Global Commercial Underwriting Quality Statement of Process Standards

Version 1.6

September 2017

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1. INTRODUCTION

1.1. EXECUTIVE SUMMARY

The vision of Global Commercial Underwriting Quality ("Underwriting Quality") is to drive improved Underwriting Quality and technical excellence through a globally consistent risk-based review process.

Leveraging Quality Review and Peer Review data, Underwriting Quality communicates trends and works with the Product Towers to identify areas for improvement and training opportunities.

The Group's objectives are:

- Ensure each branch (Business Unit) of a Product Tower is reviewed at least once every five years for each class of business and in accordance with its tier status
- Work with the Product Towers to set an annual review schedule and ensure its adherence
- Provide senior management with uniform and consistent review reports across Regions and Product Towers
- Review Action Plans emanating from issues described in reviews and follow-up by the recorded target date to ensure implementation
- Provide senior management with summaries (both bi-monthly and semi-annually) identifying issues and action items to assist with the maintenance, improvement and monitoring of underwriting standards
- For Program Administrator reviews, ensure the Program Administrator is acting within the scope of the delegated authority and meeting service standards related to underwriting.

All templates, key documents and reports referred to within this Statement of Process Standards are maintained in the AIG Underwriting Quality SharePoint site ("SharePoint"). Requests for access to SharePoint and the respective documents should be referred to the Underwriting Quality Senior Business Analyst.

1.2 PURPOSE

The purpose of this Statement of Process Standards is to set out the framework for the establishment and maintenance of global minimum operational standards and the mechanisms for overseeing compliance with those standards.

This Statement of Process Standards also defines the framework under which Underwriting Quality shall carry out its business. To the extent that it is relevant to an employee's role, employees shall be made aware of, and receive appropriate training in the requirements of this statement.

2. TIERING AND SCHEDULING

2.1 TIERING

Tiering is a risk-based analysis of each Business Unit using the key measurable elements of GPW, Prior Review Grade and Combined Ratio. Each Business Unit is given a tier rating which corresponds to the review cycle required for the unit.

The tier ratings are as follows:

Tier 1: Review Cycle of minimum every 12 months

Tier 2: Review Cycle of minimum every 24 months

Tier 3: Review Cycle of minimum every 36 months

Tier 4: Review Cycle of minimum every 48 (plus) months

Under certain circumstances, and with approval from the Product Tower CUOs, the cycle for Tier 1 Business Units may be extended to 18 months.

Irrespective of the Tier 1 status, an office that receives successive Good or Satisfactory grades in a row can be deferred in the third year. However, this is meant as an alternative to the above 18 month option and not meant to be combined.

There are certain cases where a review may be delayed more than the five years but these should be discussed and agreed with the business on a case by case basis.

If N/A appears next to a Business Unit in the Global Entity list in SharePoint, it means that there are no underwriters in that particular office and underwriting is directed through an alternative Business Unit. Any associated files will be assessed as part of the Underwriting Quality review of the alternative Business Unit. Alternatively, the N/A may signify that the unit ceased operation or was subject to a sale.

The Underwriting Quality Senior Business Analyst is responsible for maintaining the listing of Business Units and updating any amendment to the tiering based on an annual analysis of the above criteria. Final tiering is recorded in the Global Entity list in SharePoint.

A Tier is calculated based on key measurable elements in the following manner:

a) GPW:

Tier 1 USD 100M or greater

Tier 2 USD 50M - USD 100M

Tier 3 USD 10M - USD 50M

Tier 4 USD 0M - USD10M

Alternative Tiering scales may be employed particularly for smaller Product Towers. Where this is the case, Underwriting Quality will retain the calculation guidelines in the SharePoint site.

b) Prior Review Grade:

Any Business Unit which is graded as a “Needs Improvement” or “Unsatisfactory” will be subject to a repeat review. An office receiving an “Unsatisfactory” will be re-reviewed within 12 months; an office receiving a “Needs Improvement” will be re-reviewed based on the discretion of the Head of Underwriting Quality and Product Tower CUO.

c) Additional Considerations:

In addition to the elements listed above, discussions with Product Tower heads and CUOs regarding other factors such as growth, staff turnover, and significant combined ratio movement will be considered for tiering purposes.

2.12 PROGRAM TIERING CONSIDERATIONS

Programs Tiers are calculated based on key measurable elements in the following manner:

a) GPW:

Tier 1 USD: > $25,000,000

Tier 2 USD: $10,000,001 to $25,000,000

Tier 3 USD: $ 5,000,001 to $10,000,000

Tier 4 USD: < $ 5,000,000

b) Additional Considerations:

Using prior year data in the scorecard, AQI scores may be used to alter the otherwise established scheduled year for review.

Advance the review date sooner: AQI D

Hold the date firm: AQI C

Consider a one year delay: AQI A and B

2.2 SCHEDULING

The Head of Underwriting Quality is responsible for creating and maintaining the schedule for the review teams. The schedule should be completed for the calendar year in Q4 of the prior year.

All scheduled reviews should state the Team Lead, number of reviewers, length of review and review start date.

No amendment to the schedule may be made without the agreement of the Head of Underwriting Quality. All changes to the schedule including dates, number of days and number of persons must be made in SharePoint. Reviews that are deleted and/or otherwise postponed to the following calendar year must be marked as 'DEFERRED/POSTPONED' on the SharePoint schedule.

3. REVIEW TEAM ORGANIZATION

A review team is generally comprised of a Team Lead and where the size of the office portfolio merits, additional Underwriting Quality Reviewers and/or Guest Reviewers. Ensuring adequate resources is the responsibility of the Head of Underwriting Quality.

3.1 TEAM LEAD

Each review has a Team Lead. The Team Lead is the point person for all aspects of the review. Team Lead responsibilities are set forth in detail in subsequent sections within this document.

3.2 UNDERWRITING QUALITY REVIEWER

The role of the Underwriting Quality Reviewer is to support the Team Lead, assess his/her assigned files, and accurately complete the UNDERWRITING QUALITY questionnaire in **team**think. Underwriting Quality Reviewers must have a thorough knowledge of product lines, underwriting guidelines and authority letters.

3.3 GUEST REVIEWERS

When resources are needed, Guest Reviewers are invited to assist with Underwriting Quality Reviews. Qualified Product Tower personnel from one Business Unit in a region may assist in a review of another Business Unit within the region. Regional Product Managers or Regional CUOs may also be requested to conduct Underwriting Quality reviews.

3.4 PROGRAMS TEAM

The Program Manager (PM) responsible for the program will participate in the review unless unavailable due to unexpected circumstances.

NOTE: given the unique nature of AIG Programs business model, all correspondence with the Program Administrator will be sent by the assigned Program Manager.

4. COMMUNICATIONS

4.1 COMMUNICATION PROTOCOL

The Team Lead is responsible for contacting the Business Unit with the Engagement Letter, Daily Wrap Up materials, Final Wrap Up materials, the Draft Report and assisting with Action Plan Follow Up as required.

The Programs communication will follow the same model, except that the Program Manager will pass the details sent by the Team Lead on to the Program Administrator.

5. PRE-AUDIT WORK

5.1 ENGAGEMENT LETTER AND OFFICE LOGISTICS

The Team Lead completes the Engagement Letter template in SharePoint and forwards it to the Business Unit approximately 30 days prior to the commencement of the review. Information requested, including a complete listing of all in-force policies, should be returned by the Business Unit manager to the Team Lead two (2) weeks prior to the start of the review. When needed, the Engagement Letter should also confirm office logistics and request access to the building and each floor where review(s) are being performed. Additionally, if required, laptops should be requested for any Guest Reviewers and a language translator made available.

For Programs, the relevant communication will be sent to the Program Manager who will then communicate to the Program Administrator.

5.2 INITIAL PREPARATION

Prior to the start of a review, the Team Lead will have a discussion with the Business Unit Manager to ensure that they are familiar with the Commercial Underwriting Quality review process. This includes a dialogue about the review questionnaire, grading model, and potential Action Plans.

Additionally, the Team Lead ensures that members of the review team will have access to **team**think and any other necessary systems for the duration of the review, and where required, have made necessary travel arrangements. All travel arrangements must be made through the AIG approved methods and follow company rules.

5.3 FILE SELECTION

The Team Lead is responsible for the selection of files (the “pull list”) for the review. The pull list should represent the risk inherent in each section of the portfolio in terms of minor lines, insurance program structure, premium and types of risks. The pull list should seek to cover the 12 month period up to the commencement of the review and include a sampling of files from all underwriters within the reviewed Business Unit.

The number of files selected and the associated GPW should be at least 10% of the Business Unit portfolio; however, in offices with large portfolios the Team Lead may use his/her discretion. The minimum number of files to be reviewed is twenty-five; however, if a Business Unit has less than twenty-five files, then 100% of the files must be reviewed. The recommended number of files for a review is 40. Pull lists should include peer reviewed files (at least 10% of the selected files), risks utilizing reinsurance, including Assumed Reinsurance if applicable (up to 10% each, as applicable), multinational accounts (both produced and issued) and any product distinct to the Business Unit. Additional files may be chosen during the review, independent of the pull list, as a further spot-check of

underwriting standards. The Head of Underwriting Quality may provide additional product line specific guidance.

Note that all percentages are ultimately left to the discretion of the Team Lead and the availability of the portfolio information. It is acknowledged that reinsurance details for some offices is not included with the in-force information. In these cases, the Team Lead should discuss with the manager of that location the best way to identify accounts, and the 10% threshold is not meant to be an absolute, but rather as a guiding principle.

Peer Review files must be included in every review and unless the office is not performing Peer Reviews, the 10% number should be the minimum selected.

Once the pull list is completed by the Team Lead, he/she should populate **team**think with the policy details for each file to be reviewed and provide to the review team.

For Program business, at the request of the Programs Head, the list will not be communicated in advance to the Program Administrator. Exceptions will be permitted where technology issues require that the Program Administrator gather the list of files in a secure location, these cases should have the approval of the Head of Underwriting Quality. Where an exception is permitted, additional files must be selected on site as a spot check sample.

6. REVIEW

6.1 INTRO-MEETING

On the first morning of the review, the Team Lead conducts an introductory meeting with the Business Unit manager and underwriters (if invited by manager). This meeting should be brief and is meant to set expectations. The Team Lead details the objective of the review and establishes how identified issues will be communicated. The prior review action plan should be discussed with the Business Unit manager to ensure all issues were effectively actioned. An agenda for the duration of the review, including timeframes for daily review meetings and final wrap-up meeting, should be agreed at this point.

6.2 QUESTIONNAIRES

Underwriting Quality review questionnaires provide for a comprehensive platform of review, including underwriting analysis, coverage, pricing, authority, booking and reinsurance. The questionnaire is built upon common core components across Product Towers, with line-specific questions focused on relevant issues. The questionnaire to be used for each review is housed within **team**think. All questions are required to be answered. All answers which create an issue should include appropriate

commentary, if required, by the review specialist to assist the Team Lead in both the daily and final wrap up meetings and remediation by the Business Unit manager.

6.3 DAILY WRAP-UP MEETING

The Daily Wrap-Up meeting should be used to provide details of any interim findings. The meeting provides the Business Unit manager and underwriters with an opportunity to provide further details or direct the review team to documentation which may alleviate any issue raised. Where an issue remains unresolved, the questionnaire should be appropriately completed. The Team Lead should inform the Head of Underwriting Quality of review progress and daily findings. For Programs, the Team Lead should also copy the Programs CUO on all daily findings.

7. WRAP-UP

7.1 PRE WRAP-UP

The Team Lead consolidates the outstanding issues and sends to the Business Unit manager for final review indicating a deadline for responses. The Team Lead also confirms the Wrap-Up date and time. Wrap-Ups should in principle occur the last day of the scheduled review but may be reasonably delayed to ensure all open issues are finalized.

The Team Lead is responsible for ensuring that all reviewers complete their reviews and finalize their files. The Team Lead completes the wrap-up report, ensuring that all identified issues are noted in the report, and confirms the grade.

At least one hour prior to the wrap up session, the Team Lead sends the final wrap-up report and grading model report to the Wrap-Up invitees. The Team Lead ensures that the Commercial Head of Underwriting Quality and Product Tower CUOs are aware of “Needs Improvement” or “Unsatisfactory” grades prior to the Wrap-Up.

7.2 KEY WRAP-UP INVITEES

In addition to the reviewers and the Business Unit manager and his/her invitees, the reviewed underwriters should also be invited to the final wrap-up. This serves as a training opportunity around the importance of the underwriting quality issues identified. However, the decision should be made in agreement with the Business Unit manager. The Regional and Global Product Tower Heads, Product Leader and/or Product Tower CUO will be invited if previously requested.

7.3 WRAP-UP MEETING

The purpose of the Wrap-Up meeting is to formally provide details of all issues identified by the Underwriting Quality review and advise the Business Unit manager and other attendees of the final grade. The Team Lead should describe each issue in order of criticality (**team**think will automatically order the issues appropriately), providing clear details surrounding the finding. Once all issues have been identified, the final grade is provided and clear instructions given as to next steps, including the development of action plans and associated timelines.

8. ACTION PLANNING

8.1 ACTION PLAN GUIDELINES

Following receipt of the draft report from the Team Lead, the Business Unit manager should prepare an Action Plan for each issue identified in the review. Action Plans should follow the SMART model, i.e., be Specific, Measurable, Attainable, Relevant and Timed. They should correct the specific issue found and detail action to be taken to prevent future occurrences. Each Action Plan must have an owner responsible for implementation as well as a target date for completion. In the case of Program reviews, there must be an AIG owner (an employee) as well as an owner connected to the Program Administrator. Action Plans may rely on Peer Reviews to track implementation of Action Plans. The detailed Action Plan(s) should be returned to the Team Lead within one week of receipt of the draft report.

9. REPORT PREPARATION AND ISSUANCE

9.1 REPORT AND EXECUTIVE SUMMARY

The draft report must utilize the Underwriting Quality report template from **team**think. Once completed, the draft report should be forwarded to the Head of Underwriting Quality for review. Since all documentation must be entered into **team**think prior to the Final Wrap-Up, the draft report must be sent to the Business Unit within 7 business days after the conclusion of the Wrap-Up meeting. The Business Unit has 7 business days to return the report, with the Action Plan(s), to the Team Lead. The Team Lead then prepares and forwards to the Head of Underwriting Quality the report and an Executive Summary (using the template on SharePoint), highlighting the current and prior review grades and key findings from the review. The Head of Underwriting Quality finalizes the documents for distribution. For Programs, the report will be distributed by the Programs team once Underwriting Quality releases it. All reports must be released within 45 days of the date of completion of the review.

9.2 GRADE CHANGES

In the event that the Team Lead believes the grading model does not match the actual work reviewed in the portfolio, then a formal request to change the model grade may be made in writing to the Head of Underwriting Quality. The decision to change the model grade is not taken lightly and should reflect clear evidence of why the model grade is not representative of the work reviewed. While there are no hard rules, examples that may be considered include a single event which was committed by staff no longer with AIG, business which is no longer written and will not be renewed, or similar cases. A clear rationale must be submitted and after evaluation and discussion, a decision will be made which will be final. In all cases, the grading model delivers consistent results which is a priority for the team, and a strong bias in favor of the model is the starting point for all discussions.

9.3 DISTRIBUTION

The distribution list template should be obtained from SharePoint. Names should be added as necessary for Division, Region, Business Unit manager and General Manager of that country (if applicable) together with members of the review team.

9.4 UPLOAD OF REVIEW DOCUMENTS TO SHAREPOINT

It is the responsibility of the Team Lead to ensure all review documents are uploaded to SharePoint at the time of the report release. The minimum documentation required to be uploaded is:

- The Engagement Letter with the Business Unit
- The in-force policies list of the Business Unit
- The agreed pull list of files to be reviewed
- The final released report

9.4 TIMELINESS REPORT

All reports should be issued within 45 days of the wrap-up meeting. A timeliness or aging report is produced each month by the Underwriting Quality Senior Business Analyst to monitor adherence to this requirement.

10. FOLLOW UP/TRACKING

10.1 UPLOAD OF ISSUES TO SHAREPOINT

Upon completion and issuance of an Underwriting Quality report, all issues and associated Action Plans are uploaded to the “Issue/Action Plan Management” section of SharePoint by the Senior Business Analyst.

10.2 FOLLOW UP OF ACTION PLAN MANAGEMENT

In the month following an Action Plan target due date, the Senior Business Analyst will contact, via email, the issue owner to confirm that the stated Action Plan has been implemented. Where confirmation is obtained, it is uploaded to SharePoint and the Action Plan is updated to “closed.” For Program reviews, the AIG Issue owner will be contacted, and that person will be responsible for communicating with the Program Administrator to confirm Action Plan implementation and then to report the status to the Senior Business Analyst.

Where the Action Plan remains outstanding, target date extensions may be granted. At first instance, any such request will be approved where the extension date is deemed reasonable. Second target date extensions may be granted, but the Product Tower CUO will be notified by way of e-mail CC when said extension is approved. Third target date extensions (and any further extensions) may be granted, but both the Product Tower CUO and Product Tower Head will be notified by way of e-mail CC when said extension(s) is/are approved.

When two (2) requests for confirmation have been made but remain unanswered by the issue owner, the issue(s) will be automatically extended for a period of one (1) month. Notification to the issue owner, as well as the product President and CUO will be made via e-mail, with follow-up in the subsequent month. Any issue will be closed, extended or automatically extended within thirty (30) days of initial request. All extensions of a target date, including email correspondence, must be captured and uploaded in the relevant column of the “Issue /Action Plan Management” section of SharePoint. The Senior Business Analyst is responsible for tracking Action Plan management.

11. PERIODIC SUMMARIES

11.1 EXECUTIVE BI-MONTHLY SUMMARIES

On or about the first business day of every other month, the Senior Business Analyst shall produce an Executive Summary summarizing all Underwriting Quality reports issued during the previous two months. The document provides the number of reports issued, the distribution of grades by Region/Product Tower, and details pertaining to “Needs Improvement” and “Unsatisfactory” reviews.

11.2 SEMI-ANNUAL REVIEW

On a semi-annual basis, the Senior Business Analyst shall provide a summary of quality reviews by Product Tower (provided that at least two reviews were performed). Each summary will contain an overview of the grade distribution for the Product Tower compared to all of Property Casualty, as well as an analysis of the Product Tower's top five issues as found in Underwriting Quality reviews. A global scorecard for all policies reviewed within the time period will also be produced to showcase issue concentration. The Head of Underwriting Quality, shall review the summaries with the Product Tower President and CUO for feedback.

11.3 YEAR END REVIEW

Within three months of the conclusion of the financial year, the Senior Business Analyst shall provide a Year End Review of Underwriting Quality reports to Commercial Lines Executive Management. The report shall provide details of reviews conducted by Region and by Product Tower, grades by country, and a summary of the issues identified during the year.

12. PEER REVIEWS

12.1 PEER REVIEW OVERSIGHT AND INTERACTION

The Quality Review team is expected to review a sample of Peer Reviewed files (detailed in the File Selection section above), but in addition to that, the team should regularly discuss and encourage managers to fully participate in the Peer Reviews. Not only are they a good management aid to ensure the underwriters are using tools correctly, but they also will be used to form the initial assessment for the Quality Reviews once participation levels are at an acceptable level. This means that the team will use the Peer Review results to focus in during the review as well as to have discussions with the Business Unit throughout the week.

Additionally, a monthly report detailing compliance to required numbers of reviews and progress on issue closure will be sent to Product management. Team Leads can use this report to discuss Peer Reviews with the team and ensure compliance with the requirements.

The Quality Review team will support the mission of the Peer Reviews, *to identify the training and development needs of the underwriting staff in order to improve technical underwriting skills; and to ensure adherence to governance controls.*