

MARKET CONDUCT EXAMINATION REPORT

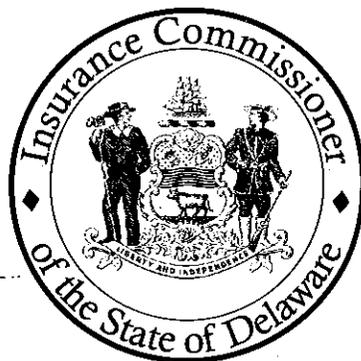
OF

**AIG EXCESS LIABILITY COMPANY, LTD.
F/K/A STARR EXCESS LIABILITY
INSURANCE COMPANY**

AS OF

SEPTEMBER 1, 2006

Matthew Denn
Insurance Commissioner



Department of Insurance
841 Silver Lake Blvd.
Dover, DE 19904-2465
(302) 674-7300
(302) 739-5280 fax

REPORT ON MARKET CONDUCT EXAMINATION

OF THE

AIG EXCESS LIABILITY COMPANY, LTD.

AS OF

September 1, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

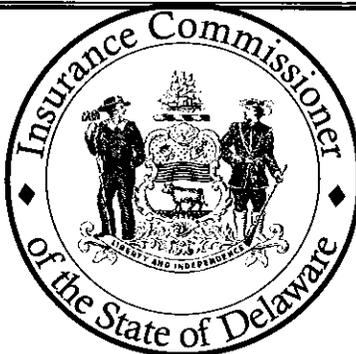
Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 26th day of November, 2008.

Matthew Denn
Insurance Commissioner



Department of Insurance
841 Silver Lake Blvd.
Dover, DE 19904-2465
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I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of September 1, 2006 of the

AIG EXCESS LIABILITY COMPANY, LTD.

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

ATTEST BY: *Sonia C. Harris*

DATE: November 26, 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 26th DAY OF November, 2008.

Matthew Denn
Insurance Commissioner

TABLE OF CONTENTS

SALUTATION 1

EXECUTIVE SUMMARY 2

SCOPE OF EXAMINATION..... 2

HISTORY AND PROFILE 3

METHODOLOGY 3

A. COMPANY OPERATIONS/MANAGEMENT..... 4

 Standard A 08 4

 Standard A 09 4

B. COMPLAINTS 5

C. REVIEW OF PROCEDURES 5

 C.1. Procedures Reviewed but with No Recommendations 5

 C.2. Procedures Reviewed with a Recommendation..... 6

CONCLUSION..... 6

SALUTATION

January 17, 2008

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 05.777, and pursuant to statutory provisions including 18 Del. C. §318-322, a Market Conduct Examination has been conducted of the affairs and practices of:

**AIG EXCESS LIABILITY INSURANCE COMPANY, LTD.
F/K/A STARR EXCESS LIABILITY INSURANCE COMPANY**

The examination was performed as of September 1, 2006. Starr Excess Liability Insurance Company, hereinafter referred to as "Company" or as "Starr Excess," is incorporated under the laws of the State of Delaware. This examination consists of two phases, an onsite phase and an offsite phase. The onsite phase of the examination was conducted at the following location:

100 Summer St., Boston, MA 02110

The offsite examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI" and other appropriate locations.

The report of examination thereon is respectfully submitted.

EXECUTIVE SUMMARY

AIG Excess Liability Insurance Company, Ltd., f/k/a Starr Excess Liability Insurance Company, redomesticated from Bermuda to Delaware on July 28, 1998. Its main administrative office is located at 70 Pine Street, New York, NY 10270.

As a Surplus Lines writer, the Company focuses on insuring risks that admitted writers cannot provide the coverage for, either because of the complexity of the risk or because the coverage does not lend itself to conventional insurance contracts. Starr Excess provides high-level excess liability insurance to large companies, such as those found on the Fortune 1000 list.

This examination is a Delaware Baseline Examination in which the processes, procedures and controls utilized by the Company in its various business areas are reviewed and evaluated. The following business areas were reviewed: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Claims Handling.

There were no areas of concern noted during this examination.

SCOPE OF EXAMINATION

While the basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer, all baseline examinations include, Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting & Rating and Claims.

This examination is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This review is not a pass/fail test, rather, it determines whether or not there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to a Market Conduct Examination through a review of the written procedures and operating processes of the Company. This component also includes an analysis of how the Company communicates its instructions and intentions to its operational echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether or not this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus can be directed on those areas where review indicators suggest that the process used by management does not appear to be achieving the appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed, to some extent, by one or more of the Procedures reviewed, thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by exception rather than a report by test. This means that only those areas where a Recommendation for corrective action is made are detailed in this report.

HISTORY AND PROFILE

Starr Excess Liability Insurance Company, Ltd. (SELIC) was incorporated on May 19, 1993 in Bermuda and was a wholly owned subsidiary of Starr Excess Liability Insurance Company Holdings, Ltd. ("SELIC Holdings, Ltd."), also a Bermuda Company. Insurance operations began on June 30, 1993. The Company was formed to provide large blocks of high-level excess General Liability, Directors and Officers' Liability and Professional Liability capacity to Fortune 1000 companies and other companies requiring protection against exposures inherent in their business operations.

The Company was a joint venture between American International Group, Inc. (AIG) and General Re, with these companies owning 23.9% and 76.1% of SELIC Holdings, Ltd., respectively. On January 29, 1998 AIG purchased the remaining 76.1% of the common stock of SELIC Holdings, Ltd. During 1998, SELIC was redomesticated from Bermuda to Delaware. The Company currently is a wholly-owned subsidiary of National Union Fire Insurance Company of Pittsburgh, PA, a wholly-owned indirect subsidiary of AIG. Starr Excess changed its name to AIG Excess Liability Insurance Company, Ltd. On July 31, 2007, and currently transacts business under that name. In 1998, SELIC established a wholly-owned subsidiary, Starr Excess Europe Limited ("SEE"), in Ireland. During 1998, SEE changed its name to Starr Excess Liability Insurance International Limited. This Company has established a branch office in London and a branch office in Bermuda.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property & Casualty Insurer found in Chapter VIII of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the NAIC's *Market Conduct Examiners Handbook* (2004 edition).

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review is conducted through an analysis of general data gathered by the examiner or provided by the examinee in response to queries by the examiner.

A "sample" review is conducted through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC's *Market Conduct Examiners Handbook*. Samples of complaint files, underwriting files and claim files were reviewed to determine that the processes described by the Company are actually used by the Company.

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

In this examination, only two Standards were directly tested. The Procedures were tested through a combination of "generic" review and direct observation of the processes used. Each Standard

contains a brief description of the purpose or reason for the Standard. The Procedure review does not include this description. The examiners' "Observations" are noted following both Standards and for each Procedure where a "Recommendation" for corrective action is made.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report except for the following two Standards dealing with appropriate licensure and cooperation with the examination process.

Standard A 08

<p>NAIC's <i>Market Conduct Examiners Handbook - Chapter VIII, §A, Standard 8</i> The Company is licensed for the lines of business that are being written. 18 Del. C. §318(a), §505(b), §508(b)</p>

The review methodology for this Standard is "generic." This Standard has a direct insurance statutory requirement. This Standard determines whether or not the Company's operations are in conformance with the Company's Certificate of Authority.

Results: Pass

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company's Delaware Certificate of Authority.

Recommendation: None

Standard A 09

<p>NAIC's <i>Market Conduct Examiners Handbook - Chapter VIII, §A, Standard 9</i> The Company cooperates on a timely basis with the examiners performing the examination. 18 Del. C. §318(a), §320(c), §508(b), §520(b)3</p>

The review methodology for this Standard is "generic." This Standard has a direct insurance statutory requirement. This Standard determines whether the Company is cooperating with the examiners in the completion of an open and cogent review of the Company's operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely manner thereby minimizing cost.

Results: Pass

Observations: The Company cooperated with the examiners in the conduct of the examination. All persons involved with the examination were cooperative and provided all requested information on a timely basis.

Recommendation: None

B. COMPLAINTS

The evaluation of the Standards in this business area is based on the Company's response to various information requests (IRs) and their handling of complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints which it has received." This statute also requires that "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "...any written communication primarily expressing a grievance."

Observations: Based upon the examiners' review, it appears that the Company maintains a complete and accurate Complaint Log. This was further confirmed during the review of the Company's claim and underwriting files, wherein no complaints were found in these files. Finally, neither the Company's Complaint Log nor the NAIC's Complaint Database listed any nationwide complaints for the examination period.

C. REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes usually take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of these procedures or the ineffective application of them is often reflected in the failure of various examination Standards. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated
- an execution or implementation of the planning function elements
- a measurement function that considers the results of the planning and execution, and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce an inconsistent application of the intended process. The same is generally true of the absence of a means to measure the results of the application of procedures and a means to determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

The following list itemizes all Procedures that were reviewed, but for which no concerns or recommendations were noted. There were no recommendations noted for this examination.

C.1. Procedures Reviewed but with No Recommendations

Procedure 01 – Audit (Internal and External)
Procedure 02 – Assertion of Privilege
Procedure 05 – Anti-Fraud

- Procedure 07 – Managing General Agent (MGA) Oversight and Control
- Procedure 08 – Vendor Oversight and Control
- Procedure 09 – Customer and Consumer Privacy Protection
- Procedure 10 – Production of Business
- Procedure 11 – Complaint Handling
- Procedure 13 – Advertising, Sales and Marketing
- Procedure 14 – Agent Produced Advertising
- Procedure 20 – Producer Selection, Appointment and Termination
- Procedure 21 – Producer Defalcation
- Procedure 22 – Prevention of the Use of Persons with a Felony Conviction
- Procedure 24 – Premium Billing
- Procedure 26 – Policy Issuance
- Procedure 28 – Requesting Claim History
- Procedure 30 – Premium Determination and Quotation
- Procedure 32 – Underwriting and Selection
- Procedure 34 – Terminations
- Procedure 35 – Underwriting File Documentation
- Procedure 40 – Staff Training
- Procedure 43 – Claim Handling
- Procedure 44 – Internal Claim Audit
- Procedure 45 – Claim File Documentation
- Procedure 48 – Catastrophic Claim Handling

C.2. Procedures Reviewed with a Recommendation

None

CONCLUSION

The examination was conducted by Brian Tinsley, Sean Connolly, Nobu Koch and Cynthia Amann and is respectfully submitted.



Brian Tinsley
Market Conduct Examiner-in-Charge
State of Delaware
Insurance Department



Cynthia M Amann
Market Conduct Supervising Examiner
State of Delaware
Insurance Department