

CHAPTER 25
CONDUCTING THE ADVISORY ORGANIZATION EXAMINATION

IMPORTANT NOTE:

The standards set forth in this chapter are based on established procedures and/or NAIC models, not on the laws and regulations of any specific jurisdiction. This handbook is a guide to assist examiners in the examination process. Since it is based on NAIC models, it needs to be modified to reflect each state's own laws, regulations, audit procedures, examination scope, and the priorities of examination. Further important information on this and how to use this Handbook is included in Chapter 8 Examination Introduction.

This chapter provides a suggested format for conducting advisory organization examinations and reviews. [In addition to this chapter, it is highly recommended that the examiner should be familiar with the NAIC Statistical Handbook of Data Available to Insurance Regulators if reviewing an advisory organization that conducts statistical agent functions.](#)

Section 1. Background and Definitions

“Advisory Organizations” are authorized by statute and are defined in the current NAIC Model Rating Law as:

“Advisory organization” means any entity, including its affiliates or subsidiaries, which either has two or more member insurers or is controlled either directly or indirectly by two or more insurers, and which assists insurers in ratemaking-related activities such as enumerated in Sections 10 and 11 of this Chapter. Two or more insurers having a common ownership or operating in this State under common management or control constitute a single insurer for purposes of this definition. States based on an older version of the NAIC models may use the term “rating organization” or “rate service organization” to mean the same thing.

The Model Rating Law specifically permits advisory organizations to:

- a. Develop statistical plans including territorial and class definitions;
- b. Collect statistical data from members, subscribers or any other source;
- c. Prepare, file and distribute prospective loss costs which may include provisions for special assessments;
- d. Prepare, file and distribute factors, calculations or formulas pertaining to classification, territory, increased limits and other variables;
- e. Prepare, file and distribute manuals of rating rules, rating schedules and other supplementary rating information that do not include final rates, expense provisions, profit provision or minimum premiums;
- f. Distribute information that is required or directed to be filed with the commissioner;
- g. Conduct research and on-site inspections in order to prepare classifications of public fire defenses;
- h. Consult with public officials regarding public fire protection as it would affect members, subscribers and others;
- i. Conduct research in order to discover, identify and classify information related to causes or prevention of losses;
- j. Conduct research relating to the impact of statutory changes upon prospective loss costs and special assessments;
- k. Prepare, file and distribute policy forms and endorsements and consult with members, subscribers and others relative to their use and application;
- l. Conduct research and on-site inspections for the purpose of providing risk information relating to individual structures;
- m. Conduct on-site inspections to determine rating classifications for individual insureds;
- n. For workers' compensation insurance, establish a committee which may include insurance company representatives to review the determination of the rating classification for individual insureds and suggest modifications to the classification system;
- o. Collect, compile and publish past and current prices of individual insurers, provided such information is also made available to the general public at a reasonable cost;
- p. Collect and compile exposure and loss experience for the purpose of individual risk experience ratings;
- q. File final rates, at the direction of the commissioner, for residual market mechanisms;
- r. Furnish any other services, as approved or directed by the commissioner, related to those enumerated in this section.

The term “statistical agent” is commonly used to describe 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 collect 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. Statistical agents typically compile that data into aggregate reports to regulators as specified in the Statistical Handbook or as otherwise specified by the regulator. Their services are used for the purpose of fulfilling the statistical reporting obligations of insurers under the various state rating laws.

It is unlikely that any single advisory organization will be engaged in all of the permitted activities. Additionally, some entities may provide services that are listed above or that were not contemplated by the various state rate and form acts. Whether or not advisory organization services are regulated and permitted will depend on the various states' laws. Likewise, certain services may not be deemed a priority for examination purposes. Those services that have the greatest potential impact on insurance consumers should be given priority for review.

For purposes of this Chapter, the term "advisory organization" will be used to encompass rating organization, rate service organization and statistical agent, as appropriate. It should be noted that advisory organizations that develop and file insurance programs and loss costs frequently collect data beyond the minimum standards required of all insurers under the Statistical Handbook. This additional detail or additional data is used to support insurance programs and for research.

For purposes of this Chapter, the terms "subscriber" and "member company" are used interchangeably to refer to insurers that rely on the advisory organizations services and products. Some advisory organizations provide multiple levels of member company services. For example, with the appropriate advisory organization agreement in place, insurers may designate an advisory organization to file on its behalf. Or, an insurer may file with the department to adopt filed advisory organization materials. Alternatively, an insurer may purchase the right to use advisory organization materials, with or without modifications.

In addition to providing guidance for performing an advisory organization examination, this chapter emphasizes the desirability to coordinate advisory organization examinations between states to prevent duplication. Acceptance of other state's reports of examinations for advisory organizations is permissible in most or all states. It is generally considered acceptable for one state to utilize the report of another state for purposes of fulfilling the state's statutory obligations related to examination of advisory organizations. Generally speaking, processes and procedures established and used by advisory organizations are not unique to single states.

Section 2. Nature, Scope and Type of the Examination

The advisory organization examination is a review of the organization's systems, operations and management for the collection and reporting of statistical data, preparation of loss cost filings and rule and form filings. Other regulated permitted activities may also be examined. Its purpose should include a check of the validity of the systems in place. It is neither a traditional market conduct nor financial exam. It is rather a hybrid of a market conduct exam and a data/systems audit. The advisory organization examination is not an examination of the accuracy of the underlying company data reported to the organization. The main purpose of the examination is to determine that the advisory organization is performing its permitted regulated functions in a manner consistent with state rating laws and in a manner that results in accurate and compliant products or services for its subscribing or member companies. When reviewing statistical agent functions, it is important to review how the advisory organization processes, edits and manages the data it collects, compiles and reports so that state regulators know that the statistical filings made with them are accurate and reliable.

The NAIC Model Rating Law has several sections regarding advisory organizations that form the bulk of the statutory requirements that apply specifically to advisory organizations in most states, and therefore, form the basis of an examination.

- Licensing Advisory Organizations
- Insurers and Advisory Organizations Prohibited Activity
- Advisory Organizations Prohibited Activity
- Advisory Organizations: Permitted Activity
- Advisory Organizations: Filing Requirements
- Examinations
- Statistical and Rate Administration

The regulated functions of an advisory organization that are subject to examination may include one or more of the following:

- Filings of insurance programs, including coverage forms, rating rules, policy writing rules, and rating manuals
- Filings of insurance program pricing (i.e., loss costs and related relativity factors)
- Submission of required annual statistical compilations to the states ("statistical agent")
- Inspections
- Classification administration

Examinations of advisory organizations can be either comprehensive or targeted. Targeted examinations may be conducted on one of the listed functions, and, for advisory organizations that service more than one line of business, on one function and one line. This has occurred rarely, but most frequently for the statistical agent function, where examinations have focused on that one function across all statistical agents for the line in question.

An advisory organization exam can be conducted by one jurisdiction or as a multi-state cooperative exam. To the extent that the advisory organization's systems and procedures are similar, if not identical, for every state or line of business, the exam and resulting report should be acceptable in all states, regardless of which jurisdiction conducts the exam.

Unlike insurance company examinations, there generally is little, if any, "market analysis" for advisory organization examinations. Similarly, advisory organizations are not regulated for solvency. Rather, advisory organization exams review the processes and procedures used to collect, compile and assure quality of the data, calculate loss costs and develop insurance programs on behalf of insurers and perform other regulated activities.

Section 3. Preparation Phase—Pre-Examination for use in evaluating scheduling, coordination and planning scope

The procedures discussed in this section are to assist the regulator in determining if an examination or other type of regulatory action needs to be scheduled. It will also assist in developing a plan for conducting examinations, investigations, desk audits, interrogatories, letters, or interviews when deemed necessary.

1. Determine your jurisdiction's requirements for licensing and examining advisory organizations and statistical agents to ascertain whether examinations are required, optional or permitted. Determine if your jurisdiction is permitted to accept the examination report of another state.
2. Survey appropriate divisions within the Department of Insurance to identify potential areas of concern or interest relating to statistical agents and/or advisory/rating organizations.
 - Identify all advisory organizations and statistical agents operating in your jurisdiction.
3. For those advisory organizations that have provided a current examination report and no unaddressed regulatory concerns exist, no additional analysis should be necessary. If analysis indicates that a market regulation action such as a desk audit, letter, interrogatory, interview, investigation or examination is appropriate, consider the possibility of coordinating with other jurisdictions with similar requirements or market regulation issues. Consider use of NAIC tools such as ETS for examination, MITS for recording continuum types of regulatory responses and the Advisory Organization Examination Oversight Working Group for multistate coordination of regulatory responses.
4. Survey the Research Division of the NAIC for relevant information to identify potential areas of concern in the evaluation process.
5. Determine what specialists may be necessary to assist with the examination, such as an actuary (ideally one with experience with the functions of an advisory organization and the lines of business) and an information systems examiner.

For very narrow or specific regulatory issues, or for situations in which an examination is not required by statute, consider use of regulatory options other than an examination. For example, certain issues can be handled by a telephone call, letter or email, a data call, policy and procedure review, interrogatories or desk audits. The remainder of this chapter is primarily written to facilitate examinations; however, certain information may be adaptable for the above mentioned "continuum" type responses. Additional discussion of continuum type responses is located in Chapter 2 of the NAIC Market Regulation Handbook.

The examination of advisory organizations may require an examination of one or more of the following areas:

- A. Procedural Considerations, including privacy of personal information;
- B. Operations/Management/Governance;
- C. Statistical Plans;
- D. Data Collection and Handling; Data Integrity/Quality;
- E. Communications with Companies and Regulators;
- F. Reports, Report Systems and Other Data Requests;
- G. Loss Costs development, preparation and filing;
- H. Development of factors, calculations, formulas, classifications, territories, increased limits, manuals, rating rules, rating schedules and other supplementary information used by insurers;
- I. Loss control, public fire protection research;
- J. Preparation, filing and distribution of policy forms and endorsements;
- K. Inspection services used for rating classifications for individual insureds;
- L. Workers' compensation dispute resolution / appeals processes;
- M. Residual market functions, as applicable; and,
- N. Other regulated advisory organization functions.

When conducting an examination that reviews these areas, there are essential tests that should be completed. The tests are applied to determine if the advisory organization is meeting standards. Some standards may not be applicable to all jurisdictions or entities. The standards may suggest other areas of review that may be appropriate in a particular examination. If additional standards will be reviewed, it is best to define those standards prior to the start of the examination. The Department of Insurance Examination Supervisor should approve additional review standards found to be necessary during the course of the examination. Revision of the examination plan should also be made and communicated to the advisory organization if additional standards are added.

A. Procedural Considerations

Although not an insurance company examination, the basic procedures for a market conduct examination in Chapter 12 of the Handbook should be followed in an advisory organization exam:

- Scheduling an Exam
- Determining the Scope of the Exam
- Estimating Time Requirements
- Calling the Exam
- Notification of the Exam
- Pre-Examination Procedures
- On Site Coordination
- Communication with Advisory Organization Management
- Post Examination Procedures
- The Examination Report

Where possible, each state's defined examination protocols such as time frames and report submissions, applicable to the examination of insurers should be applied to advisory organization examinations as well.

1. **Scope of the Examination.** The scope of the examination should clearly identify which regulated activities are being examined. Activities to be examined are limited to those identified under Section 1 of this Chapter.
2. **Qualifications of Examiners.** In addition to the examiner qualifications addressed in previous chapters of the NAIC Market Regulation Handbook, specific qualifications and experience are recommended for advisory organization examinations. These operations differ substantially from insurers in terms of operations and regulatory requirements. The unique nature of the advisory organization functions requires a sound knowledge of insurance rating, underwriting and classification systems. For purposes of examining statistical organization functions, knowledge is desirable of statistical and ratemaking data and databases, actuarial calculations and procedures, processing controls, and other elements of large mainframe database processing. When necessary, the examiners, together with qualified persons or actuaries, should be able to assess the effectiveness of advisory organization data processing controls, implementation policies and procedures. If these skills are not available within an insurance department, consideration should be given to engaging other qualified entities to coordinate and oversee, and perhaps to conduct, the technical portions of the advisory organization examination. This would include actuarial expertise in ratemaking as well as in information systems.

The plan developed for conducting the examination or other regulatory action should assist in evaluating the appropriate experience and qualifications needed.

Understanding the nature, services and regulation of advisory organizations is necessary. Confidentiality and nondisclosure agreements are appropriate when engaging contract examiners. Detailed billing must be reviewed by both the state and the examined entity. To avoid conflict of interest, determination of the scope of the exam should be performed by the state, rather than the contracted entities.

3. **Types of Examinations.** When planning the examination, it is helpful to first identify which services and products are regulated and how they impact other regulated entities. An advisory organization examination can take the form of a comprehensive examination, a targeted examination, a risk-focused examination, a re-examination, a multistate cooperative examination, or a desk examination. Most of the Types of Examinations Chapter elements will apply to the advisory organization examination. Since most operations for these entities remain consistent in all states, it is recommended to coordinate examinations or communicate with the NAIC Advisory Organization Examination Oversight Working Group, especially when conducting comprehensive reviews. The following special considerations apply:
 - a) A comprehensive examination of a single statistical agent will encompass a review of all or most of the following areas: operations/management, statistical plans, licensing or authorization (where needed), data receipt and controls, processing, editing and compilation procedures, error handling and correspondence with reporting insurers and report submissions to regulators.
 - b) A comprehensive examination of a single advisory organization will encompass all of a) above plus processes for loss costs, rules, forms and other regulated activities.
 - c) Limited or targeted examinations of a single advisory organization may be used to address specific concerns. To address specific concerns additional types of responses should also be considered such as investigations, letters, desk audits, interrogatories or interviews.

- d) Line of Business Examinations for statistical data. This type of examination gathers information from all advisory organizations that provide statistical agent functions for a particular line of business, rather than reviewing a single advisory organization. At times, the regulator will be interested in examining all the data or services for a particular line of insurance. Care must be taken in apportioning expenses among all the examined entities in a manner acknowledging that the time spent at any one entity is likely to be somewhat related to the sequence in which the entities are reviewed. Consideration should be given to apportioning total examination expenses in a reasonable manner. One example is to apportion expenses by the relative premium volume of each statistical agent's reporting insurers for the line examined. When multiple entities are being included in the line of business examination, seeking input or advice about apportioning expenses from the entities being examined is recommended.
 - e) Regardless of whether the activity being undertaken is comprehensive in nature or limited in scope, states are encouraged to coordinate with other states to prevent duplication and to obtain a better overall picture of the entities' operations. Such coordination may simply take the form of communication with other interested states. In some cases, a multistate examination may be desirable. In multistate examinations, the examination of operations/management, statistical plans, data processing and reporting systems will likely have countrywide application. However, data and data elements reviewed by an examiner will be either multistate or that of the participating jurisdictions. The lead state or lead states should seek the assistance of the state's collaborative action designee (CAD) and applicable NAIC committees and working groups for the coordination and communication involved with a multistate endeavor. Confidentiality agreements, if not already in place, may be necessary in order to access or share information or data among jurisdictions.
 - f) It is recommended that all billings from outside firms engaged be reviewed by the insurance department for reasonableness prior to submitting to examinees for payment. To the extent that the examination is a multi-statistical agent examination, the allocation of such examination costs should be discussed and agreed upon up front with the participating regulators and the examined entities.
4. Scheduling, Coordinating, and Communications. Most of the chapter elements, including documenting the basis for the examination, review of previous examinations, estimating time requirements, content and timing of notification to the advisory organization, pre-examination procedures, on-site coordination, communicating with company management, and post-examination procedures will apply to the examination. However, the following special considerations also apply:
- a) Obtaining copies of other states' examination reports, either directly from the other states or from the advisory organization will help to determine the scope of the examination. Many state laws may specifically permit consideration of another state examination report to meet statutory examination requirements.
 - b) In determining priorities, the examiner should be aware that many of the listed elements have no application to advisory organizations, including:
 - Complaint Ratios and Analysis;
 - Producer Licensing;
 - NAIC Information Systems Including RIRS, SAD, CDS, FAST, FAW;
 - Financial Analysis and IRIS Ratios;
 - Pre-admission; and
 - Annual Statement
 - c) Some functions such as the promulgation of rates/loss costs and rules and policy forms and endorsements may primarily be regulated through existing regulatory processes such as filing and/or approval mechanisms. When planning an examination, such processes should be considered to prevent duplication of work and potentially conflicting insurance department conclusions.
 - d) The scope of the examination will be somewhat limited, in that complaint handling, marketing and sales, policyholder services, underwriting and claims do not apply. The scope should be clearly defined and communicated to the examinee prior to the start of the examination.
 - e) When calling the examination, states are encouraged to use the NAIC Examination Tracking System (ETS). Regulator-only communication with members of applicable NAIC Property and Casualty Insurance (C) Committee Advisory Organization Examination Oversight Working Group is also encouraged for purposes of avoiding duplicative examinations. Communication can also be sent to each state's Collaborative Action Designee, so that information can be directed to the correct person within each department of insurance, such

as the state's Chief Property and Casualty actuary and Property and Casualty Division Administrator. The contact list of Collaborative Action Designees is located on the NAIC website.

- f) Consider analysis of existing internal and external audit or consulting reports that may be available from the licensee.
- g) The relevant materials to be required of advisory organizations will not include advertising materials, producer records, renewal material, methods used to solicit business, or the consumer complaint register, as these activities do not apply to these entities.

When developing the examination plan, the examination supervisor should be mindful that the examination should not be used as a tool for testing insurers proper reporting of data. Testing the accuracy of individual insurers' data submissions is best handled during examinations of each specific insurer. That being said, it is appropriate for advisory organizations to communicate unresolved insurer reporting problems to regulators. It may also be appropriate to consider a targeted examination of non-compliant insurers if persistent data reporting problems are known to exist.

Section 4. Conducting the Examination.

Review General Organizational and Entity Specific Information

Obtain the applicable information, listed below, from the entity being examined:

- Applicable organization contact name, address, telephone number and e-mail address for this review.
- List of licenses, appointments and/or registrations in each jurisdiction that is participating in the examination.
- The previous exam of the organization conducted by the state, along with the organization's response to the report; a description of the organization's implementation of the recommendations from the previous report.
- A brief description and history of the company and its subsidiaries; highlight any major changes since the last examination.
- The Certificate of Incorporation and By-Laws, including amendments made during the exam period.
- The Table of Organization and overview of management structure.
- Copy of the organization's policies and business practices relative to prohibited activities and adherence to such policies/practices.
- Organizational chart of all departments and divisions, including field offices, performing advisory organization activities, officers and management staff of those areas.
- Description of regulated functions and services for each unit listed above. Obtain a list of services and products along with states where offered and number of insurers using each service or product.
- A brief explanation of how each service or product is used by insurers, and how the product or service impacts rate making, actuarial, development or issuance of policy forms and endorsements, loss control purposes or information purposes, as applicable. It is important to keep in mind that some advisory organizations provide additional services and products that are not regulated by the Department of Insurance. There should not be a need to include unregulated activities in the examination work plan or review.
- An explanation of the source of information gathered to produce each product or service.
- Copies of policies or business practices relating to availability of services to authorized insurers.
- Committee appointments and agendas and minutes of meetings relating to any licensed activity. Examiners should be mindful of the proprietary nature of such documents. No copy of these documents should be retained. Confidentiality agreements, if not already in place, may be necessary in order to view such information.
- A list or statement of the states and lines of business in which the organization is permitted to operate.
- A list of participating insurers or member companies by lines of business.
- A description of the method and basis for the assessment of fees and charges.
- A review of the advisory organization's policy or business practice relating to availability of regulated services to authorized insurers.
- A description of the organization's methodology of offering its products in the marketplace.
- A list and general description of internal audits performed during the exam period related to any regulated advisory organization activity.
- A list of complaints received by the department and advisory organization relating to any regulated advisory organization activity during the examination period should be obtained from the department of insurance and advisory organization.

Note: The examiner should be mindful of the proprietary nature of internal audit reports. Administrative action should not be recommended by the examiner based on results of internal audit findings for which the advisory organization has taken appropriate action. No copy of the report should be retained. States should review their confidentiality and trade secret laws when deciding what notes to keep.

Writing the Examination Report.

The report preparation elements are generally applicable to advisory organization examinations. However, the following special consideration also applies:

In addition to safeguarding the confidentiality of individual policyholder information, care should be taken not to disclose trade secret information of the examinees or insurers that are customers of the examinees (e.g., individual insurer information in class or territory detail, or the processes and procedures of the examinee). Advisory organizations should be given the opportunity to mark exhibits and/or portions of the report as "confidential and proprietary" if such is allowed under state law and these are not subject to otherwise applicable public release laws outside the regulatory community.

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The advisory organization should be given the opportunity to review the examination findings prior to issuing a final report, if such practice is consistent with your states insurers examination act or other applicable statute.

Section 5. Insurance Service and Support Programs

In most regulatory environments, the actual content of the advisory organization's loss cost, manual rules, forms and rating plan filings and the related actuarial formulas are front-end regulated and are not reviewed again during an examination. During an examination, the implementation of those filings in manuals or other distributions to insurers may be reviewed to the extent that they have not been previously reviewed. Typically, examiners also review systems and data quality activities that are used in the loss cost production (i.e., "ratemaking"). These are typically additions to and extensions of systems and data quality activities that the organization performs as a statistical agent. As such, it is recommended that the "statistical agent" functions be reviewed prior to the review of ratemaking systems and additional ratemaking data quality reviews.

Some or all of the following list of items are functions of insurance service and support programs that should be considered for review.

- A description of the significant insurance program revisions (i.e., coverage revisions) made during the exam period
- A description of significant changes in ratemaking methodology made during the exam period.
- A description of the data handling, systems, control and quality reviews conducted for the ratemaking reviews. Note that this may begin in the "statistical agent" part of the exam, but that additional data quality reviews may be incorporated into the ratemaking/ loss cost making function. If the complete statistical agent function is not being examined at this time, this part of the review will be more extensive.
- A list of filings (loss costs, rules and forms) made in the state for the time period under examination.
- A description of the organization's procedures for notifying participating insurers about filings that have been submitted to the Department.
- From the list, review the filing and related documentation for a set of sample filings, including the organization's communications and distribution to its participating insurers on the selected filings.
- The organization's manuals and all revisions made thereto for the exam period. A list of current forms in effect in the state.

Note: For efficiency, when conducting an examination of a large organization that is licensed for many lines of business, exams are usually conducted in detail for 4 or 5 of the larger significant lines, and by analogy or exception for the other lines.

If the examining state does NOT review the advisory organization's loss cost filings at the time they are filed, a ratemaking review may be conducted. The review should include an overall description of the ratemaking procedures for each line of business, discussing:

- Significant ratemaking changes implemented since the previous exam
- The data used and its sources, its limitations and adjustments
- Quality procedures applied to the data
- Data compilation basis and historical experience period selected
- Classification methodology
- Trend methodology
- Loss development methodology
- Credibility methodology
- Catastrophe treatment methodology
- Increased limits analyses
- Other ratemaking methods used
- Rating Plans

Section 6. Inspection Services

If applicable to the entity being reviewed and to the planned scope of review, obtain a description of the procedures for initial inspections and re-inspections of risks and/or communities, including a description of the training of such inspectors and their oversight in order to ensure compliance with established procedures. A random review of specific inspection reports will provide insight into the organizations adherence to its relevant internal procedures.

Section 7. Classification Administration

The use of classifications should be done in a manner that results in consistent and fair application of resulting rating plans. Classifications that are ambiguous or unclear for the ultimate users should be clarified. Classifications that may overlap with other classification codes should also be redefined or eliminated to prevent inconsistent or inappropriate use. 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, unless known concerns or complaint patterns indicate the need for review.

The review of classification administration is primarily appropriate for advisory organizations, such as workers compensation advisory organizations, that develop and maintain the classification system. The examiner should keep in mind that classifications are filed and approved by the regulator. It is best to limit the review to how the advisory organization addresses known problems or questions that have been communicated by Department of Insurance staff or insurance companies

Advisory organizations that do not have control over the administration of classification codes may wish to bring known problems (if any) to the attention of the Department of Insurance.

Some advisory organizations, particularly those that handle workers' compensation, may be responsible for processing classification appeals. Handling of such appeals should be done in a timely, fair and consistent manner. Reviewing classification appeals and related complaints may be useful when evaluating effectiveness of classification administration.

Section 8. Evaluation of Data Functions

Use of a generalized Information Systems Questionnaire (ISQ) developed for evaluation of insurers should not be used for advisory organizations but a specialized questionnaire relating to data functions may be appropriate for advisory organizations that are engaged in data dependent services. For example, it would not be necessary to use the specialized questionnaire during an examination of an advisory organization that only develops and files policy forms and endorsements.

Please reference Attachments I and II for the specialized questionnaire used to evaluate advisory organization data functions.

Section 9. Use of Examination Standards

Each of the following examination standards may be applicable to specific functions performed by advisory organizations. The examination plan should indicate which standards for review will be used for each specific examination. Section 10 lists standards specific to advisory organization functions. Section 11 lists standards specific to statistical agent functions. These standards, along with the preceding text of the chapter, used in accordance with the NAIC Handbook of Statistical Data Available to Regulators (applicable to statistical agent functions) should form the basis of the examination. Each standard includes an “Applicable To” notation. Those notations may assist in developing an examination plan.

~~In addition to the following standards, consideration should be given to including the following general standards located in Chapter 16 of the Market Regulation Handbook. It is important to keep in mind that the general standards may need to be adapted for use with an advisory organization examination, and that the general standards may or may not apply to each specific advisory organization. When evaluating use of standards relating to privacy, keep in mind that most advisory organizations do not gather protected personal information. For states that regulate “insurance scoring” vendors as advisory organizations, the privacy standards (Operations/Management Standards 10 through 17) may be applicable. It is highly unlikely that an examination plan designed for examination of a single advisory organization will make use of every standard. The examination supervisor should select the appropriate standards for review to ensure the examination fits the entity being examined and the purpose of the examination. The sequence of the standards listed here does not indicate priority of the standard.~~

~~Chapter 16 Operations/Management~~

~~Standard 1~~

~~Standard 2~~

~~Standard 4~~

~~Standard 6~~

~~Standard 7~~

~~Standard 8 (substitute “line of business that are being written” with “regulated products and services that are being provided”~~

~~Standard 9~~

~~Standard 10 where applicable~~

~~Standard 11~~

Section 10. Standards for Advisory Organization

Operations/Management/Governance

A. Advisory Organizations

1. Purpose

The advisory organization examination is designed to verify that the advisory organization maintains procedures for providing regulated services that are in accordance with applicable statutes, rules and regulations, ~~and that the services provided are accurate and correct.~~

2. Techniques

The examiner should review the services provided by the advisory organization to the extent required by applicable statutes, rules and regulations.-

Section 11 deals with standards that are specific to statistical agent duties. (Section 10 and 11 titles are identical)

3. Tests and Standards

The advisory organization review includes, but is not limited to, the following standards related to the use of advisory organization services. The sequence of the standards listed here does not indicate priority of the standard.

STANDARDS

ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 1

The advisory organization ~~establishes and promotes~~ has adopted and implemented written policies and procedures ~~that to prevent anticompetitive practices in the insurance marketplace, as they relate to the advisory organization's services and communications to insurers.~~

Apply to: All advisory organizations

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Service agreements with insurance companies
- _____ Board of Director minutes along with applicable policies and procedures (if any)
- _____ Regulatory actions and lawsuit register (if any)

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

Review ~~documents to policies and procedures to verify-determine if that~~ the advisory organization provides guidance to its staff and promotes practices ~~adopts practices that are not to prevent~~ anti-competitive activity. Although adoption of written policies and procedures are likely not required by law, it is permissible to comment on lack of, or weaknesses in such policies or procedures.

Examples of anticompetitive practices in the insurance market include:

- attempting to monopolize, combine or conspire with any other person to monopolize an insurance market;
- engaging in boycott on a concerted basis of an insurance market;
- agreeing with an insurer to mandate adherence to or mandate use of any rate, prospective loss cost, rating plan, rating schedule, rating rule, policy or bond form, rate classification, rate territory, underwriting rule, survey, inspection or similar material, except as needed to facilitate the reporting of statistics. The fact that two or more insurers use consistently or intermittently the same rate, prospective loss cost, rating plan, rating schedule, rating rule, policy or bond form, rate classification, rate territory, underwriting rule, survey, inspection or similar material is not sufficient in itself to support a finding that an agreement exists;
- entering into arrangements which have the purpose or effect of unreasonably restraining trade or unreasonably lessening competition in the business of insurance;
- except as otherwise permitted by statute, compiling or distributing recommendations relating to rates that include expenses (other than loss adjustment expenses) or profits. Examples of permitted exceptions include information required or directed by the commissioner of insurance, research related to impact of statutory changes, compilations of current insurer prices which are also made available to the public, and filing of final rates for residual market mechanisms.

Examples of sound ~~principles-practices~~ include but may not be limited to: those that:

- Implementation of policies that require reading anti-trust statements and monitoring of meetings or forums with multiple insurers to prevent anticompetitive practices.
~~activities resulting in the following:~~
- ~~do not attempt attempting to monopolize, combine or conspire with any other person to monopolize an insurance market;~~
 - ~~do not engage engaging in boycott on a concerted basis of an insurance market;~~
 - ~~do not agree agreeing with an insurer to mandate adherence to or mandate use of any rate, prospective loss cost, rating plan, rating schedule, rating rule, policy or bond form, rate classification, rate territory, underwriting rule, survey, inspection or similar material, except as needed to facilitate the reporting of statistics. The fact that two or more insurers use consistently or intermittently the same rate, prospective loss cost, rating plan, rating schedule, rating rule, policy or bond form, rate classification, rate territory, underwriting rule, survey, inspection or similar material is not sufficient in itself to support a finding that an agreement exists;~~
 - ~~do not enter entering into arrangements which have the purpose or effect of unreasonably restraining trade or unreasonably lessening competition in the business of insurance;~~
 - ~~except as otherwise permitted by statute, do not compile compiling or distributeing recommendations relating to rates that include expenses (other than loss adjustment expenses) or profits. Examples of permitted exceptions include information required or directed by the commissioner of insurance, research related to impact of statutory changes, compilations of current insurer prices which are also made available to the public, and filing of final rates for residual market mechanisms.~~
- Use of written guidelines that establish a basis for refusal or declination of services that are based on sound business practices. The written guidelines should that protect the advisory organization yet do not promote anti-competitive results. Written policies will assist in verifying that the advisory organization provides services such as prospective lost costs, forms and endorsements to all entitled subscribers or purchasers in a fair and consistent manner.
- Implementation of training materials or employee codes of conduct that address prohibition of anti-competitive activities.

~~Verify that the advisory organization provides services such as prospective lost costs, forms and endorsements to all entitled subscribers or purchasers in a fair and consistent manner.~~

STANDARDS
ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 2
The advisory organization uses sound actuarial principles for the development of prospective loss costs.

Apply to: Advisory Organizations that develop ~~and file~~ prospective loss costs.

Priority: Essential

Note: If the examining state does NOT review the advisory organization’s loss costs filings at the time they are filed, a ratemaking review may be conducted. The review should include an overall description of the ratemaking procedures for each line of business.

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Actuarial guidelines

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review processes and procedures for development of loss costs, along with a random sample of specific prospective loss costs.

- Prospective loss costs developed by the advisory organization do not contribute to premiums that are inadequate, excessive or unfairly discriminatory.
- Data used to develop prospective loss costs is applicable, complete (as appropriate) and actuarially sound.
- The advisory organization has procedures in place to test the soundness of data prior to use for development of prospective loss costs.
- Assumptions, trending factors and other factors used during the development of prospective loss costs are actuarially sound and reasonable.

STANDARDS

ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 3.

The advisory organization adheres to applicable state filing and/or approval requirements prior to distribution of prospective loss costs, policy forms, endorsements, factors, classifications or manuals.

Apply to: Advisory Organizations that develop and file prospective loss costs, policy forms, endorsements, factors, classifications or manuals.

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Filings made to applicable states

_____ Distributed prospective loss costs, policy forms, endorsements, factors, classifications or manuals.

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review a sample of actual filings and materials distributed to member or subscribing companies.

- The advisory organization makes filings on SERFF or other state approved filing systems;
- The advisory organization follows mandated time requirements (if applicable) following filing or approval before permitting use of materials;
- The advisory organization is responsive to state filing analyst questions regarding filings;
- Distributed materials are the same as those filed with applicable state insurance departments.

STANDARDS
ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 4.
Experience rating factors are developed in a correct and timely manner.

Apply to: Advisory organizations provide individual risk experience rating modification factors

Priority: Essential

Note: If the examining state does NOT review the advisory organization’s experience rating plan at the time they are filed, a review of the plan may be conducted.

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Advisory organization policies and procedures for development of experience rating modification factors.
- _____ Random samples of developed individual experience rating modification factors.

Others Reviewed

- _____ _____
- _____ _____

NAIC Model References

Review Procedures and Criteria

The advisory organization adheres to consistent and actuarially sound processes and formulas for developing individual experience rating modification factors.

The advisory organization has data integrity checks in place to evaluate data used during calculation of individual experience rating modification factors.

Experience rating modification factors are developed and made available to applicable insurers in a timely manner.

The advisory organization maintains adequate documentation to support individual experience rating modification factors that it developed.

The advisory organization is responsive to questions and grievances relating to individual experience rating modification factors that it developed.

STANDARDS
ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 5
The advisory organization performs thorough and meaningful inspections and research when required for individual insured rating classification.

Apply to: Advisory organizations that provide individual insured rating classifications

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Inspection reports

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review a sample of inspection reports used for individual rating classifications.

- Inspection and research reports are well-documented including dates of inspection and notes of relevant inspection results;
- Resulting individual rating classifications are provided to applicable entities in a timely manner;
- Individual Individual rating classifications are consistent with the filed classification system. Examiners should be mindful that such individual classification information may be proprietary.
~~rating classifications contribute to rates that are adequate, not excessive and not unfairly discriminatory.~~

• **STANDARDS**

ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 6.

The advisory organization develops sound, understandable and ~~unambiguous~~ appropriate risk classifications.

Apply to: Advisory organizations that administer risk classification manuals.

Priority: Essential

Note: If the examining state does NOT review the advisory organization’s classification rules at the time they are filed, a review of these rules may be conducted.

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Advisory organization classification manuals.
- _____ Appeals and grievances related to classifications.

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

Classifications and accompanying manuals provide clear guidance.

Wherever possible, classifications are developed in a manner that leads to consistent handling of risk classification.

Risk classifications include only risks with similar expected loss exposure, within each rating class.

STANDARDS
ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 7.
Loss control services are effective and based on valid risk management, engineering and scientific evidence.

Apply to: Advisory organizations that provide loss control services

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Advisory organization policies and procedures for loss control services
- _____ Random samples of loss control and inspection reports.

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

- The advisory organization uses appropriate expertise in analysis and development of loss control reports.
- The advisory organization uses up to date technical and scientific evidence in its development of loss control reports.
- The advisory organization employs sound and meaningful inspection practices, where required, for loss control purposes.

STANDARDS

ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 8.

The advisory organization conducts ongoing research and review of state insurance laws and insurance-related case law in order to responsive to necessary changes in prospective loss costs, policy forms, endorsements, factors, classifications or manuals, as applicable.

Apply to: Advisory Organizations that develop and file prospective loss costs, policy forms, endorsements, factors, classifications or manuals.

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Filings made to applicable states

_____ Advisory organization processes and procedures for researching insurance laws and case law.

Others Reviewed

_____ _____
_____ _____

NAIC Model References

Review Procedures and Criteria

From the applicable state or states, obtain specimen copies of recent insurance law changes or case law that directly and significantly impact the content of materials filed by the advisory organization. Review the advisory organization’s procedures for responding to those changes or, in the absence of implementing changes notifying member or subscribing companies when deemed appropriate.

~~From the applicable state or states, obtain specimen copies of recent insurance law changes or case law that directly impact the content of materials filed by advisory organization. Review the advisory organization procedures for responding to those changes or, in the absence of implementing changes notifying member or subscribing companies.~~

- The advisory organization conducts research into law changes during regular and reasonable intervals.
- The advisory organization identifies applicable materials impacted by law or case law changes.
- The advisory makes appropriate modifications, additions, deletions or withdrawals as necessitated by law changes or case law and performs applicable filings and notifications to member or subscriber companies.

STANDARDS
ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 9:
The advisory organization uses ~~fair and accurate~~ objective and established procedures when administering residual market or pool assessments.

Apply to: Advisory organizations that administer residual market mechanisms or pools with assessment provisions.

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Advisory organization policies and procedures.
- _____ Contracts or agreements with applicable states for which the residual market mechanisms are administered.
- _____ Random sample of assessments.

Others Reviewed

NAIC Model References

Review Procedures and Criteria

The advisory organization uses data integrity checks to test the quality of the data upon which calculation of assessments is based.

The advisory organization provides accurate and timely information to applicable state insurance departments relating to assessments made, and reporting or payment problems.

STANDARDS

ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 10.

The advisory organization uses ~~fair and accurate~~objective and established procedures when administering assigned risks.

Apply to: Advisory organizations that administer residual market assigned risk mechanisms.

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Advisory organization policies and procedures.
- _____ Contracts or agreements with applicable states for which the assigned risk mechanisms are administered.
- _____ Random sample of assignments.

Others Reviewed

- _____ _____
- _____ _____

NAIC Model References

Review Procedures and Criteria

The advisory organization adheres to ~~fair and~~objective and established selection process for assigning risks.

The advisory organization handles assignments in a timely manner.

STANDARDS
ADVISORY ORGANIZATIONS OPERATIONS/MANAGEMENT/GOVERNANCE

Standard 11.
When performing analysis and impact studies of proposed legislation, advisory organization presents thorough and objective information.

Apply to: Advisory organizations that provide legislative impact studies

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Reports submitted to Insurance Departments and Legislatures in response to requests from those entities for legislative impact studies.

Others Reviewed

NAIC Model References

Review Procedures and Criteria

- Impact studies present information in ~~an fair and~~ objective manner.
- Best estimates of impact are presented, using reasonable assumptions, research and data.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 12

The advisory organization has an up-to-date, valid internal or external audit program.

Apply to: **Advisory Organizations** Advisory organizations

Priority: Recommended

Documents to be Reviewed

 Applicable statutes, rules and regulations

 Audit plan and Advisory Organization's Advisory organizations' procedural manuals

 Audit reports and results

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review audit reports to determine if the function is providing meaningful information to management. If external, obtain an explanation.

Determine how management is using the reports.

Determine if the advisory organization responds to internal audit recommendations to correct, modify and implement procedures.

Determine if accuracy of internal statistical data and information systems is periodically tested by the advisory organization's audit program.

Note: The examiner should be mindful of the proprietary nature of internal audit reports. Administrative action should not be recommended by the examiner based on results of internal audit findings for which the advisory organization has taken appropriate corrective action.No copy of the report should be retained. States should review their confidentiality and trade secret laws when deciding what notes to keep.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 13

The advisory organization has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

Applicable statutes, rules and regulations

Electronic records control, recovery/backup plan and advisory organizations' procedural manuals; whether the records are electronic

Negotiated contracts

Others Reviewed

NAIC Model References

Privacy Protection Model Act

Health Information Privacy Model Act

Note: When evaluating use of standards relating to privacy, keep in mind that most advisory organizations do not gather protected personal information.

Review Procedures and Criteria

Review advisory organization records, central recovery and backup procedures. The plan and procedures should be valid and up-to-date.

Review computer security procedures.

If the advisory organization permits changes to be made to policies either electronically or verbally, check what security procedures the advisory organization has established to permit these changes. These may include who has authority to make those changes, and what verification is done by the advisory organization with the insured after changes are made.

Ensure there is adequate security of applicant/insured data during the electronic transference of information. Identify any areas where the applicant's/insured's privacy is not properly protected.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 14
The advisory organization has a valid disaster recovery plan.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

 Applicable statutes, rules and regulations

 Description of the advisory organization’s disaster recovery plan, procedural manuals and controls

 Description of protective devices for various hazards and procedures/controls for protection from those hazards

 Negotiated contracts

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Determine that the advisory organization’s database(s) are protected from various hazards, including environmental hazards.

Review the advisory organization’s documents. Any additional areas or lack of information should be discussed with the advisory organization’s management. The disaster recovery plan should be valid, specific and operational, with procedures for implementation and should also be current. Failure of the advisory organization to adequately plan for the future means the standard was not met.

Failure of the advisory organization to adequately (on an ongoing basis) provide for off-site backup, failure of the advisory organization to provide adequate controls and, in the case of a catastrophe, failure to provide for recovery, means the standard was not met.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 15

The advisory organization is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the advisory organization.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

Applicable statutes, rules and regulations

Contracts

Audit reports

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review audit reports to determine whether the advisory organization is adequately monitoring the activities of the contracted entity.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 16

Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

Applicable statutes, rules and regulations

All records, files and documents

Others Reviewed

NAIC Model References

Complaints: Records to be Maintained

Market Conduct Record Retention Model Regulation

Model Law on Examination, Section 4

Unfair Life, Accident and Health Claims Settlement Practices Model Regulation

Review Procedures and Criteria

Evaluate the orderly organization, legibility and structure of files.

Review state record retention requirements to determine advisory organization compliance.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 17

The advisory organization is appropriately licensed.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

Applicable statutes, rules and regulations

Certificate of authority or other similar documents

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review authority to act as an advisory organization.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 18

The advisory organization cooperates on a timely basis with examiners performing the examinations.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

Applicable statutes, rules and regulations, especially insurance examination law

All records, files and documents

Others Reviewed

NAIC Model References

Model Law on Examinations

Review Procedures and Criteria

Monitor advisory organization's cooperation during the course of the exam; this may be noted in the examination report.

Automation Tip:

Requests for information or "crits" can be monitored using either a database or spreadsheet. The information that should be captured: area of review, type of request, contact person, date given, date due and date received. Databases and spreadsheets contain functions that will calculate the number of days between two dates. The information can be easily sorted and reviewed to see what is still outstanding and if the advisory organization is responding in a timely fashion.

STANDARDS
OPERATIONS/MANAGEMENT

Standard 19

The advisory organization has developed and implemented written policies, standards and procedures for the management of insurance information.

Apply to: Advisory organizations

Priority: Essential

Documents to be Reviewed

Applicable statutes, rules and regulations

Advisory organization procedure manual

Advisory organization training manual

Internal advisory organization claim audit procedures

Advisory organization bulletins regarding insurance information

Contractual arrangements between the carrier and a person other than the covered person

Others Reviewed

NAIC Model References

Health Information Privacy Model Act, Section 5

Insurance Information and Privacy Protection Model Act, Sections 4-9

Review Procedures and Criteria

Review advisory organization procedures, training manuals and claim bulletins to determine if advisory organization standards exist and whether standards comply with state law.

Review contractual arrangements between the advisory organization and other persons to determine if the contracts address privacy procedures and standards for the person with whom the advisory organization is contracting.

Review the advisory organization's methods for handling, disclosing, storing and disposing of insurance information. The examiners should determine whether there are procedures in place to ensure proper authorization is obtained prior to disclosure of insurance information.

Review the advisory organization’s training manual to determine whether the advisory organization’s employees are properly trained on the handling of insurance information.

Verify that the advisory organization provides a “Notice of Information Practices” to all applicants or policyholders or has procedures in place for the producer to deliver the notice. The examiner should determine whether the notice contains all provisions required by applicable state law.

Verify that the advisory organization specifies those questions designed to obtain information solely for marketing or research purposes.

Verify that the advisory organization has implemented reasonable procedures to address investigative consumer reports and personal interviews.

Verify that the advisory organization has established procedures to address access to, correction, amendment or deletion of recorded personal information.

Section 11. Standards for Statistical Agent Functions

A. Statistical Plans

1. Purpose

The statistical plans portion of the examination is designed to verify that the statistical agent maintains adequate statistical plans in accordance with applicable statutes, rules and regulations, and that the data are reported in accordance with the statistical plans. This test is also intended to measure a statistical agent's compliance regarding the filing and approval of statistical plans, if any.

2. Techniques

The examiner should review the statistical plans in use by the statistical agent and verify that the statistical plans have been filed with the state insurance departments, to the extent required by applicable statutes, rules and regulations. The examiner should also verify that the appropriate statistical plans are being used by the companies that are reporting data to the statistical agent. The examiner should review the statistical plans for consistency with the output specified in the NAIC *Statistical Handbook of Data Available to Insurance Regulators*, in addition to other state specifications.

3. Tests and Standards

The statistical plan review includes, but is not limited to, the following standards related to the use of statistical plans by the statistical agent. The sequence of the standards listed here does not indicate priority of the standard.

**STANDARDS
STATISTICAL PLANS**

Standard 1

The statistical agent has filed its statistical plans in accordance with applicable statutes, rules and regulations.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Letters or other documentation verifying that statistical plans have been filed, where necessary

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review letters or other documents to determine if the statistical agent is in compliance with applicable statutes, rules and regulations.

**STANDARDS
STATISTICAL PLANS**

Standard 2

The statistical plans are reviewed and updated in accordance with applicable statutes, rules and regulations.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Statistical plans

_____ Statistical plan updates

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review documentation to determine if statistical plans are periodically updated and in compliance with applicable statutes, rules and regulations.

**STANDARDS
STATISTICAL PLANS**

Standard 3

The statistical agent verifies that companies submit data in accordance with the appropriate statistical plan.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Edit documentation

_____ Annual calls for statistical submissions

_____ Technical requirements for reporting

_____ Applicable statutes, rules and regulations

Others Reviewed

_____ _____
_____ _____

NAIC Model References

Review Procedures and Criteria

Review statistical agent's procedures for ascertaining that its member companies are submitting complete and accurate data in compliance with applicable statutes, rules and regulations.

Review edits that the statistical agent applies to data it receives from insurers.

Review incentives applied by statistical agents to encourage member companies to report timely and error-free data.

Review annual calls for statistical submissions and periodic special calls to determine how effective the statistical agent's procedures are in collecting complete and accurate statistical information.

Drafted: 11/17/08

Market Regulation Handbook
Chapter 25 –Current Title Name is CONDUCTING THE STATISTICAL AGENT EXAMINATION

B. Statistical Filings

[Refer to the discussion and standards in Section 11. Subsection E. of this chapter for guidance.](#)

C. Data Collection and Handling

1. Purpose

The data collection and handling portion of the examination is extremely important and is designed to verify that the statistical agent adequately tests reported data for validity, completeness and reasonableness. The areas to be considered in this kind of review include:

- Statistical agent standards regarding data quality; and
- Data checking procedures and edit programs.

2. Techniques

During an examination, it is necessary for examiners to review a number of information sources, including the statistical agent's written policies and procedures regarding data quality (i.e., validity, reasonableness and completeness), the edit programs run by the statistical agent on the data when it is first received, the system of edits that the statistical agent applies to the data and the steps used by the statistical agent in processing the data.

a. Statistical Agent Standards Regarding Data Quality

The examiner should verify that the statistical agent has formal written policies regarding the quality of the data to be submitted and what level of quality is required of the companies. The statistical agent should also have policies regarding what level of error tolerance is considered to be acceptable.

b. Data Checking Procedures and Edit Programs

The examiner should review the programs and procedures used to verify the validity, reasonableness and completeness of the data. The examiner should verify that the edit systems function as intended and check a sample of data both before and after it has run through the checking programs, to verify that all detectable errors have been caught.

3. Tests and Standards

The data collection and handling review includes, but is not limited to, the following standards related to the statistical agent's handling of data. The sequence of the standards listed here does not indicate priority of the standard. [The NAIC Statistical Handbook of Data includes a comprehensive set of data quality tests to be performed by statistical agents. The Statistical Handbook should be used as an additional reference and guide for evaluating data collection and handling functions.](#)

STANDARDS
DATA COLLECTION AND HANDLING

Standard 1

The statistical agent’s series of edits are sufficient to catch material errors in data submitted by a company.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Edit definitions

_____ Distributional edit procedures

_____ Statistical agent edit reports

_____ [NAIC Statistical Handbook of Data](#)

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review edit definitions and distributional edit procedures to determine that all required data elements are tested.

Review a sample of edit/distributional edit reports to verify that [material](#) errors are adequately identified.

STANDARDS
DATA COLLECTION AND HANDLING

Standard 2

All data that is collected pursuant to the statistical plan -is run through the editing process.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Submission control and balance procedures

_____ [NAIC Statistical Handbook of Data](#)

_____ Submission control file

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review procedures and submission control file, and a sample of edit and distribution reports to verify that all submissions are subject to the editing process.

STANDARDS
DATA COLLECTION AND HANDLING

Standard 3

Determine that all databases are updated as needed with all accepted company data.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Database update balancing reports

_____ [NAIC Statistical Handbook of Data](#)

_____ Database control logs

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review logs and a sample of reports to confirm that appropriate data is moved to databases.

STANDARDS
DATA COLLECTION AND HANDLING

Standard 4

Determine that ~~statistical~~statistical/financial -data is reconciled to the State Page—Exhibit of Premiums and Losses, Statutory Page 14, of the NAIC annual statement on an annual basis.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ [NAIC Statistical Handbook of Data](#)

_____ Financial reconciliation procedures

_____ Financial reconciliation reports

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Determine compliance with applicable statutes, rules and regulations and any standards prescribed in the NAIC *Statistical Handbook of Data Available to Insurance Regulators*.

Review procedures and a sample of reconciliation reports to confirm that reconciliations are performed.

Review financial reconciliation criteria (e.g., rules for reconciliation, acceptance tolerance levels).

STANDARDS
DATA COLLECTION AND HANDLING

Standard 5

Determine that all calculations associated with the database have been accurately applied.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

_____ Statistical agent documentation of database specifications

_____ [NAIC Statistical Handbook of Data](#)

_____ Statistical agent database control reports

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review documentation and a sample of control reports to confirm that specifications have been accurately applied.

Note: The examiner should be mindful of the proprietary nature of database specifications and control reports. Administrative action should not be recommended by the examiner based on results of control reports for which the advisory organization has taken appropriate action. No copy of the specifications or reports should be retained. States should review their confidentiality and trade secret laws when deciding what notes to keep. Confidentiality agreements, if not already in place, may be necessary in order to view such information.

STANDARDS
DATA COLLECTION AND HANDLING

Standard 6

Where applicable, determine that the statistical agent employs use of data completeness tests as outlined in the NAIC Statistical Handbook of Data.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

Statistical agent documentation of database specifications

NAIC Statistical Handbook of Data (see item 2.3.1)

Statistical agent database control reports

Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review documentation and a sample of control reports to confirm that data completeness tests have been performed.

D. Correspondence with Insurers and States

1. Purpose

Statistical agents frequently need to contact or correspond with companies regarding the quality and timeliness of the company's data. The purpose of this section of the exam is to verify that the statistical agent promptly notifies the company (and regulators, as requested or required) when a problem with or question about the data is found, and then follows up, if the company does not respond within the appropriate time frame.

2. Techniques

The examiner should review the statistical agent's records of or contact with companies (and regulators, as requested or required) to note the timeliness of the statistical agent's notification to the companies (and regulators, as requested or required) of data errors or questions, as well as any necessary follow-up communications.

3. Tests and Standards

The review of communications includes, but is not limited to, the following standards addressing various aspects of the statistical agent's contact and/or correspondence with companies and regulators. The sequence of the standards listed here does not indicate priority of the standard. [The NAIC Statistical Handbook of describes reports to be made by statistical agents. The Statistical Handbook should be used as an additional reference and guide for evaluating reporting functions and other data requests.](#)

STANDARDS
CORRESPONDENCE WITH INSURERS AND STATES

Standard 1

The statistical agent keeps track of companies that fail to meet deadlines.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

- _____ Submission control files
- _____ Financial incentive program or penalty structure, if one exists
- _____ Late company monitoring and reporting procedures
- _____ Communications to insurers that fail to meet deadlines
- _____ Applicable statutes, rules and regulations

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

Review statistical agent controls and procedures for determining insurer reporting status.

Review a sample of the statistical agent’s communications with each delinquent insurer and other documentation to determine if insurers that fail to meet deadlines are identified and notified.

Review the statistical agent’s financial incentive program or penalty structure, if one exists.

STANDARDS
CORRESPONDENCE WITH INSURERS AND STATES

Standard 2

The statistical agent has established procedures for notifying companies (and regulators, as requested or required) of material errors and for correcting those errors.

Apply to: All statistical agents

Priority: Essential

Documents to be Reviewed

- _____ Data validation reports
- _____ Submission control files
- _____ Communications to insurers (and regulators, as requested or required)
- _____ Financial incentive or penalty structure, if one exists
- _____ Applicable statutes, rules and regulations

Others Reviewed

- _____ _____
- _____ _____

NAIC Model References

Review Procedures and Criteria

Review documentation to confirm that appropriate procedures exist for notifying companies (and regulators, as requested or required) of material errors and for correcting those errors.

Review a sample of communications to confirm that material errors are brought to the attention of insurers (and regulators, as requested or required).

~~Review documentation to confirm that appropriate procedures exist.~~

~~Review a sample of communications to confirm that errors are brought to the attention of insurers (and regulators, as requested or required).~~

STANDARDS
CORRESPONDENCE WITH INSURERS AND STATES

Standard 3

The statistical agent maintains a follow-up procedure with companies that have reporting errors or questions.

Apply to: All statistical agents

Priority: Recommended

Documents to be Reviewed

_____ Outline of communications procedures

_____ Financial incentive programs or penalty structure, if one exists

_____ Correspondence and/or other contact between statistical agent and companies (and regulators, as requested or required)

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review statistical agent procedures and controls to determine that appropriate procedures exist.

Review a sample of correspondence/contact documentation to demonstrate follow-up performance.

Review the statistical agent's financial incentive programs or penalty structure, if one exists.

STANDARDS
CORRESPONDENCE WITH INSURERS AND STATES

Standard 4

Review any additional data quality programs maintained by the statistical agent pertaining to data collected pursuant to the statistical plan.

Apply to: All statistical agents

Priority: Optional

Documents to be Reviewed

_____ Educational programs or materials

_____ Support procedures

_____ Financial incentive programs or penalty structure, if one exists

_____ Executive evaluations

_____ Individual company assistance the statistical agent uses to promote data quality

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Determine the extent that other data quality programs are in use by the statistical agent.

STANDARDS
CORRESPONDENCE WITH INSURERS AND STATES

Standard 5

With each standard premium and loss report to the states, the statistical agent provides a listing of companies whose data is included in the compilations and a historical report listing insurers whose data for the state was excluded, as set forth in section 2.4 of the NAIC Statistical Handbook.

Apply to: _____ All statistical agents

Priority: _____ Optional

Documents to be Reviewed

_____ Standard premium and loss reports to states

_____ Support procedures

_____ NAIC Statistical Handbook (section 2.4)

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Determine the applicable lists are included with state reports.

E. Reports, Report Systems and other Data Requests

1. Purpose

The purpose of this portion of the exam is to review the statistical agent's reports and other statistical compilations prepared for the states, as well as the statistical agent's internal procedures for preparing reports and responding to data requests, including the timeliness and quality of the response.

2. Techniques

The examiner should review recent reports and other statistical compilations prepared for the insurance departments. The examiner should note whether the data submission required that the statistical agent collect additional information from insurers and the procedure the statistical agent used in fulfilling the data request. The examiner should also determine that the statistical agent met the deadline set by the insurance department and that any data collected for the purpose of submitting the aforementioned reports to the insurance department, in addition to that ~~should also determine that the statistical agent met the deadline set by the insurance department and that all data collected under the statistical plan, was adequately reviewed for quality and correctly compiled.~~

collected, in addition to that collected under the statistical plan, was adequately reviewed for quality and correctly compiled.

3. Tests and Standards

The report systems and other data request review includes, but is not limited to, the following standards. The sequence of the standards listed here does not indicate priority of the standard.

STANDARDS
REPORTS, REPORT SYSTEMS AND OTHER DATA REQUESTS

Standard 1

All calculations used to develop the database have been performed accurately.

Apply to: All statistical agents

Priority: Recommended

Documents to be Reviewed

_____ Statistical agent documentation of report specifications

_____ Statistical agent database control reports

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review documentation and a sample of control reports to confirm that specifications have been accurately applied.

STANDARDS
REPORTS, REPORT SYSTEMS AND OTHER DATA REQUESTS

Standard 2

The statistical agent has accurately extracted the appropriate information from the statistical database.

Apply to: All statistical agents

Priority: Recommended

Documents to be Reviewed

- _____ Data extraction control reports
- _____ Report system specification documentation
- _____ Applicable statutes, rules and regulations

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

Review documentation and a sample of reports to determine if the appropriate data has been included.

Note: The examiner should be mindful of the proprietary nature of database specifications. No copy of the specifications should be retained by the examiner. States should review their confidentiality and trade secret laws when deciding what notes to keep. Confidentiality agreements, if not already in place, may be necessary in order to view such information.

STANDARDS

REPORTS, REPORT SYSTEMS AND OTHER DATA REQUESTS

Standard 3

Any data extracted from the statistical database has been accurately reviewed with any additional data obtained directly from a company in preparing a response to a data request.

Apply to: All statistical agents

Priority: Recommended

Documents to be Reviewed

_____ Report system specifications and documentation

_____ Data extraction control reports

_____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review documentation and a sample of reports to determine if the appropriate data has been included.

STANDARDS
REPORTS, REPORT SYSTEMS AND OTHER DATA REQUESTS

Standard 4

Data collected, in addition to the data collected under the statistical plan, was adequately reviewed for quality and compiled according to applicable statutes, rules and regulations.

Apply to: All statistical agents

Priority: Recommended

Documents to be Reviewed

- _____ Data quality procedures
- _____ Data validation reports
- _____ Report system control reports
- _____ Applicable statutes, rules and regulations

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Review data quality procedures and a sample of data validation and control reports to determine if the data was adequately reviewed for quality and correctly compiled.

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F. Data Quality

[Refer to Section 11. Subsection F. of this chapter.](#)

Section 12. Standards for Ratemaking Functions

A. Ratemaking, Reports, Report Systems

1. Purpose

The purpose of this portion of the exam is to review the advisory organization's ratemaking, reports and reporting systems, if any, as well as the advisory organization's internal procedures for preparing related reports and responding to data requests, including the timeliness and quality of the response.

2. Techniques

The examiner should review recent ratemaking results and related reports, if any, and other statistical compilations prepared for the insurance departments.

3. Tests and Standards

The ratemaking includes, but is not limited to, the following standards. The sequence of the standards listed here does not indicate priority of the standard.

**STANDARDS
RATEMAKING**

Standard 1

The advisory organization submits filings and/or submissions to the state within the established time frame.

Apply to: All advisory organizations

Priority: Essential

Documents to be Reviewed

_____ Filings or submissions to individual state insurance departments providing rate/loss cost information

_____ Filings or submissions to individual state insurance departments seeking approval of forms, loss costs and accompanying rules.

_____ Other correspondence with individual state insurance departments related to rates, loss costs or forms

_____ Communications and manuals provided by the advisory organization to its subscribers

_____ Applicable Statutes, Rules and Regulations

_____ NAIC Statistical Handbook of Data

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Identify which filings and submissions are required by your state (if any), along with any required time frames. For filings that are optional, but require prior approval by your state, identify the required waiting periods, if any, between approval and usage.

Determine compliance with state statutes, rules and regulations.

The examiner should review regulators’ requests for additional information and check for timeliness of the response to such requests.

Determine that the organization prepares and disseminates information impacting the rating of individual policies, such as experience rating modification factors, on a timely basis.

Determine that the organization provides accurate information to its subscribers relating to the states approval status and approved usage date of regulated materials and services such as forms and loss costs.

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~~B. Data Quality~~

Section 13. Standards for Classification and Appeal Handling

1. Purpose

The purpose of this portion of the exam is to review the advisory organization's classification and appeal processes, where applicable. The examiner should note that this section will not be applicable to all advisory organizations.

2. Techniques

The examiner should review recent classification appeals or requests for clarification if any.

3. Tests and Standards

The classification and appeal handling standards include, but are not limited to, the following standards. The sequence of the standards listed here does not indicate priority of the standard.

C. Factors, Classifications, Formulas for Classifications, Territories, Including Increased Limits

STANDARDS
CLASSIFICATION APPEAL HANDLING

Standard 1

The ~~regulated entity~~ advisory organization takes adequate steps to finalize and dispose of the classification appeal in accordance with applicable statutes, rules and regulations, and written manuals and procedures

Apply to: Advisory organizations that process classification appeals

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Advisory organization’s listing of appeals
- _____ Supporting documentation (manuals, etc.)
- _____ ~~Regulated entity~~ Advisory Organization correspondence

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

Review appeal documentation to determine if the advisory organization response fully addresses the issues raised. If the ~~regulated entity~~ advisory organization did not properly address/resolve the appeal, the examiner should ask the ~~regulated entity~~ advisory organization what corrective action it intends to take.

Review manuals to verify appeal procedures exist.

Procedures in place should be sufficient to require satisfactory handling of appeals received as well as internal procedures for analysis of classification codes that commonly cause appeals.

Criteria for Reviewing Appeal Responses:

- a. The response is timely;
- b. The response is complete and responsive to all issue raised;
- c. The response includes adequate documentation to support the respondent’s position;
- d. The respondent’s actions are appropriate from a business practice standpoint;
- e. The respondent’s actions comply with all applicable statutes, rules and policy or contract provisions, and
- f. The appropriate remedies for the consumer are identified.

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~~D. Filing and Distribution to Customers~~

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Section 143. Standards for ~~Insurance Program Development and Maintenance~~ Form Development

1. Purpose

The purpose of this portion of the exam is to review the advisory organization's processes for development, maintenance and filing of forms for insurance programs. The examiner should note that this section will not be applicable to all advisory organizations.

2. Techniques

The examiner should review communications with insurers and states relating to forms developed and determine that the communications to insurers are consistent with existing filings. Quality assurance programs should be in place to ensure that the forms remain up-to-date and that filings to states are checked for the appropriate level of quality.

3. Tests and Standards

The insurance program development and maintenance standards include, but are not limited to, the following standards. The sequence of the standards listed here does not indicate priority of the standard.

A. Preparation, Filing and Distribution of Policy Forms and Endorsements

**STANDARDS
FORM DEVELOPMENT REVIEW**

Standard 1.

Standard 3

The advisory organization has processes in place to identify and provide subscribers with necessary changes (by virtue or changes in state laws or case law) to advisory forms, rules or loss costs.

Apply to: All advisory organizations

Priority: Recommended

Documents to be Reviewed

_____ Communication with companies regarding changes to applicable forms, rules or loss costs

_____ Procedural information from the advisory organization

Others Reviewed

NAIC Model References

Review Procedures and Criteria

If the examiner knows law changes or case law necessitating changes to applicable forms or rating systems, verify that the advisory organization responded accordingly.

Alternatively, provide the advisory organization with a brief questionnaire, asking about procedures for handling such changes.

STANDARDS
FORM DEVELOPMENT REVIEW

Standard 4

Standard 2

The advisory organization has quality assurance processes in place to review submissions of forms, rates, loss costs or other submissions prior to filing or submitting to the applicable state.

Apply to: All advisory organizations

Priority: Optional—Best Practice Only

Documents to be Reviewed

_____ Procedural information from the advisory organization

Others Reviewed

NAIC Model References

None—best practice only

Review Procedures and Criteria

Determine whether the advisory organization uses applicable readability tools such as Flesch Tests if required by law.

Provide the advisory organization with a brief questionnaire, asking about procedures for quality control and readability.

~~B. Preparation, Filing and Distribution of Manuals of Rating Rules~~

~~Review applicable state laws and regulations, if any for guidance.~~

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~~Section 14. Standards for Insurance Loss Control~~

~~Review applicable state laws and regulations, if any for guidance.~~

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~~Section 15. Standards for Inspection Services~~

~~Review applicable state laws and regulations, if any for guidance.~~

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~~A. For Individual Insureds~~

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B. Public Fire Protection

Review applicable state laws and regulations, if any for guidance.

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~~Section 16. Standards for Workers' Compensation Classification Appeals~~

~~Review applicable state laws and regulations, if any for guidance.~~

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~~Section 17. Standards for Residual Market Functions~~

~~Review applicable state laws and regulations, if any for guidance.~~

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