

SERFF Tracking Number: XLAM-125412967 State: Arkansas  
Filing Company: XL Specialty Insurance Company State Tracking Number: EFT \$50  
Company Tracking Number: 07SD-DO-DO05-MU-AR-R  
TOI: 17.0 Other Liability - Claims Made/Occurrence Sub-TOI: 17.0006 Directors & Officers Liability  
Product Name: Private Company  
Project Name/Number: New Private Company Rate/Rule Filing /07SD-DO-DO05-MU-AR-R

## Filing at a Glance

Company: XL Specialty Insurance Company  
Product Name: Private Company SERFF Tr Num: XLAM-125412967 State: Arkansas  
TOI: 17.0 Other Liability - Claims SERFF Status: Closed State Tr Num: EFT \$50  
Made/Occurrence  
Sub-TOI: 17.0006 Directors & Officers Liability Co Tr Num: 07SD-DO-DO05-MU- AR-R State Status: Fees verified and received  
Filing Type: Rate/Rule Co Status: Reviewer(s): Betty Montesi, Edith Roberts, Brittany Yielding  
Author: Arshay Brown Disposition Date: 01/23/2008  
Date Submitted: 01/03/2008 Disposition Status: Filed  
Effective Date Requested (New): On Approval Effective Date (New):  
Effective Date Requested (Renewal): On Approval Effective Date (Renewal):  
State Filing Description:

## General Information

Project Name: New Private Company Rate/Rule Filing Status of Filing in Domicile: Authorized  
Project Number: 07SD-DO-DO05-MU-AR-R Domicile Status Comments:  
Reference Organization: Reference Number:  
Reference Title: Advisory Org. Circular:  
Filing Status Changed: 01/23/2008  
State Status Changed: 01/23/2008 Deemer Date:  
Corresponding Filing Tracking Number:

### Filing Description:

The XL Specialty Insurance Company is submitting for your review and approval a new Private Company Rate/Rule/Form filing.

The Private Company Professional Liability policy introduces 4 distinct coverage parts: 1) Management and Company Liability; 2) Employment Practices Liability (EPL); 3) Pension and Welfare Benefit Plan Fiduciary Liability (Fiduciary); and 4) Crime. While we currently offer similar coverages under various other filed products, this new product has been

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developed to meet the changing needs of the insured market and changing economic environment. The new program introduces the Crime Coverage Part and incorporates many endorsements commonly used in the industry into the various standard coverage parts. We have enclosed an Explanatory Memorandum and Forms List for your review.

The rating for each coverage part is determined independently. There does not exist at this time any standardized industry data sources for this class of business that we can rely on to validate our rating proposal. However, based on competitor filings and our underwriter input, we believe the rates to be adequate but not excessive.

## Company and Contact

### Filing Contact Information

Arshay Brown, State Filings Analyst Arshay.Brown@xlgroup.com  
 1201 North Market Street (302) 661-7048 [Phone]  
 Wilmington, DE 19801 (302) 778-4190[FAX]

### Filing Company Information

XL Specialty Insurance Company CoCode: 37885 State of Domicile: Delaware  
 1201 N. Market Street Group Code: 1285 Company Type:  
 Suite 501  
 Wilmington, DE 19801 Group Name: State ID Number:  
 (800) 394-3909 ext. [Phone] FEIN Number: 85-0277191  
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## Filing Fees

Fee Required? Yes  
 Fee Amount: \$50.00  
 Retaliatory? No  
 Fee Explanation:  
 Per Company: No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
XL Specialty Insurance Company	\$50.00	01/03/2008	17326482

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## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Filed	Edith Roberts	01/23/2008	01/23/2008

SERFF Tracking Number: *XLAM-125412967* State: *Arkansas*  
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## Disposition

Disposition Date: 01/23/2008  
 Effective Date (New):  
 Effective Date (Renewal):  
 Status: Filed  
 Comment:

<b>Company Name:</b>	<b>Overall % Rate Impact:</b>	<b>Written Premium Change for this Program:</b>	<b># of Policy Holders Affected for this Program:</b>	<b>Premium:</b>	<b>Maximum % Change (where required):</b>	<b>Minimum % Change (where required):</b>	<b>Overall % Indicated Change:</b>
XL Specialty Insurance Company	%	\$		\$	%	%	%

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Item Type	Item Name	Item Status	Public Access
Supporting Document	Actuarial Memorandum	Filed	Yes
Rate	Private Company Insurance Policy Rating Plan	Filed	Yes
Rate	2007 Private Company ROE Model	Filed	Yes

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**Rate Information**

Rate data applies to filing.

**Filing Method:** Prior Approval  
**Rate Change Type:** Neutral  
**Overall Percentage of Last Rate Revision:** 0.000%  
**Effective Date of Last Rate Revision:** 01/03/2008  
**Filing Method of Last Filing:** Prior Approval

**Company Rate Information**

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):
XL Specialty Insurance Company	%	%				%	%

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## Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:
Filed	Private Company Insurance Policy Rating Plan	NSRP A3	New	New Shrike Rating Plan - A3 10 22 2007.pdf
Filed	2007 Private Company ROE Model		New	2007 Private Company ROE Model.pdf

**XL Specialty Insurance Company  
Private Company Insurance Policy  
Rating Plan**

The Private Company Insurance Policy has 4 distinct coverage parts:

- 1) Management and Company Liability
- 2) Employment Practices Liability (EPL)
- 3) Pension and Welfare Benefit Plan Fiduciary Liability "Fiduciary"
- 4) Crime

The rating for each coverage part is determined independently. The sum of each of the rated coverage parts will constitute the full policy premium. In situations where a coverage part is not included in the insurance proposal, the respective rating section will simply not apply in the overall rate structure.

**I. Management and Company Liability Coverage Part**

**Section 1. Asset Size / Base Rate Chart**

The base rate is determined by the asset size of the risk. The base premium is for a \$1,000,000 primary limit with a 12 month policy period.

<b>Asset Size</b>	<b>Base Premium</b>
Less than \$2,500,000	\$2,250
\$2,500,000 to \$5,000,000	\$2,700
\$5,000,000 to \$10,000,000	\$3,150
\$10,000,000 to \$20,000,000	\$4,500
\$20,000,000 to \$30,000,000	\$5,400
\$30,000,000 to \$40,000,000	\$6,300
\$40,000,000 to \$50,000,000	\$7,200
\$50,000,000 to \$100,000,000	\$8,100
\$100,000,000 to \$250,000,000	\$9,000
\$250,000,000 to \$500,000,000	\$10,800
Excess of \$500,000,000	\$12,600

**Section 2. Retention**

<b>Retention</b>	<b>Debit / Credit</b>
\$0	1.35 - 1.80
\$5,000	1.20 - 1.70
\$10,000	1.10 - 1.50
\$25,000	1.00 - 1.35
\$50,000	0.85 - 1.20
\$75,000	0.80 - 1.10
\$100,000	0.70 - 1.00
\$250,000	0.50 - 0.80
\$500,000	0.40 - 0.70
> \$500,000	0.30 - 0.60

Note: Retention factors only apply to the first \$1 million of coverage.  
For retentions greater than \$1 million, refer to the ILFs in part I of the General Rating section.

### Section 3. Financial Conditions and Trend

A company's financial strength and trends have significant correlation to the potential for D&O litigation. The financial condition of a company is measured not only in relation to its own past performance, but also in relation to its industry peers. The following factors are used to rate an account's financial condition.

Financial Condition and Trends	Factor	Characteristics
Excellent	0.65 to 1.00	Highly Liquid Balance Sheet Low debt to total capitalization ratio Operationally profitable Positive Operating Cash flow Positive Operating Trends Access to additional capital High D&O Ownership
Average	1.00 to 1.25	
Deteriorating	1.25 to 2.50	High Debt to total capitalization ratio High levels Short term obligations Low balance sheet liquidity Negative Operating Cash Flow Negative Operating Trends Limited access to additional capital Financial distress / insolvency potential Low D&O Ownership

### Section 4. Industry Class

Companies operating in volatile industries can present more exposure for the directors and officers of those companies. The following factors will be used to rate various industries.

Industry Stability	Factor	Industry
Excellent	0.75 to 1.00	Manufacturing - other than Food / Beverages / Tobacco Manufacturing - Food / Beverages / Tobacco Utilities / Power Plants Agriculture / Forestry Oil & Gas
Average	1.00 to 1.50	Professional Service Firms Construction / Contractors Education Lawyers Financial Institutions including Insurance Agents/Brokers Transportation other than Trucking Employee Leasing Firms, Temp. Employees, Agencies, or Labor Contractors Communication Services, Data Service Providers Media / Publishing Repair & Maintenance Trucking
Volatile	1.25 to 3.00	Healthcare related services Pharmaceuticals, Bio-Technology, Medical Equipment Technology Entertainment & Leisure, Gaming Car Dealers & Auto Repair Gas Stations Restaurant - Fast Food Restaurant - Full-Service Retail / Wholesale Hotels, General Lodging

## Section 5. Ownership Structure

The ownership make-up of a company also plays a key role in rating a private firm's D&O exposure. Firms with a very narrow ownership structure would exhibit the following characteristics: a high level of D&O ownership, a small number of 3<sup>rd</sup> party investors, and few capital raising transactions. Conversely, firms that are widely held are characterized by the following traits: a low level of D&O ownership, many 3<sup>rd</sup> party investors, and a need to raise additional capital through sales of company securities. In general, the narrower the ownership structure, the better the overall D&O risk.

Ownership Structure	Debit / Credit	Characteristics
Excellent	0.75 to 1.00	High level of D&O ownership Few 3 <sup>rd</sup> party investors Low level of capital raising activity
Average	1.00	Average level of D&O ownership Average number of 3 <sup>rd</sup> party investors Average level of capital raising activity
Below Average	1.00 to 1.25	Low Level of D&O ownership Many 3 <sup>rd</sup> party investors High Level of capital raising activity
Poor / Volatile	1.25 to 2.50	Ownership changes Re-organization pending Urgent need to raise additional capital Less than 25% ownership

## Section 6. Prior & Pending Litigation History

Both the amount and nature of prior litigation activity of a particular account impact the overall risk exposure on any given account. The schedule below indicates the factor utilized to reflect prior and pending litigation.

Litigation Activity	Factor
None	0.80 to 0.95
Minimal – reserves with minimal expected loss payments	0.95 to 1.25
Material – some activity with likely payment of a material amount	1.25 to 1.75
Significant payment of loss expected	1.75 to 4.00

## II. Employment Practices Liability Coverage Part

### Section 1. Base Rate Per Employee Chart

The base rate for the Employment Practices Liability Coverage Part is derived from a firm's total number of full-time employees. Part-time employees each count as .75 of a full-time employee.

Number of Employees	Base Premium per Employee
First 75	\$106.31
Next 100	\$90.56
Next 200	\$70.88
Next 200	\$50.40
Next 500	\$36.23
Next 1,000	\$18.90
Next 10,000	\$7.88

### Section 2: Retention Debit/Credit

The retention debit/credit is derived from a deviation from the calculated base retention which is dependant on employee count.

To determine the base retention, multiply the employee count by 100.

Once the base retention is determined, if the selected retention is less than \$1 million, use the following formulas to calculate the factor (debit/credit) to be applied to the base premium:

If selected retention is greater than or equal to the base retention:

$$1 + [1 - (\# \text{ of employees} / 50,000)] * .95 * [(\text{base retention in millions})^{.2} - (\text{selected retention in millions})^{.2}]$$

If selected retention is less than the base retention:

$$[(\text{base retention}) / (\text{selected retention})]^{.5}$$

The chart below is a sample of retention factors.

Employee Count	Base Retention	Selected Retention					
		10,000	25,000	50,000	100,000	250,000	500,000
10	1,000	0.860	0.784	0.717	0.639	0.519	0.412
50	5,000	0.951	0.875	0.808	0.730	0.610	0.503
100	10,000	<b>1.000</b>	0.924	0.857	0.779	0.659	0.552
250	25,000	1.581	<b>1.000</b>	0.933	0.856	0.736	0.629
500	50,000	2.236	1.414	<b>1.000</b>	0.923	0.804	0.698
1,000	100,000	3.162	2.000	1.414	<b>1.000</b>	0.882	0.777
2,500	250,000	5.000	3.162	2.236	1.581	<b>1.000</b>	0.898
5,000	500,000	7.071	4.472	3.162	2.236	1.414	<b>1.000</b>
7,500	750,000	8.660	5.477	3.873	2.739	1.732	1.225
10,000	1,000,000	10.000	6.325	4.472	3.162	2.000	1.414
15,000	1,500,000	12.247	7.746	5.477	3.873	2.449	1.732

Note: Retention factors only apply to the first \$1 million of coverage.

For retentions greater than \$1 million, refer to the ILFs in part I of the General Rating section.

### Section 3: Industry Modification Factors

Industry	Debit/Credit
Manufacturing - other than Food / Beverages / Tobacco	0.75 to 0.95
Utilities / Power Plants	0.85 to 1.25
Agriculture / Forestry	0.85 to 1.25
Healthcare related services	0.85 to 1.25
Professional Service Firms	0.85 to 1.25
Oil & Gas	1.10 to 1.50
Construction / Contractors	1.10 to 1.50
Education	1.10 to 1.50
Lawyers	1.10 to 1.50
Pharmaceuticals, Bio-Technology, Medical Equipment	1.10 to 1.50
Technology	1.10 to 1.50
Financial Institutions including Insurance Agents/Brokers	1.10 to 1.50
Transportation other than Trucking	1.10 to 1.50
Manufacturing - Food / Beverages / Tobacco	1.10 to 1.50
Employee Leasing Firms, Temporary Employees, Agencies, or Labor Contractors	1.10 to 1.50
Communication Services, Data Service Providers	1.25 to 1.75
Media / Publishing	1.25 to 1.75
Repair & Maintenance	1.25 to 1.75
Entertainment & Leisure, Gaming	1.25 to 1.75
Car Dealers & Auto Repair	1.25 to 1.75
Gas Stations	1.25 to 1.75
Restaurant - Fast Food	1.25 to 1.75
Restaurant - Full-Service	1.25 to 1.75
Retail / Wholesale	1.25 to 1.75
Trucking	1.25 to 1.75
Hotels, General Lodging	1.25 to 1.75

### Section 4 : Prior & Pending Litigation History

Both the amount and nature of prior litigation activity of a particular account impact the overall risk exposure on any given account. The schedule below indicates the factor utilized to reflect prior and pending litigation trends.

Litigation Activity	Factor
None	0.80 to 0.95
Minimal – reserves with minimal expected loss payments	0.95 to 1.25
Material – some activity with likely payment of a material amount	1.25 to 1.75
Significant payment of loss expected	1.75 to 4.00

### Section 5: Employee Turnover Rate Relative to Industry, Involuntary Terminations and Anticipated Reductions in Workforce

Turnover Rate	Characteristics	Rating Factor
Poor	Severe levels of employee turnover (in excess of 50%)	1.25 to 2.00
Below Average	Annual employee turnover rate less than 35%	1.10 to 1.25
Average	Annual employee turnover rate less than 25%	0.90 to 1.10
Above Average	Annual employee turnover rate less than 15%	0.75 to 0.90

**Section 6: Employee Diversity Based on EEO-1**

<b>Diversity</b>	<b>Characteristics</b>	<b>Rating Factor</b>
Below Average	below average for peers, industry, local population diversity	1.10 to 1.25
Average	average for peers, industry, local population and educational requirements	0.90 to 1.10
Above Average	above average for peers, industry, local population diversity	0.75 to 0.90

**Section 7: Human Resources Department**

<b>HR Department</b>	<b>Characteristics</b>	<b>Rating Factor</b>
Poor	Major deficiencies with written employment policies and procedures, limited training provided, little employee communication	1.10 to 1.75
Average	Has written policies and procedures, training provided, some communication of issues	0.90 to 1.10
Above Average	Has implemented all written employment related policies and procedures, excellent training provided, good communication of issues	0.75 to 0.90

**Section 8: Salary Range**

<b>Salary Range</b>	<b>Characteristics</b>	<b>Rating Factor</b>
Poor	High percentage earning over \$100,000	1.25 to 2.00
Below Average	Greater than 25% of employees earn salaries less than \$50,000	1.10 to 1.25
Average	Greater than 35% of employees earn salaries less than \$50,000	0.90 to 1.10
Above Average	Greater than 50% of employees earn salaries less than \$50,000	0.75 to 0.90

### III. Fiduciary Liability Coverage Part

#### Section 1. Pension Plan Asset Size/Base Rate Chart

The base rate is determined by the combined asset size of the pension plans of the risk. The base premium is for a \$1,000,000 primary limit with a 12 month policy period.

Combined Pension Plan Asset Size	Base Premium
Less than \$ 25,000,0000	\$1,500
\$25,000,000 to \$50,000,000	\$3,500
\$50,000,000 to \$75,000,000	\$5,000
\$75,000,000 to \$100,000,000	\$7,500
\$100,000,000 to \$200,000,000	\$10,000
Excess of \$200,000,000	\$12,000

#### Section 2. Retention

Retention	Debit / Credit
\$0	1.35 - 1.80
\$5,000	1.20 - 1.70
\$10,000	1.10 - 1.50
\$25,000	1.00 - 1.35
\$50,000	0.85 - 1.20
\$75,000	0.80 - 1.10
\$100,000	0.70 - 1.00
\$250,000	0.50 - 0.80
\$500,000	0.40 - 0.70
> \$500,000	0.30 - 0.60

Note: retention factors only apply to the first \$1 million of coverage.  
For retentions greater than \$1 million, refer to the ILFs in part I of the General Rating section.

#### Section 3. Plan Sponsor's Financial Condition and Trends

A company's financial condition and trends reflected in its income statement and statement of cash flows are critical to their ability as plan sponsor's to fund benefit and pension plans appropriately. The plan sponsor's financial stability reflected in its balance sheet is also an important factor in determining its ability to fund its obligations. The following criteria are used to incorporate these important issues in the fiduciary rating plan:

Financial Strength	Rating Factor	Characteristics
Excellent	0.50 to 1.00	Operating Profitability Positive Stockholders Equity Positive Cash Flow Highly Liquid Balance Sheet High internal D&O Ownership
Average	1.00 to 1.35	
Deteriorating	1.35 to 2.75	Operating Loss Negative Stockholders Equity Negative Cash Flow Leveraged Balance Sheet Low internal D&O Ownership

#### Section 4. Pension Plan Type(s)

The type of pension benefits offered to employees can create different levels of exposure. An Employee Stock Ownership Plan creates substantial potential liability for plan fiduciaries, while most defined contribution plans have historically created lower numbers of complaints. An underfunded defined benefit plan creates more exposure for plan administrators and management than a fully funded defined benefit plan.

<b>Plan Type</b>	<b>Factor</b>
Defined Benefit Plan	1.00 to 2.50
Defined Contribution Plan	0.50 to 1.00
ESOP	1.00 to 2.50

#### Section 5. Prior & Pending Litigation History

<b>Litigation Activity</b>	<b>Factor</b>
None	0.80 to 0.95
Minimal – reserves with minimal expected loss payments	0.95 to 1.25
Material – some activity with likely payment of a material amount	1.25 to 1.75
Significant payment of loss expected	1.75 to 4.00

## IV. Crime Coverage Part

### A. Employee Theft Coverage (Insuring Agreement A)

#### Section 1: Base Rates

Base Rates are for \$1 million limit. The following base rates apply based on the insured's revenues. Revenue is defined as the larger of the firm's annual gross revenues or fees collected or processed by the insured.

<b>Revenues</b>	<b>Base Premium</b>
Less than \$99,999	\$1,300
\$100,000 to \$1,499,999	\$1,750
\$1,500,000 to \$4,999,999	\$2,100
\$5,000,000 to \$9,999,999	\$2,400
\$10,000,000 to \$14,999,999	\$2,675
\$15,000,000 to \$19,999,999	\$2,925
\$20,000,000 to \$24,999,999	\$3,150
\$25,000,000 to \$34,999,999	\$3,500
\$35,000,000 to \$49,999,999	\$3,800
\$50,000,000 to \$74,999,999	\$4,100
\$75,000,000 to \$99,999,999	\$4,350
\$100,000,000 to \$149,999,999	\$4,800
\$150,000,000 to \$249,999,999	\$5,500
\$250,000,000 to \$349,999,999	\$6,000
\$350,000,000 to \$499,999,999	\$6,700
\$500,000,000 to \$749,999,999	\$7,800
Excess of \$750,000,000	\$8,800

## Section 2: Industry Factors

Industry	Debit/Credit
Communication Services, Data Service Providers	0.60 to 1.10
Utilities / Power Plants	0.60 to 1.10
Agriculture / Forestry	0.75 to 1.25
Healthcare related services	0.75 to 1.25
Oil & Gas	0.75 to 1.50
Construction / Contractors	0.90 to 1.40
Lawyers	1.00 to 1.50
Pharmaceuticals, Bio-Technology, Medical Equipment	1.00 to 1.50
Education	1.00 to 2.00
Manufacturing - other than Food / Beverages / Tobacco	1.00 to 2.00
Technology	1.00 to 2.25
Professional Service Firms	1.00 to 2.25
Media / Publishing	1.10 to 1.60
Repair & Maintenance	1.25 to 1.75
Entertainment & Leisure, Gaming	1.25 to 1.75
Car Dealers & Auto Repair	1.25 to 2.00
Transportation other than Trucking	1.50 to 2.00
Manufacturing - Food / Beverages / Tobacco	1.50 to 2.00
Gas Stations	1.50 to 2.00
Restaurant - Fast Food	1.50 to 2.00
Restaurant - Full-Service	1.50 to 2.00
Retail / Wholesale	1.00 to 2.25
Financial Institutions including Insurance Agents/Brokers	1.50 to 3.00
Trucking	1.55 to 2.05
Hotels, General Lodging	1.65 to 2.15
Employee Leasing Firms, Temporary Employees, Agencies, or Labor Contractors	1.75 to 2.25

## Section 3: Number of Locations

Number of Locations	Factor
Less than 10 locations	1.00
10 – 25 locations	1.01 – 1.15
Over 25 locations	1.16 – 1.25

## Section 4: Banking and Cash Management Controls

Rating	Factor	Characteristics
Excellent	0.75 – 0.90	Good segregation of duties, controls, multiple signatures required
Acceptable	0.90 – 1.10	Multiple signatures required, good documentation
Minimal	1.10 – 1.25	Few controls, no segregation of duties

## Section 5: Vendor Management Guidelines

Rating	Factor	Characteristics
Excellent	0.75 – 0.90	Good separation of duties, well-documented vendor approval/verification process and competitive bid requirements, good maintenance of approved vendor list
Acceptable	0.90 – 1.10	Some separation of duties, vendor approval process in place
Minimal	1.10 – 1.25	Few controls, no separation of duties

**Section 6: External Audit Level, Internal Audit Function, and Management Letter/Response**

Rating	Factor	Characteristics
Excellent	0.75 – 0.90	External audit identified no problems with internal controls, internal audit procedures, related party transactions, or GAAP standards
Acceptable	0.90 – 1.10	Some problems identified, good management response
Minimal	1.10 – 1.25	Several problems identified, unacceptable response from management

**Section 7: Inventory Management**

Rating	Factor	Characteristics
Excellent	0.75 – 0.90	Frequent inventories conducted, good documentation, physical security precautions
Acceptable	0.90 – 1.10	Some inventories conducted, acceptable documentation, some physical security precautions
Minimal	1.10 – 1.25	Very infrequent inventories, minimal documentation, minimal security precautions

**Section 8: Valuable Processing Materials: type and value of inventory, ease of theft and disposal for profit**

Rating	Factor	Characteristics
Low	1.00 – 1.10	e.g., food, large machinery manufacturing
Moderate	1.10 – 1.25	e.g., retail, small item manufacturing
High	1.25 – 1.50	e.g., precious metals/stones, electronic components, computer chips

**Section 9: Management/Workforce Stability**

Rating	Factor	Characteristics
Excellent	0.75 – 0.90	Very stable management with limited employee turnover
Acceptable	0.90 – 1.10	Average management and/or employee turnover
Poor	1.10 – 1.25	Frequent changes to ownership structure, senior leadership changes and/or higher than normal employee turnover

**Section 10: Prior Claim Activity (applicable to each crime insuring clause purchased)**

Prior Claim Activity	Factor
None	0.80 to 0.95
Minimal – reserves with minimal expected loss payments	0.95 to 1.25
Material – some activity with likely payment of a material amount	1.25 to 1.75
Significant payment of loss expected	1.75 to 4.00

**B. Premises (Insuring Agreement B) and In Transit (Insuring Agreement C)**

**Section 1: Base Rates**

Base Rates are for \$1 million limit.

A. All classes other than exception classes listed below

Total number of locations	Premise Base Rate	Transit Base Rate
1-5	\$375	\$150
6-10	\$550	\$225
11 or more	\$750	\$300

B. Car Dealers & Auto Repair, Entertainment & Leisure, Gaming, Gas Stations, Restaurants, Retail / Wholesale

Total number of locations	Premise Base Rate	Transit Base Rate
1-5	\$1,000	\$400
6-10	\$1,500	\$600
11 or more	\$2,000	\$800

**Section 2: Internal Controls Modifier**

Internal Controls	Characteristics	Factor
Weak	few internal controls, documentation, signatures required	1.00-1.25
Acceptable	standard level of controls for industry	1.00
Excellent	segregation, documentation, sign-offs, etc. strongly enforced	0.75-1.00

**C. Forgery (Insuring Agreement D), Computer Fraud (Insuring Agreement E), Funds Transfer Fraud (Insuring Agreement F), Money Orders and Counterfeit Currency Fraud (Insuring Agreement G), Credit Card Fraud (Insuring Agreement H)**

Coverages can only be purchased in conjunction with Employee Theft Coverage.

Coverage Part	Base Rate
Forgery	5% of Employee Theft Premium for first \$1 Million
Computer Fraud	\$200
Funds Transfer Fraud	\$200
Money Orders and Counterfeit Currency Fraud	3.5% of Employee Theft Premium for first \$1 Million
Credit Card Fraud	6% of Employee Theft Premium for first \$1 Million

**D. Client Coverage (Insuring Agreement I)**

Coverage can only be purchased in conjunction with Employee Theft Coverage.

Third Party Exposure	Base Rate
Low Third Party Exposure – e.g. manufacturing, other industries with little or no employee contact with third parties	5% - 10% of Employee Theft Premium
Moderate Third Party Exposure – e.g. Retail, hotel	11% - 25% of Employee Theft Premium
High Third Party Exposure – e.g. employee leasing firms, escrow agents, real estate agents, insurance agents, those with high exposure to valuables of others	26% - 50% of Employee Theft Premium

**E. Expense Coverage (Insuring Agreement J)**

Coverage can only be purchased in conjunction with Employee Theft Coverage. Expense Coverage rate is an additional 50% of premium for each insuring clause purchased.

**F. Retention Factors for Crime Coverage Parts A through I**

Retention	Annual Gross Revenues (in \$ millions)			
	Less than 10	10 - 74	75 - 249	250 - 1000
\$250	1.300	1.406	1.460	1.700
\$500	1.130	1.223	1.269	1.478
\$1,000	1.000	1.082	1.123	1.308
\$2,500	0.952	1.030	1.069	1.245
\$5,000	0.924	1.000	1.038	1.208
\$10,000	0.890	0.963	1.000	1.164
\$25,000	0.840	0.908	0.944	1.099
\$50,000	0.764	0.825	0.859	1.000
\$100,000	0.659	0.711	0.741	0.863
\$250,000	0.531	0.573	0.597	0.695
\$500,000	0.402	0.434	0.452	0.526

Note: retention factors only apply to the first \$1 million of coverage.

## General Rating For All Coverage Parts

### I. Increased Limit Factors

The following formula is used to determine Increased Limit Factors:

$$ILF = (1.0 / (\text{Selected Limit (in millions)}^{-.525}))$$

This formula is also used to calculate the appropriate modification to the base premium for various attachment points on excess policies. This is done by calculating the ILF for the entire limit being purchased by an Insured and then subtracting the ILF for the primary limits that are not insured by XL. This formula equates to:

$$ILF = ((1.0 / (\text{Selected Limit} + \text{Selected Attachment}))^{-.525}) - ((1.0 / \text{Selected Attachment})^{-.525})$$

The chart below shows the increased limit factors for commonly purchased limits. The chart below is only a sample of available limits.

Limit	Factor
\$1,000,000	1.000
\$5,000,000	2.328
\$10,000,000	3.350

### II. Interpolation

For retentions not shown, use interpolation to determine the proper charge.

### III. Multi Year Pricing

All rates shown above are annual rates. Multi year factors for multiple year coverage are dependent on several variables such as: prepaid or installment premium, single limit or multiple aggregate limits, expected growth of account and any other factors that may influence the overall financial health of an account. Annual premiums are multiplied by a factor of 1.7 to 2.5 and 2.4 to 3.5 for two-year and three year terms respectively.

### IV. Extended Reporting Period (ERP)

State regulations regarding minimum reporting periods must be followed. The Standard Extended Reporting period varies from 1 to 6 years. The following ERP factors will apply to the expiring annual premium. Actual selected factors will depend on the individual circumstance related to the run off situation. Variables to consider are the current claim environment, strength of buyer, terms of claim notification.

<u>ERP Length</u>	<u>Percent of expiring premium</u>
12 months	50% - 125%
24 months	125%-175%
36 months	200%-250%
72 months	250%-300%

### V. Shared Limit Credit

When a limit is shared among liability coverages, the premium will be discounted according to the following schedule.

	<u>Shared Limit Credit</u>
2 Liability Coverages	5.0%
3 Liability Coverages	10.0%

## VI. Coverage Modifications

Coverage Modification	Factor
Specific Claims Exclusion	0.75 to 1.00
Prior Acts Exclusion	0.75 to 1.00
Class Action Retention Endorsement	0.75 to 1.00
Provide Coverage for Employed Lawyers and Their Employees Endorsement	1.00 to 1.25
Amend Definition of Insured Person Endorsement	1.00 to 1.15
Additional Company Endorsement	1.00 to 1.50
Chapter 11 Exclusion	0.75 to 1.00
Franchisee Exclusion	0.75 to 1.00
Insurance Agents E&O Exclusion	0.75 to 1.00
Medical Malpractice Exclusion	0.75 to 1.00
Parent Exclusion	0.75 to 1.00

## VII. Premium Rounding

Policies are typically priced in round premium amounts. Based on the final calculated premium, the premium can be modified slightly within the following ranges:

<u>Rated Premium</u>	<u>Maximum Round Up/Down</u>
\$5,000 or less	+/- \$200
\$5,001 to \$25,000	+/- \$500
\$25,001 to \$50,000	+/- \$1000
\$50,001 or more	+/- \$2500

# XL Specialty Insurance Company

## Return on Equity Worksheet

(1)	Target Return on Equity	15.0%
(2)	Premium to Surplus Ratio	1.00
(3)	Yield on Equity	4.6%
(4)	Remaining Return Required of U/W cashflow	10.4%
(5)	Interest Income on Cashflow	4.2%
(6)	Underwriting Profit Load	<b>6.2%</b>
(7)	Selected Profit Load	<b>6.2%</b>
(8)	Selected Target Combined Ratio	<b>93.8%</b>

Notes:

- (1) Target return on Equity required to attract investors.
- (2) 2006 XL Specialty Insurance Company:
- |                               |                 |                |
|-------------------------------|-----------------|----------------|
| Premium                       | Page 6, Line 34 | \$ 50,699,003  |
| Surplus                       | Page 3, Line 35 | \$ 161,598,605 |
| Premium / Surplus Ratio:      |                 | 0.31           |
| Long Term Expectation: (P/S:) |                 | 1.00           |
- (3) 2006 XL Specialty Insurance Company - Investment Yield:
- |                   |                 |                |
|-------------------|-----------------|----------------|
| Investment Income | Page 4, Line 9  | \$ 17,416,160  |
| Investable Assets | Page 2, Line 10 | \$ 379,746,419 |
| Inv. Yield        |                 | 4.6%           |
- (4) = ((1) - (3)) / (2).
- (5) ROE Worksheet, Investment Income, Page 2, (6).
- (6) = (4) - (5).
- (7) Based on reasonable long term premium to surplus and investment targets.
- (8) = 1.0 - (7).

# XL Specialty Insurance Company

## Return on Equity Worksheet

(1)	Gross Written Premium	\$ 75,000,000
(2)	Estimated Loss Ratio	61%
(3)	Estimated Losses	\$ 45,975,000
(4)	Investment Income Yield	3.0%
(5)	Investment Income on Cashflow	\$ 3,149,309
(6)	Investment Income as % of GWP	4.2%

	(7)	(8)	(9)
Calendar	Payout	Estimated	Investment
1	17.5%	\$ 8,045,625	\$ 120,860
2	30.0%	\$ 13,792,500	\$ 630,950
3	27.5%	\$ 12,643,125	\$ 978,576
4	15.0%	\$ 6,896,250	\$ 758,670
5	10.0%	\$ 4,597,500	\$ 660,253
<b>Total</b>	<b>100%</b>	<b>\$45,975,000</b>	<b>\$ 3,149,309</b>

**Notes:**

- (1) Assumed annual premium
- (2) Based on pricing expectations.
- (3) (1) x (2).
- (4) Page 1, Note (3) x (1 - tax rate of 34%)
- (5) Page 2, Column 9, Total.
- (6) (5) / (1).
- (7) Based on expected payout pattern for D&O claims.
- (8) Page 2, Column (7) x (3).
- (9) Page 2, Column (8) x  $\{[(1 + (4)) ^ (\text{Year} - 0.5)] - 1\}$ .

**XL Specialty Insurance Company**  
**2005 Realized Capital Gains/Losses (% of Assets)**

(1)	Cash and Invested Assets: Page 2, Line 10.	\$ 379,746,419
(2)	Realized Capital Gains: Page 4, Line 10.	\$ (3,976,947)
(3)	Unrealized Capital Gains: Page 4, Line 24.	\$ 5,278,116
(4)	Realized Capital Gains Yield: (2)/(1).	-1.05%
(5)	Unrealized Capital Gains Yield: (3)/(1).	1.39%

SERFF Tracking Number: XLAM-125412967 State: Arkansas  
Filing Company: XL Specialty Insurance Company State Tracking Number: EFT \$50  
Company Tracking Number: 07SD-DO-DO05-MU-AR-R  
TOI: 17.0 Other Liability - Claims Made/Occurrence Sub-TOI: 17.0006 Directors & Officers Liability  
Product Name: Private Company  
Project Name/Number: New Private Company Rate/Rule Filing /07SD-DO-DO05-MU-AR-R

## Supporting Document Schedules

**Satisfied -Name:** Actuarial Memorandum **Review Status:** Filed 01/23/2008  
**Comments:**  
**Attachment:**  
Actuarial Memorandum.pdf

Private Company Professional Liability  
Actuarial Memorandum

The rating plan for the Private Company Professional Liability policy is attached. While we currently offer similar coverages under various other filed products, this new product has been developed to meet the changing needs of the insured market and changing economic environment. Our new policy combines various coverages – D&O, EPL, and Fiduciary – and, for the first time for our company, includes a crime coverage part.

At this time, we do not have any credible statistical data to support the attached rating. To determine the pricing, we relied on filed pricing plans for like coverage from our competitors, Chubb and Travelers. In addition, we asked our internal underwriters to review the pricing based on their perceived liability exposure for the various coverage components and marketplace dynamics. The underwriters involved in evaluating this segment of the business have been involved in these product lines and coverages for many years with other direct carriers such as AIG, Executive Risk, Chubb, Travelers and Great American.

There does not exist at this time any standardized industry data sources for this class of business that we can rely on to validate our rating proposal. Based on competitor filings and our underwriter input, we believe the rates to be adequate but not excessive. The company will begin to collect data for this business and will perform periodic reviews of the adequacy of the rates. To the extent necessary, we will quickly revise rates to ensure overall adequacy and fairness.