

THE INSURANCE DEPARTMENT OF THE STATE OF DELAWARE

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 IN THE MATTER OF: :
 The Proposed Acquisition of Royal Indemnity : Docket No. 313
 Company. Et al. :
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DECLARATION OF JEFFREY G. MCKINLEY, CPCU, IN SUPPORT OF THE APPLICATION OF WORLD TRADE CENTER PROPERTIES IN OPPOSITION TO THE PROPOSED ACQUISITION OF ROYAL INDEMNITY COMPANY, ET AL.

I, Jeffrey G. McKinley, hereby declare under penalty of perjury as follows:

1. I am President of Risk Management Strategies LLC, a risk management and insurance consulting firm. I am a nationally recognized expert in the insurance and risk management fields. My proficiency is the result of more than 30 years of experience as an underwriter, retail broker, program manager, consultant and expert witness. My expertise includes insurance broker operations, insurance industry standard of care and insurance marketing in the United States, London, Europe and Bermuda. I was a Board member of Jardine Insurance Brokers, Inc., one of the world's largest insurance brokers. As Corporate Security Director at Jardine Insurance Brokers, Inc., I was responsible for approving all insurance companies with which our firm did business. A copy of my curriculum vitae is attached.¹ I respectfully submit this declaration in support of the comments submitted by World Trade Center Properties and its affiliates in opposition to

¹ See Ex. 1.

the proposed acquisition of Royal Indemnity Company (“Royal Indemnity”) by its management for no consideration.

2. I have been asked by World Trade Center Properties and its affiliates and The Port Authority of New York and New Jersey to assist them in analyzing the implications of the proposed acquisition of Royal Indemnity² by its management and, in particular, to provide an opinion of what the consequences would be for its parent company Royal & SunAlliance Insurance Group plc (“Royal & SunAlliance” or “RSAUK”) if it permitted Royal Indemnity to go into liquidation.

3. The proposed acquisition of Royal Indemnity by its management is an extraordinary transaction that, fundamentally, represents an attempt by RSAUK to walk away from the U.S. insurance market and policyholders. RSAUK has stated that if the sale of Royal Indemnity is not approved it will not increase existing reserves – in other words, RSAUK is threatening to cut off a subsidiary that it had previously represented to the insurance marketplace and rating agencies as “core” to its business. In my opinion, this threat is an idle one made with only one purpose – to frighten policyholders and regulators into supporting the transaction. If the sale of Royal Indemnity is not approved, RSAUK would never allow its subsidiaries’ claims to go unpaid. It simply could not afford to do so from a business standpoint. If RSAUK failed to step in and provide sufficient additional capital to assure that all outstanding claims would be paid, the damage to its ongoing business would be devastating.

² Where appropriate, references to Royal Indemnity should also be taken to include the other members of Royal & Sun Alliance’s USA “pool” – Security Insurance Company of Hartford, and Guaranty National Insurance Company, and also Royal Surplus Lines Insurance Company – that are the subject of the proposed transaction.

4. RSAUK is a leading, worldwide insurance firm. As such its reputation in the brokering community is paramount. RSAUK's Website states: "At Royal & SunAlliance we value our relationships with brokers, placing great emphasis on developing quality partnerships with our existing broker networks and are genuinely interested in developing new ones. We continually listen to and act upon feedback from our brokers to enhance our products and services propositions."³ Commercial accounts, typically written through brokers, represent 56% of RSAUK's business world wide.⁴ Clearly, RSUAK, like all major commercial insurance companies, relies heavily on the support of the insurance brokerage community. Brokers are its prime sources of business, especially insurance for commercial accounts.

5. As the Corporate Security Director at Jardine Insurance Brokers, Inc., I carefully scrutinized the financial strength and reputation of all the insurance companies that I approved for use by our brokers. In order to evaluate the financial strength of an insurance carrier I would conduct my own financial review, taking into account the support of its parent, as well as refer to the information and analysis from various insurance company rating services such as AM Best's and Standard and Poor's. To evaluate an insurance company's reputation I would rely on industry publications such as *Business Insurance*, *Underwriters' Report*, the *Insurance Journal* as well as solicit the opinions of our own worldwide brokering staff.

6. I am familiar with the security policies of other major brokers in the United States, the United Kingdom and other markets. They all have executives who performed the same function that I did at Jardines, *i.e.*, to review the financial strength and reputations of the

³ See Ex. 2 (<http://www.royalsunalliance.com/royalsun/productsservices/brokers.jsp?link=2&sub=2&sup=6&Brokerscountry=1&Go=Go>)

⁴ See Ex 3 (Page 11 Royal SunAlliance Annual Report & Accounts 2005).

insurers that the firm was considering placing business with and determine whether to approve the use of the company by its brokers.

7. Based on my experience at Jardines and my knowledge of the brokerage industry generally, I am of the firm opinion that it would be extremely troubling to any broker, especially anyone responsible for approving the use of an insurance company by their firm, to learn that an insurance company was potentially abandoning its responsibilities to the policyholders of one of its subsidiaries. Brokers owe a duty to their clients, the policyholders, to place insurance with financially sound and reliable insurance companies. If a broker learned that an insurance carrier failed to honor its policyholder claims, including those at one of its subsidiaries, that broker would immediately cease placing insurance with that insurance company. As a consequence of such an action an insurance company would undoubtedly suffer a substantial loss of premium revenue.

8. In light of this, it is my firm opinion that if RSAUK does not obtain approval to sell Royal Indemnity, it will have no choice but to support its U.S. insurance companies so that they are able to honor all outstanding claims of policyholders. To fail to do so would seriously jeopardize RSAUK's relationship with its brokers and its commercial insureds — which, as noted, constitutes 56% of its business — whether those customers do business directly with RSAUK or one of its subsidiaries throughout the world. A sophisticated market-smart insurance company such as RSAUK understands the consequences it would suffer in the marketplace if it failed to meet its claims obligations. It undoubtedly understands that it would risk losing a substantial share of its commercial premium revenue.

9. I am not aware of a single instance in which a major global insurer permitted one of its formerly core subsidiaries to go into statutory liquidation and I believe that if RSAUK permitted that to happen here, it would be unprecedented.



Jeffrey G. McKinley, CPCU

Dated: January 12, 2007

Exhibit 1

Jeffrey G. McKinley, CPCU

Jeff McKinley is a nationally recognized expert in the insurance and risk management fields. His proficiency is the result of more than 30 years of experience as an underwriter, retail broker, program manager, consultant and expert witness. His expertise includes insurance broker operations and insurance industry standard of care, insurance marketing in the United States, London, Europe and Bermuda, alternative risk financing techniques, program structure, and coverage analysis.

Education	1966 - 1970	Cornell University Ithaca, NY Bachelor of Arts , Cum Laude
Professional experience	Since 2000	Risk Management Strategies Stinson Beach, CA Principal. Risk management and insurance consulting. Expert witness testimony.
	1997 – 2000	DPW Insurance Services Ross, CA Principal. Created and managed Risk Purchasing Group programs that were marketed through insurance brokers.
	1997	Aon (Acquired Alexander and Alexander) San Francisco, CA Managing Director, San Francisco Office. Head of the former Alexander and Alexander office. Senior executive in charge of several major accounts.
	1996 – 1997	Alexander & Alexander (Acquired Jardine Insurance Brokers) San Francisco, CA Managing Director, San Francisco Office. Head of San Francisco office. Senior executive in charge of several major accounts.
	1986 – 1996	Jardine Insurance Brokers (Acquired Emett & Chandler) San Francisco, CA. Executive Vice President and Board Member of Jardine Insurance Brokers, Head of Western Region, National Director of Jardine Risk Management and President of

the San Francisco Office. Developed, implemented and responsible for Jardines' entire Quality Control program including creation of procedures manual and auditing offices for compliance. Senior executive in charge of several major accounts.

1981 – 1986 Emmett & Chandler
San Francisco, CA.
President of the San Francisco Office. Senior executive in charge of several major accounts in the San Francisco office.

1977 – 1981 Frank B. Hall & Co.
San Francisco, CA
Vice President. Manager of Ocean Marine Department. Senior executive in charge of several major accounts in the San Francisco office.

1973 – 1977 Chubb & Son
San Francisco, CA
Manager, Ocean Marine, Inland Marine and International Department, underwriting.

**Coverage areas
of expertise**

Property
Builders Risk
Inland Marine
Ocean Marine
Auto Liability
General Liability
Umbrella Liability
Excess Liability
Employment Practices Liability
Directors & Officers Liability
Professional Liability
Workers Compensation

**Industry areas
of expertise**

Agricultural Co-operatives
Construction
Hospitals
Hotels
Legal Profession
Manufacturers
Public Entities
Real Estate
Restaurants
Schools
Universities

**Other areas of
expertise**

Alternative risk financing
Captives
Expert witness testimony
Insurance agency management
International programs
Multiyear programs
Professional Liability
Self-insurance feasibility
Insurance broker and agent Quality
Control programs

License

California Brokers License
No. 0A13847

**Professional
designations**

**Chartered Property Casualty Underwriter
(since 1978)**
American Institute for CPCU and
Insurance Institute of America

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Exhibit 2



Products & Services

Royal & SunAlliance protects people against the risks they face in their daily lives, both personal and commercial.

Our global network provides property, casualty, motor and household insurance to over 20 million people worldwide.

Products & Services

Business Partners

UK

Within the UK, Royal & SunAlliance is one of the country's leading personal and commercial lines insurers, covering the insurance needs of a significant number of FTSE 100 companies. It has a full multi-distribution capability, writing business through corporate partners and brokers, direct and online. We have a dedicated website for our business partners www.royalsunconnect.co.uk. Here you can access the full range of products and services including policy wordings and the ability to track commercial claims online.

Personal HOME

We offer an excellent range of flexible products to suit all your customers' needs from our standard Home insurance product with a range of optional extras to a complete world wide all-risks solution catering for the highly affluent and prosperous customer.

MOTOR

Our motor product offering can be varied to best meet the requirements of your customer base. The products offer highly competitive levels of cover and a professional claims service focused on dealing with customers quickly and fairly.

Website: www.royalsunconnect.co.uk

Broker

Within the UK, Royal & SunAlliance is one of the country's leading personal and commercial lines insurers, covering the insurance needs of small and multinational companies. It has a full multi-distribution capability, writing business through corporate partners and brokers, direct and online.

At Royal & SunAlliance we value our relationships with brokers, placing great emphasis on developing quality partnerships with our existing broker networks and are genuinely interested in developing new ones. We continually listen to and act upon feedback from our brokers to enhance our products and services propositions:

- **Risk Solutions** – work in partnership with brokers and customers to offer bespoke programmes to meet the insurance needs of large UK (£100m + turnover) and multinational companies. Specialising in commercial products, Risk Solutions can provide risk transfer or non-conventional aggregate / captive programmes to meet the customer need. Risk Solutions service is delivered through a talented team of underwriters, claims experts, risk engineers and a centrally managed Global Network covering 132 countries worldwide. Risk Solutions specialise in Retail, Chemical / Pharmaceuticals and Logistics risks
- **Property Investors** – dedicated to meeting insurance needs of property investors, offering a full range of products and added-value services for the benefit of this specialist market
- **Engineering Inspection Business** – creating solutions for a safer, more effective working environment. Products and services include safety examination of pressure vessels, lifting and handling machines and electrical systems to allow compliance with UK Health and Safety regulations, as well as special consultancy services, which support our core activities.
- **Professional and Financial Risks** – aiming to be the most successful insurer in the professional and financial risks market place with specialist underwriters and claims handlers operating to provide suitable protection to commercial customers for their managerial, professional and financial risk exposures.

Products include Professional Indemnity, Group Personal Accident and Business Travel, Directors and Officers Liability, Charity Trustee Assurance, Crime, Theft by Employee, Employment Practices Liability, Libel and Slander, Contingent Risks, Surety Bonds and Legal Indemnities.

ProFin propositions are designed to meet the needs of Small Business, Corporate Business and Large Business. ProFin's Enterprise solution is designed for smaller business:-

- Directors and Officers Liability (for limited companies, clubs and residents associations with an annual turnover of up to £15m)

- Personal Accident and Business Travel (for businesses with up to 50 employees)

- Professional Indemnity (for accountants, property professionals and a wide range of miscellaneous occupations, all with a fee income of up to £250,000)

- **Marine** – one of the UK's largest marine insurers, with leading positions in the Cargo, Hull, Freight Liability and Aquaculture markets. Dedicated underwriting and claims teams deliver marine insurance solutions, risk management and value-added services to customers across the UK, and internationally in over 130 countries worldwide.
- **Global Consulting** – is one of the largest UK based risk consulting operations with over 120 consultants in the UK and another 30+ strategically located around the world. Our primary goal is the evaluation of risk and prevention of loss. Every time one of our consultants goes to site, we believe they have prevented a loss from happening, and have mitigated the impact of any loss that does happen. We are committed to delivering a world class loss prevention and risk engineering service to our customers and underwriters through a worldwide professional team of consultants, in a flexible, customised, responsive and cost effective manner.
- **Small Business / Enterprise** - offering insurance solutions for small businesses through the broker proposition. Enterprise is fully committed to delivering a fast, efficient and hassle free service through a dedicated team of trained underwriters. The products available through Enterprise include:-
Shops / Offices / Small Hotels / Business / Contractors / Clubs / Properties / Vans / Business Car / Directors and Officers Liability / Professional Indemnity / Personal Accident and Business Travel.

- **Corporate** – writing commercial business for customers with turnovers from £1m to in excess of £100m, offering a wide variety of products and services across Property, Casualty and Motor classes, including charities insurance and Schemes & Affinity business.

Website: www.royalsunconnect.co.uk

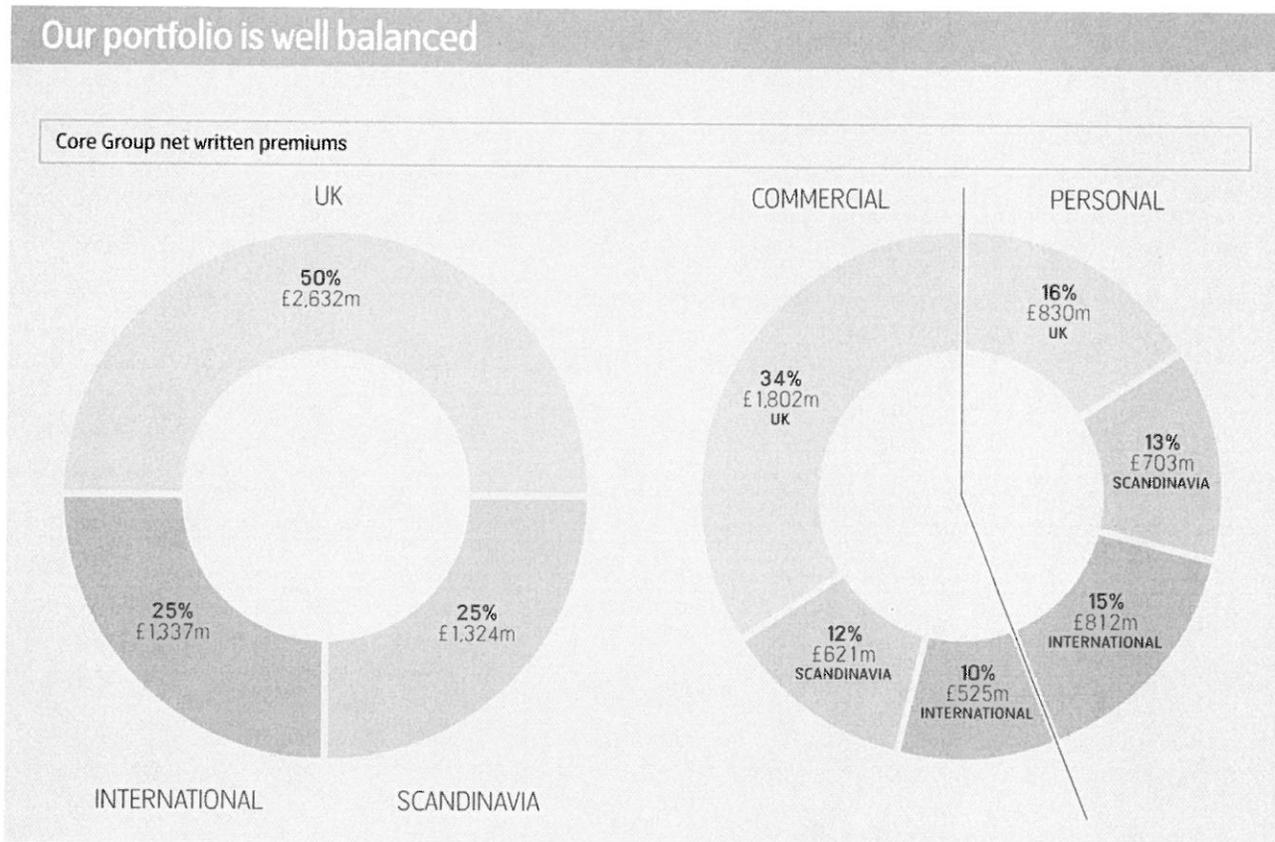
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Exhibit 3

We have a good balance of premiums and earnings by geography and business line.



We have strong positions in our chosen markets and segments. Underpinning this is our reputation for providing innovative insurance solutions and good customer service.

In the UK we are ranked number two and three in Commercial and Personal respectively. We have a 12% share of the commercial property segment and insure 40% of FTSE 100 companies. Our UK Personal business has a strong reputation for customer service and has 3.5 million covers in place.

In Scandinavia, our two largest operations, Denmark and Sweden, are ranked third overall in terms of market share. We are number one in Danish marine. Latvia and Lithuania are exciting markets with high growth potential and in these markets we are clear market leaders.

Our International business has operations in 21 countries, including Canada, Ireland, Italy and selected emerging markets in Latin America, Asia and the Middle East. We are focused on building our position in our chosen markets, trades and segments.

In Canada, Johnson Corporation, our direct business continues to deliver double digit growth. We have also consolidated our leading position in marine through the acquisition of ING's portfolio. We have a leading position in Irish personal household.

The diversity, strength and focus of our business positions us to deliver sustainable earnings with targeted profitable growth.