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To the NAIC Advisory Organization Examination Protocol (C) Working Group and Interested Parties

Re: Chapter draft - through Section 8 and the draft ISQ for Advisory Organizations

Once again, my compliments to the people who put so much work into fixing up the current drafts. While I have a lot of comments, for the most part you will find that they are merely editorial.

Section 1 - paragraph that defines "advisory organization" third line.
I suggest that the phrase "of this chapter" be appended to end of the first sentence so that it reads: "...in Sections 10 and 11 of this Chapter."

Section 1 - The sentence: "States based on an older version of the NAIC model may use the term 'rating organization' or 'rate service organization' to mean the same thing." should be moved up the immediately follow the paragraph that defines advisory organizations.

Section 1 - I suggest revision to the beginning of the paragraph that defines "statistical agent" as follows: "The term "statistical agent" is commonly used to describe ~~a type of an~~ advisory organization when it is performing functions a. and b. above. Some advisory organizations limit their advisory organization activities to just the statistical agent functions. In general, statistical agents ~~that~~ collects data in accordance with the requirements established in the NAIC Statistical Handbook of Data Available to Regulators ("Statistical Handbook") or as otherwise specified by the regulator."

Section 1 - fourth to last paragraph - In first line, suggest deleting the phrase "or statistical agent." In second line suggest deleting "and statistical." Both are redundant now that the chapter has defined advisory organization to include statistical agent functions.

Section 2 - Suggest adding a new second sentence: "Other regulated permitted activities may also be examined."

Section 2 - last sentence of the first paragraph - suggest the following revisions: "When reviewing statistical agent functions, it is important to look at what review how the advisory organization ~~does with processes, edits and manages~~ the data it collects, compiles and reports so that state regulators know that the statistical, ~~loss costs, rules and form~~ filings made with them are accurate and reliable." The statistical examination does not look at the loss costs or rating rules and the reviewing the data has little if anything to do with the forms filings, which would also not be examined when reviewing statistical agent functions.

Section 2 - first bullet of the third paragraph - replace "underwriting rules" with "policywriting rules". Underwriting rules are generally understood to be something other than filed manual rules.

Section 2 - 6th paragraph beginning "Unlike insurance company examinations...." Suggest adding ", and perform other regulated activities." to the end of the last sentence.

Section 3 - the first line has a wording problem. Perhaps it should be saying: "The procedures discussed in this section are to assist the regulator in determining if an examination, or examinations other type of regulatory activity action needs to be scheduled."

Section 3, item #4 in the list. In every exam I have been a part of, collecting all the information listed is a fairly significant part of the actual exam itself. This seems to imply that it will all be done prior to the exam or determining if an exam needs to be done. It's also not clear from whom all this information is to be obtained, but I'd have to think that it's from the advisory organization itself. I think most if not all of the detail needs to be moved to a later section, perhaps in the Writing the Examination Report section. Some may even be appropriate in the Standards sections.

Section 3, item #5 - just a comment that the MAWG reference needs to be replaced with whatever the new group will be called. Similarly, I believe that Commissioner McCarty may have envisioned not using some of the other NAIC groups/tools on this list.

Section 3, item #7 - replace "statistical/rating/advisory" with "advisory".

Section 3 - "N" in the alphabetized list. I think item should be deleted. There should be no stand-alone "Information Systems" element of the exam. Reviews of the information systems that comprise the statistical agent data and ratemaking data are parts of D, F and G above. It is this kind of statement that is likely to open that whole "big ISQ" question that this chapter needs to divert.

Section 3. A. Procedural Considerations 1. Qualifications of Examiners.

In 6th line suggest adding "statistical and ratemaking" immediately before "data and databases." Last line - delete "and loss cost procedures." Loss cost procedures are generally thought of as the filing procedures that result for both companies and advisory organizations when an advisory organization limit its ratemaking to only the loss cost piece of a rate.

Next one sentence paragraph: replace the word "activity" with "action".

Section 3.A.1. - last paragraph suggested edits: "...Detailed billing ~~must~~should be reviewed by both the state and the examined entity. To avoid conflict of interest, Ddetermination of the scope of the exam ~~should~~must be performed by the state, rather than the contracted entities." The first change will make this paragraph consistent with paragraph 2.d. that follows. The reason for second change is obvious, I hope.

Section 3.A.2. Types of Examinations - first paragraph last sentence. I'm not sure I understand why "it is highly recommended" that multistate exams be considered. ISO has not had a multistate exam since the 1970's with no perceived ill-effect by either the regulators or ISO. My take on this point is quite the reverse. Since "most operations for these entities remain consistent in all states," a single state exam can be sufficient, and is a highly efficient way to cover all the common processes for all states. It is the reason that regulators can accept an exam from another state with a clear conscience.

Section 3.A.2.a) - This paragraph discusses only statistical agent functions, therefore, change "advisory organization" in the first line to "statistical agent." This will require a new paragraph b) that talks about a comprehensive examination of a single advisory organization will encompass all of a) above plus processes for loss costs, rules, forms and perhaps other regulated activities.

Section 3.A.2.b) (the second b in the current draft, which would become d per my comment above) - Suggest editing the first two lines: "Line of Business Examinations for ~~advisory organizations that perform~~ statistical ~~data~~agent functions. This type of examination ~~would~~ gathers information from all advisory organizations that provide statistical ~~services~~agent functions for a particular line of business....."

And the end of that same paragraph: "Consideration should be given to apportioning total examination expenses by the relative premium volume of each statistical agent's reporting insurers for the line examined."

Section 3.A.2.d) - second sentence - suggest editing as follows: "To the extent that the examination is a multistate multi-statistical agent examination, ~~and the cost of the examination is generally borne indirectly by the insurer members of the statistical agent/advisory organization, not the organization itself,~~ the allocation of ~~such~~ examination costs should be discussed and agreed upon up front ~~with~~by the participating regulators and the examined entities."

Section 3.A.3.a) - second sentence - "~~Some~~Many state laws ~~may~~ specifically permit...."

Section 3.A.3.b) - first sentence edits: "...to ~~statistical agents and/or~~ advisory/~~rating~~ organizations..."

Section 3.A.3.c) - last sentence: "While planning an examination, ~~it is helpful to consider~~ such processes should be considered to prevent duplication of work and potentially conflicting insurance department conclusions."

Section 3.A.3d) - I don't see the section 3(7) of this chapter that is referenced here. Rather than a reference, I think a functional list of the categories into which all the standards will fit should be

included here. Or perhaps we just want to refer to Section 5 though whatever Section ends the standards. And, of course the "remove...." at the end of the paragraph needs to be deleted.

Section 3.A.3.e) - I think reference to D Committee should be removed, per discussion at the June NAIC meeting. Should the reference to C Committee be less specific and say something like "Property and Casualty Committee or its appropriate successor"? Even in my fairly short tenure of observing the NAIC, this letter designation of the Committee has changed.

Same section, last paragraph, last line -- suggest adding the word "persistent" so that it reads: "...non-compliant insurers if persistent data reporting problems are known to exist."

Section 4, last paragraph, fourth line delete "and statistical agents" since the term "advisory organization" covers them.

Section 7 - suggest adding the following at the end of the first paragraph. "Classification definitions are generally filed and approved in an organization's loss costs or rules filings. It is not contemplated that they be re-examined for compliance in an examination."

Section 8 will need to be re-written since we will have an ISQ-type document that is customized for advisory organizations.

With respect to the Modified ISQ suggested by PCI, I have only one general comment that applies to a couple of areas in the draft. We should be sure that the examples or other specific references used in the Modified ISQ actually apply to advisory organizations. Two places where I noticed this issue (but there may be others) are:

- On page three at the top, the Guidance Point for system/environment access references access to "master claim data file". I believe that is an insurer-specific term.
- On page 4, the guidance point for the application process references the manager of the claims department. Of course, advisory organizations don't have claims departments.

Thank you for your patience in reading though and considering all these suggestions. I look forward to the next teleconference to discuss these. Please feel free to contact me with questions in the meanwhile.

Very truly yours,

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Mary E. Van Sise