

COMMERCIAL UNDERWRITING QUALITY



Report Addressee	Steven Leeret, Vice President, COO AIG Programs
Report Title	Division 66 - K&K Insurance Group, Inc. - Sports and Leisure Entertainment Program
Report Number	DIV 66 - 46/2013
Review Completed	November 21, 2013
Report Date	January 3, 2014
Review Rating	Satisfactory - Mainly meets requirements of Underwriting Standards and related procedures. Minimal action required.

Prior Review Year	2012	Prior Review Rating	Satisfactory
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EXECUTIVE SUMMARY

Review Scope	<p>Program has 3,034 policies in-force for a total GWP of \$20,958,401. The sample of 28 policies and \$1,828,609 covers 9% of GWP and 1% of policy count. The primary objective was to review the underwriting quality as well as adherence to standards and underwriting authority. The audit team met with the Underwriting Manager and the Underwriting team to discuss operations and underwriting process. The files revealed a consistent underwriting process and proper and consistent file documentation.</p> <p>The program is designed to cover Arenas/Facilities; Arenas/Movie Theaters, Billiards Centers, Bowling & Amusement Centers, Horse Tracks, Gaming Operations, Ropes Courses, Whitewater Rafting, Hunting/Fishing, Outfitters & Guides, Off Track Property Storage and Special Automobiles. The Program provides Property, Inland Marine, Crime, General Liability, Auto and Following Form Excess coverage.</p> <p>K&K is a leader in the Sports & Recreation business. K&K has been a wholly owned subsidiary of AON for many years, but has maintained its own identity. They are the “go to” broker for these programs. We are writing on an admitted basis in all states and we utilize a Risk Purchasing Group (RPG) in order to facilitate state filings.</p>																															
	<p>Program Policy Year experience valued as of 11/30/2013 is as follows:</p> <table border="1"> <thead> <tr> <th>PY</th> <th>GWP</th> <th>Inc Losses and LAE</th> <th>Inc Loss and Exp Ratio</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>\$ 16,004,065</td> <td>\$ 18,051,730</td> <td>112.8%</td> </tr> <tr> <td>2009</td> <td>\$ 15,502,707</td> <td>\$ 9,082,707</td> <td>58.6%</td> </tr> <tr> <td>2010</td> <td>\$ 15,360,946</td> <td>\$ 7,737,422</td> <td>50.4%</td> </tr> <tr> <td>2011</td> <td>\$ 18,144,292</td> <td>\$ 7,372,411</td> <td>40.6%</td> </tr> <tr> <td>2012</td> <td>\$ 23,636,968</td> <td>\$ 16,028,356</td> <td>67.8%</td> </tr> <tr> <td>2013</td> <td>\$ 19,942,992</td> <td>\$ 1,127,681</td> <td>5.7%</td> </tr> <tr> <td>Total</td> <td>\$108,591,970</td> <td>\$ 59,400,307</td> <td>54.7%</td> </tr> </tbody> </table> <p>Commission to PA: 22.6%</p> <p>In late 2012 it was determined that the Bowling Center component of the program developed unfavorable results. In response steps to mitigate the problem were taken, including non-renewal of numerous accounts and restrictions on new business.</p> <p>Auditors: Aggi Pharo, Senior Program Manager, Jackie Fellrath, Product Line Manager and Josef Stepanek, Audit Director.</p>	PY	GWP	Inc Losses and LAE	Inc Loss and Exp Ratio	2008	\$ 16,004,065	\$ 18,051,730	112.8%	2009	\$ 15,502,707	\$ 9,082,707	58.6%	2010	\$ 15,360,946	\$ 7,737,422	50.4%	2011	\$ 18,144,292	\$ 7,372,411	40.6%	2012	\$ 23,636,968	\$ 16,028,356	67.8%	2013	\$ 19,942,992	\$ 1,127,681	5.7%	Total	\$108,591,970	\$ 59,400,307
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Office Overview	The team consists of seven underwriters, and is managed by Michael Larkin, Chief Underwriting Officer. The majority of the staff has extensive experience with this class of business and the entire K&K operation appears to be very well managed by Todd Bixler, CEO and President of K&K Insurance. Mr. Bixler met with the auditors on several occasions and actively participated in the audit wrap-up meeting.
Prior Review Issues	None.

ISSUES AND MANAGEMENT ACTION PLANS

Issue #1	Loss Control: Late Ordering of Loss Control Surveys.
Issue Description	When loss control is required, the program guidelines stipulate that requests for surveys must be made within 7 days from the effective date of the policy. The auditors found several instances of late requests.
Action Plan	This issue was discussed with K&K management and all underwriters during the audit wrap-up. The PA was reminded of the importance of timely loss control ordering and going forward management and staff agreed to pay close attention to this matter.
Issue Owner	Michael Larkin, Chief Underwriting Officer
Target Date	December 31, 2013.

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