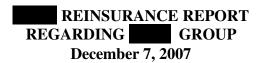
650 Sentry Parkway, Suite One Blue Bell, Pennsylvania 19422 1280 Route 46 Parsippany, New Jersey 07054

Phone 610-260-6080 Fax 610-260-6081

Email ¡Isaulino@insuranceaudits.com

Phone 973-394-1730 Fax 973-394-1734



#### **Overview of Reinsurance Assumed**

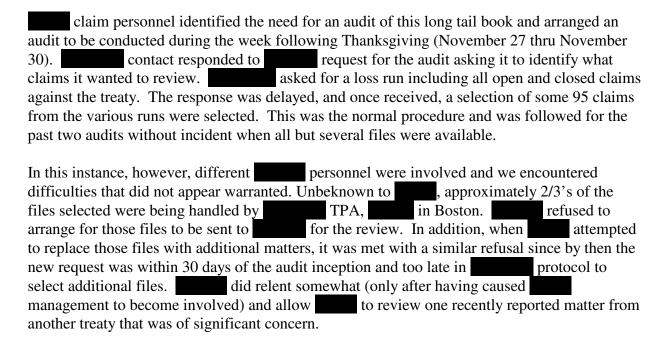
writes several types of reinsurance for the Group including a	a Global Slip,				
various Facultative Certificates and the Variable Quota Share Excess and U	mbrella contract.				
On several prior visits we have recently conducted reviews of the Quota Sha	are and Umbrella				
contracts and those reports are available for review. The purpose of this audit was to gain					
insight into handling of long term exposure matters, including ask	pestos,				
environmental and hazardous waste among others, reinsured under	Global Slip				
Treaty First Excess of Loss Contract.					

#### **Global Slip**

Companies participate on Global Slip through also participates on a direct basis. The years of involvement are from as early as 1967 through 1985. Attachment points vary and range from in excess of \$1 million to \$3 million. Exhibit 1 attached shows the various participations of the companies. Regardless of the fact that percentage participation is relatively small, the layers of involvement are high and the attachment point low. Given the long term and high risk exposures, over multiple policy years, a significant overall dollar exposure to exists.

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#### **Pre-Audit Preparation**



#### Audit

who has assumed responsibility for the account, and consultant John Saulino of RMG Consulting both of whom had been involved in past audits of performed the review. The files for the Global Slip were arranged and handled differently from the files we had seen on prior audits. Not only were we not previously advised that claims were handled off site but these older files were created in various classifications for each of the individual accounts. The classifications included:

- Declaratory Judgment files generally created to handle a particular litigated coverage matter.
- Coverage files generally created to handle a matter of coverage interpretation
- Holding Files these files were usually created to place reserves on the account for those matters which had exposure on more than one year of coverage and hence an allocation to other files and years of coverage would eventually have to be made.

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The audit revealed that notwithstanding the original purpose for which the particular file was created, files often contained aspects of other categories. For example a file earmarked as a DJ file may well have been converted to a holding file or vice versa. In some instances a file contained elements of all three categories defeating any purpose of segregation. We later learned that many files had been returned from the others were transferred to different handlers, and others still may have had more than one handler having responsibility for different issues within the file (DJ vs underlying claims).

Notwithstanding these impediments we were able to glean significant information from the files, albeit after having to sort through multi-volumes for each file. In total we reviewed 37 claims involving some 27 different accounts.

We identified the major exposure (loss cause) for each of the files reviewed.

- Eight (8) files were primarily environmental.
- Twenty three (23) files revolved around the asbestos exposure
- The remaining files six (6) files involved either lead, chemical, other mass tort or a combination of exposures.

We were permitted to take copies of the "one step" adjuster file notes and make copies of significant documents we identified in the file. These will actually help identify reserving needs for more than the file selected since the information often touched on the overview of the account and not a particular claim file as one would have expected.

The database we utilized for the review was one which we had used in the past and included columns which allowed us to assess overall claim handling by categories (we added a column for "Allocation" in view of the type of claims we expected to encounter). The categories and results for each included the following:

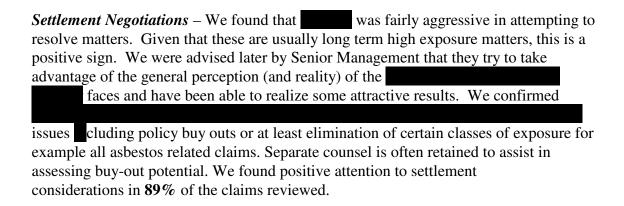
Allocation Methodology / Appropriateness — follows a pro-rata philosophy in addressing the needs of allocation and we found a consistent approach without apparent regard to reinsurance. The "Holding files" showed increases and decreases (presumably when monies were transferred to other files for different years of exposure) which was confirmed by notes, but we most often could not see the transaction detail since it may have involved a file for the same account which was not selected. We did request certain copy work included spreadsheets which may assist us in verifying same as well as identifying potential ACR needs.

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Coverage application – It is evident that senior and well qualified staff is assigned the handling of these long term high risk exposures involving significant coverage problems. We noticed coverage counsel involvement when necessary and the opinions and direction were appropriate. Coverage was usually referred to the firm and while they appeared expensive, they were competent and responsive based on the files we reviewed. We found 95% compliant with the identification and handling of coverage.

**Timely Reserving** – Given situation we expected and found certain needs for improvement. They were found to have reacted to reserving needs timely and **sufficiently in 79%** of the matters reviewed. In certain cases a request for a higher more appropriate reserve was made, but a lesser amount authorized. Additionally, since the file we reviewed was thought to have been a claim specific matter, but in effect was something different, reserves in general could not be fully and accurately assessed. Refer to specific examples and comments in our review data base.

**Supervision** – The files showed the involvement of managers and other levels of hierarchy in the oversight of the claims. Directors and even General Counsel were found to have made comments and offer suggestions or were even directing certain portions of files involving Declaratory Judgments or serious coverage matters. We found that **84%** of the files had appropriate oversight.



**Technical Claim Management** – We found that a number of files were not properly documented and this may well have been caused by the fact that the documents may have been contained in a companion (or "master") file for the same account. See also the mixing of coverage, DJ and holding files as noted above. Nonetheless, we found an overall rating of 81% in this area with the technical issues of the file addressed either by the technician, counsel as necessary, or both.

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## Preparation and Wrap-Up

In view of the impediments we found, it was decided to stop auditing the remaining pulled files (6 precautionary matters) and concentrate the afternoon of Thursday Nov 29<sup>th</sup> on preparing documents and summaries of our findings which would enable us to make a presentation at the wrap-up the following day. Our intent was to:

- Clearly communicate needs in the conduct of an audit
- Highlight the impediments and disconnect we encountered in that effort.
- Propose ways in which to best accomplish the objective through positive suggestions.
- Gain agreement with and commitment to the above.

The audit wrap up meeting was held on Friday November 30 <sup>th</sup> and attended by and John Saulino on behalf of and Reinsurance
Counsel and Vice President Reinsurance on behalf of .
We explained at the outset that we were disappointed in preparation for the audit and in meeting the needs of . While at first was defensive, once we made a full explanation, these individuals realized that the protocols enacted by the staff with whom we dealt were overly restrictive, and that in essence, had acted inappropriately. They were apologetic and cooperative and became active listeners

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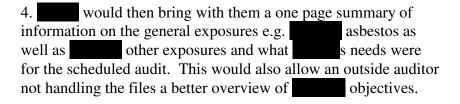
admitted that one of the impediments to resolving the issues was that we had been							
dealing with lower level personnel who were "following their marching orders".							
who would normally have been involved, and who would have made the necessary audit							
changes to our reasonable requests, was out ill during the early part of the audit. Both she and							
readily agreed that the staff should have explained how the long term							
exposures which we were attempting to review under the Global Slip differed from those files							
we had reviewed in the past. Picking a random sample from a loss run, as would have been							
usual practice, would not result in what we were looking for. Moreover, since many of the							
individual working files involving long term exposure matters were handled in							
, none would be available for the review.							
management agreed to speak with the staff at the conclusion of our meeting so that							
there would be a clear understanding of the "full and open" communication and cooperation							
between ceding company and reinsurer that we explained was necessary under the contract as							
well as usual custom and practice.							

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	Requests
	requests

Once these barriers were removed, the meeting became even more productive. We suggested the following for handling and selection of claims involved in the Global Slip and sought concurrence:

- Handling claims under a macro view examining the book of business and then drilling down to the specific exposures under the treaty and years at risk
- Audit preparation would therefore include:
  - 1. Requesting loss runs for all business applicable to the treaty on an account basis including open and closed identifying the incurred on the account in total broken down by loss, expense and total incurred.
  - 2. Requesting prior to the audit, to provide copies of all Large Loss Runs and Significant Claim Reports generated by the account. In addition, requested that provide to it so claim organization information as well as any administration / handling information so that it might better understand and communicate with management and staff responsible.
  - 3. Based on the information requested, would be in a better position to request the accounts for review focusing on the exposure by annual year, aggregate or class of business / exposure class e.g. asbestos, hazardous waste, etc.

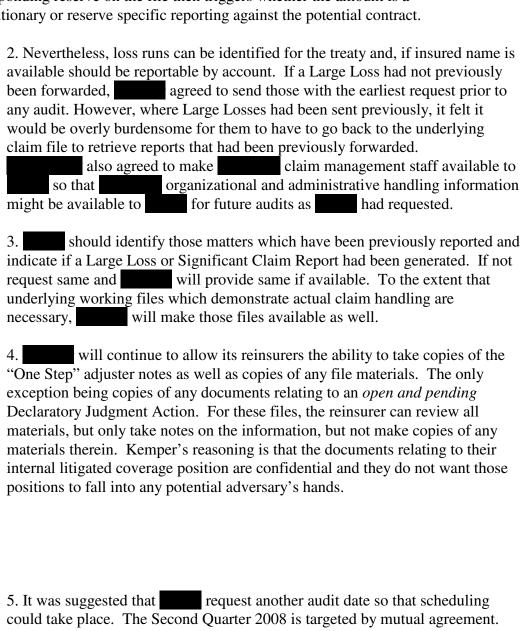


# Responses

agreed to general conclusions regarding the macro and account approach to handling as the best means to handle the exposures and they also committed do so, but only within the confines of their ability and other internal procedures as discussed below:

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1. advises that it does not have the current ability in their system (and not likely to generate enhancements thereto) in order to identify business which falls within the Global Slip or any other reinsurance program. The trigger for reinsurance recognition is generated by the claim handler, who, after recognizing exposure, generates a Large Loss and the review of applicable reinsurance. It is only after reinsurance on a particular file is identified that the Reinsurance system can make identification of its applicability. The corresponding reserve on the file then triggers whether the amount is a precautionary or reserve specific reporting against the potential contract.



6. Finally, management agreed to discuss needs and requests with their staff so that they can comply with the spirit as well as the terms of the

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reinsurance contract. also offered that contact her directly if, in future dealings, it was not satisfied with the cooperation it was afforded.

# **Remarks and Recommendations**

After having reviewed this report, management should confirm its understandings via written communication to Management summarizing its understanding of the issues and agreed upon results. Assuming the general tenor of the understandings is mutual and confirmed, it appears the audit and follow up meeting with the cede was largely beneficial.
While may not have had the opportunity to review all of the files it desired, in the bigger picture, it accomplished a significantly more valuable objective. For the first time in three recent visits, was able to communicate to the ceding company its objectives in partnering with it to understand and manage a difficult portfolio.
understands that is probably its largest reinsurer and clearly its most responsive. Impediments in reporting and timely payment have been almost always the result of new procedures and personnel with the broker. A recent payment made by that could not be located by was found by them in the wrong file and they apologized for any inadvertent follow up inquiries.
has a difficult task in collecting reinsurance. If offered that approximately in reinsurance recovery was outstanding. Apparently only one case and that was recently reported and poorly handled by the broker. It is certainly in interest to make every effort to accede to reasonable requests and the message has apparently been delivered and understood.
Once protocols have been agreed, should schedule another audit review so that it is not precluded from a reasonable time frame. advises that requests for audits from other reinsurers continue to be scheduled and only one reinsurer can be accommodated at a time.
Should have any questions or concerns as a result of this report, I am available to discuss them with it. Thank you for allowing RMG Consulting to have been of service.
Sincerely,
NAME Principal
Attachment

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Exhibit 1 **Global Slip First Excess Layer** 

COMPANY	TREATY NUMBER	INCEPTION/EXPIRA TION	PERCENTAGE PARTICIPATION	TREATY LAYER
		7/1/67-7/1/68	0.5	10 MIL X 1 MIL
		7/1/68-7/1/69	0.5	10 MIL X 1 MIL
		7/1/69-7/1/70	0.5	8.75 MIL X 1.25 MIL
		7/1/70-7/1/71	0.75	8.75 MIL X 1.25 MIL
		7/1/71-7/1/72	0.75	8.75 MIL X 1.25 MIL
		7/1/72-7/1/73	0.75	8.5 MIL X 1.5 MIL
		7/1/73-7/1/74	0.75	8.5 MIL X 1.5 MIL
		7/1/74-7/1/75	0.75	8.5 MIL X 1.5 MIL
		7/1/75-7/1/76	0.75	8.25 MIL X 1.75 MIL
		7/1/76-7/1/77	0.75	8 MIL X 2 MIL
		7/1/77-7/1/78	0.75	8 MIL X 2 MIL
		7/1/78-7/1/79	0.75	8 MIL X 2.5 MIL
		7/1/79-7/1/80	0.75	8 MIL X 2.5 MIL
		7/1/80-7/1/81	0.75	8 MIL X 2.5 MIL
		7/1/81-7/1/82	0.5	11 MIL X 3 MIL
		7/1/72-7/1/83	0.5	11 MIL X 3 MIL
		7/1/83-7/1/84	0.5	11 MIL X 3 MIL
		7/1/84-7/1/85	0.5	11 MIL X 3 MIL
		1/1/71-1/1/72	2	8.75 MIL X 1.25 MIL
		7/1/76-7/1/77	0.5	8 MIL X 2 MIL
		7/1/77-7/1/78	0.5	8 MIL X 2 MIL
		7/1/78-7/1/79	0.5	8 MIL X 2.5 MIL
		7/1/79-7/1/80	0.5	8 MIL X 2.5 MIL
		7/1/80-7/1/81	0.5	8 MIL X 2.5 MIL
		7/1/81-7/1/82	0.5	11 MIL X 3 MIL
		7/1/72-7/1/83	0.5	11 MIL X 3 MIL
		7/1/83-7/1/84	0.5	11 MIL X 3 MIL
		7/1/84-7/1/85	0.5	11 MIL X 3 MIL
		7/1/76-7/1/77	1	8 MIL X 2 MIL
		7/1/77-7/1/78	6	8 MIL X 2 MIL
		7/1/78-7/1/79	6	8 MIL X 2.5 MIL
		7/1/79-7/1/80	6	8 MIL X 2.5 MIL
		7/1/80-7/1/81	6	8 MIL X 2.5 MIL
		7/1/81-7/1/82	6	11 MIL X 3 MIL
		7/1/72-7/1/83	6	11 MIL X 3 MIL
		7/1/83-7/1/84	6	11 MIL X 3 MIL
		7/1/84-7/1/85	6	11 MIL X 3 MIL