

Adrian M. Fenty
Mayor

Thomas E. Hampton
Commissioner



Market Conduct Examination



Government of the District of Columbia
Department of Insurance, Securities, and Banking

(NAIC ACCREDITED)

Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

February 20, 2008

I, Thomas E. Hampton, Commissioner of Insurance, Securities and Banking of the District of Columbia, hereby certify that I have compared the annexed copy of the

MARKET CONDUCT EXAMINATION REPORT

of

CHARLES T. SKINNER

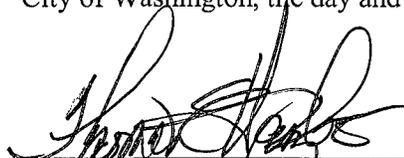
On behalf of

AON RISK SERVICES, INC. OF MARYLAND

January 1, 2001 through December 31, 2003

With the original on file in this Department and the same is a correct transcript there from, and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of this Department, at the City of Washington, the day and year first written



Thomas E. Hampton
Commissioner of Insurance, Securities and Banking

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SALUTATION

January 23, 2008

Honorable Thomas Hampton
Commissioner, District of Columbia
Department of Insurance and Securities Regulation
810 First Street, NE, Suite 701
Washington, DC 20002

Commissioner:

Under the provisions of the District of Columbia Official Code, Title 31, Section 1401 et seq., a comprehensive market conduct examination was made of the management and affairs of

CHARLES T. SKINNER

On behalf of

AON RISK SERVICES, INC. OF MARYLAND

from its regional service center located at 199 Water Street, New York, New York.
The report thereon, as of December 31, 2003 is herein respectfully submitted.

FORWARD

This examination is a systematic investigation of documents, procedures, and systems conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC). The examination report generally notes only those areas or items which the Department of Insurance Securities and Banking (DISB) takes exception. The examination reflects the District of Columbia insurance activities of Aon Risk Services, Inc. of Maryland use of Charles T. Skinner's broker license, hereinafter referred to as the Broker. In the District of Columbia, a brokerage firm, such as Aon Risk Services, Inc. of Maryland, cannot obtain a surplus line broker license. The brokerage firm uses the broker license of its designated employee, Charles T. Skinner. Any report reference to the brokerage firm is synonymous to the named licensee.

Violation(s) found in this report identifies the broker's activity that does not comply with an insurance statute or regulation. Brokerage policies, practices, and procedures are commented on for the purposes of giving the reader precision in clarity. The examination report may include management recommendations addressing areas of concern noted by DISB for which no statutory violation exists. In reviewing material for this report, the examiners relied primarily on records and materials furnished by the broker in reconciliation with records on file with the DISB.

The Broker's initial market conduct examination report was in 1997.

SCOPE OF EXAMINATION

The on-site phase of this Comprehensive Surplus Lines Broker Examination of Aon Risk Services, Inc. of Maryland was performed at its regional service center, which is situated at 199 Water Street, New York, NY. The examination covered the period from January 1, 2001 through December 31, 2003.

Aside from essential background information, the commentary contained in this report is confined to those areas involving violation of laws, regulations, or rules. Additionally, significant departures from the Broker's policies, procedures, and standards are discussed.

Some unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by DISB. This report should not be construed to endorse or discredit the Broker or the insurance products administered.

METHODOLOGY

The examination process consists of a sequence of activities. Obtaining and confirming an understanding of the broker's operational system is vital in the examination process. Such activities are:

- Evaluating brokerage procedural manuals and memorandum;
- Conducting interviews with brokerage personnel; and
- Scanning transactions prior to sample selection

After obtaining operational knowledge, an evaluation or risk assessment is performed of the broker's unique characteristics, identifying and summarizing the major risks that will drive the individual exam area strategies.

Although the sequence of activities outlined occurs in every DISB market conduct examination and is based on NAIC Handbook standards and tests, some standards are measured using an analysis of general data gathered by the examiner, or provided by the broker in response to queries. Some standard findings are developed through direct reviews of random sampling of files.

The examiner's judgment determines the specific procedures, plans and tests appropriate for each brokerage operation. The standards were measured using tests designed to adequately measure how the broker met the standard. Each standard applicable to a broker's

functional operation is reported under its respective heading. A failed standard that also has a specific DC Official Code citation is identified under the related broker function. Unresolved examination violations/issues are at the end of the report under the caption, "Summary of Significant Issues". Areas of review having a direct statutory requirement but not a direct NAIC standard are accompanied at the end of the report under a separate report heading.

This market conduct examination was focused upon the following major areas:

- Operations and Management
- Placement Activities
- Areas having a direct statutory requirement, but not a direct NAIC standard.

BROKER PROFILE

The Broker is a principal subsidiary of Chicago-based Aon Corporation, a global provider of specialty insurance underwriting, human resources consulting, and commercial brokerage services. With total 2003 revenues of \$9.81 billion, the parent organization currently employs 48,000 employees in 500 offices, serving clients in more than 120 countries. It is ranked as the second largest insurance broker in the world, with 2003 brokerage commissions and fees accounting for \$6.88 billion of total revenue.

In exchange for fees and/or commissions, the Broker assists in the identification, assessment, and mitigation of risk, as well as the placement of insurance. Additionally, the Broker receives compensation from wholesale brokerage operations, reinsurance, premium financing through Aon affiliates, and through Compensation for Services to Underwriters (CSU agreements). These agreements (also known as contingent commission agreements or CCAs) are discussed in the "Placement Activities" section of this report.

Brokerage activities are managed through specialized global practice groups, including aviation and aerospace, financial institutions, maritime industries, natural resources, professional services, property, trade credit, affinity and mergers & acquisitions. The objec-

tive is to develop collaborative relationships with clients whereby specific needs are identified and solutions tailored to each client's specific risk profile can be designed.

During the period under examination, the structure of surplus lines operations changed by the formation of four (4) regional Aon Client Services (ACS) offices. These offices are now responsible for all invoicing formerly done at the local branch office level. The Broker's offices also include units staffed by surplus lines specialists who are responsible for the preparation of affidavit filings and payment of surplus lines taxes to the jurisdictions included in their respective geographical regions.

The New York ACS, where part of the on-site phase of this examination was conducted, provides support for Aon branch offices located in DC, CT, MA, MD, NJ, NY, PA, and RI.

All ACS-prepared invoices are created in Aon's Bridge accounting system, which is used for policy maintenance as well. There is no system tie-in to Bridge for the preparation of surplus lines affidavits and tax filings. Additionally, the examiner noted that some policy files contain separate invoices for premium and surplus lines taxes, pointing to the possibility that taxes were overlooked when the premium invoices were prepared. However, when questioned about this potential difficulty, the coordinator was able to demonstrate that the Bridge system does indeed provide tax reminders to users who enter surplus lines transactions. At the same time, there are situations where, due to the complexity of the billing or client requirements, separate invoicing for taxes is preferred.

An additional ACS processing activity of interest here is the preparation of Total Insurable Value (TIV) reports. These reports, which are based upon values submitted by branch offices, are essential for the allocation of premium and taxes pertaining to complex multi-state property risks.

Total written premium and surplus lines premium levels attributed to operations of the Washington, DC office during the period of this examination were reported as follows:

	2001	2002	2003
Total Written Premium	\$108,672,724	\$176,104,530	\$162,626,333
Total Surplus Lines Premium (All Jurisdictions)	12,584,530	22,707,632	21,478,693
Total Surplus Lines Premium (DC only)	2,587,477	6,022,986	3,955,869

OPERATIONS AND MANAGEMENT

In order to evaluate the Broker's operations and management, the examiner gathered data using informational requests, direct questioning, interviews, and presentations by the Broker staff and officers.

During the course of this examination, the Broker's operations were reviewed using tests prescribed in the NAIC Examiners Handbook, Volume I, Chapter X to determine if the Broker was meeting established industry standards. The examiners verified that the Brokerage does not collect nonpublic personal information in connection with respect to their commercial business transactions. NAIC standards for "Broker Operations/Management", specifically B-14, B-15, B-16, B-17 and B-18 are not applicable in this examination and are excluded from comments and findings. The following report section gives direct reference to the NAIC handbook standards applicable for review.

Antifraud

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-1

The broker has procedures in place to report, as required by statutes, rules, and regulations, fraudulent activities to the appropriate authorities.

Comments: The review methodology for this standard does not have a direct statutory requirement. DC Official Code §§ 22-3225.09 and 22-3225.12 deal with anti-fraud but does not apply to a surplus lines broker.

Finding: The Broker is in compliance with the standard.

Observations: The Broker has general policy statements on fraud and whistle blowing. These policies require when instances are reported to the Metropolitan Police Department or the Department of Insurance, Securities, and Banking.

Recommendations: None

Disaster Recovery Plan

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-2
The broker has a valid disaster recovery plan

Comments: A review the broker's disaster recovery plan was determined sufficient to meet this NAIC standard. A valid disaster recovery plan is consistent with the public interest and needs to be tested for effectiveness.

Findings: The Broker is in compliance with the standard.

Observations: The Broker provided a well planned, implemented and tested disaster recovery plan.

Recommendations: None.

Records Maintenance & Control Procedures

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-3
Records are adequate, accessible, consistent, orderly and comply with state record retention requirements

Comments: In connection with their verification and evaluation of surplus lines affidavit entries, the examiners reviewed numerous policy and marketing files. DC Official Code §§ 31-2231.10 requires, in part, that no person shall fail to maintain its books, records, documents, and other business records in such order that data regarding complaints, claims, rating, underwriting, and marketing are not accessible and retrievable for examination.

Findings: The Broker is not in compliance with the standard.

Observations: The Brokerage provided a copy of standards and procedures applicable to the retention and destruction of insurance records. While standards relating to the retention and destruction of records have been formulated at the corporate level, it is the responsibility of the local Resident Managing Directors to develop and administer record retention programs.

While the diligent efforts of on-site managers and compliance personnel were evident throughout the examination, the Brokerage was frequently unable to retrieve basic documents outlining the chronology of events surrounding the surplus lines transactions. Dates policies were received from carriers and forwarded to clients were absent from many files; and without these data, it was not possible to determine whether the Broker

had conducted timely policy reviews. Files lacking this essential audit trail information are identified in the following table:

Client	Binder/Policy No.	Effective Date	Sample No.
A	E03RQ2405900	7/1/2003	3
B	6790659	6/30/2003	5
C	US4530	6/1/2003	6
C	WB0301640	6/1/2003	7
D	AW7215642	9/17/2003	11
D	7215642	9/17/2003	10
E	WB0300562	3/1/2003	13
F	PPR3540737-01	7/1/2003	17
F	WB0301893 (A) (B)	7/1/2003	18
G	WB0202716 (Wellington)	11/1/2002	21
H	12LPL05429-00	11/1/2002	26
I	747-1727	6/1/2002	30
J	747-2337	4/11/2003	40
K	WBWB0300599/601	3/1/2003	41
L	32GLO0000591163700	5/4/2003	42
M	IPR832185306	10/1/2003	44
N	MSWCNN0060	8/15/2003	45
O	747-1807	7/1/2002	46
O	WB0201629	7/1/2002	47
O	WB0301897	7/1/2003	48
O	WB0301898 (A) (B)	7/1/2003	49

Recommendations: Due to the issues noted by the examiner, which indicate noncompliance with the Broker's own standards and guidelines pertaining to file documentation, it is recommended that internal processes comply with the Broker standards.

Broker Licensing Requirements

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-4
The broker is appropriately licensed.

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-2502.40(a) that states in part any agent or broker licensed in the District may be licensed to procure policies from companies that are not authorized to do business in the District.

Findings: The Broker, Charles T. Skinner, is in compliance with the standard.

Observations: None

Recommendations: None

Statutory Bond

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-5
All statutorily required bonds are in-force

Comments: The DC administrative citation requiring a statutory bond was repealed in April 1997. The DISB failed to inform producers or bond providers of the change in bonding requirements. The Broker provided the examiners with copies of bonds issued biennially covering acts of the licensee, Charles T. Skinner, for the examination period. Each of the bond forms indicates a penal sum of \$20,000.

Finding: Broker procured bonds for the period under examination based on DISB provided renewal license forms.

Observations: Examiners selected to perform this NAIC standard based on information available during the planning phase of this examination. During the execution phase of the examination, the examiners learned of the statutory repeal. Broker was advised of the change in the DC bond requirement during the course of this examination.

Recommendations: None.

DISB Report Filings

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-6
All required reports have been filed with the Department of Insurance or the appropriate authority.

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-2502.40(a) that states in part that each broker so licensed for unauthorized policy procurement shall execute and file with DISB on or before the 10th day of each month an affidavit covering the policy transactions of the previous month. For the purposes of testing timeliness and accuracy of reporting, as well as other attributes discussed in this report, the Broker provided copies of filed affidavits reflecting all sur-

plus lines transacted during the examination period. The Broker provided the appropriate policy and companion marketing files thus enabling detailed review of each sampled transaction.

Findings: The Broker is not in compliance with the standard.

Observations: For the purposes of testing timeliness and accuracy of reporting, as well as other attributes discussed throughout this report, the Broker was asked to provide affidavits reflecting a total of 421 unauthorized (surplus lines) business transactions reported during the examination period. A sample of 50 transactions was identified, utilizing the NAIC's Market Conduct Statistical Utilities, and the Brokerage provided the appropriate policy and companion marketing files, enabling detailed review of each of the selected transactions.

All attributes for surplus lines placement transactions were identified for testing in accordance with the NAIC Examiner's Handbook and to address specific DC statutory requirements, as well as other concerns of the DISB regarding the business of the Brokerage.

The examiner concluded that thirty-four (34) surplus lines policy renewal transactions were not reported on monthly affidavits by the 10th of the month following the effective dates of these transactions, indicating noncompliance with DC Official Code § 31-2502.40(a). These transactions are identified in the following table:

CLIENT	BINDER/POLICY NO.	TRANSACTION EFF DATE	AFFIDAVIT DATE	SAMPLE NO.
1A	IXG318636G	12/19/00	07/30/01	1
A	E03RQ2405900	07/01/03	09/03/03	3
A	SX0000259	07/01/03	09/03/03	4
B	6790659	06/30/03	09/09/03	5
C	US4530	06/01/03	09/09/03	6
C	WB0301640	06/01/03	09/09/03	7
1C	RRE 178575329	09/17/01	10/17/01	9
D	AW7215642	09/17/01	11/06/01	11
1D	WB0302608A	09/01/03	11/06/01	12
E	WB0300562	03/01/03	04/24/03	13
P	PEC0013787	03/01/03	04/24/03	14
Q	A01SC2119900	07/31/01	10/17/01	15
S	422810	07/18/01	09/07/01	16
F	PPR3540737-01	07/01/03	09/09/03	17
F	WB0301893 (A) (B)	07/01/03	09/09/03	18
G	WB0202716 (Wellington)	11/01/02	04/24/03	21
T	EJE-B71-078180-011	12/27/01	02/02/02	22

CLIENT	BINDER/POLICY NO.	TRANSACTION EFF DATE	AFFIDAVIT DATE	SAMPLE NO.
U	12LPL05429-00	11/01/02	04/24/03	26
V	002791724	06/01/01	07/30/01	27
W	5576838	06/30/03	11/06/03	28
X	ENN598430	07/01/03	09/09/03	31
Y	WB0300044	01/01/03	04/24/03	32
1Z	GU 0342578	05/15/03	07/17/03	33
2Z	GU2924373	01/01/03	04/24/03	34
3Z	8751418	08/01/02	09/11/02	35
4Z	853-5881	11/30/00	02/02/01	37
5Z	401-7628	05/09/01	07/02/01	38
6Z	KB0102685	12/31/01	03/11/02	39
J	747-2337	04/11/03	06/05/03	40
K	WBWB0300599/601	03/01/03	05/08/03	41
M	32GLO0000591163700	05/04/03	09/09/03	42
M	IPR832185306	10/01/03	12/08/03	44
O	WB0301897	07/01/03	09/09/03	48
O	WB0301898 (A) (B)	07/01/03	09/09/03	49
TOTAL TRANSACTIONS			34	

Comparisons of policy documentation provided by the carriers with data entered by the Broker on monthly affidavits, pursuant to the data requirements enumerated in DC Official Code § 31-2502.40(a), revealed a number of inaccuracies or omissions, as identified in the following table: These inaccuracies or omissions had no impact on the reporting of gross premiums or semi-annual tax calculations.

CLIENT	BINDER/POLICY NO.	INACCURACY/OMISSION	SAMPLE NO.
A	E03RQ2405900	Limits incorrect	3
D	7215642	Limits incorrect	10
1F	6QF 000998-00	Affidavit not dated	20
T	EJE-B71-078180-011	Limits incorrect	22
T	EJE-B71-078180-012	Affidavit not dated & Limits incorrect	23
1T	3779364	Affidavit not dated	24
I	747-1727	Affidavit not dated	30
L	32GLO0000591163700	Limit not entered	42
O	747-1807	Limits incorrect	46
O	WB0301898 (A) (B)	Policy No. incorrect (Gross Premium and Tax refer to "B" policy only)	49

Recommendations: The Broker should monitor compliance for all tax filing deadlines and assure filing data quality.

Tax Reporting and Tax Allocation

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-7

The applicable taxes are reported and are credited to the state

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-2502.40(a) states, in part, that each broker shall pay to the Collector of Taxes, through the Commissioner, on February 1st and August 1st of each year, a sum equal to 2 per centum of the amount of the gross premiums upon all kinds of policies procured by him during the immediately preceding 6 months' period ending December 31st and June 30th, respectively.

Findings: DC Official Code § 31-2502.40(a) requires semi-annual payments on the 1st day of February and August. Examination of the Brokerage's surplus lines tax returns revealed five (5) filing errors and one (1) occasion of missing a semi-annual payment due date. The Broker did not show a pattern of late filing.

Observations: The examiners compared gross premiums reflected in data provided by the carriers with Brokerage-generated invoices and quotations against the filed tax affidavits. With the exception some clerical oversights, no significant discrepancies were found. Minor inaccuracies were found in the following affidavit:

Policy Number	ANB704150	Sample Number	19
Delaware property location was recorded as a DC exposure in error, resulting in a \$446.90 underpayment to DE, but a \$446.90 overpayment to DC.			
Policy Number	747-17270	Sample Number	30
DC tax was overpaid in the amount of \$13.84 due to a miscalculation			
Policy Number	ENN598430	Sample Number	31
Taxes on premiums for Waiver of Recourse and a Policy Extension were overlooked, resulting in an underpayment of \$337.30 in DC SL tax.			
Policy Number	853-5881	Sample Number	37
Endorsement adding a Tennessee property location, however tax of \$151.58 paid to DC in error			
Policy Number	747-2337	Sample Number	40
Taxes and fees totaling \$217,394.88 were not invoiced in connection with two (2) related placements for terrorism coverage, through Axis Specialty. The DC portion of this total is \$1,696.02. This issue was later corrected.			

Recommendations: The Broker should monitor compliance for all tax filing deadlines and assure filing data quality.

Consumer Complaints

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-8

Consumer and insurance department complaints responded to in accordance with statutes, rules, and regulations.

Comments: The review methodology for this standard has direct statutory requirements, i.e., DC Official Code §§ 31-2231.10 and 31-223 1.18. The former citation states in part that no person shall fail to maintain its books, records, documents, and other business records in such order that data regarding complaints, claims, rating, underwriting, and marketing are not accessible and retrievable for examination.

DC Official Code § 31-2231.01 “Definitions” identifies insurers to include agents and brokers so the examiner made the Broker aware of this code citation.

Findings: The Broker is not in compliance with the standard.

Observations: DISB’s 1997 market conduct examination report recommended that the Broker devise and maintain a formal complaint register for the Washington DC office.

Recommendations: None

Calculation and Refund of Unearned Premium

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-9

If the surplus lines broker is responsible for such calculations then unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is in compliance with the standard.

Observations: The Broker’s sample contained only two (2) return premium transactions and neither involved a cancellation. In each case, the unearned premium was returned following a reduction in scheduled property values.

Recommendations: None

Broker Cooperation with Examiners

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-10

The broker cooperates on a timely basis with examiners performing the examinations.

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-1403(b) states in part that every person from whom information is sought must provide the information to the examiners and must facilitate the examination and aid in the examination so far as it is in their power to do so.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

Collection & Use of Insurance Transaction Information

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-11

The surplus lines broker has procedures for the collection, use, and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

Comments: Pursuant to Title 26, Chapter 36 of the D.C. Municipal Regulations (DCMR) and Title V of the Gramm-Leach-Bliley Financial Modernization Act (GLB), the Broker has adopted a formal privacy policy and formulated procedures designed to safeguard non-public personal information of their clients.

Findings: The Broker is in compliance with the standard.

Observations: The Broker follows its Privacy Guidelines and Principles document that addresses information security, privacy notices, policies and procedures and standards. The examiner became familiar with this document during the course of the examination's file review to determine its applicability.

Recommendations: None

Privacy Notices, Polices & Procedures

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-12

The broker has developed and implemented written policies, standards and procedures for the management of insurance information.

Comments: Pursuant to Title 26, Chapter 36 of the D.C. Municipal Regulations (DCMR) and Title V of the Gramm-Leach-Bliley Financial Modernization Act (GLB), the Broker has adopted a formal privacy policy and formulated procedures designed to safeguard non-public personal information of their clients.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

Information Security Program

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-13

The broker has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Comments: Pursuant to Title 26, Chapter 36 of the D.C. Municipal Regulations (DCMR) and Title V of the Gramm-Leach-Bliley Financial Modernization Act (GLB), the Broker has adopted a formal privacy policy and formulated procedures designed to safeguard non-public personal information of their clients.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

PLACEMENT; CANCELLATION/NONRENEWAL

In order to evaluate the Broker's placement and cancellation/nonrenewal practices, the examiner gathered data using informational requests, direct questioning, interviews, and presentations by the Broker staff and officers.

During the course of this part of the examination, the examiner used the same sample developed for the review of operations to determine if the Broker was meeting established industry standards. NAIC standards for "Placement; Cancellation/Nonrenewal, specifically C-4, C-5 are not applicable in this examination and are excluded from comments and findings. The following report section gives direct reference to the NAIC handbook standards examined.

Disclosure Requirements

NAIC Market Conduct Examinations Handbook – Chapter X, Section C Standard C-1

All required disclosures are made in accordance with statutes, rules, and regulations.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is in compliance with the standard.

Observations: Among the sample of fifty (50) policy/marketing files reviewed in connection with placements testing, it was noted that no warning notices were included in binder transmittal letters or proposals although the Broker provided the examiner with its disclo-

sure standard. The examiner found each invoice generated in connection with the surplus lines placements contained warning language regarding the additional financial exposure associated with risk placement in the non-admitted market.

During the period of this examination, disclosures of contingent commission agreements (CCAs) were provided on the reverse side of invoices prepared by Aon. These disclosures have been in effect since 1999. Additionally, Aon has disclosed this mode of compensation on their website and has included CCA disclosures in service agreements entered into with their clients. Not only has the website provided a listing of U.S. insurers participating in these arrangements, but a sample agreement is posted as well.

While the recent decision was made in order to eliminate the appearance of a conflict of interest vis-à-vis client relationships, it should be noted that Aon also requires its top 7,000 personnel to complete and sign annual Conflict of Interest Statements. This protocol is administered by the Internal Audit Department, and any potential conflicts are investigated through a Conflict of Interest Committee.

Recommendations: While the District of Columbia does not require a disclosure standard, the examiner recommends that the Broker demonstrate its compliance by requiring client binding confirmations include the appropriate surplus lines disclaimer language as use of such a warning notice is regarded as a best practice in the industry.

Policy Declarations & Page Completeness

NAIC Market Conduct Examinations Handbook – Chapter X, Section C Standard C-2

When issued by the surplus lines broker, all forms and endorsements forming a part of the contract are listed on the declarations page.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is in compliance with the standard.

Observations: While the Broker's internal management procedures entail a thorough policy review and timely transmittal, the test checking portion of this examination phase noted several policy files with timed delivery exceptions.

Recommendations: None

Insurer's Financial Evaluation

NAIC Market Conduct Examinations Handbook – Chapter X Section C Standard C-3

The selected carrier was evaluated to ensure it complies with statutory requirements regarding financial condition.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is in compliance with the standard.

Observations: During the period of this examination, the Broker placed business with forty-one (41) different surplus lines carriers. The examiners noted that policy files reviewed during placements testing reflect insurer ratings which generally exceed the Broker's minimum financial guidelines.

Recommendations: None

Diligent Effort Placement

NAIC Market Conduct Examinations Handbook – Chapter X, Section C Standard C-6

Diligent effort was made to place the risk with an admitted carrier in compliance with statutes, rules, and regulations.

Comments: The review methodology for this standard can be found in DC Official Code § 31-2502.40 that states in part that prior to procurement of unauthorized policies the licensed agent or broker must make a diligent effort to place the insurance with authorized companies.

Findings: The Broker is in compliance with the standard.

Observations: The Broker's top ten (10) accounts were reviewed to particularly focus on this standard. Explanations were offered as to why standard markets had been unable to respond to the entire range of insurance requirements. The Broker's policy files reveal excellent documentation of efforts to place coverage with admitted carriers. In order to invoice a surplus lines placement, the "ACS" office first requires submission of a completed Surplus Lines Processing Affidavit (form LN40) by the local field office. This form contains essential data regarding the surplus lines placement as well as a list of three (3) declining companies, the name and telephone number of each underwriter declining the risk, the declination reason(s), and the dates declined

During the placements testing phase of this examination, all but two (2) of the policy files reviewed were found to contain these affidavits, indicating substantial compliance with the "diligent effort" requirement set forth in DC ST § 31-2502.40(b).

The two (2) policy files lacking documentation of placement efforts are identified as follows:

Client	Binder/Policy No.	Effective Date	Sample No.
1D	EJE-B71-078180-011	12/27/01	22
T	WB0302608A	9/1/03	12

Recommendations: None

SUMMARY OF SIGNIFICANT ISSUES

Standard B-3

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DC Official Code §§ 31-2231.10 requires, in part, that no person shall fail to maintain its books, records, documents, and other business records in such order that data regarding complaints, claims, rating, underwriting, and marketing are not accessible and retrievable for examination.

Standard B-6

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DC Official Code § 31-2502.40(a) that states in part that each broker so licensed for unauthorized policy procurement shall execute and file with DISB on or before the 10th day of each month an affidavit covering the policy transactions of the previous month.

Standard B-7

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DC Official Code § 31-2502.40(a) requires semi-annual payments on the 1st day of February and August. Examination of the Brokerage's surplus lines tax returns revealed five (5) filing errors and one (1) occasion of missing a semi-annual payment due date. No late filing pattern was noted.

Standard B-8

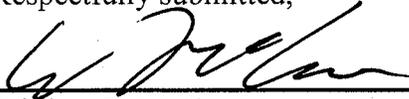
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DC Official Code § 31-2231.01 "Definitions" identifies insurers to include agents and brokers, so DC Official Code §§ 31-2231.10 and 31-2231.18, which requires that no person shall fail to maintain its books, records, documents, and other business records in such order that data regarding complaints, claims, rating, underwriting, and marketing are not accessible and retrievable for examination is applicable to the Broker.

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Respectfully submitted,



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