Recommendations:* It is recommended that the Company formalize an Internal Audit Procedure to regularly review all Company operations (general business procedures and compliance), report audit findings and remediate any findings.

It is recommended that the Company obtain audit reports from external auditors, review report findings and remediate audit findings.

#### Portland

*Observation:* The Company's audit function is segmented externally by Parent Company directed reviews, while internal audits are focused on what the Company considers three core business areas. The Company is notified when the parent company plans their

review and makes requested information available. The Internal audit process is separated into three areas: Operations, Underwriting, and Claims. Each of the three previously mentioned areas represents the Company's most significant business functions.

The internal audit reports reviewed by the examiners were performed on operations, underwriting, and claims. Results of the reports are reported to senior management. When results do not meet the Company's expectations, remediation plans are submitted with report findings. The Company's management uses internal audit reports to identify areas of concern from a local/individual problem to aggregate corporate issues. Most of the findings reviewed related to specific issues and would not be considered systemic problems.

While the Company's internal audit function focuses on certain significant business functions, it does not consider all aspects of regulatory compliance. The Company is able to code specific statutory references, e.g., regulatory time frames into applications; however, unless all business aspects are reviewed internal audit cannot determine full regulatory compliance with applicable statutes and regulations.

*Recommendations:* It is recommended that the Company develop an Internal Audit Procedure to regularly review all Company operations (general business procedures and compliance), report findings and remediate examination findings.

## **Procedure 02 – Assertion of Privilege**

### Richmond

*Observations:* The Company does not maintain a written procedure related to the Assertion of Privilege (AOP). The Company does maintain a generalized listing of items the Company feels fall under AOP and require additional review. Each case where the Company feels AOP may be applied is reviewed by both the staff attorney and senior management for final determination. Other than the assumption for AOP application, the Company maintains no other controls related to the AOP process.

*Recommendations:* None

### Portland

*Observations:* The Company does not maintain a written Assertion of Privilege (AOP) procedure nor does the Company maintain a generalized listing of items the Company feels would fall under AOP. The Company does not permit anyone access to documentation without prior review by the in-house legal counsel. In cases where the Company is involved in litigation and has engaged outside counsel, that outside counsel reviews files to determine if a particular item(s) is considered privileged. Reviews are performed on a case-by-case basis, largely depending on the circumstances of the litigation.

*Recommendations:* None

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

#### Richmond

*Observations:* Since the Company's key transactional systems are housed at the parent company's Network Operations Center (NOC) and maintained by Berkley Technical Services (BTS) in Delaware, the Company does not maintain a Records, Back up and Recovery Procedure. The Company's procedure in case of catastrophic failure is to contact the NOC "Person In Charge" or BTS Help Desk to start the recovery process. BMAG has no local involvement in the restore or recovery process, once the request is submitted to BTS. BMAG's help desk watches for the return message providing notification that the files are restored. In the event of an information loss BTS does maintain a check list for the operators to follow and plans to create a formal procedure.

The Company supports their record retention and off-site storage procedure through Sarbanes-Oxley Section 404 (SOX 404) testing. Record retention procedures call for the Company to maintain daily back ups for sixty (60) days at off-site storage and to keep month end records indefinitely. SOX 404 testing is performed quarterly and the results are provided to the management team.

*Recommendations:* None

#### Portland

*Observations:* The Company has written procedures for Company Records, Back up and Recovery which include how the Company handles backup tape duplication and off-site procedures for all production data. The procedures in place were developed to cover seven (7) financially significant applications in use by the Company. Each system is to be backed up daily where the information is held for sixty (60) days off-site, while monthly reports are held indefinitely.

When documentation is scanned, it is reviewed to ensure clarity. On a quarterly basis quality reviews are performed in the branch offices to ensure that the imaged files are completed in accordance with the procedures. In the event of a data loss the Company will notify Berkley Technical Services (BTS), the parent company's operational center, of any data issues they may find. Any problems identified which result in data being lost would be restored by BTS who then notifies the Company once all systems and data are fully operational.

*Recommendations:* None

## **Procedure 04 – Computer Security**

### Richmond

*Observations:* The Company maintains a Computer Security procedure based on limiting physical access to data areas, system passwords and authority levels built into claim and underwriting systems. When new associates are hired, the Company's Human Resources department provides building entry through a key fob and submits system information to the central data center for application authority levels. In the event of a termination, Human Resources request the return of the key fobs and removal of system access. As an employee's job duties increase or decrease, the employee's department manager requests authority level changes. Addition and removal of applications are forwarded to the Company's data center for processing.

Each quarter the Company performs tests to ensure each employee is only allowed access as specified by department managers. Tests are performed on all employees to validate appropriate system authority controls. Any differences noted are reviewed and remediated to allow only access as needed. These tests not only cover software and authority level but also who has access to the data centers. Most of the data operations are performed at a central location under the management of the parent company who controls data access points.

Company management is able to control data, system and authority access with their current procedures. Any differences between apparent and perceived security measures are identified and corrected.

*Recommendations:* None

### Portland

*Observations:* The Company maintains a written Computer Security process mandated through the employee manual, which is made accessible to all employees via the Company's intranet site. Items discussed in the manual include: the use of business computers for business purposes only, passwords are the property of the Company and are not be shared, and the Company's website is proprietary and cannot be changed without Company consent. A majority of the Company's systems require password changes after ninety (90) days. Password changes do not necessarily occur automatically on the same day for every individual in the system, but an individual has the ability change all of their passwords at the same time.

As part of the Sarbanes-Oxley testing, the Company performs yearly testing on invalid password attempts. Additional computer security controls lock an individual out of an application if they meet a specified number of unsuccessful login attempts. The user must then provide identification before they are allowed back into the application. Passwords are determined by the individual user and the Company does not maintain controls for unique password selection.

A majority of the Company's computer operations are performed by the parent company's Berkley Technical Services (BTS) in Delaware. However, the Company does house some computer hardware within their facilities. Restrictions for access to the local computer hardware are not contained with the Company's employee manual.

*Recommendations:* It is recommended that the Company formalize all aspects of their Computer Security processes into a written procedure. It is recommended that the Company review, measure and remediate their procedure no less than annually to ensure procedure compliance with Company practices.

## **Procedure 05 – Anti-Fraud**

### Richmond

*Observations:* The Company maintains an Anti-Fraud procedure that is enforced through employee education, the use of reporting agencies, and direct management involvement. Procedures are set forth for claim associates to immediately report any suspicious claim activity to the Company's Special Investigation Unit (SIU).

The SIU is the investigation unit of the claims department. The SIU collaborates with claim department management, respective law enforcement, and the National Insurance Crime Bureau (NICB) during the investigation process. The NICB allows the Company and other NICB members to submit and review a database of individuals and companies both suspected of and convicted on fraud charges.

Company management uses education with early detection as the key to combat fraud. In the event a claim is flagged for possible fraud, the SIU begins their review within twenty four (24) hours of notification. The Company's procedures are designed to meet new threats and strive to remain proactive in their anti-fraud efforts.

*Recommendations:* None

### Portland

*Observations:* The Company maintains a written Anti-Fraud Procedure. The basis of the Company's Anti-fraud plan includes information related to education, detection, investigation, management reporting and prosecution of fraud cases. Education and training sessions play a major role in enabling both claims and underwriting representatives to recognize and detect possible fraudulent cases.

All possible cases involving fraud are sent to the Company's Special Investigation Unit (SIU) for further investigation. The SIU investigates potentially fraudulent activities through the assistance of the National Insurance Crime Bureau, (NICB), ISO Claim Search, and the use of a contract investigation services. To ensure SIU investigations are conducted in such a manner which provides details allowing for legitimate claims to be

closed properly while maintaining the Company's ability to provide fraud protection and leverage for prosecution, the Company follows guidelines established by the NICB.

The information related to SIU investigations is reported to the Company's management. Information contained in the reports allows management to evaluate savings based upon SIU investigations, identify new fraud threats and express awareness of new threats through education.

*Recommendations:* None

## **Procedure 06 – Disaster Recovery**

### Richmond

*Observations:* The Company maintains Disaster Recovery (DR) Procedures developed to respond and recover business operations in the event of a disaster. The disaster recovery plan contains a ten (10) step procedure from initial notification through site restoration to maintain business functions.

The Company has not performed a complete DR test since 2003, performed no DR testing in 2004, performed two (2) mock tests in 2005 and has one test planned for some time during the first quarter of 2006. According to the Company all DR plans and procedures are reviewed at least yearly, but the Company does not provide a testing schedule to ensure revisions comply with the Company's goals.

*Recommendations:* It is recommended that the Company plan, test, review and remediate Disaster Recovery Procedures. It is recommended that the Company perform Disaster Recovery testing of all business operations based upon an annual testing schedule.

### Portland

*Observations:* The Company maintains written Disaster Recovery Procedures for the Company's northeast home office and regional branch offices. The Disaster Recovery Procedures provided to the examiners contain detailed information related to business interruptions, timeframes to restore information, directions to secondary work locations, and the ability to communicate the activation of disaster recovery procedures.

The Company's most recent testing of their Disaster Recovery Procedures occurred in late 2004 and included a limited test of the disaster recovery plans. The disaster recovery tests were reported to management with recommendations and a remediation plan for deficiencies. Due to a vacancy in the Vice President of Loss Control the Company was unable to provide information either related to prior tests or provide information for future testing.

*Recommendations:* It is recommended that the Company develop a comprehensive Disaster Recovery testing schedule to include all business operations. It is recommended

that the Company continue reporting test findings to management, provide remediation plans and follow up to ensure procedures are performing as intended. It is recommended that the Company perform Disaster Recovery testing of all business operations based upon an annual testing schedule.

#### **Procedure 07 – MGA Oversight and Control**

Richmond

*Observations:* The Company no longer utilizes a Managing General Agent (MGA) as of the ending period of the examination. Until December 2004 there was an agreement between the Company and an MGA. Terms were agreed to and the MGA's contract was dissolved. During the period of time the Company utilized a MGA, the Company maintained a test matrix to review information related to the MGA's business practices. The Company does not have any future plans to utilize a MGA.

*Recommendations:* None

Portland

*Observations:* The Company has not previously and does not currently utilize Managing General Agents (MGAs) as of the examination date.

*Recommendations:* None

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

Richmond

*Observations:* The Company does not maintain a written procedure to address Vendor Oversight. The Company does have a process to determine which of its needs can be assisted through vendor usage. The Company uses vendors to assist in project development and specific business unit activity, *e.g.*, premium audits and claim adjustors.

Vendor oversight is determined through the specifications required by the Company for each vendor per department. The Company relies on each department to review vendor requirements, solicit possible vendors, and, once a vendor is selected, to input vendor information into the claims system. All vendors are required to sign an agreement for the services provided. A review of the vendor contracts found no substantive concerns.

Depending on the services provided, reviews of vendor performance are conducted and immediate feedback is provided to the vendor. The Company uses both written and oral questionnaires to assist in the evaluation of vendor performance. In the event a vendor

does not meet the Company's expectations, the agreement between the Company and the vendor may be cancelled.

*Recommendations:* None

#### Portland

*Observations:* The Company's only written procedure for Vendor Oversight relates to issuing payments for the vendor services rendered. Different business areas of the Company utilize vendors and the Company uses a process to solicit, review and report on vendor activity. The Company contends vendor searches are based upon filling a new business need or when the Company is no longer satisfied with a current vendor performance. The Company's vendor search is focused on service and uses recommendations as an evaluation tool.

Once a vendor is selected the Company will express their expectations informally for the required services to be performed. Reviews of vendor activities occur to determine compliance with expectations. Contracts with vendors may be continued or canceled based upon the vendor meeting the Company's expressed expectations. Management provides final approval to issue payments based upon a written payment procedure. Vendor contracts were reviewed to verify there are not contractual obligations for performance standards.

*Recommendations:* It is recommended that the Company formalize their Vendor Oversight process into a written procedure. It is recommended that the Company express expectations through written contracts between the Company and the vendors which detail the aspects related to the vendor services, that the Company develops a measurement structure to determine if a vendor is performing as intended, and that the Company's management be notified of vendor results.

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

#### Richmond

*Observations:* The Company maintains a Consumer Privacy Procedure based upon automated privacy statement generation. For each policy printed the Company includes a privacy statement specific to each line of business. Employees are mandated through their employee handbook not to disclose any confidential information through the course of their employment, failure to comply with Company handbook may led to termination. Each policy is double checked after printing to ensure all required privacy forms and other mandated forms are included.

Reviews are performed on a quarterly basis to determine Company compliance with their privacy procedure. A set number of files are selected per operating state for review. The Company does have a control process to determine if a privacy notice fails to print and

will notify the underwriting services unit within the Company to correct and reprint the policy.

*Recommendations:* None

Portland

*Observations:* The Company maintains a Consumer Privacy Procedure set forth through the use of policy privacy language and through information contained within the employee handbook. Policy language describes to insureds the reasons behind collecting information, how information is collected, what information the Company discloses and to whom information is disclosed and how the information is protected. The employee handbook contains the Company's policy which prohibits employees from disclosing any personal information related to an insured or a claimant.

The Company's procedure appears to only cover the information between the Company and the insured/claimant. The Company does not maintain privacy agreements with company subsidiaries or vendors who have contact with insured/claimant information.

*Recommendations:* It is recommended that the Company implement and amend contracts between subsidiaries and vendors to include a privacy agreement related to Company insureds and claimants.

**Procedure 10 – Insurance Information Management**

Richmond

*Observations:* The policies and procedures in place for Information Management have been noted and cover other areas related to the examination. Aspects of Information Management are detailed throughout Procedure 3 - Company Records, Backup, and Recovery, Procedure 4 - Computer Security, Procedure 8 - Vendor Management and Procedure 9 - Consumer Privacy.

*Recommendations:* None

Portland

*Observations:* The Company maintains an Information Management Procedure which is incorporated into the Company's VA3i image system. All information related to underwriting and claims is entered, stored, and prepared for online viewing through VA3i. The Company maintains an operations unit responsible for inputting relevant data when information is first presented, place together printed policies after underwriting, and mail out claim payments.

The information contained within VA3i ties different business functions into one central area. To ensure the information within VA3i remains accurate and reliable, the Company performs quarterly testing. The scope of information management testing covers defined time periods where pass rates are expected to exceed ninety-five percent (95%).

Results from Information Management testing are reviewed by management to assess production and training related needs. Report findings have the ability to detail increased awareness focused on individual needs or upon a group operational standpoint. Reviews assist in ensuring information is made available upon the user's needs.

*Recommendations:* None

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

#### Richmond

*Observations:* The Company does not maintain a written procedure on Complaint Handling, however, it does follow a process to address complaints upon receipt. All complaints are logged into the Company's complaint log and are coded based upon the NAIC's complaint code system. The Company's Compliance Director reviews the complaint and determines the appropriate business unit responsible for answering the issues behind the complaint.

The Compliance Director forwards the complaint to the business unit with a response due date. A response from the business unit is sent back to Compliance for a final review prior to a response sent by the Company. Based upon the business unit's response, e.g., "reinstatement by underwriting," the Compliance Director will follow up to ensure the business unit's response directives are followed.

After a complaint has been responded to, followed up on and closed, no other actions occur in the complaint handling process. Reviews are not performed to determine an aggregate study on the types of complaints the Company receives (see Standard B1) nor is complaint information shared between the Company, their sister company, or the parent company.

*Recommendations:* It is recommended that the Company develop a written Complaint Handling Procedure which includes measurements to allow the Company the ability to monitor and report upon complaint trends, share aggregate complaint information, and follow up with business units when complaint trends develop.

#### Portland

*Observations:* The Company does not maintain a written Complaint Handling Procedure. All complaints are forwarded to the Company's Compliance Officer who oversees the complaint handling process. Complaints are reviewed to determine which of the operational areas and/or branch offices are best able to address and respond to the issue(s)

raised within the complaint. The Company works to provide a response within the timeframes set forth in complaints received from a Department of Insurance (DOI). The Company's Compliance Officer reviews all responses prepared for DOI delivery.

*Recommendations:* It is recommended that the Company develop a written Complaint Handling Procedure, review all complaint files to determine compliance with complaint handling procedures, report to management any complaint related findings or trends, and provide remediation processes in the event the procedures are not meeting the Company's expectations.

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

#### Richmond

*Observations:* The Company does not maintain a written Advertising, Sales and Marketing Procedure. The sales and marketing process is not designed to reach individual or corporate clients, but rather to provide assistance to their independent agency distribution system. The Company's advertising is centered on providing support to agent membership organizations and charity events.

The sales and advertising materials used by the Company are developed by a marketing specialist (MS). The MS will design and provide to senior management drafts of sales materials for review. Senior management makes the final decision prior to the use of all print advertisements.

*Recommendations:* It is recommended that the Company formalize a written Advertising, Sales and Marketing Procedure.

#### Portland

*Observations:* The Company does not have a written Advertising, Sales and Marketing Procedure. The Company's marketing does not focus on advertising in publications or in a news media format. Based upon the Company's use of an independent agency distribution system, most marketing materials consist of product brochures. The product brochures are developed to provide insight into the lines of business offered, including information related to typical types of losses in a particular line of business, and details pertaining to general peril exposures.

Prior to the Company's name being used either for Company produced advertising or agent produced materials (See Procedure 14), management's approval is required. The Vice President of Marketing oversees and places final approval on all advertising, sales, and marketing materials. This approval process is to ensure the information being presented is accurate and promotes the Company in a positive and effective manner.

*Recommendations:* It is recommended that the Company formalize a written Advertising, Sales and Marketing Procedure. It is recommended that the Company develop a measurement and reporting structure.

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

##### Richmond

*Observations:* The Company does maintain a written Agent Produced Advertising Procedure as part of the contract between the Company and their independent agents. According to information contained within the agency agreement, agents are not allowed without express written permission to use the Company's name in any advertising materials. The Company may allow the use of the Company name after the proposed advertisement has been approved by the Vice President of Marketing.

*Recommendations:* None

##### Portland

*Observations:* The Company maintains a written Agent Produced Advertising Procedure as part of the agreement between the Company and their agents. An agent must first be granted permission to use the Company's name for advertising purposes. An agent may be required to submit their advertising plans to both the branch and home offices detailing their intended plans in using the Company's name.

Branch managers and the Vice President of Marketing will review all proposed agent advertising materials. The materials must meet the guidelines mentioned in Procedure 13, before approval is granted. Once agent produced advertising is approved, the Company will submit the marketing materials to an advertising agency for production.

*Recommendations:* None

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

##### Richmond

*Observations:* The Company does not maintain a written Producer Training procedure. The Company regards producers as independent associates who train and hire their own personnel. When the Company establishes contact with new producers, the Company shares their philosophy on items regarding risk selection, loss control, billings and claim handling, however, this information is not standardized. A process is in place to notify producers when new products are developed or changes in coverage takes place.

*Recommendations:* It is recommended that the Company standardize in a written procedure the information provided to producers regarding the Company's philosophy on business operations and their expectations of producer/agents.

Portland

*Observations:* The Company does not maintain a written procedure to address Producer Training. The Company's distribution system is conducted through the use of independent agents, which according to the Company prevents them from determining which agents require Company specific training. However, the Company will hold training sessions for producer agencies upon request and has held agency summits for continuing education credits. The Company does not predetermine producer training needs but will provide specific training upon request. After the conclusion of all training sessions a response form is provided to participants for evaluations. The Company is able to determine if the sessions and trainer met the needs of the participants.

*Recommendations:* None

**Procedure 16 – Replacements**

*Observations:* N/A

*Recommendations:* N/A

**Procedure 17 – Illustrations**

*Observations:* N/A

*Recommendations:* N/A

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

Richmond

*Observations:* The Company does not maintain a written procedure for Producer Selection, Appointment and Termination but does follow a process. The producer selection begins with regional marketing managers identifying potential producers who share a similar philosophy (see Procedure 15) with the Company. If the potential producer appears to agree with the Company's standards a checklist is used to obtain information related to writings, losses, E&O coverages, financials, etc. Included in the checklist are areas where senior management approvals are required to confirm the selection of a producer.

After a producer is selected they are appointed with the assistance of the Company's Compliance Department and a Licensing Coordinator. Appointments are submitted electronically where available with the assistance of a third party vendor to ensure compliance with applicable appointment statutes. After appointments are approved, the producers are notified by the Licensing Coordinator.

Regional managers are responsible for notifying senior management of a termination approval in the event a producer's contract requires termination. The Company's process requires all terminations to be processed in accordance with statutory guidelines.

Once the producers are selected and agents appointed, the Company's Compliance Unit performs yearly reviews of the agent appointments. The Company requests active agent records from producers to ensure only active agent appointments are renewed.

*Recommendations:* It is recommended that the Company formalize their Producer Selection, Appointment and Termination process into written procedures. It is recommended that the Company review, revise and remediate the procedures as needed and no less frequent than annually.

#### Portland

*Observations:* The Company does not maintain a written Producer Selection, Appointment and Termination Procedure. According to Company processes new producers are introduced at the branch level. The branch office marketing department, along with the Company's Underwriting Services Unit, reviews the producer applications. The Company seeks to contract producers with similar lines of marketplace experience as a gauge in determining how the producer may fit with the Company's current product line distribution plans.

After a determination has been made with the acceptance of a new producer the Company works to appoint all agents. The Company appointment process requires current agent information for processing by the Compliance Department. The Compliance Department performs agent licensing checks to ensure agents are properly licensed. The Company will also perform licensing checks as appointments are scheduled to expire.

The Company maintains the right to terminate producer contracts. The Company, along with their branch offices, is notified of producer terminations made through the Underwriting Services Unit. The termination information is forwarded to the Compliance Department for the proper termination of agents.

*Recommendations:* It is recommended that the Company formally implement a written Producer Selection, Appointment and Termination Procedure. It is recommended that the Company adopt a comprehensive measurement, reporting and remediation structure.

## **Procedure 21 – Producer Defalcation**

### Richmond

*Observations:* The Company does not maintain a written Producer Defalcation Procedure, however, the Company does follow an agents balancing process. Every month agency billing statements are generated and sent to the agents detailing account balances. Any differences (shortages) are to be reconciled and paid current according to the agency contract.

The Company maintains a deadline for all accounts to be made current. According to the agency contract all policy related items are the property of the Company and failure of an agency to become current could lead to contract termination and seizure of agency records.

*Recommendations:* It is recommended that the Company formalize the current Producer Defalcation process into a written procedure. It is recommended that the Company review, revise and remediate the written procedure and ensure the procedure addresses the oversight and protection of consumers from agent theft.

### Portland

*Observations:* The Company does not have written Producer Defalcation Procedure, per se. The Company's contracts with agents contain sections detailing the agent fiduciary responsibilities when collecting premiums on the Company's behalf. Agents are required to submit monthly reports to the Company's agency billing staff detailing premium transactions.

The Company's agency billing staff reviews agent balances on a monthly basis for unpaid amounts and when balances remain unpaid the Company contacts the agent for a determination on the status of outstanding payments. In the event an agent fails to pay, the Company's management has the following options: termination of the agency agreement, switching accounts to direct bill, arbitration, or litigation to recover amounts owed.

The supervisor within the Company's agency billing department prepares a monthly report summarizing any overdue agency balances along with supporting documentation including when outstanding amounts are expected to clear. Producer defalcation information is provided to the controller, the CFO and branch management for defalcation assessments.

*Recommendations:* None

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

### Richmond

*Observations:* The Company does not maintain a specific written procedure for the Prevention of Use of Persons with Felony Convictions. The Company performs criminal background checks on all new hires outlined within the Company's hiring guidelines. The Company does not permit the hiring of persons with felony convictions. Additionally, new employees are provided with the Company's Statement of Business Ethics and must sign a Certificate of Compliance (COC) agreeing with the Company's ethics policy.

The Company measures the prevention of persons with felony convictions through quarterly Sarbanes-Oxley (SOX) testing. SOX tests are performed quarterly to randomly check for employee backgrounds. Additionally, each employee is required to renew their COC and disclose any felonies on an annual basis. In the event a SOX test were to fail, an employee refuses to sign the COC, and/or disclose a convicted felony, charges would be reported to the Company's Ethics Committee, which includes the President of the Company, and may result in an employee's termination.

*Recommendations:* It is recommended that the Company formalize a written Prevention of Use of Persons with Felony Convictions Procedure. It is recommended that the Company review, revise, and perform procedure remediation and include repercussions after felony conviction discovery. The Company needs to become compliant with 18 USC §1033(e)(1) and (2).

### Portland

*Observations:* The Company does not have a formal Prevention of the Use of Persons with Felony Conviction Procedure. The Company uses a position requisition form for filling open positions which indicates background checks are a condition of employment. The Company uses a vendor for background checks including criminal, educational and credit checks on all new hires. Each year all employees must sign and agree to a Certificate of Compliance (COC) detailing they have not been convicted of a felony in lieu of continual and complete background checks.

The Company's Human Resources Staff reviews each employee's COC and ensures that all employees submit their COC certificate annually. The Company, as part of their Sarbanes-Oxley compliance, performs background checks on Company employees. Random employee files are selected by HR annually to confirm that no employees have any felony convictions.

Additionally, the Company's management works to ensure vendors used by the Company are properly licensed through licensing authorities. According to the Company, agents and producers make up the largest portion of licensed vendors and the Company uses the licensing authorities as evidence for felony background checks being performed.

*Recommendations:* None

### **Procedure 23 – Policyholder Service**

#### Richmond

*Observations:* The Company does not maintain a written Policyholder Services Procedure. The Company does have a process in place to address policyholder questions, process endorsements and cancellations. Each policyholder services process is automated within the Company's VA3i imaging system connected to the Underwriting Department's FileNet processing application.

The Company's current processes require the service issues to be addressed within a twenty four (24) hour period, endorsements are bound within thirty (30) days of notification, and cancellations are to be made based upon statutory guidelines. Internal reports are performed weekly to ensure the Company's policyholder services timetables are being met.

Company management reviews internal policyholder service reports as a tool to assess an underwriter's performance. The Company provides a response form to all consumers with all policy changes to obtain feedback on the Company's service.

*Recommendations:* None

#### Portland

*Observations:* The Company maintains a Premium Billing Procedure which is contained and automated within the Company's A+ (underwriting) and COBRA (billing) applications. The Company's processes call for all policyholder service related issues to be addressed within twenty four (24) hours of receipt and for endorsements to be processed within thirty (30) days. The Company sends with all policies a response form for insureds to use to provide their comments to the Company.

All submissions for new policies, policy changes (endorsements), or renewals are initially entered into the Company's account reservation log (ARLO) by the Operations staff. Once information is entered into ARLO it can be tracked through both the underwriters A+ system, the claim payment system and COBRA billing system to ensure service related issues are being handled. When information is moved from ARLO to either A+ or COBRA, the information is placed into queues for monitoring. Supervisors in the Underwriting, Claims, and Operations Departments are able to review on a daily basis the input and output reports to determine if Company service standards are being met.

Company management monitors policyholder service through multiple report chains connected to both branch and home office operations. The quarterly branch office reviews in conjunction with the annual home office reviews provide insight through work queues and ARLO for service standards compliance. ARLO provides reports generated

by Underwriting which details if all new and renewal business effective each month was processed timely. During the interim review periods the customer feedback forms assist management in determining areas of strength and concern related to policyholder service issues.

*Recommendations:* None

## **Procedure 24 – Premium Billing**

### Richmond

*Observations:* The Company's Premium Billing system is automated through a program referred to as COBRA. All policy transaction information related to billing is sent from the Company's Underwriting Department and is batched into COBRA nightly for premium billing processing. Once all transaction information is loaded into COBRA the system will generate premium notices.

As part of Sarbanes-Oxley the Company tests and reviews premium processes within COBRA to ensure functionality. However, in the event of incorrect premium notice processing the Company would not be made aware of processing issues until notified by either an agent or an insured. Once notified the Company would then correct any mistakes and reissue the premium notice.

*Recommendations:* It is recommended that the Company implement measurement procedures designed to detect automated billing errors, report detected errors and provide for remediation, in a timely manner.

### Portland

*Observations:* The Company maintains a Premium Billing Procedure which is built into their COBRA (billing) and the A+ underwriting systems. When a policy is issued, renewed, endorsed, or cancelled the policy changes are made in A+ where the information is fed into COBRA in an overnight batch report to create billing/premium-related transactions. While policies are underwritten, determinations are made by the agent for policies to be either direct billed or agency billed. Premium billings from COBRA occur in accordance with the billing options selected and entered into the A+ system.

The Company's billing staff balances premium receipts on a daily basis to ensure proper premiums are received. Once the premiums are balanced information is forwarded to an accounting technician who verifies premium balances with bank records. Additional premium billings are reviewed during monthly bank reconciliations which serves as further verification of daily cash activities for premiums. The Company pulls samples from the A+ system to ensure premium and billing options are properly identified through COBRA. The Company's senior management reviews monthly A+ / COBRA testing results and premium reconciliations.

*Recommendations:* None

## **Procedure 25 – Correspondence Routing**

### Richmond

*Observations:* The Company does not maintain a written Correspondence Routing Procedure. The Company does follow a process to identify and direct correspondence through the Company's FileNet imaging system. All correspondence is scanned or faxed into FileNet from local and regional offices to the Company's mailroom. The mailroom indexes and delivers all correspondence to the correct department and/or individual.

The Company measures the effectiveness of the process through monthly system reviews detailing system downtime. In the event FileNet is not functioning locally, the Company sends a message to the parent company's technical services unit. The FileNet system will remain down locally until restored by the parent company's technical services unit.

*Recommendations:* It is recommended that the Company formalize their Correspondence Handling process to include procedure measurement, review and remediation

### Portland

*Observations:* The Company does not maintain a written Correspondence Routing Procedure. All information submitted to the Company is reviewed by the operations staff to separate information by underwriting, claims, or general information (industry publications, etc.) as discussed in Procedure 10 above. Information received is reviewed to determine if policy numbers and claim numbers are included for proper routing. The operations staff performs searches on the correspondence to identify the appropriate underwriter or adjustor for scanning and document delivery.

The process allows for correspondence routing errors to be identified in two ways: 1) the incorrect recipient returns the correspondence into an error queue or 2) verbal feedback from the correspondence sender. The error queue allows the operations staff to re-examine the issue for proper routing. The work flow of information is directed through the Director of Claims and Underwriting Operations who actively monitors correspondence through hourly checks on the error queue. When the Company hears directly from an insured, agent, or claimant about items lost in transit or mishandled due to a failure in correspondence routing the results may lead to processing delays.

*Recommendation:* It is recommended that the Company formalize and adopt a written Correspondence Routing Procedure. It is recommended that the Company adopt comprehensive measurement structures to test the effectiveness of the procedure, review results and direct remediation efforts.

## **Procedure 26 – Policy Issuance**

### Richmond

*Observations:* The Company maintains a Policy Issuance Procedure. All applications received by the Company are scanned, indexed, and placed into a queue for review by the Underwriting Department. The underwriter reviews the application and supporting information through FileNet (VA3i) and then forwards the remaining underwriting information to the rating department for rating via the Company's A+ system. Once all ratings are applied the file is sent back to underwriting for final review before being bound. Prior to printing the policy the underwriter will assign all delivery requirements which are sent to print through the Company's A+ system. All policies are printed from a central location and mailed to the writing agent.

To obtain customer satisfaction results the Company provides quality response forms requesting customer feedback with each policy. The Company uses these forms and supervisory reviews to determine training needs related to policy issuance.

*Recommendations:* None

### Portland

*Observations:* The Company's Policy Issuance Procedure was expressed through an explanation of their service standards. The Company has a process to issue policies and endorsements within five (5) working days. The five (5) working days is based upon a date provided within applications for new issue effective dates, renewal deadlines, and/or the need for processing endorsements. After underwriting activities have been completed, information is forwarded to Operations Department for policy assembly. The Operations Department's processes require policy assembly and mailings to occur within twenty four (24) hours after receipt.

All quotes, policy changes and endorsements are received and imaged into the VA3i imaging system, where they are assigned to the appropriate underwriter through the account record system (ARLO). Once identified in ARLO the transactions are issued processing "due dates." The Company's raters and underwriters attempt to have all policy transactions complete within five (5) working days or the assigned due date.

The Company performs a quality review of all raters and underwriters to ensure the five (5) working day service standard is met. Underwriting supervisors perform quarterly reviews on all aspects of policy issuance, e.g., rating, underwriting, and operations to ensure service standards are met. If service standards are not maintained process corrections are performed. Inconsistencies not identified during the quality reviews are normally identified by agents and insureds during policy delivery who will then contact the Company for corrected policies.

*Recommendations:* None

## **Procedure 27 – Reinstatement**

### Richmond

*Observations:* The Company does not maintain a written Procedure for Reinstatement, however, they have provided a summary of their Reinstatement process. When payments are not received by the payment due date, or within the Company's seven (7) day grace period, the insured is notified of the cancellation through an automated cancellation notice. If a request for reinstatement is submitted, the decision for reinstatement is then referred to the Underwriting Department for consideration. If the Company makes the decision to reinstate a lapsed policy, signed releases are obtained from the insured verifying no losses occurred during the period coverage was not in force.

The Company's reinstatement processes are generated through automatic notices and then subject to individual review. The Company does not measure or review their reinstatement process or determine whether reinstatements are being performed to meet documentation standards.

*Recommendations:* It is recommended that the Company formalize their Reinstatement process into a written procedure. It is recommended that the Company measure, review and remediate the procedure no less than annually or as procedure changes are adopted.

### Portland

*Observations:* The Company's Reinstatement Procedure affects both underwritings' A+ system and the COBRA billing system. Manuals are provided for insight into the functionality of both systems. However, the actual decision making for a reinstatement remains part of a process and is not documented.

The Company may process a reinstatement after a policy termination decision or for a non-payment cancellation. The Company's Underwriting Department is provided requests for reinstatements. Prior to making a reinstatement decision the Underwriting Department requires, at a minimum, that accounts be current and a no loss letter covering the lapse in coverage be obtained.

The Underwriting Department, after making the decision to reinstate a policy, updates the A+ system that a policy has been reinstated. The Company's billing staff will then update COBRA which allows the account billing operation to resume premium billings and sends notification of reinstatement to the insured.

*Recommendations:* It is recommended that the Company formalize all processes related to Reinstatements into a comprehensive procedure. It is recommended that the Company develop a Reinstatement measurement structure and that measurements are reported to the Underwriting Department management and remediation efforts are performed by underwriting staff.

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

### Richmond

*Observations:* The Company maintains a check list which is used to assist in the processing of Insured Requested Claim Histories. Information contained within the Company's VA3i image system sets parameters for generating loss reports once a request has been submitted. Loss runs may be requested electronically or in writing and the Company has the ability to directly send reports from VA3i. According to the Company, VA3i allows the functionality to provide loss reports in both hard copies for mail use and soft copies for direct faxing and email reporting.

Once a request for loss history has been submitted the Company does not have any measurements tools to ensure the request has been fulfilled. Only if the Company receives a complaint for a missing loss report would a process failure be identified.

*Recommendations:* It is recommended that the Company formalize their Insured Requested Claim History process to include procedure measurement, review and remediation.

### Portland

*Observations:* The Company does not maintain a written procedure for Insured Requested Claim Histories. The Company does have a process and provides documentation for printing loss runs through the Company's intranet. The Company's agents do have the ability to access an insured's claim history in response to an insured's request. When the insured directly contacts the Company a request for their claim history is sent to either the Company's Underwriting or Claims staff for approval and then forwarded to the Operations Department for delivery.

The process requires claim history requests be completed within twenty four (24) hours of receipt of the request. The Company does not track or measure the suggested processing time. Controls within both Underwriting's A+ system and the Claims Department's COBRA system could identify if and/or when claims histories were reviewed, but not necessarily if the reports were provided.

*Recommendations:* It is recommended that the Company implement and adopt a written procedure for Insured Requested Claim History. It is recommended that the Company include a comprehensive measurement structure to test the effectiveness of the procedure, review measurement findings, and remediate procedures as needed.

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

#### Richmond

*Observations:* The Company does not maintain a written procedure for Premium Determination and Quotation, however, the Company does have a process to generate a quote. Quotes are submitted by field agents that are then routed into the Company's FileNet underwriting system. Based upon the size of the possible account, the application is routed to an underwriter with an authority level to meet the application's underwriting criteria.

After an initial review and if the underwriter decides to continue the quote process, the information is sent to the Underwriting Services Unit (USU). The USU will review information and place initial rates based upon the information contained in the application. USU then sends the underwriting file back to the underwriter to apply credits for a final premium quote.

Once the final quote is determined the Company notifies the requesting agent of the projected premium. The quote is provided a quote number and placed into the queue of the A+ system until notification from the agent to bind coverage is received.

*Recommendations:* None

#### Portland

*Observation:* The Company's Premium Determination and Quotation process is housed within the A+ underwriting system (A+). The Company uses A+ to produce quotes, provide premium amounts and for policy issuance. The A+ system contains underwriting rates, tables, and forms from the ISO, NCCI, and AAIS. A+ is designed to automatically generate quotes once underwriting information is entered.

With the automation of quotations, the Company must update the electronic rating tables built into the A+ system. This requires the assistance of the IT staff to load new rates into A+. Then both raters and underwriters work with IT to ensure proper rates are produced when rating information is entered. The Company will additionally perform underwriter and rating reviews to ensure proper quotes are being provided. Tests are performed each quarter on branch offices and annual home office reviews for quoting accuracy.

*Recommendations:* None

### **Procedure 31 – Policyholder Disclosures**

#### Richmond

*Observations:* The Company does not maintain a written Policyholder Disclosure Procedure. Policy disclosures are printed as part of an automated process as policies are sent for printing. System coding is designed to differentiate between various state laws and specific disclosures. When new forms are approved and adopted by the Company additional disclosure endorsements are provided to policyholders explaining policy coverage changes. The Company's Compliance Department performs annual spot checks to ensure that the proper disclosures have been attached.

*Recommendations:* None

#### Portland

*Observations:* Information related to the Company's Policyholder Disclosure Procedure and the steps to ensure privacy are discussed in Procedure 09. The Company receives state specific disclosure information from their member rating organizations. The Company does not develop individual forms and uses only policy disclosures developed through third party organizations.

*Recommendations:* None

### **Procedure 32 – Underwriting and Selection**

#### Richmond

*Observations:* The Company maintains a comprehensive listing of underwriting guidelines used in their Underwriting and Selection process. The Company's underwriting procedures are maintained in an electronic database available for underwriter review. The Company makes the guidelines available to all underwriters via the Company's Intranet.

Part of the underwriting process requires the completion of an underwriting checklist used by individual underwriters which is compared against the Company's underwriting guidelines. The checklist provides the underwriter direction in approving or declining an application.

The underwriting database allows senior underwriters to review the work flow of all underwriters. Reviews are performed to assess an underwriter's compliance with Company underwriting guidelines (Please refer to Procedure 01 Internal/External Audit). Further controls only allow an underwriter access to specified authority limits and will not allow the underwriter to select and bind a policy beyond their assigned limitations.

*Recommendations:* None

Portland

*Observations:* The Company maintains a set of Underwriting and Selection documentation. The supporting Underwriting and Selection materials are separated by line and class of business, with many of underwriting guides available to underwriters online. The Company's process requires all applications to be scanned into VA3i where account information is then entered into ARLO allowing the application to be assigned to an underwriter. The underwriter reviews the information and makes a decision to accept or deny the risk.

If the application is initially accepted, the underwriter will order reports related to the lines of business to complete underwriting process. Based upon complete information an underwriter will make a final decision to accept or reject the application and notify the agent of the Company's decision.

The Company performs quarterly reviews of home and branch office underwriting files. The Company measures the adherence with Company underwriting standards. Reviews are performed by the branch and home office staffs with compliance results provided to the Vice President of Commercial Lines.

*Recommendations:* None

**Procedure 33 – Rate and Form Filing**

Richmond

*Observations:* The Company does not maintain a written Rate and Form Filing Procedure. The Company's rates and form filings are provided through member filing organizations such as the Insurance Services Office (ISO). A Product Development Specialist (PDS) is alerted to rate and form changes by mail, facsimile, and e-mail. The PDS works with the Underwriting Corporate Services (UCS) Department to determine if the Company should make changes to its current rate and form filings.

If the Company decides to make changes the PDS contacts the filing organization, creates a tracking database, and plans a new form and rate implementation date based upon filing approval. Once the filing organization obtains rate and form approval on the Company's behalf, the approval is provided to IT to code the updated rates and forms. The Compliance Department confirms that the new rates and forms are being applied by doing performing policy file reviews after new rates become effective.

*Recommendations:* None

Portland

*Observations:* The Company does not maintain a written Rate and Form Filing Procedure. The Company is a member of various rate, form, and loss providing organizations. New rate and form information is provided to the Company for review and determination by the Company's Home Office Product Development staff. The Company will perform reviews to determine if new rates and forms support their business direction and will then work with the actuarial department to formalize and prepare filings.

Once new rates are selected the product development team works to notify other business areas of upcoming changes. Testing of new rates and forms are coordinated with IT to ensure new rates are made effective appropriately and the appropriate forms are printed. The underwriting staff is notified of rating updates for current applications and for policies pending renewal. Once the approval occurs the Product Development area alerts IT to release new rates and forms and allows underwriting to continue rating applications and renewals.

*Recommendations:* None

**Procedure 34 – Terminations**

Richmond

*Observations:* The Company provided information related to their Termination process. The process outlined by the Company defines how terminations are related to the ending of a policy period e.g., cancellations, terminations and non-renewals. When the conditional policy language related to terminations was compared to the termination process defined by the Company differences were noted. Company policy language uses like terms in reference to both an insured requested and Company originated cancellations prior to the end of a policy period, without the Company's action defined as a termination, apart from a non-renewal cancellation.

*Recommendations:* It is recommended that the Company develop a written Termination Procedure which should include statutory compliance and formalize termination terminology between insured requested cancellations and Company terminations, including non-renewals. It is recommended that the Company review, report and remediate any differences noted between Company policy language and established procedures once implemented.

Portland

*Observations:* The Company does not have a written Termination Procedure, however, the Company has provided information related to their process. The Company uses the terminology of cancellation, termination and non-renewal interchangeably in their

process. The Company maintains an operational guide for processing a cancellation and non-renewal through the A+ system.

During the examination a determination was made between the Company and the examination staff differentiating between the terms of cancellation and termination, whereby terminations are initiated by the Company and cancellations are initiated by insureds (agents). According to the Company's process, once a termination decision is made by underwriting or a cancellation is submitted the A+ underwriting system will be updated with termination/cancellation reason codes and notification sent to the insured.

*Recommendations:* It is recommended that the Company develop a written Termination Procedure which should include statutory compliance to formalize termination terminology, provide detailed underwriting instructions for handling both insured requested cancellations and Company terminations, including non-renewals. It is recommend that the Company review, report and remediate terminations procedures once incorrect terminations and cancellations are identified.

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

#### Richmond

*Observations:* The Company's Underwriting File Documentation procedure is automated through the Company's Va3i document imaging system. Applications are received by the Company from agents and loaded into the Va3i for review. Underwriters review the application for the coverage sought and use an underwriting checklist to determine if complete information has been provided. In the event an application is missing information the underwriter may note in the Va3i what the missing information is and place the application in a queue until the information is provided.

Underwriting managers have the responsibility of reviewing underwriting files. The checklists used by underwriters are reviewed against information received with an application to determine compliance with file documentation procedures. Results of individual underwriting performance are placed into personnel files and reported to Company management. Company management places emphasis on quality control reviews (see Procedure-01) to ensure underwriting activities are being handled appropriately. Underwriting performance reviews are reviewed and the Company enforces its Underwriting File Documentation Procedure.

*Recommendations:* None

#### Portland

*Observations:* The Company's requirements for Underwriting File Documentation vary by line of business. The Company uses an imaging system referred to as VA3i as a central point for gathering information related to underwriting handled through the Company's operations center. While the Company does not maintain a required

documentation listing, certain lines of business require basic information for underwriting, *e.g.*, Motor Vehicle Reports for commercial automobile policies.

The Company performs quarterly underwriting file reviews to ensure files have been properly documented. This is a two step process to ensure each underwriter has properly identified the risks involved, but additionally to ensure the Operations Department staff has provided information accurately into VA3i. File reviewers are then able to determine if all risks are properly identified and documented, and whether or not reasonable acceptance/rejection decisions are made.

*Recommendations:* None

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

#### Richmond

*Observations:* The Company's Underwriting Training process is based upon on-the-job training. In the event of an underwriting vacancy the Company hires only experienced underwriters with prior commercial line experience. The on-the-job training consists of reviewing underwriting guidelines and follow-up file reviews by senior underwriters to assess underwriter performance (see Procedure 01).

*Recommendations:* It is recommended that the Company adopt a written Underwriting Training Procedure, track all training provided to underwriters and review Underwriter Training procedures.

#### Portland

*Observations:* The Company does not maintain a written Underwriting Training Procedure, however, the Company does provide a variety of training to their underwriters. The types of training required is different for each underwriter and the Company may provide one on one training for new hires, training classes, and use outside seminars for more specialized training. The Company has developed training modules covering all business lines to enforce and promote underwriting skills.

The Company reviews current and past underwriting files for all underwriters ranging from quarterly reviews at branch offices to annual reviews by the underwriting staff located at the home office. File reviews assist management in determining training needs by the underwriting staff.

Company management, underwriting supervisors, and the Company's Training Department all take part in the assessment of a group training regimen. Individuals requiring specific training have their needs addressed on an individual basis without interaction or notification of the Company's training department. Aggregate training needs identified affecting a group of underwriters is coordinated and tracked through the Training Department.

*Recommendations:* It is recommended that the Company formalize their Underwriting Training process into a written procedure. It is recommended that the Company track, record and report individual underwriting training to the Company's training department.

#### **Procedure 40 – Staff Training**

##### Richmond

*Observations:* The Company does not maintain a written procedure for Staff Training. New hires are provided a general Company orientation on policies and procedures directed toward the general work environment. Additionally, the Company retains process summaries for specific operational areas, such as IT, Loss Control, Premium Audit and Underwriting Service Department Training. The processes provided vary in detail and expectations. According to a response from the Company, in the event training demands are beyond the Company's staff's ability outside courses for technical training may be provided.

Continuing Quality Review Audits of Staff Training are used as a measurement of the Company's process, with the reports being sent to senior management and used to identify training objectives for the different areas in the Company. The audits reports provide results from both individual and company-wide training assessments. The information provided as a result of the Quality Review Audits assists in determining if training issues have been adequately identified and corrected.

The Company Staff Training process provides ongoing training as needs dictate through management review. As trends in training needs are identified the Company customizes its training courses for the individual and groups as needed and/or warranted.

*Recommendations:* It is recommended that the Company standardize all operational training processes to include evaluations for training objectives for all operational areas and remediation plans once training deficiencies are reported to management.

##### Portland

*Observations:* The Company does not maintain a written procedure for Staff Training, however, the Company provided information regarding their training process. Determinations of training requirements are based upon the responsibilities of the position. All applicants must initially meet minimum job related qualifications and are then provided orientation by the Human Resources where a training plan based upon the position being filled. The Company makes a variety of training opportunities available to its employees, including on-the-job training, continuing education, distance learning (internet class work), coursework for completion of industry-recognized designations, and internally prepared training classes based on management's perception of training needs (subject to supervisory approval).

Reviews of employee performance are performed by operational department management. The Company uses the employee reviews when determining staff training

needs. Staff training is reviewed from both a corporate and individual level to address staff performance by the senior management and in conjunction with the Company's Training Department.

The Company's Training Department will plan, track and record all group training sessions. The Training Department will review attendee responses from group training sessions to measure the effectiveness of the training. Individual staff training is only tracked when directed through the training department. Individual one-on-one training is not measured by the training department in lieu of being identified during performance reviews.

*Recommendations:* It is recommended that the Company develop comprehensive objectives and evaluations for all training related aspects for each operational area. It is recommended that the Company track all training which is provided to its personnel.

#### **Procedure 42 – Adjuster/Claims Adjudicator Training**

##### Richmond

*Observations:* The Company's Adjustor/Claims Adjudicator Training process is determined based on an adjustor being new to the Company and training based off of prior experience and then determining continuing adjustor training requirements. New adjustors are provided an orientation session through the Company's Human Resources Department and provided access to the Company intranet site. The Company's intranet is a reference point to assist and support all adjustors.

The Company Claims Managers actively perform reviews of claim files to determine adjustor efficiency. Review of adjustor files allow claims management to determine and assess training needs (see Procedure 01 and Procedure 40).

Once training needs have been determined management works to find the most efficient training methods. Adjustor training methods include on-the-job training, adjustor mentoring, and the use of training seminars developed in-house or externally. Additionally the Company encourages all adjustors to pursue professional adjustor designations.

*Recommendations:* None

##### Portland

*Observations:* The Company does not maintain a written Adjustor Training Procedure, however, it does have a process based upon an adjustor's prior experience. The Human Resources and Information Technology departments provide insight into the Company's intranet site used for claims which contains information on claims documentation, reference materials, and additional necessary information, such as processing system manuals, Litigation Manual, Claim Manual, (Claim) Catastrophe Manual, and Approved

Vendor lists. The Company uses its Training Department to institute a formalized, adjuster trainee program for adjusters new to insurance.

Adjustor technical training is provided through on-the-job training, mentoring by senior claim staff and seminars at the departmental, branch, and company level, which are instructed through both internal and external seminar leaders. For advanced training, use of external claim training schools may be utilized. All participants attending in-house training sessions are required to complete a self-assessment seminar evaluation form at the end of each training session. Adjustors are encouraged to enroll in industry courses, such as Associated Insurance Adjustors and Chartered Property Casualty Underwriter. Upcoming adjustor training events are presented on the Company's intranet.

Individual adjuster performance reviews are completed by supervisors on an annual basis. Issues evaluated include but are not limited to attainment of Company standards, technical/job effectiveness, and the desire to learn. Adjustor reviews are used to determine adjustor training needs, both individually and from a Company wide basis. According to the Company the information absorbed through individual one-on-one training cannot be fully represented to the training department. One on one and mentoring are outside the scope of the training department, however, group training is performed and tracked through the training department.

*Recommendations:* It is recommended that the Company develop comprehensive objectives and evaluations for all adjustor training related aspects. It is recommended that the Company track all training which is provided to its employees/personnel.

### **Procedure 43 – Claim Handling**

#### Richmond

*Observations:* The Company maintains a written Claim File Documentation process as part of the Company's Claims Best Practices. The information within the claims best practices document is more of a guideline, however, it provides some specifics for a claims adjustor to follow when adjudicating a claim. The claim file documentation procedure is designed to require the log in of documentation and identifies each step of the claim adjudication process.

The Company performs file audits throughout the year by managers, supervisors and claims specialists on the work of individual claim adjustors. Claim Specialists perform audits on each operational area by product line. The Company's claim file audits are designed to promote consistency in file documentation, support claim decisions and prepare files for possible reinsurance coverage.

*Recommendations:* None

## Portland

*Observations:* The Company maintains a written Claim Handling Procedure as part of the Company's Claim Manual. Access to the claim manual, which contains the Company's primary procedural documentation, is made available on the Company's claim intranet referred to as the Claim Work Station (CWS) installed in January 2004. The claim manual contains information related to all aspects of claim adjudication, but also includes a specific section for Claim Handling. Claim handling is separated into multiple sections including, but not limited to: Regulatory Issues, Receipt of new claims, Coverage, Investigations, Reserving, Documentation, Litigation, Supervision and Fraud. Additionally, the Company has added specific claim handling procedures to its claim manual for claims that require specific handling, such as back injury claims.

The Company reviews claim handling procedures in both branch offices quarterly and home office reviews annually. The Company reserves the right to perform additional interim reviews if the need is identified. The review results are submitted to both the branch manager and the Vice President of claims. In the event the results do not meet the Company's expectations, branch managers and their staff develop action plans to address the deficiencies. The Vice President of claims will compare prior and current results to determine whether or not progress has been made in areas identified as needing improvement along with action plans. Issues regarding an individual's work is handled on an individual basis, however, if the issue is taking place globally, an interim review may be scheduled and/or additional training will be utilized.

*Recommendations:* None

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

### Richmond

*Observations:* The Internal Claim Audit Procedure is provided, in part, through the Company's Claim *RAISE* document, which provides an overview of the Company's claims operation. According to the Company, claim file audits have always been used for all lines written. Quarterly reports are performed by region and provided to management for review. Audits are also performed on individual adjusters to assess the Company's training needs by individual or region. Review of claim file audits measure the operational effectiveness of the Company's written claim handling procedures.

The audits are presented to Claims Management and frequently to Senior BMAG management, for evaluation of the results as well as an evaluation of the audit process itself. The Claims Management personnel meet on a periodic and annual basis to review both the *RAISE* document and the Company's Best Practices document.

*Recommendations:* None

Portland

*Observations:* The Company's Claims Manual contains a written procedure for Internal Claim Audit. Company procedures require quarterly branch reviews and annual home office reviews. The parent company, W.R. Berkley, supplements home office reviews by performing biannual claim audits in addition to the Company's annual reviews. Claim examiners review all lines of business and include testing for use of proper security measurements, proper claim coding and other claim related operational areas.

Quality reviews are performed on every individual regardless of their position. Adjustors will have at least ten (10) file reviews, on both open and closed files. The audit reports are submitted to branch claim managers and executive managers with all deficiencies identified. Branch managers are responsible for developing, implementing and following up on a deficiency action plan. In the case of significant deficiencies, the Home Office audit team will follow up to ensure that action plans have been successfully implemented.

*Recommendations:* None

**Procedure 45 – Claim File Documentation**

Richmond

*Observations:* Items covered for Claim File Documentation are covered in Procedure 43.

*Recommendations:* None

Portland

*Observations:* The Company's Claims Handling Manual contains a written procedure for Claim File Documentation. The claim manual is accessible through the Company's intranet for claim staff and adjustors. The claim file documentation procedures are current and were last updated in January of 2004 when the Company began using a paperless claim processing system, Claim Work Station (CWS).

The Company performs branch and home office claim file reviews. A claim adjustor must maintain adequate documentation to support their decisions. A Claims supervisor will review at least ten (10) files per adjustor per file review period to ensure proper documentation. Results from claim file documentation reviews allow the Company to address areas of concern on either an individual or group level.

*Recommendations:* None

## **Procedure 46 – Subrogation and Deductible Reimbursement**

### Richmond

*Observations:* The Company maintains a Subrogation and Deductible Reimbursement process directed through the Company's Subrogation Unit. Claim adjustors are trained to recognize potential subrogation cases and forward relevant information to the Subrogation Unit. Company subrogation goals were developed in an attempt to make a complete recovery and return deductibles to insureds.

Once a file is flagged for subrogation and sent to the Subrogation Unit it is monitored through the Company's CWS claim system. Each subrogated file is set up with a reserve and monitored in conjunction with all open claims. Each month subrogation cases are reviewed in a process to monitor open subrogation files. According to the Company, once a subrogation file is closed the Company then pursues a full recovery.

*Recommendations:* It is recommended that the Company formalize its Subrogation and Deductible process into a written procedure. It is recommended that procedures be reviewed and measured on an annual basis.

### Portland

*Observations:* The Company maintains a written Subrogation and Deductible Reimbursement (SDR) Procedure as part of their Claims Manual. Access to the claim manual and SDR are available through the Company's intranet. The SDR procedure was developed by the Company as means to ensure all aspects of a loss are reviewed in recognition of partial and/or full recovery potential by claim adjustors. Once a file is identified as SDR the claim is forwarded to the Subrogation Unit for further review.

Claim files at both branch and home offices are reviewed for SDR opportunities and compliance with SDR procedures. Reviews occur quarterly at branch offices and annually at the home office, and are performed by claim supervisors. Claim supervisors will use prior reviews in their determination of adjustor SDR performance. Any deficiencies noted are recorded and submitted with remediation plans.

The Vice President of Claims reviews all SDR reports and remediation action plans. Management remediation plans allow for individual adjustor needs to be addressed as well as comprehensive adjustor SDR training program. The Home Office may perform interim reviews when deficiencies in SDR procedures appear global.

*Recommendations:* None

## **Procedure 47 – Reserve Establishment**

### Richmond

*Observations:* The Company maintains a written procedure for Reserve Establishment within the Company's *RAISE* claim documentation. The Company's Claim Department is segregated by adjustor experience and provided specific reserve and authority settlement limits. Claims are initially reviewed to determine possible loss amounts and are then assigned to an adjustor with the appropriate experience. During the claim adjudication process reserve logs are maintained to support increases or decreases in reserve amounts based upon claim data. In the event a claim is reaching an adjustor's authority limits or a large loss claim is submitted, claim managers are consulted for file reviews and recommendations.

Claim specialists actively monitor all aspects of the claim reserve procedure to ensure files are being handled properly. Monthly adjustor reviews occur to ensure proper file documentation and that consistent processes are followed. A claim specialist is to review all claims open in excess of sixty (60) days or more to determine long-term reserve effects.

Review of claim reserves allows the Company's management to reinforce to the claim staff the importance of proper claim management. According to the Company, reviews may be used to assist management in determining training needs, identify claim trends and properly reflect exposures.

*Recommendations:* None

### Portland

*Observations:* The Company maintains a Reserve Establishment Procedure contained within the Company's Claim Manual. The Company identifies four (4) basic reserve types: loss, subrogation, salvage and deductible, and, in 2005 began reserving legal fees as part of the paperless claim system, CWS. The claims system is set up with authority levels programmed as part of an individual's system profile. Claim adjusters have the responsibility for establishing initial and ongoing adequate case reserves. Financial authority is designated by claim management and signed by the employee before being enabled within the CWS system.

The Company maintains a reserve control procedure through multiple level reviews. A weekly "open claim, no reserve" report is run to ensure new claims have been reviewed and initial reserves established. Branch and home office file reviews are used to assess compliance with reserve establishment procedures. The Company performs quality reviews on every claim associate with the ability to set and perform reserve adjustments. Claim associates will receive at least ten (10) formal reviews of both open and closed files on a quarterly basis to determine compliance with reserve procedures.

The reserves compliance results are based upon a scoring mechanism covering various areas related to initial reserve setting, properly documenting changes in reserves and setting final reserves. The audit reports are submitted to the branch claim and home office executive managers. Any deficiencies identified are responded to with a plan of action, to ensure efforts are properly evaluated with adherence to Company procedures.

*Recommendations:* None

## **SUMMARY**

Fireman's Insurance Company of Washington, D.C. is incorporated under the laws of the State of Delaware to provide property and casualty insurance.

The examination is a baseline market conduct examination in which reviews of procedures affecting the following business areas were conducted: Company Operations/Management; Complaint Handling; Marketing/Sales; Producer Licensing; Policyholder Service; Underwriting and Rating; and Claims. The review of written procedures includes an analysis of the controls used by the Company to manage its operations.

Recommendations have been made to address the following areas of concern noted during the examination:

- Internal and External Audits (Richmond and Portland)
- Computer Security Controls (Portland)
- Disaster Recovery (Richmond and Portland)
- Vendor Oversight (Portland)
- Consumer and Customer Privacy (Portland)
- Complaint Handling (Richmond and Portland)
- Advertising Sales and Marketing (Richmond and Portland)
- Producer Training (Richmond)
- Producer Selection, Appointment and Terminations (Richmond and Portland)
- Producer Defalcation (Richmond)
- Prevention of Persons with Felony Convictions (Richmond)
- Premium Billing (Richmond)
- Correspondence Routing (Richmond and Portland)
- Reinstatements (Richmond)
- Insured or Member Requested Claim History (Richmond and Portland)
- Termination (Richmond and Portland)
- Underwriter Training (Richmond and Portland)
- Staff Training (Richmond and Portland)
- Adjustor Training (Portland)
- Subrogation and Deductibles (Richmond)

## **LIST OF RECOMMENDATIONS**

### **Procedure 01 – Audit (Internal and External)**

Richmond: It is recommended that the Company formalize an Internal Audit Procedure to regularly review all Company operations (general business procedures and compliance), report audit findings and remediate any findings.

It is recommended that the Company obtain audit reports from external auditors, review the report findings and remediate examination findings.

Portland: It is recommended that the Company develop an Internal Audit Procedure to regularly review all Company operations (general business procedures and compliance), report findings and remediate examination findings.

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

Portland: It is recommended that the Company formalize all aspects of their Computer Security processes into a written procedure. It is recommended the Company review, measure and remediate their procedure no less than annually to ensure procedure compliance with Company practices.

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

Richmond: It is recommended that the Company plan, test, review and remediate Disaster Recovery Procedures. It is recommended that the Company perform Disaster Recovery testing of all business operations based upon an annual testing schedule.

Portland: It is recommended that the Company develop a comprehensive Disaster Recovery testing schedule to include all business operations. It is recommended that the Company continue reporting test findings to management, provide remediation plans and follow up to ensure procedures are performing as intended. It is recommended that the Company perform Disaster Recovery testing of all business operations based upon an annual testing schedule.

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

Portland: It is recommended that the Company formalize their Vendor Oversight process into a written procedure. Additionally it is recommended that the Company express expectations through written contracts between the Company and the vendors which detail the aspects related to the vendor services, that the Company develops a measurement structure to determine if a vendor is performing as intended, and that the Company's management be notified of vendor results.

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

Portland: It is recommended that the Company implement and amend contracts between subsidiaries and vendors to include a privacy agreement related to Company insureds and claimants.

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

Richmond: It is recommended that the Company develop a written Complaint Handling Procedure which includes measurements to allow the Company the ability to monitor and report upon complaint trends, share aggregate complaint information, and follow up with business units when complaint trends develop.

Portland: It is recommended that the Company develop a written Complaint Handling Procedure, review all complaint files to determine compliance with complaint handling procedures, report to management any complaint related findings or trends, and provide remediation processes in the event the procedures are not meeting the Company's expectations.

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

Richmond: It is recommended that the Company formalize a written Advertising, Sales and Marketing Procedure.

Portland: It is recommended that the Company formalize a written Advertising, Sales and Marketing Procedure. It is recommended that the Company develop a measurement and reporting structures.

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

Richmond: It is recommended that the Company standardize in a written procedure the information provided to producers regarding the Company's philosophy on business operations and their expectations of producer/agents.

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

Richmond: It is recommended that the Company formalize their Producer Selection, Appointment and Termination process into written procedures. It is recommended that the Company review, revise and remediate the procedures as needed and no less frequently than annually.

Portland: It is recommended that the Company formally implement a written Producer Selection, Appointment and Termination Procedure. It is recommended that the Company adopt a comprehensive measurement, reporting and remediation structure.

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

Richmond: It is recommended that the Company formalize the current Producer Defalcation process into a written procedure. It is recommended that the Company review, revise and remediate the written procedure and ensure the procedure addresses the oversight and protection of consumers from agent theft.

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

Richmond: It is recommended that the Company formalize a written Prevention of Use of Persons with Felony Convictions procedure. It is recommended that the Company review, revise, and perform procedure remediation and include repercussions after felony conviction discovery. The Company needs to become compliant with 18 USC §1033(e)(1) and (2).

### **Procedure 24 – Premium Billing**

Richmond: It is recommended that the Company implement measurement procedures designed to detect automated billing errors, report detected errors and provide for remediation, in a timely manner.

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

Richmond: It is recommended that the Company formalize their Correspondence Handling process to include procedure measurement, review and remediation.

Portland: It is recommended that the Company formalize and adopt a written Correspondence Routing Procedure. It is recommended that the Company adopt comprehensive measurement structures to test the effectiveness of the procedure, review results and direct remediation efforts.

### **Procedure 27 – Reinstatement**

Richmond: It is recommended that the Company formalize their Reinstatement process into a written procedure. It is recommended that the Company measure, review, and remediate the procedure no less than annually or as procedure changes are adopted.

Portland: It is recommended that the Company formalize all processes related to Reinstatements into a comprehensive procedure. It is recommended that the Company develop a Reinstatement measurement structure and that measurements are reported to the Underwriting Department management and remediation efforts are performed by the underwriting staff.

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

Richmond: It is recommended that the Company formalize their Insured Requested Claim History process to include procedure measurement, review and remediation.

Portland: It is recommended that the Company implement and adopt a written procedure for Insured Requested Claim History. It is recommended that the Company include a comprehensive measurement structure to test the effectiveness of the procedure, review measurement findings, and remediate procedures as needed.

### **Procedure 34 – Termination Procedure**

Richmond: It is recommended that the Company develop a written Termination Procedure which should include statutory compliance and formalize termination terminology between insured requested cancellations and Company terminations, including non-renewals. It is recommended that the Company review, report and remediate any differences noted between Company policy language and established procedures once implemented.

Portland: It is recommended that the Company develop a written Termination Procedure which should include statutory compliance to formalize termination terminology, provide detailed underwriting instructions for handling both insured requested cancellations and Company terminations, including non-renewals. It is recommend that the Company review, report and remediate terminations procedures once incorrect terminations and cancellations are identified.

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

Richmond: It is recommended that the Company adopt a written Underwriting Training Procedure, track all training provided to underwriters and review underwriting training procedures.

Portland: It is recommended that the Company formalize its Underwriting Training process into a written procedure. Additionally, it is recommended that the Company track, record and report individual underwriting training to the Company's training department.

### **Procedure 40 – Staff Training Procedure**

Richmond: It is recommended that the Company standardize all operational training processes to include evaluations for training objectives for all operational areas and remediation plans once training deficiencies are reported to management.

Portland: It is recommended that the Company develop comprehensive objectives and evaluations for all training related aspects for each operational area. It is recommended that the Company track all training which is provided to its personnel.

**Procedure 42 – Adjuster Training Procedure**

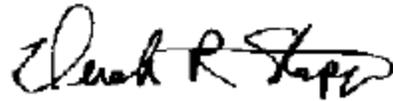
Portland: It is recommended that the Company develop comprehensive objectives and evaluations for all adjuster training related aspects. It is recommended that the Company track all training which is provided to its employees/personnel.

**Procedure 46 – Subrogation and Deductible Reimbursement Procedure**

Richmond: It is recommended that the Company formalize its Subrogation and Deductible process into a written procedure. It is recommended that procedures be reviewed and measured on an annual basis.

**CONCLUSION**

The examination was conducted by Donald P. Koch, Derek R. Stepp, James R. Koch and Steve Misenheimer and is respectfully submitted.



---

Derek Stepp, CIE  
Market Conduct Examiner-in-Charge  
Insurance Department  
State of Delaware



---

Donald P. Koch, CIE  
Market Conduct Supervising  
Examiner  
Insurance Department  
State of Delaware