

Order No. G 07 - 1
Zurich American Insurance Company
and Affiliates
Exhibit A

MARKET CONDUCT EXAMINATION

ZURICH AMERICAN INSURANCE COMPANY AND AFFILIATES

**ZURICH TOWERS
1400 AMERICAN LANE
SCHAUMBURG, IL 60196-1056**

JANUARY 1, 2005 – DECEMBER 31, 2005



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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

Zurich American Insurance Company	NAIC # 16535
American Guarantee and Liability Insurance Co.	NAIC # 26247
American Zurich Insurance Company	NAIC # 40142
Assurance Company of America	NAIC # 19305
Fidelity and Deposit Company of Maryland	NAIC # 39306
Maryland Casualty Company	NAIC # 19356
Maine Bonding and Casualty Company	NAIC # 19321
Northern Insurance Company of New York	NAIC # 19372
Steadfast Insurance Company	NAIC # 26387
Valiant Insurance Company	NAIC # 26611
Zurich American Insurance Co. of Illinois	NAIC # 27855

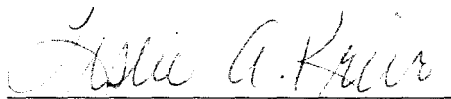
In this report, the above entities are collectively referred to as “the Companies”. This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, AIC and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Zurich American Insurance Companies during the course of this market conduct examination, including those people assigned to us that provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Companies' claim operations from January 1, 2005 through December 31, 2005. The examination was performed in the Companies' regional office in Rancho Cordova, California and in the Office of the Insurance Commissioner in Seattle, Washington.

Matters Examined

The examination included the following areas:

Companies Operations and Management
General Examination Standards
Claim Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92%	Confidence Level
+/- 5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is less than 5%, the standard will be considered as 'met'.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the Companies follow established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Zurich American Insurance Company	Illinois	10/01/1912	06/25/1923
American Guarantee and Liability Insurance Company	New York	09/06/1939	11/25/1939
American Zurich Insurance Company	Illinois	08/19/1981	07/29/1982
Assurance Company of America	Illinois	06/20/1945	10/06/1970
Fidelity and Deposit Company of Maryland	Maryland	02/15/1890	07/25/1895
Maine Bonding and Casualty Company	Maine	08/29/1939	N/A*
Maryland Casualty Company	Maryland	03/01/1898	12/10/1898
Northern Insurance Company of New York	New York	10/06/1897	10/303/1967
Steadfast Insurance Company	Delaware	08/31/1973	N/A*
Valiant Insurance Company	Iowa	06/01/1973	05/20/1975
Zurich American Insurance Company of Illinois	Illinois	10/11/1973	N/A*

* Non-admitted carriers with claims that occurred in Washington.

Zurich American Insurance Company is owned by the Zurich Holding Company of America which is owned by Zurich Financial Services Group. The Company was called Zurich General Accident and Liability Insurance Co. Ltd. until 1955 when the name changed to Zurich Insurance Company and operated as the U.S. arm of the Swiss parent company. In January 1999 the Company domesticated in New York and became a separate legal entity.

Thomas A. Bradley is President of Zurich American Insurance Company. Alex P. Lehmann is the Chief Executive Officer.

OPERATIONS AND MANAGEMENT

Operations and Management Standard #2 is not applicable to this examination as it applies to domestic insurers only.

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington.	RCW 48.05.030(1)

GENERAL EXAMINATION PRACTICES

Findings

The following General Examination Practices Standards Passed without Comment:

#	GENERAL EXAMINATION PRACTICES	REFERENCE
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
3	The Companies maintain full and accurate records and accounts.	RCW 48.05.280
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner and filed annual anti-fraud reports with the OIC.	RCW 48.30A.045 RCW 48.30A.060

The following General Examination Practices Standard Failed:

#	GENERAL EXAMINATION PRACTICES	REFERENCE
2	The Companies do business in their own legal name.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

Standard #2:

- The Companies sent an “acknowledgement of claim” letter on every claim that was reported to the direct reporting call center. The letter was written on generic Zurich letterhead and did not identify the actual insurer.

- Seven (7) claim files contained correspondence that did not identify the actual insurer on forms or correspondence.
- One (1) claim file contained copies of settlement checks that did not identify the actual insurer.

See Appendix 1 for detail.

Subsequent event:

The Companies advised that a programming change has been made to add the name of the actual insurer to all “acknowledgement of claim” letters. This change is expected to be in place by November 15, 2006.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 161 of 5,808 claims that occurred in Washington and were closed during the exam period. The claims were submitted under Zurich American Insurance Company or its affiliates’ policies that were either issued in Washington by Washington admitted carriers or the claims occurred in Washington on policies that were not issued in Washington. Approximately 50% of these claims were submitted on Zurich American Insurance Company policies, 14% on Assurance Co. of America, and 12% on Maryland Casualty. The balance of the claims was spread among the other carriers.

Of these claims, 130 were handled by the Companies’ claims staff and 31 were handled by third party administrators on behalf of the Companies. The examiners also reviewed the claim complaints on the OIC database that were filed between January 2004 and December 2005 for trends. The primary issues in those complaints were delays in investigation, failure to respond to communications, damage determination, and liability disputes.

Files were reviewed for:

- Compliance with Washington laws
- Timeliness of contact with claimants
- Promptness of payments

Findings

The following Claim Settlement Practices Standards Passed without Comment:

#	CLAIM SETTLEMENT PRACTICES STANDARD	REFERENCE
3	The Companies provided an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
4	The Companies acknowledged receipt of a claim within 10 days, and responded to all communications on a claim file	WAC 284-30-360(1) (3) and (4)

#	CLAIM SETTLEMENT PRACTICES STANDARD	REFERENCE
	within the time frames prescribed.	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380
8	The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395 (1)
9	The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claim Settlement Practices Standards Passed With Comment:

#	CLAIM SETTLEMENT PRACTICES STANDARD	REFERENCE
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330
2	The Companies' claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file.	WAC 284-30-340
5	The Companies comply with requirement for prompt investigation of claims.	WAC 284-30-370
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390, WAC 284-30-3901-3916

Standard #1:

Six (6) files contained settlement checks that were issued to first party claimants. The checks did not identify the coverage under which the payment was made.

Standard #2:

Two (2) files did not contain sufficient documentation or log notes to support the activities in the claim file.

Standard #5:

Three (3) files were not investigated promptly.

Standard #7:

One (1) file involved the settlement of two total loss vehicles. The settlements did not include the appropriate taxes and fees as required. An additional \$253.50 was paid to the owners of the vehicles.

See Appendix 2 for detail.

SUMMARY OF STANDARDS

Companies Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington. (RCW 48.05.030(1))	8	X	
2	The Companies are required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies. (RCW 48.07.070)	N/A		

General Examination Practices:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The Companies do business in their own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8		X
3	The Companies maintain full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner (RCW 48.30A.045) and filed annual anti-fraud reports with the OIC. (RCW 48.30A.060)	8	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	10	X	
2	The Companies' claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	10	X	
3	The Companies provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	9	X	
4	The Companies acknowledged receipt of a claim within 10	9	X	

#	STANDARD	PAGE	PASS	FAIL
	days, and respond to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))			
5	The Companies comply with requirement for prompt investigation of claims. (WAC 284-30-370)	10	X	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	10	X	
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390, WAC 284-30-3901-3916)	10	X	
8	The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395(1))	10	X	
9	The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	10	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTION	PAGE NUMBER
The Companies are instructed to comply with RCW 48.05.190(1) to ensure that all correspondence and forms identify the insuring Company. If the Companies are using letterhead or forms that identify both the group name and the insuring Company, the insuring company must be clearly identified.	8
RECOMMENDATION	PAGE NUMBER
It is recommended that the Companies conduct a training session with all claims personnel responsible for Washington claims to review the results of the examination, and specifically focus on those areas where comments were made in the report.	10

APPENDIX 1

General Examination Standard #2	The Companies do business their own legal name. Ref: RCW 48.05.190(1)
Claim Number	Comments
All claims	The Companies sent out an acknowledgement of claim letter on every claim that was reported to the call center. The letter was written on generic Zurich letterhead. The insurer was not identified in the letter.
4620092111	The medical authorization in this file did not correctly identify the insurer. The form had a list of Companies and was designed to let the claim representative mark the appropriate Company. Assurance Company of America, the insuring Company was not listed on the form.
635000280	The claim handler identified the wrong Company in a letter's signature block.
5350043139	Correspondence in this file was done on generic Zurich letterhead. The insurer is not identified in the body of the letter or in the signature block.
000714-003189-PA-01	The letter to the claimant identified the TPA (third party administrator) but did not identify the insuring Company.
705 618201	The letter to the claimant identified the TPA but did not identify the insuring Company.
001000-312952-AM-01	Settlement checks identified the insured but did not identify the insuring Company.
565AN130506N565	The letter to the claimant identified the TPA but did not identify the insuring Company.
9606-345-513491-0	The letter to the claimant identified the TPA but did not identify the insuring Company.

APPENDIX 2

Claims Settlement Practices Standard #1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. Ref: WAC 284-30-330 (1)-(19)
Claim number	Comments
000714-003189-PA-01	WAC 284-30-330 (9) The Companies did not identify the coverage under which payments were being made on the check or in an accompanying letter.
000696-115511-PM-01	WAC 284-30-330 (9) The Companies did not identify the coverage under which payments were being made on the check or in an accompanying letter.
000747-046422-PB-01	WAC 284-30-330 (9) The Companies did not identify the coverage under which payments were being made on the check or in an accompanying letter.
705 618201	WAC 284-30-330 (9) The Companies did not identify the coverage under which payments were being made on the check or in an accompanying letter.
010515-064104-GD-01	WAC 284-30-330 (9) The Companies did not identify the coverage under which payments were being made on the check or in an accompanying letter.
001000-312952-AM-01	WAC 284-30-330 (9) The Companies did not identify the coverage under which payments were being made on the check or in an accompanying letter.
Claims Settlement Practices Standard #2	The Companies' claim files contain detailed log notes and work papers that allow reconstruction of the claim file. Ref: WAC 284-30-340
Claim number	Comments
5350034197	File documentation was incomplete. Claim decisions were based on an ACV quote. The source of that information was not identified in the log notes.
1620090105	There was a repair supplement that was not addressed in the file for approximately 8 months. The insured was never contacted during this time.

Claims Settlement Practices Standard #5	The Companies comply with requirements for prompt investigation of claims. Ref: WAC 284-30-370
Claim number	Comments
1620092565	There was a delay in the investigation of damages between July 18 and August 31. There was nothing in the file to support why the claim could not have been concluded immediately after the damages were determined by the independent appraiser on August 10th.
5620115698	The claim was reported in September of 2003 however it was not addressed until March 2005. This occurred when the claim was transferred from one claim handler to another. There was no process in place to ensure that the hand-off was successful.
1620086869	A coverage issue took more than 2 months to resolve. There was nothing in the file to support the need for this lengthy time frame.
Claims Settlement Practices Standard #7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. Ref: WAC 284-30-390 and WAC 284-30-3901-3916
Claim number	Comments
9606-345-513491-0	The Companies paid \$5.25 for license fees on one total loss. The Companies were instructed pay any additional taxes and fees that were owed on this vehicle and also instructed to review the settlement on the other vehicle that was totaled in the accident. \$253.50 additional was paid.

RECEIVED



December 19, 2006

Mr. James T. Odiome, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
5000 Capitol Boulevard
Tumwater, WA 98501

DEC 20 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Re: Zurich American Insurance Company Market Conduct Examination

Mr. Odiome,

Please allow this letter to serve as acknowledgement and receipt of your correspondence dated December 1, 2006, in which the state's findings were detailed from the recent completed audit.

Zurich North America has had an opportunity to review the state's findings and will accept the report as written.

As mentioned in your findings, Zurich North America failed the Second Standard under General Examination Practices. However, as noted, Zurich North America put into a place a corrective measure on November 15, 2006, to insure future compliance.

◆ Standard #2:

- The Companies sent an "acknowledgement of claim" letter on every claim that was reported to the direct reporting call center. The letter was written on generic Zurich letterhead and did not identify the actual insurer.
- Seven (7) claim files contained correspondence that did not identify the actual insurer on forms or correspondence.
- One (1) claim file contained copies of settlement checks that did not identify the actual Insurer.

Zurich North America
Claims

Head Office
1400 American Lane
Schaumburg, IL 60196-1056

Phone (847) 605-6000

Reference: RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

While all other Standards received passing remarks, Zurich North America senior claims management and TPA Operations management has been advised of the results and will work with our applicable Claims Lines of Business and TPAs to provide additional reinforcement or training in a timely manner to our adjusters to emphasize compliance in the following areas of Claim Settlement Practices where comments were made in the report:

◆ Standard #1:

Six (6) files contained settlement checks that were issued to first party claimants. The checks did not identify the coverage under which the payment was made.

Reference: WAC 284-30-330

◆ Standard #2:

Two (2) files did not contain sufficient documentation or log notes to support the activities in the claim file.

Reference: WAC 284-30-340



◆ Standard #2:
Two (2) files did not contain sufficient documentation or log notes to support the activities in
the
claim file.

Reference: WAC 284-30-340

◆ Standard #5:
Three (3) files were not investigated promptly.

Reference: WAC 284-30-370

◆ Standard #7:
One (1) file involved the settlement of two total loss vehicles. The settlements did not include
the appropriate taxes and fees as required. An additional \$253.50 was paid to the owners of
the
vehicles.

Reference: WAC 284-30-390, WAC 284-30-3901-3916

Zurich North America
Claims

Head Office
1400 American Lane
Schaumburg, IL 60196-1056

Phone (847) 605-6000

Please feel free to contact me directly should you want to discuss our response in further detail.

Sincerely,

Mark A. Lechowicz
Director of Risk & Compliance
Zurich North America