STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

In re:	)	
	)	Examination No. 1104-02-TGT
XL Specialty Insurance Company (NAIC #37885)	)	
	)	

ORDER OF THE DIRECTOR

NOW, on this 17th day of MAY, 2012, Director John M. Huff, after consideration and review of the market conduct examination report of XL Specialty Insurance Company (NAIC #37885) (hereafter referred to as "XL Specialty"), report number 1104-03-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3) (a)1, and the Stipulation of Settlement ("Stipulation"), does hereby adopt such report as filed. After consideration and review of the Stipulation, reports, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4).

This order, issued pursuant to §§374.205.3(4) and 374.280, and §374.046.15. RSMo (Cum. Supp. 2010), is in the public interest.

IT IS THEREFORE ORDERED that XL Specialty and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that XL Specialty shall not engage in any of the violations of law and

1 All references, unless otherwise noted, are to Missouri Revised Statutes 2000 as amended.

regulations set forth in the Stipulation and shall implement procedures to place the Company in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that XL Specialty shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $21,000 payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 17th day of MAY, 2012.

John M. Huff
Director

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MO. DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

TO: XL Specialty Insurance Company
505 Eagleview Blvd. Suite 100
PO Box 636
Exton, PA 19341

RE: XL Specialty Insurance Company (NAIC #37885)
Missouri Market Conduct Examination #1104-02-TGT

STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by John M. Huff, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration, hereinafter referred to as "Director," and XL Specialty Insurance Company(NAIC #37885), (hereafter referred to as "XL Specialty"), as follows:

WHEREAS, John M. Huff is the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereafter referred to as "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, XL Specialty has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Department conducted a Market Conduct Examination of XL Specialty and prepared report number 1104-02-TGT; and

WHEREAS, the report of the Market Conduct Examination revealed that:

1. In 14 instances, XL Specialty failed to file large deductible non-standard (individual

risk) rated workers compensation policies with the Director in violation of §§287.310.1[1] and 287.947.1;

2. In 6 instances, XL Specialty failed to document the reason or basis for the 25% scheduled rating credit on the Missouri portion of premium in violation of §287.947.1, 287.950, 20 CSR 300-2.200 (2) (replaced by 20 CSR 100-8.040), and 20 CSR 500-4.100 (7) (D);

3. In 1 instance, XL Specialty incorrectly computed the administrative surcharge in violation of §287.716 and 287.717;

4. In 1 instance, XL Specialty incorrectly computed the terrorism premium and Second Injury Fund Surcharge in violation of §287.310.9 and §287.947.1.

WHEREAS, XL Specialty hereby agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those corrective actions at all times, to reasonably assure that the errors noted in the above-referenced market conduct examination reports do not recur.

WHEREAS, XL Specialty agrees to file the 14 large deductible non-standard (individual risk) rated workers compensation policies with the Director within 30 days of the date of the order closing this exam.

WHEREAS, XL Specialty agrees to file all large deductible non-standard (individual risk) rated workers compensation policies with the Director not later than thirty (30) days after the effective date of the policy.

WHEREAS, XL Specialty agrees to review all large deductible non-standard (individual risk) rated workers compensation policies issued from January 1, 2006 to the date of the Order closing this exam to determine if the Second Injury Fund is owed additional payments. If the Second Injury Fund is owed additional payments, such payments shall be made to the fund with applicable interest. Additionally, evidence must be provided to the Department that such payments have been made within 120 days after the date of the Order finalizing this examination.

WHEREAS, XL Specialty, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, which may have otherwise applied to the above referenced Market Conduct

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1 All references, unless otherwise noted, are to Missouri Revised Statutes 2000, as amended.

Examination.

WHEREAS, XL Specialty hereby agrees to the imposition of the ORDER of the Director and as a result of Market Conduct Examination #1104-02-TGT further agrees, voluntarily and knowingly to surrender and forfeit the sum of $21,000.

NOW, THEREFORE, in lieu of the institution by the Director of any action for the SUSPENSION or REVOCATION of the Certificate(s) of Authority of XL Specialty to transact the business of insurance in the State of Missouri or the imposition of other sanctions, XL Specialty does hereby voluntarily and knowingly waive all rights to any hearing, does consent to undertake the corrective actions set forth in this Stipulation, does consent to the ORDER of the Director and does surrender and forfeit the sum of $21,000, such sum payable to the Missouri State School Fund, in accordance with §374.280.

DATED: March 30, 2012

Bret R Howard
President
XL Specialty Insurance Company

XL Group
Insurance
Reinsurance

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March 5, 2012

RECEIVED
MAR 08 2012
MO. DEPT OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Mr. Stewart Freilich
Legal Counsel
Missouri Division of Insurance
Market Conduct Section
301 West High Street, Room 530
Box 690
Jefferson City, MO 65102-0690

RE: Missouri Market Conduct Examination #1104-02-TGT
XL Specialty Insurance Company (NAIC # 37885)

Dear Mr. Freilich:

In response to the copy of the examiners' draft market conduct report dated February 22, 2012, XL Specialty Insurance Company agrees with the findings.

We will await the copy of the final report as discussed in your letter.

Additionally, please note that the office address shown on your letter is incorrect. It should show as:

- 505 Eagleview Boulevard, Suite 100, PO Box 636, Exton, PA 19341

Sincerely,

Sarah B. Mims
Vice President and Deputy General Counsel
Assistant Secretary XL Specialty Insurance Company

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Property and Casualty Business of

XL Specialty Insurance Company
NAIC # 37885

MISSOURI EXAMINATION # 1104-02-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M23

May 23, 2012

Home Office
11209 Eagleview Blvd.
PO Box 636
Exton, PA 19341

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EXAMINATION REPORT SUBMISSION ..... Error! Bookmark not defined.

FOREWORD

This is a targeted market conduct examination report of XL Specialty Insurance Company, (NAIC Code # 37885). This examination was conducted at the DIFP offices located in St. Louis, Missouri.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products, or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- "Company" or "XL Specialty" refers to XL Specialty Insurance Company;
- "CSR" refers to the Missouri Code of State Regulation;
- "DIFP" refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Director" refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Division" refers to the Department of Labor, Division of Workers' Compensation;
- "NAIC" refers to the National Association of Insurance Commissioners;
- "NCCI" refers to the National Council on Compensation Insurance, Inc., and;
- "RSMo" refers to the Revised Statutes of Missouri.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2006, through May 31, 2011, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: complaints, underwriting, and terminations for workers compensation policies.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark for underwriting and trade practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

"XL Specialty Insurance Company, formerly known as Intercargo Insurance Company ("XL Specialty"), is a Delaware domiciled property and casualty insurer, which was incorporated on November 14, 1979. Effective August 16, 2002, XL Specialty was redomiciled from the State of Illinois to the State of Delaware. XL Specialty is licensed in 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands and the Northern Mariana Islands, and writes a specialty book of logistics, or transportation-related coverages. In addition, it is a preferred market for US Customs bonds and selected commercial lines."

The Company is licensed in all 50 states, the District of Columbia, Puerto Rico, Guam, U.S. Virgin Islands and the Northern Mariana Islands. Its products are distributed primarily through independent agencies and brokerages.

The Company is licensed by the DIFP under Chapter 379, RSMo, to write property and casualty insurance in Missouri as set forth in its Certificate of Authority.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of XL Specialty Insurance Company. The examiners found the following principal areas of concern:

- XL Specialty failed to make a filing with DIFP for 14 large deductible, non-standard (individual risk) rated policies as required.
- In six instances, the Company failed to document the reason or basis for the applied 25% IRPM (schedule rating) credit of the Missouri portion of premium.
- XL Specialty incorrectly computed the one percent administrative surcharge in one instance, resulting in a $9 undercharge.
- The Company incorrectly computed the terrorism premium and the Second Injury Surcharge in one instance, resulting in $3,636 and $6 undercharges, respectively.

The examiners requested that the Company make refunds concerning underwriting premium overcharges and claim underpayments found for amounts greater than $5.00 during the examination if any were found.

Various non-compliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

EXAMINATION FINDINGS

I. SALES AND MARKETING

In this section of the report, the examiners report their findings regarding how the Company complied with the laws that monitor sales and marketing practices. Due to time and cost restraints, examiners reviewed a sample of the Company's licensing records and marketing materials.

The examiners discovered no errors during this review.

A. Licensing of Agents, Agencies, and Brokers

Missouri law requires the company to sell insurance products through individuals and entities that hold a current license from the DIFP. The purpose of a license is to protect the public by providing competent and trustworthy agents, brokers, and agencies.

During underwriting and rating reviews, examiners documented agencies, agents, and brokers involved in producing the business. The examiners randomly verified that the entities were properly licensed.

The examiners discovered no errors during this review.

B. Marketing Practices

XL Specialty markets its products through an independent agency system distribution. Missouri law requires producers to be truthful and provide adequate disclosure while selling the insurance products.

The examiners discovered no errors during this review.

The Company also provides information about its products through the Internet where the Company maintains a web site at XLinsurance.com. The examiners discovered no discrepancies when the examiners reviewed the site.

II. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to their own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is determined in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general practice contrary to the law. Error rates indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company's underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to ensure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the Company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

Workers Compensation Review

Reviews are conducted to confirm that workers compensation carriers that issue large deductible, non-standard policies are in compliance with the rate filing requirements found in §§ 287.310, 287.947, RSMo, and in accordance with DIFP Bulletins 02-01 and 04-01.

Workers Compensation carriers are also evaluated to ensure total premiums are being reported as well as correct methods for determining assessments and remittance of the required second injury fund and administrative surcharges. The review includes carriers' deductible policy forms and rules for compliance with § 287.310 Subsection 4, RSMo, regarding the presumption that a net reporting plan is offered unless the insured elects a gross reporting plan.

NCCI statistical data is reviewed to analyze utilization of Individual Rate Premium Modification (IRPM), also known as schedule rating, in the form of applied debits or credits. Schedule rating is intended to be used to accurately rate an individual employer's business operation. Descriptions of the risk categories are to be based on loss-related factors that can be objectively determined.

A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language was not ambiguous or misleading and was adequate to protect the insured.

The following are the results of the reviews:

The examiners discovered that XL Specialty failed to make a filing with DIFP for fourteen large deductible, non-standard (individual risk) rated policies as required. The individual files are detailed in Section B, Underwriting and Rating of this report.

References: §§ 287.310, 287.947.1, RSMo., and DIFP Bulletin 02-01.

B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

The following are the results of the reviews:

1. Workers Compensation

Field Size: 66

Sample Size: 66

Type of Sample: Census

Number of Errors: 22

Error Ratio: 33.3%

Within DIFP Guidelines: No

1. XL Specialty failed to file the following 14 large deductible, non-standard (individual risk) rated policies with DIFP as required.

No	Policy No.	Effective
1	RWD9435163	1/1/2006
2	RWD9435207	3/26/2008
3	RWD9435289	12/15/2009
4	RWD5000107	1/1/2007
5	RWD9435217	6/1/2007
6	RWD9435074	12/31/2006
7	RWD9435221	8/1/2008
8	RWD9435056	10/1/2006
9	RWD5000051	2/1/2006
10	RWD5000123	5/1/2007
11	RWD5000235	12/31/2010
12	RWD5000042	1/1/2008
13	RWD9435214	6/1/2007
14	RWD9435235	1/1/2008

References: §§ 287.310, 287.947.1, RSMo., and DIFP Bulletin 02-01.

2. In six instances, the Company failed to document and sufficiently detail the reasons or basis for applied IRPM (schedule rating) credits of 25% for the Missouri portion of the premium.

No	Policy No	Effective
1	RWD943507402	12/31/06
2	RWD9435289	12/15/09
3	RWD9435174	4/1/06
4	RWD943511701	6/30/06
5	RWD9435223	8/1/07
6	RWD9435148	8/3/06

References: §§ 287.947.1, 287.950, RSMo., and 20 CSR 300-2.200(2) (as amended CSR 100-8.040 (2) & (3)), 20 CSR 500-4.100(7)(D), and DIFP Bulletins 97-03 and 02-02.

3. XL Specialty failed to accurately compute the 1% administrative surcharge, resulting in a $9 undercharge for the following policy.

Policy No	Effective
RWD5000143	7/20/07

References: §§ 287.716 and 287.717, RSMo.

4. The Company incorrectly computed the terrorism premium and the Second Injury Fund surcharge, resulting in undercharges of $3,636 and $6, respectively.

Policy No	Effective
RWD9435263	10/1/08

References: §§ 287.310.9, 287.947.1, RSMo., Endorsement WC 00 04 22, and Missouri State Rate Pages, Miscellaneous Values, page 5.

C. Cancellations, Non-Renewals, Rescissions, and Declinations

The examiners reviewed policies that the carrier terminated at or before the scheduled expiration date of the policies and policies that were rescinded by the Company after the effective date of the policy.

The following are the results of the reviews:

1. Workers Compensation – Cancellations, Non-Renewals, & Declinations

Field Size: 1

Sample Size: 1

Type of Sample: Census

Number of Errors: 0

Within DIFP Guidelines: Yes

The examiners discovered no errors during this review.

III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the Company.

The examiners verified the Company's complaint registry, dated January 1, 2006, through February 6, 2009. The registry contained a total of two complaints. They reviewed all that went through DIFP and none that did not come through the Department, but went directly to the Company.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D) (as replaced by 20 CSR 100-8.040(3)(D), effective 7/30/2008).

The examiners discovered no issues or concerns.

IV. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

Calendar Days	Number of Criticisms	Percentage
Received w/in time-limit, incl. any extensions	9	100%
Received outside time-limit, incl. any extensions	0	0%
No Response	0	0 %
Total	9	100 %

Reference: §375.205, RSMo and 20 CSR 100-8.040.

B. Formal Request Time Study

Calendar Days	Number of Requests	Percentage
Received w/in time-limit, incl. any extensions	11	100%
Received outside time-limit, incl. any extensions	0	0%
No Response	0	0%
Total	11	100%

Reference: §374.205, RSMo and 20 CSR 100-8.040.

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of XL Specialty Insurance Company (NAIC #37885), Examination Number 1104-02-TGT. This examination was conducted by Gary T. Meyer, Gary Bird, and John Pfaender. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated February 6, 2011. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

5/29/2012

Jim Mealer — Date
Chief Market Conduct Examiner

STATE OF MISSOURI)
)
COUNTY OF COLE)

VERIFICATION OF WRITTEN REPORT OF EXAMINATION

I, Jim Mealer, on my oath swear that to the best of my knowledge and belief, the attached Examination Report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as reasonably warranted from the facts.

Jim Mealer, Chief Market Conduct Examiner
Department of Insurance, Financial Institutions &
Professional Registration,
State of Missouri

Sworn to and subscribed before me this 29th day of May, 2012.

Notary (Seal)

My commission expires: May 18. 2016

KIMBERLY LANDERS
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: May 18, 2016
Commission Number: 12558402