STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES

INSURANCE DIVISION

MULTI-STATE EXAMINATION
OF THE
NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC.

CONCLUDED AUGUST 2001

Participating States:

Alaska    Kansas    Rhode Island
Arkansas  Maine     Utah
District of Columbia  North Carolina  Vermont
Illinois  Oregon    Wisconsin
Iowa
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January 16, 2002

Honorable Mary C. Neidig, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, OR 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 737.515 and ORS 731.300 to 731.316, we have examined aspects of statistical data reporting and experience rating processes of the

NATIONAL COUNCIL ON COMPENSATION INSURANCE
901 Peninsula Corporate Circle
Boca Raton, Florida 33487

hereinafter referred to as the “Company.” The cooperation and assistance rendered by the officers and employees of the company during this examination is appreciated and hereby acknowledged.

The examination work was performed under contract by Arthur Andersen LLP, with oversight by the undersigned and Richard M. McGavock, Senior Policy Advisor. Insurance regulatory officials from Alaska, Arkansas, District of Columbia, Illinois, Iowa, Kansas, Maine, and Wisconsin entered into confidentiality agreements with us and had representatives participating in examination oversight meetings and conferences.

Respectfully submitted,

[Signature]

R. Michael Lamb, FCAS, MAAA
Casualty Actuary
(503) 947-7221
Multi-State Examination of the National Council on Compensation Insurance, Inc. (NCCI)

August 2001
Acknowledgement

This Examination was performed by Arthur Andersen, LLP under the direction of R. Michael Lamb of
the State of Oregon Department of Consumer and Business Services Insurance Division in the capacity of
Examiner In-Charge.

The assistance rendered by the officers and employees of the Company during this examination is
acknowledged and appreciated.

A special thanks is extended to the participating state representatives for their assistance and guidance
during the examination. The time and assistance that was provided during this examination was
undertaken in addition to the scope of their regular assigned duties and was appreciated.

Respectfully submitted,

[Signature]
Margaret C. Spencer
Examination Principal
Arthur Andersen LLP

[Signature]
Richard J. Nelson
Examination Manager
Arthur Andersen LLP
Multi-State Examination of NCCI

August 2001

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Executive Summary

1. INTRODUCTION

This report presents the approach, findings and recommendations of the review of statistical reporting and experience rating procedures of the National Council on Compensation Insurance, Inc. (NCCI) performed by Arthur Andersen LLP (AALLP) on behalf of the Insurance Division of the Oregon Department of Consumer and Business Services (OID), eleven other participating states and the District of Columbia.

This Executive Summary provides an overview of the examination, outlines the contents of the report and summarizes the key findings and recommendations from the examination.

Content and Structure of Report

The report of examination is structured as a report of exceptions and is organized in one volume, which includes this Executive Summary and the following sections:

Introduction

Examination Background

Description of Examination Objectives

Overview of NCCI Functions

Examination Approach

Findings

Recommendations

Appendices of Sampling Results and Request for Proposal.

Examination Background

AALLP performed a market conduct examination of the statistical reporting and experience rating procedures of NCCI under the examination authorities of the Oregon Insurance Division and twelve other participating Insurance Departments/Divisions/Bureaus, i.e. Alaska, Arkansas, District of Columbia, Illinois, Iowa, Kansas, Maine, North Carolina, Rhode Island, Utah, Wisconsin and Vermont (all collectively referred to as the “participating states”). The Oregon Insurance Division coordinated the activities of the participating states in administering the multi-state examination. The specific
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requirements and conditions of the examination are specified in the Request for Proposal (included as Appendix 5).

In addition to the thirteen participating jurisdictions, the following twenty-four states agreed to permit OID to have access to their unit report and experience rating data: Alabama, Arizona, Colorado, Florida, Georgia, Hawaii, Idaho, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington and Wyoming. The following additional states granted permission only for experience ratings containing their data to be included in the review: Connecticut, Indiana, Massachusetts, Minnesota, Montana and New York.

The overall purpose of this examination was to evaluate the statistical reporting and experience rating procedures of NCCI and determine whether (1) the unit statistical reporting of workers' compensation data was consistent with the Workers' Compensation Statistical Plan and (2) the processing of experience rating for individual insured employer accounts was consistent with the Experience Rating Plan. The period covered by this examination for unit report testing was 1993 and subsequent policy years, submitted to NCCI as of October 14, 2000, and experience ratings produced and released from October 14, 1998 through October 14, 2000.

The examination was conducted in the following four sections:

I. Unit report testing at NCCI Headquarters
II. Experience rating testing at NCCI Headquarters
III. Unit report testing of six selected carriers
IV. Premium audits of employers with Oregon exposures

Examination Objectives

The original objectives of the examination are reflected in OID's Request for Proposal (RFP) which can be found in Appendix 5. Based upon discussions with the participating states during the planning phase of the examination, the original objectives were slightly modified. As such, the primary objectives of the examination, as modified, were as follows:
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1. Survey a valid sample of statistical reports to determine whether or not carriers correctly assign exposure data to classifications and states and make valid use of the estimated exposure indicator. Compare the statistical reports in the sample at first, second, third, fourth and fifth statistical reporting intervals with contemporary records of the carriers, and conduct a physical test premium audit of a sub-sample of selected employers with Oregon exposures for six selected carriers;

2. Evaluate the procedures of NCCI to:
   - monitor the use of the estimated exposure indicator
   - solicit subsequent reporting of actual exposure and
   - evaluate each carrier for quality of exposure reporting by classification and by state

3. Address the potential impact of the use of estimated or improperly assigned exposure on classification loss cost rates and on experience rating modifications for individual employers;

4. Recommend effective operational procedures for NCCI to motivate carriers to audit employer exposures competently and timely and to report actual exposures promptly;

5. Recommend effective penalties and/or incentives to carriers to reduce or eliminate improper exposure reporting and improper use of the estimated exposure indicator;

6. Review NCCI’s experience rating procedures and survey a valid sample of ratings to determine if the procedures deviate from the rules specified in the NCCI Experience Rating Plan. The focus of this review and survey was on the determination of rating eligibility, establishment of anniversary rating dates, selection of policy periods to be included in the experience data, combination of employer entities for rating purposes, and use of the correct rating values;

7. Recommend revisions to NCCI's operational procedures to achieve concurrence with the rules in the NCCI Experience Rating Plan;

8. Assess the timeliness of NCCI's experience rating computation and distribution. Determine whether lateness results from carrier statistical reports received untimely or failing to pass edits, or from NCCI internal process delays;

9. Recommend effective penalties and/or incentives to improve the timeliness and quality of carrier statistical reporting;
Executive Summary

10. Recommend revisions to NCCI's operational procedures to achieve timely production and distribution of experience ratings.

Examination Scope

The scope of the examination included review and testing of unit report data quality and timeliness and the production of experience ratings. The unit report examination consisted of the testing of a sample of unit reports submitted to NCCI through October 14, 2000 for 1993 and subsequent policy years. The experience rating work consisted of the testing of a sample of rating worksheets produced and released during the period October 14, 1998 through October 14, 2000.

Based upon discussions with participating states during the planning phase of the examination, the original objectives were clarified and developed into examination procedures. Refer to the Examination Approach section for specific details.

2. EXAMINATION APPROACH

The examination was completed in three phases. The first phase was planning; the second phase consisted of obtaining the data downloads of the desired populations of data, selecting samples and performing the detail testing; and the third phase consisted of analyzing and reporting the findings. The examination approach was based on the current version of the National Association of Insurance Commissioner’s (NAIC) Market Conduct Examiners Handbook and applicable sections of the participating states insurance statutes and regulations.

We collectively developed three detailed work programs, specifically for each key segment of the examination, (1) the examination at NCCI Headquarters; (2) the examination procedures performed at the selected carriers; and (3) the examination procedures performed at selected employers with Oregon exposures. We worked closely with the OID to ensure the examination objectives were incorporated into the workplan. All participating states reviewed the sampling approach and OID reviewed and approved the planning documentation including the workplans.

Based on the results of the planning phase, the examination objectives were clarified and developed into the following broad examination procedures:

1. Examine a statistically valid sample of units reports for agreement with carrier submissions to NCCI;

2. Review NCCI’s procedures to monitor the use of the estimated exposure indicator, encourage carriers to audit exposures, solicit subsequent reporting of actual exposures and evaluate carriers for quality of exposure reporting by classification and by state;
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3. Interview NCCI employees responsible for NCCI’s policies and procedures that monitor the estimated exposure indicator, solicit subsequent reporting of actual exposures, and evaluate carriers for quality of exposure reporting by classification and by state;

4. Address the potential impact of the use of estimated and improperly assigned exposures on the classification loss costs rates and on experience rating modifications for individual employers;

5. Review NCCI’s procedures for data collection and ensuring data quality and timeliness; including conformity with the Statistical Plan and NCCI's procedures manuals;

6. Review and evaluate the procedures in place at NCCI to encourage carriers to audit insured exposures competently and timely and report actual exposures promptly;

7. Review NCCI’s procedures in place to penalize or provide incentives to carriers to improve the timeliness and quality of statistical reporting;

8. Review a statistically valid sample of experience ratings to determine if the procedures deviate from the Experience Rating Plan and NCCI's procedures;

9. Recommend revisions in the operating procedures of NCCI to achieve concurrence with the NCCI Experience Rating Plan rules;

10. Review the timeliness of NCCI’s experience rating computations and the distribution of such information as well as root causes for untimely ratings and distribution;

11. Review the operational procedures of NCCI and provide recommendations for improvements and revisions;

12. Determine if carriers are correctly assigning exposure data to classification and to states;

13. Determine if carriers are determining actual exposures and reporting them to NCCI on a prompt and timely basis;

14. Determine if carriers are properly indicating on unit reports the use of estimated versus actual exposure data; and

15. Determine if data reported to NCCI is accurately reported.
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Unit Report Testing

We tested unit report data using a statistical sampling approach known as attribute sampling, which examines the frequency of errors. We used a population of unit reports relating to 1993 and subsequent policy years submitted as of October 14, 2000. In order to obtain a random sample in which all the participating states were represented, twelve random samples were generated from the population, from which one sample was selected. The random sample selection was made at the unit report level. The unit report data per NCCI’s system, relating to the selected unit reports, was validated to the carrier’s original unit report submissions as submitted to NCCI.

The examination team identified and aggregated the number and types of errors with respect to the specific data fields tested. Statistical estimates were made of the rates of the accuracy and completeness of unit report data as processed by NCCI.

Selected Carrier Audits

A second population was created from the unit report population identified above. This population focused on the unit report data for six selected carriers identified by the participating states. The selected carriers represented countrywide premium distribution, participating state representation, a cross-section of NCCI’s Carrier Data Quality Report assessments, consideration of market share and centralized carrier record locations. The examination team selected a random sample of policies to compare the statistical reports in the sample at first, second, third, fourth, and fifth reporting intervals, where applicable, with contemporary records at the selected carriers. The examination team identified and aggregated the number and types of errors with respect to the specific fields tested. Statistical estimates were made of the rates of the accuracy and completeness of unit report submissions to NCCI at the policy level for these six carriers. Because only six carriers were included in the population to be reviewed, the findings noted relative to these six carriers may not be representative of all carriers from which NCCI collects data.

Experience Rating Testing

To test the accuracy of experience ratings, the examination team selected a random sample of rating worksheets produced and released by NCCI during the period from October 14, 1998 through October 14, 2000 to determine if the procedures used to develop the worksheets deviated from the Experience Rating Plan. The population included complete, contingent and preliminary ratings released to carriers.
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In order to obtain a random sample in which all the participating states were represented, twelve random samples were generated from the population, from which one sample was selected. The sample selection was made at the rating level and consisted of a random sample of 184 ratings.

The testing addressed the following: rating eligibility; establishment of anniversary rating dates; selection of policy periods to be included in the experience data; combination of employer entities and ownership issues; and use of the correct rating values. In addition, we summarized the nature, amount and types of errors.

Employer Premium Audits

The final part of this phase consisted of on-site premium audits of selected employers with Oregon exposures by a premium audit firm subcontracted by AALLP. The subcontractor conducted premium audits to assess reported premium, insured exposures, state, classification, loss and other information reported by the employers to the carriers and to compare the results to the premium audit records of the carrier.

3. EXAMINATION PROCESS

This examination was made in accordance with a Request for Proposal issued by the Insurance Division of the Oregon Department of Consumer and Business Services (OID) that provided for a market conduct examination to be made of the National Council on Compensation Insurance, Inc. pursuant to ORS 731.300 through 731.316, 737.355, 737.515, 737.526, and 737.535. The NCCI is licensed as a rating organization pursuant to ORS 737.350 and 737.355. The examination was conducted as a multi-state examination and commenced on August 2, 2000.

The unique multi-state aspect of the examination and the methodologies used in ratemaking processes create some global audit issues concerning future audits of any rating organization. We understand that it is a 2002 charge of the NAIC Property & Casualty Insurance (C) Committee to develop protocol for the examination of national or multi-state rating organizations to be more comprehensive, efficient, and possibly less frequent than the current single state exam process. The issues encountered in this exam need to be considered in their charge.

At the commencement of the examination, the examination process was delayed by issues raised by NCCI relative to the regulators and examiners obtaining access to all state risk level detail information, such as unit report and experience rating data, and confidentiality concerns associated with provisions of its affiliate agreements. NCCI affiliate agreements do not allow the release of this information to any party except the regulator under whose jurisdiction it was collected without the approval of that state's regulator or the individual company.
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Therefore, NCCI required permission from the 44 states where NCCI was licensed or permitted to do ratings in order to release the data to the examination team. This process consumed a total of approximately four months (unit report data access) to six months (experience rating data) of ongoing communication and negotiation between participating states and other jurisdictions, as well as with NCCI to enable the examiners to obtain access to multi-state risk specific data and enable NCCI to create the data extracts needed for examination purposes. Consequently, as of the date that this process was concluded to enable the examination to progress, not all states’ data was included in the population from which sample selections were drawn. Ultimately, by May 2001, or ten months after the commencement of the examination, permission for access to unit report data was granted by all but seven states and access to experience rating data was granted by all but one state.

Furthermore, despite the examination confidentiality requirements already in place by OID upon the contracted examiners, and the confidentiality agreements between OID and the participating states, NCCI had additional concern with confidentiality considerations. This issue had a pervasive impact on the duration of the examination. This concern resulted in NCCI’s protracted negotiations with the contract examiner spanning approximately two months, to execute a confidentiality agreement directly with NCCI, and extended to the data provided to the examiners and many aspects of the examination process wherein NCCI required certain protocols or procedures to alleviate their concern (e.g., work paper documentation, data extract controls, findings documentation, reporting considerations, availability of electronic reference manuals and resources, etc.).

The examination process was also impacted by actions of NCCI to limit the examiner’s access to NCCI’s personnel and facilities. While NCCI’s move to new headquarters in late 2000 complicated matters, from August 2, 2000 to April 15, 2001, the examiners were located at various off-site locations and were not permitted to visit the offices where the personnel responsible for the activities being examined were located. From April 16, 2001 to August 10, 2001, which was the last day of fieldwork, the examiners were located at NCCI Headquarters. As in any regulatory examination, the examination team needs to be located in office space in close proximity to where the entity’s activities occur. Additionally, access to NCCI personnel was significantly limited and was restricted to a small group of management or senior level personnel that had responsibility for the area being examined. Again, examination teams as a matter of process need direct access to personnel responsible for the activities being examined. There were also delays by NCCI in obtaining the NAIC-approved examination software necessary to perform the data extractions and random samples and other protocols required by NCCI, which impeded a smooth and efficient examination process.

As noted above, we understand that the issues encountered above in the examination are the subject of a 2002 charge of the NAIC Property & Casualty Insurance (C) Committee.
Executive Summary

4. OVERVIEW OF NCCI

The National Council on Compensation Insurance, Inc. (NCCI) is a national source of workers’ compensation statistical information in approximately 40 jurisdictions. Formerly created by the NAIC as an association of members in 1922, NCCI was incorporated in 1993 as a not-for-profit corporation. NCCI serves the insurance industry by compiling data on workers’ compensation insurance policies. NCCI receives detailed payroll and loss data by payroll class on unit statistical reports from data providers in accordance with the Workers’ Compensation Statistical Plan (WCSP). The WCSP is the reporting method by which NCCI compiles payroll, premium and loss information through unit report summarization. Each report represents a workers’ compensation policy written by an insurance carrier. Carriers are required to report annually for five years on each workers’ compensation policy. Data is validated in a series of automated processes that check the timeliness, accuracy and completeness.

Experience Rating develops factors which enables carriers to adjust an individual insured’s premium. These factors reflect an insured’s actual loss history relative to expected losses of insureds in the same rate classifications. Experience Rating uses WCSP data, but at a detailed, insured level.

Other types of data collected by NCCI contributes to their mission of providing information and services to support adequate rates and the long term viability of workers’ compensation insurance. Policy data is used to assist in controlling the receipt of WCSP data and in combining WCSP data for experience rating. Detailed claim information is used to analyze the underlying factors that cause workers’ compensation results to change over time, and is used in proposing system reforms to control rising insurance costs.

5. MAJOR FINDINGS

The major findings of the examination of NCCI may be grouped into the following sections:

I. NCCI Headquarters Activities: The findings in this area include issues noted during the testing of unit reports and experience ratings at the Headquarters location.

II. Unit Report Testing of Selected Carriers: During the review of the selected carriers, we noted many discrepancies between the information included in the carrier’s source files and the information that was included in NCCI’s Unit Report database. These discrepancies are noted in this area.

III. Premium Audits of Employers with Oregon Exposures: The review of the employer’s records indicated discrepancies between the premium audit information at the employer site and the premium audit information provided by the carriers.
Executive Summary

These findings are discussed briefly on the following pages of this Executive Summary and presented in greater detail in the following sections of this report.

NCCI Headquarters Activities

The findings in this area include issues noted during the testing of unit reports and experience ratings at NCCI Headquarters.

Based upon the results of testing in the unit report area, with a sample error rate of 2.2%, there is 95% confidence that the maximum error rate in the population does not exceed 5%. This finding is based upon the results of the random sampling of NCCI's unit report data files. Detailed sampling results are presented in Appendix 1 of this report and are discussed in Section E1.

- For the past several years, NCCI has not been enforcing the fining program it had in place for carriers whose data is not submitted timely or within specific data quality standards. NCCI suspended the fining program for policies effective on or after January 1, 1996. It is unclear as to whether regulators were informed that the fining program was not being enforced.

- NCCI does not have a procedure in place to ensure that unit reports with estimated exposures are ultimately corrected with final audited exposures. Also, there is no monitoring process in place to routinely and periodically review and analyze the extent of estimated exposures in the unit report database for both rated and non-rated risks.

Based upon the results of testing in the experience rating area, with a sample error rate of 4.9%, there is 95% confidence that the maximum error rate in the population does not exceed 8.4%. Nine ratings in the sample contained errors, two of which had two errors each, for a total of eleven errors on nine ratings. The error rate is made up of two types of errors. One type relates to “interpretive errors,” or variances from the participating states’ interpretation of the Experience Rating Plan Manual’s rules. Of the eleven errors, six were interpretive errors. The second type of error relates to “execution errors.” Execution errors are all other errors, all of which NCCI agreed are errors in the application of experience rating procedures, such as the use of incorrect Anniversary Rating Dates, loss data or policies, among others. Of the eleven errors, five were execution errors. Detailed sampling results are presented in Appendix 3 of this report and are discussed in Section E1.

- NCCI's procedures for the inclusion of policy data for experience rating were not consistent with the experience rating rules as interpreted by the participating states.
Executive Summary

- Based upon the review of the documentation provided from NCCI and review of the Experience Rating Plan Manual, it does not appear that NCCI is proactive in obtaining the required ownership/policy combination documentation (ERM14). Additionally, in many instances in the testing of combinations made by the Experience Rating Department, NCCI could not provide evidence of the issuance of the ruling letters required by the Experience Rating Plan Manual and the NCCI Experience Rating Procedures Manual. It was also noted during review of the ownership/combination process, that in many cases, NCCI would make the decision to effect ownership changes and combinations without any notification to either the carrier or the insured.

- For eligibility purposes, if data is expected to be reported, eligibility rules treat the missing period as $0 premium for purposes of determining eligibility. Once the missing period is reported, the eligibility rules are applied to the reported premium. However, if the period is not reported, the missing period is still included in the determination of eligibility. As a result, a risk may not qualify for experience rating due to the carrier's untimely reporting and the use of $0 premium in the eligibility determination.

- The examination team noted three instances where incorrect data was included in experience ratings.

- NCCI does not have specific production and availability or release time requirements for experience ratings once the expected/complete data is received; rather, they have performance goals that do not appear to be adequate based upon the examination team's review.

Other Headquarters Activities

We also noted several issues during the above reviews that warranted comment in the report. These issues relate to process or procedural improvements recommended for NCCI's consideration and are also included in Section E1 of the report.

- During review it was noted that NCCI currently has a process in place to "grade" carriers based upon policy submission timeliness, unit report timeliness and unit report quality. Several of the participating states did not know this process existed and that the report card was available. Additionally, there is no understanding of the criteria or process used by NCCI to award the grades.
Executive Summary

- During review of the carrier grading process, it was noted that the number of carriers with unsatisfactory grades of "D" or "F" for unit report timeliness has significantly increased during the examination period. Additionally, over the past 3 years, approximately 11% of all unit reports are submitted late.

- Currently, there are no performance standards or other measurements of accountability between most states and NCCI for the services they provide. There is also no formal process for the reporting of changes in NCCI processing activities to regulators.

- NCCI's Internal Audit program for the period January 1, 1999 to June 30, 2001 did not include adequate coverage in the key area of data quality standards and performance.

- NCCI does not perform trending, profiling or similar advanced analytical procedures of the URS, experience rating and other related data by risk, by classification, by carrier, etc., or employ such computer software, to identify potential data problems or to highlight questions for follow-up with carriers. While NCCI does perform certain limited data analysis procedures to identify unusual variations in the URS data submitted by carriers and in assessing the reasonableness of experience rating data and ratings, the analytical procedures do not include, trending and other advanced data analysis activities as it relates to risks, classifications, carriers, and other data classifications or transactions. Data analysis and monitoring at the transaction level using such means as advanced intelligent system techniques could identify activity that is of interest to NCCI and its stakeholders, particularly in light of the significant volume of transactions and continued growth in activity expected. Isolated, complex, significant and unusual patterns of activity could be analyzed in the context of what is usual for that risk, classification, carrier or activity. Profiles of risks, exposure classifications, carriers and the like could provide the insight, history and context that could enable NCCI to focus attention on issues that are truly significant to the ratemaking process.

Unit Report Testing at Selected Carriers

During the review of the selected carriers, many discrepancies were noted between the information included in the carrier’s source files and the information that was included in NCCI's Unit Report database. These discrepancies are noted in this area. Detailed sampling results are presented in Appendix 2 of this report.

From the carrier testing review, we noted several issues that have a direct impact on the accuracy and timeliness of data reported to NCCI. Several significant issues were identified and include the following:
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- Unaudited policies were reported as audited in NCCI's system
- No premium audits had ever been performed for at least four policies in the sample and two premium audits were untimely performed
- Unit reports were not filed in a timely manner
- Risks appeared to be eligible for experience rating, but were not rated
- Losses were identified in the files but had not been reported to NCCI
- Discrepancies were noted between the manual rates applied to risks versus what had been reported to NCCI
- Discrepancies were noted between subject premium and exposure amounts
- Missing or inconsistent policy condition codes were noted
- Questionable class code assignments were noted
- Policies that had been cancelled were not reported to NCCI

We noted during the carrier reviews that some carriers are only reporting audited exposures. Therefore if the audits are incomplete as of the reporting deadline, first unit reports may be submitted late or not submitted at all.

NCCI does not have a process in place to perform routine data audits of carriers to ensure that carriers are filing unit statistical information in accordance with the NCCI Workers’ Compensation Statistical Plan Manual, the Unit Report Control Users Guide and the Unit Report Quality Users Guide.

From the audit of carriers, it was noted that, in numerous instances, the carriers were not able to produce the source documentation supporting the unit report data. Additionally, discrepancies may have resulted if the carrier did not provide to the examiners accurate or complete support to substantiate the data in NCCI’s system.

Premium Audits of Employers with Oregon Exposures

The review of the employer’s records indicated areas of discrepancies between the premium audit related information at the employer site and the premium audit information provided by the carriers. Detailed sampling results are presented in Appendix 4 of this report.

From the employer testing, several issues were noted that have a direct impact on the accuracy and timeliness of data reported to NCCI. The following significant issues were identified:
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- Employee misclassifications
- Payroll differences (including understated payroll, overstated payroll, overtime payroll discrepancies, etc.)
- Incorrect audit periods used
- Incorrect audit rates/experience modifications used
- Payroll improperly divided or not reconciled
- Mechanical or math errors noted on invoices

Based upon the limited sample of employers with Oregon exposure, we noted fifteen payroll-related discrepancies, seven of which involved payroll over/under statements. These issues, combined with the observations from the carrier audits, indicate that carriers may not be performing adequate premium audits. The following comments were noted:

- Premium audits appear to be more voluntary than physical inspections
- Physical inspections are not disclosing all errors
- Within the sample, many discrepancies were generated by employee misclassifications and payroll differences.

6. PRIORITY RECOMMENDATIONS

Detailed recommendations for each of the areas that were examined are presented in Section F of this report. They may be summarized into the following major categories:

1. NCCI Headquarters Activities: Recommendations in this area were developed in response to findings noted during the testing of unit reports and experience ratings at NCCI Headquarters.

2. Unit Report Testing of Selected Carriers: Recommendations in this area were developed in response to findings noted during the review of the selected carriers and comparison between information included in the carrier's source files and the information that was included in NCCI's unit report database.

3. Premium Audit of Employers with Oregon Exposures: Recommendations in this area were developed in response to findings noted during review of the employer sample and comparison between premium audit information provided at employer sites versus the information provided by the carriers.
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We recommend that an examination oversight group be formed of interested regulators, allowing input from NCCI and its carrier members. The recommendations contained in this report should be reviewed during the examination oversight process. This group should weigh the cost/benefit of each recommendation, and develop the optimal solution to achieve the underlying intent of the recommendation.

NCCI Headquarters Activities

Unit Report Testing

- During the review of the unit report area, it was noted that NCCI does not provide any financial incentives for carriers to submit data timely or within data quality standards. NCCI suspended their existing fining program for policies effective on or after January 1, 1996. NCCI should reactivate a revised and expanded penalty system and enforce the fines levied against carriers under the penalty system. Alternatively, NCCI should expedite as a high priority the implementation of its newly proposed incentive/penalty program. The program's objectives should be developed to provide measurable improvements in the areas of quality and timeliness and to allow for enforcement efforts.

- It was also noted that NCCI is not identifying or monitoring their unit report database for unit reports with estimated exposures to ensure they are ultimately corrected with final audited exposures. NCCI should develop and implement a program to ensure that unit reports with estimated exposures are corrected with final audited exposures in a timely manner. Also, a monitoring system should be developed to review and analyze the extent of estimated exposures in its unit report database for experience rated and non-experience rated risks, for carriers with high percentages of units with estimated exposures and for the impact of correcting estimated exposures.

Experience Rating Testing

- NCCI should modify its procedures and/or provide additional clarification in the Experience Rating Plan Manual rules regarding the extension of the experience rating period and the inclusion of short-term policies to consider the concerns of the regulators.

- NCCI should ensure that the required ownership/combination documentation is obtained and that proper notice of ownership/combination changes is sent to the submitter, the current carrier, insured or any carrier who has to apply a modification that would be affected by the ownership/combination change.
Executive Summary

- When missing data is needed for the determination of eligibility, it is recommended that the carrier responsible for the missing data be formally notified of the situation and the impact on the insured's eligibility for experience rating. NCCI should report chronic problem carriers to the domiciliary regulator for assistance in obtaining the missing information. It is also recommended that missing data that is expected to be received not be reflected as $0 in the eligibility determination.

- At least three errors were noted in the experience rating review that caused ratings to be released incorrectly. NCCI should ensure that only correct experience ratings are released by implementing a more thorough review of data on experience modifications. Also, NCCI should evaluate its review and analyst training procedures to ensure that they are adequate to limit the occurrence of manual errors and to ensure that the appropriate policies are included in the experience ratings.

- NCCI should implement a written policy establishing a required timeframe for the production and availability or release of ratings once the expected/complete data is available. In addition, the existing NCCI experience rating performance goal percentages should be substantially increased.

In addition to the specific comments related to the unit report and experience rating testing areas, the examination team has also noted several issues that warrant additional recommendations in the report. These issues relate to process or procedural improvements.

- It is recommended that NCCI provide training and education on the carrier report card process and criteria used for the benefit of the various state regulators and for their evaluation of its adequacy. If a carrier is identified with an unsatisfactory grade, NCCI should immediately notify the domiciliary regulator, unless the regulator elects not to be notified. NCCI should also evaluate the increase in the number of carriers receiving unsatisfactory grades in the report card process and immediately institute corrective action plans for the companies who performed unsatisfactorily in 2001. Consideration by the regulatory oversight group should be given to exploring the legality and benefits of making carrier grades publicly available.

- States should consider ways to hold NCCI accountable for meeting the data quality and experience rating standards approved and expected by the states.

- It is recommended that NCCI's Internal Audit Department include comprehensive and targeted data quality audits in their annual audit plan.
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- NCCI should develop procedures for the performance of trending, profiling and advanced analytical procedures of URS, experience rating and other related data to identify anomalies, outliers or differences in the data by risk, by classification, by carrier, etc. Artificial intelligence and other sophisticated technology means should be investigated for accomplishing such objectives.

Unit Report Testing at Selected Carriers

- NCCI should evaluate the errors noted during the carrier site visits and address each type of error to determine whether additional actions should be developed, including carrier audits and development of additional analytical and detection procedures, etc. Additional communication to carriers and training should be considered.

- It is recommended that NCCI re-communicate the requirements that have been established as it relates to the timely receipt of first reports. In addition, NCCI should reactivate its penalty system to encourage carriers to submit timely reports.

- We recommend that NCCI establish an audit program to provide countrywide coverage of all carriers and policies to ensure that carriers are following the statistical plan rules and the prescribed policies and procedures of NCCI where applicable. Such a program could be funded by the reactivation of the penalty system.

- States and NCCI should consider the development of record retention requirements for carriers that are specific to workers' compensation data reported to NCCI. The issue of data retention related to merger and acquisition activity should be specifically addressed.

Premium Audits of Employers with Oregon Exposures

NCCI should evaluate the errors noted during the employer site visits and address each type of error to determine whether additional actions should be developed, including additional employer test audits, development of additional analytical and detection procedures and tools, etc.

The issues noted further support the previous recommendation that carrier audits are necessary to gain an understanding of existing issues and problems in this environment and to enable NCCI to identify and account for the potential impact of any necessary related adjustments to the rating process.
A. INTRODUCTION AND BACKGROUND

A1. Introduction

This report presents the approach, findings and recommendations of the examination and evaluation of statistical reporting data quality and timeliness and experience ratings produced and released by the National Council on Compensation Insurance, Inc. (NCCI). This multi-state examination was performed by Arthur Andersen LLP (AALLP) on behalf of the Insurance Division of the Oregon Department of Consumer and Business Services (OID), eleven other participating states and the District of Columbia.

A2. Examination Background and Process

AALLP performed this multi-state examination under the examination authorities of the OID and twelve other participating Insurance Departments/Divisions/Bureaus, namely Alaska, Arkansas, District of Columbia, Illinois, Iowa, Kansas, Maine, North Carolina, Rhode Island, Utah, Wisconsin and Vermont (all collectively referred to as the “participating states”). The OID coordinated the activities of the examination. The specific requirements, objectives and conditions of the examination are specified in the Request for Proposal (RFP) included in Appendix 5. However, they were modified based on the examination’s planning process.

In addition to the thirteen participating jurisdictions, the following twenty-four states agreed to permit OID to have access to their unit report and experience rating data: Alabama, Arizona, Colorado, Florida, Georgia, Hawaii, Idaho, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington and Wyoming. The following additional states granted permission only for experience rating worksheets containing their data to be released to the examination team for review: Connecticut, Indiana, Massachusetts, Minnesota, Montana and New York.

The unique multi-state aspect of the examination and the methodologies used in ratemaking processes create some global audit issues concerning future audits of any rating organization. We understand that it is a 2002 charge of the NAIC Property & Casualty Insurance (C) Committee to develop protocol for the examination of national or multi-state rating organizations to be more comprehensive, efficient, and possibly less frequent than the current single state exam process. The issues encountered in this exam need to be considered in their charge.
The examination commenced on August 2, 2000. At the commencement of the examination, the examination process was delayed by issues raised by NCCI relative to the regulators and examiners obtaining access to all state risk level detail information, such as unit report and experience rating data, and confidentiality concerns associated with provisions of its affiliate agreements. NCCI affiliate agreements do not allow the release of this information to any party except the regulator under whose jurisdiction it was collected without the approval of that state's regulator or the individual company.

Therefore, NCCI required permission from the 44 states where NCCI was licensed or permitted to do experience ratings in order to release the data to the examination team. This process consumed a total of approximately four months (unit report data access) to six months (experience rating data) of ongoing communication and negotiation between participating states and other jurisdictions, as well as with NCCI to enable the examiners to obtain access to multi-state risk specific data and enable NCCI to create the data extracts needed for examination purposes. Consequently, as of the date that this process was concluded to enable the examination to progress, not all states’ data was included in the population from which sample selections were drawn. Ultimately, by May 2001, or ten months after the commencement of the examination, permission for access to unit report data was granted by all but seven states and access to experience rating data was granted by all but one state.

Furthermore, despite the examination confidentiality requirements already in place by OID upon the contracted examiners, and the confidentiality agreements between OID and the participating states, NCCI had additional concern with confidentiality considerations. This issue had a pervasive impact on the duration of the examination. This concern resulted in NCCI’s protracted negotiations with the contract examiner spanning approximately two months, to execute a confidentiality agreement directly with NCCI, and extended to the data provided to the examiners and many aspects of the examination process wherein NCCI required certain protocols or procedures to alleviate their concern (e.g., workpaper documentation, data extract controls, findings documentation, reporting considerations, availability of electronic reference manuals and resources, etc.).

The examination process was also impacted by actions of NCCI to limit the examiner’s access to NCCI's personnel and facilities. While NCCI’s move to new headquarters in late 2000 complicated matters, from August 2, 2000 to April 15, 2001, the examiners were located at various off-site locations and were not permitted to visit the offices where the personnel responsible for the activities being examined were located. From April 16, 2001 to August 10, 2001, which was the last day of fieldwork, the examiners were located at NCCI Headquarters. As in any regulatory examination, the examination team needs to be located in office space in close
proximity to where the entity’s activities occur. Additionally, access to NCCI personnel was significantly limited and was restricted to a small group of management or senior level personnel that had responsibility for the area being examined. Again, examination teams as a matter of process need direct access to personnel responsible for the activities being examined. There were also delays by NCCI in obtaining the NAIC-approved examination software necessary to perform the data extractions and random samples as well as other protocols required by NCCI, which impeded a smooth and efficient examination process.

As noted above, we understand that the issues encountered above in this examination are the subject of a 2002 charge of the NAIC Property & Casualty Insurance (C) Committee. The charge is to develop protocol for the examination of national or multi-state rating organizations to be more comprehensive, efficient, and possibly less frequent than the current single state exam process and to solicit input and collaboration from other interested and affected task forces and committees. Among important issues to resolve are:

- Initiation of exam and participation by one or more interested states;
- Collaboration of participating states on the scope of exam;
- Maintaining confidentiality of exam information by states and contractors, if any;
- Access to data from, or relating to, non-participating states;
- Process for curtailing use of data for which access is denied or not readily available;
- Sharing sensitive state-specific information with non-participating states; and
- Allocation of examination costs.

The overall purpose of this examination was to evaluate the statistical reporting and experience rating practices of NCCI to determine whether: (1) the unit statistical reporting of workers’ compensation data was consistent with the Workers’ Compensation Statistical Plan and (2) the production and release of experience ratings for individual insured employer accounts was consistent with the Experience Rating Plan.

The exam was conducted in four segments:

I. Unit report testing at NCCI Headquarters

II. Experience rating testing at NCCI Headquarters

III. Unit report testing of six selected carriers

IV. Premium audits of employers with Oregon exposures
The Executive Summary provides an overview of the examination, outlines the contents of the report and summarizes major findings and priority recommendations.

As described in the Executive Summary, the examination team conducted the multi-state examination of NCCI in three phases:

- Planning and preparation
- Evaluation of data collection and data quality
- Analyzing and reporting findings

In **Phase I** of the examination, the examination team reviewed and documented the applicable regulations and bulletins that were pertinent to the examination; determined the level of testing to be performed; selected an appropriate sampling methodology; coordinated the approach with AALLP's technology risk consultants and consulting actuaries; conducted interviews of key NCCI personnel regarding policies, procedures and processes; and interviewed and selected Northwest Audit as the subcontractor to perform the premium audits.

**Phase II** included the execution of the work programs approved by OID in the Planning phase. It included the testing that was performed in the field at NCCI Headquarters, the selected carrier locations and selected employer locations.

**Phase III** consisted of analyzing and reporting the findings. In this phase, the draft report prepared during the first two phases of the examination was finalized. The report was responsive to the examination objectives stated in the RFP and included all findings and recommendations identified during the examination process.

**A3. Structure of Report**

The report of examination is structured as a report of exceptions and is organized in one volume, which includes the following:

1. Executive Summary
2. Introduction and Background
3. Description of Examination Objectives
4. Overview of NCCI Functions
5. Examination Approach
6. Findings
7. Recommendations
8. Appendices of Sampling Results and Request for Proposal.
B. DESCRIPTION OF EXAMINATION OBJECTIVES

B1. Examination Objectives

The primary objectives of the examination as indicated in OID’s Request for Proposal (RFP) (see Appendix 5) were to:

1. Survey a valid sample of statistical reports to determine whether or not carriers correctly assign exposure data to classifications and states and make valid use of the estimated exposure indicator. Compare the statistical reports in the sample at first, second, third, fourth and fifth statistical reporting intervals with contemporary records of the carriers, and conduct a physical test premium audit of a sub-sample of selected employers with Oregon exposures stratified by premium ranges for six selected carriers;

2. Evaluate the procedures of NCCI to:
   - monitor the use of the estimated exposure indicator
   - solicit subsequent reporting of actual exposure and
   - evaluate each carrier for quality of exposure reporting by classification and by state

3. Address the potential impact of the use of estimated or improperly assigned exposure on classification loss cost rates and on experience rating modifications for individual employers;

4. Recommend effective operational procedures for NCCI to motivate carriers to audit employer exposures competently and timely and to report actual exposures promptly;

5. Recommend effective penalties and/or incentives to carriers to reduce or eliminate improper exposure reporting and improper use of the estimated exposure indicator;

6. Review NCCI’s experience rating procedures and survey a valid sample of experience ratings to determine if the procedures deviate from the rules specified in the NCCI Experience Rating Plan. The focus of this review and survey was on the determination of experience rating eligibility, establishment of anniversary rating dates, selection of policy periods to be included in the experience data, combination of employer entities for experience rating purposes, and use of the correct experience rating values;

7. Recommend revisions to NCCI’s operational procedures to achieve concurrence with the rules in the NCCI Experience Rating Plan;
8. Assess the timeliness of NCCI's experience rating computation and distribution. Determine whether lateness results from carrier statistical reports received untimely or failing to pass edits, or from NCCI internal process delays;

9. Recommend effective penalties and/or incentives to improve the timeliness and quality of carrier statistical reporting;

10. Recommend revisions to NCCI's operational procedures to achieve timely production and distribution of experience ratings.

**B2. Examination Scope**

1. The examination team determined if carriers are correctly assigning exposure data to classifications and to states and determined if carriers were making valid use of the estimated exposure indicator. The examination team did this by testing a random sample of statistical reports for the selected sample. The examination team compared the reports for the first five statistical reporting intervals with records of the carriers and conducted a premium audit of employers with Oregon exposures. The examination team reviewed each statistical report and aggregated the number and types of errors with respect to reported classifications, states and exposure data. The examination team tested the actual classification, state and exposure information on employer records against that reflected in the carrier's records. The examination team compiled the data gathered by error type and severity of error.

2. The examination team reviewed and evaluated NCCI's policies and procedures to monitor the use of the estimated exposure indicator; solicit subsequent reporting of actual exposure; and to evaluate each carrier in the random sample for quality of exposure reporting by classification and by state. The examination team did this by interviewing NCCI employees responsible for these procedures, observing the reporting and monitoring procedures in place and reviewing evidence that the procedures were performed as stated. The examination team also reviewed their editing policies, procedures and adherence to these policies and procedures. The examination team evaluated the adequacy of the procedures in place.

3. The examination team addressed the potential impact of the use of estimated and improperly assigned exposures on the classification loss cost rates and on experience rating modifications for individual employers. The examination team provided the examination actuaries with the errors and error rates for the data tested for this purpose.
4. The examination team evaluated current procedures in place at NCCI to encourage carriers to audit insured exposures competently and timely and report actual exposures promptly. Based on our collective experience and expertise, the examination team developed recommendations to establish or improve such procedures.

5. The examination team evaluated NCCI’s procedures regarding the use of penalties to encourage carriers to report proper exposure amounts and the proper use of the estimated exposure indicator, and recommended new procedures be put in place as well as modifications to existing policies or practices to make them effective.

6. The actuarial and examination teams reviewed NCCI experience rating procedures. The examination team tested a random sample of experience ratings to determine if the procedures deviated from the NCCI Experience Rating Plan. The testing and review focused on the determination of experience rating eligibility, establishment of anniversary rating dates, selection of policy periods to be included in the experience data, combination of employer entities for experience rating purposes and use of the correct experience rating values. To the extent deviations were noted, the actuarial team evaluated and reported upon such deviations from the Plan.

7. The examination team used the results from objective six above to recommend revisions in the operating procedures of NCCI to achieve concurrence with the NCCI Experience Rating Plan rules. The examination team also evaluated the impact of errors, in the employer and carrier sample testing as it related to the Experience Rating Plan rules.

8. The examination team reviewed the timeliness of NCCI’s experience rating computation and the distribution of such information. The examination team evaluated the root causes of untimely experience rating computations and distributions, as identified by NCCI, including such causes as untimely receipt of carrier statistical reports, failure to pass edits, or NCCI internal delays. The examination team evaluated the extent of late unit reports when testing the statistical reporting process in Objective 1. The examination team also determined the extent of the delays in experience rating production and distribution.

9. The examination team reviewed NCCI’s current procedures in place to penalize and/or incent carriers to improve the timeliness and quality of statistical reporting needed for experience rating. Based on the results of the testing in the preceding objectives, the examination team made recommendations to reactivate a revised and expanded penalty program to improve the timeliness and quality of the reporting.
10. To achieve timely production and distribution of experience ratings, the examination team reviewed the operational procedures of NCCI and provided recommendations for improvements or revisions.
C. OVERVIEW OF NCCI FUNCTIONS

C1. Unit Report Data

Unit report data can be sent to NCCI in any type of format convenient to the data provider’s statistical and accounting procedures and codes. The format must conform to the requirements of the Workers’ Compensation Statistical Plan, and the required data elements must be reported by the data provider within the required time frames as provided by the Plan.

NCCI strongly encourages but does not require data providers to report data in an electronic format. Electronic methods include: magnetic media, PC or mainframe transmissions. When electronic formatting is not feasible, NCCI permits statistical data to be reported on hard copy forms available from NCCI.

Data providers can submit unit report data electronically to NCCI by the following methods:

- Bulletin Board Services (BBS) – Unit report data is transmitted from PC to PC, to and from the data provider. Data providers dial-up directly to the service via their PC and submit the data in their directory. The data provider may also receive files from NCCI through the BBS.
- JES to JES - This is a method of transmitting data from mainframe to mainframe. The process is similar to the BBS except that the connection is made from the data providers’ mainframe.
- Cartridge – The data may be submitted electronically using cartridges. The cartridge must be appropriately labeled with the contents of the cartridge. A transmittal letter is also required to accompany the cartridge. The transmittal letter and the cartridge are returned to the data provider after successful loading in NCCI’s system.
- Tape – This method of electronic reporting is via magnetic tape reel.
- Disk/CD-ROM – Workers’ Compensation Statistical Plan data can also be downloaded to diskettes and CD-ROM to be sent to NCCI for processing.
- File Transfer Protocol (FTP)/E-Mail – Data providers can send unit files to NCCI via an internet browser interface or e-mail.
• Data Transfer via the Internet (DTVI) – This mode of electronic reporting offers the option to exchange data using a secure browser mailbox option.

The data provider must audit the statistics being reported prior to submission to detect any errors, e.g., errors in the assignment of statistical codes or in the assignment of claims to their corresponding policies. If audited information is not available prior to the submission of statistics, the data provider should identify and report the estimated exposure and premium until the audited information becomes available.

Estimated exposure should only be indicated when audited exposure information is not available at the time of reporting. First reports are valued at 18 months after the policy effective date and due at NCCI no later than 20 months after the policy effective month. If a first report is submitted with estimated exposure, a correction report including audited exposures and premium amounts should be submitted no later than the 24th month after the policy effective date.

According to the Workers’ Compensation Statistical Plan manuals, exposure and premium amounts reported on the unit report must be based on audited exposures. If an audit has not been made at the time of filing a first report, the data provider may submit estimated exposures and premiums, but must subsequently follow up with a correction providing the audited amounts.

Exposure, premium and loss data must be filed for every workers’ compensation policy and employers' liability policy. Electronic reports or transmissions should be submitted directly to NCCI. Hard copy submissions should be submitted directly to NCCI’s authorized keying vendor. A report must be filed for each state on a policy with estimated exposure, including those for which no exposure was developed. However, if a state was written on an “if any” basis, a report is not required provided no exposure developed for that state. On an optional basis, reports may be filed for those states written on an “if any” basis that do not develop exposure.

Date and Validation of Filing

Losses included in the first reporting of any given policy must be valued as of 18 months after the month in which the policy became effective, and the report must be filed no later than 20 months after the effective month of the policy. Subsequent reporting of loss data must be valued 12, 24, 36 and 48 months, respectively, after the valuation date of the first report.
Unit Report Submissions and Processing

Hard Copy Submissions

The data providers send standardized hard copy unit reports to NCCI’s keying vendor directly. The keying vendor is Appalachian Computer System Shared Services, Inc. (ACS) and is located in London, Kentucky. ACS is the keying vendor who receives the hard copy unit statistical reports and converts them to an electronic format. Exposure, premium and loss data that is submitted on hard copy forms must be filed directly with the keying vendor.

At ACS, the unit statistical reports are sorted by pre-URE and URE formats. Pre-URE and URE are the two standardized formats that data providers use in submitting their unit reports. The two formats are the expanded format (called URE) and the original format (called pre-URE). The expanded format contains 250 bytes for unit report data and the original format contains 120 bytes of data. When sending unit reports to NCCI, the data provider must use the URE method for policies effective after January 1, 1996 for states that have adopted the URE program. For policies prior to this effective date, the data provider must use the pre-URE format of reporting. At the data provider’s option, the expanded format may also be used to report policies effective after January 1, 1995.

However, with a few exceptions NCCI also accepts submissions of reports on BSI-5 and BSI-17 provided by self-insured organizations and on ERM-6 from non-affiliated data providers. Both BSI-5 and BSI-17 are formats created by Florida’s Department of Labor and Insurance. NCCI inherited these formats when data providers started reporting to them rather than to the State of Florida. Beginning January 1, 2001, self-insured organizations are required to submit their unit statistical reports in pre-URE or URE format. ERM-6 is a format used by non-affiliated providers to submit hard copy unit reports to NCCI, which are then sent to ACS for processing.

After the reports are sorted and separated by formats, the hard copy unit reports are scanned into the Submission Image Retrieval System (SIRS). An administration number is assigned and also stored in the SIRS system. The information is keyed into the system based on the data scanned into the SIRS system. If all required elements are not present or the document is not legible, the document is printed and returned to the data provider for correction.

The data are keypunched two times by different individuals to ensure accuracy. The data is then electronically transmitted 24 hours a day via modem from ACS to the Media Center at NCCI. The Media Center is the centralized location where all unit statistical reports are sent electronically by ACS and the data providers. The data is transmitted to NCCI’s media center on
a daily basis for processing into NCCI’s system. Original hard copies are retained and stored by ACS until all processing is completed by NCCI.

Data providers and NCCI have access to the scanned documents. Data providers can see where their unit reports are in the process of completion (scanned, keyed or transmitted to NCCI).

Electronic Submissions

Electronic submissions are sent directly to NCCI’s Media Center. Initial processing of the electronic data includes verification of standard format and creation of files used to print hard copy unit reports. Carriers submitting unit statistical reports electronically must abide by procedures specified in the Workers’ Compensation Insurance Organizations (WCIO) Workers’ Compensation Data Specifications Manual.

NCCI creates a backup file of all cartridges/tapes received from carriers. At the same time of the backup, the file is compared to the transmittal to ensure they are in balance. If any deficiencies exist between the transmittal and the cartridge/tape received, the carrier is contacted immediately and the electronic submission is returned to the carrier. If there are no errors between the transmittal letter and the data submitted, the cartridge/tape is loaded into the IDB (Integrated Database) system. If the data is in balance with the transmittal, the file is processed and the cartridge/tape is sent back to the data provider acknowledging a successful load.

There are a number of reporting mediums available for carriers to use in submitting unit reports electronically. These mediums are magnetic tapes, cartridges, data transfer via the Internet (DTVI), Bulletin Board Service (BBS), JES/JES, diskette/CD, and via e-mail. Approximately 45 percent of electronic submissions are through DTVI and 34 percent via the BBS reporting option, which provides the transmission of reports from carriers to the Media Center via personal computers, modems and telephone lines. This transmission may be accomplished using the special software package developed by NCCI called PC Encore. Approximately 12 percent of electronically submitted unit statistical data is provided to NCCI using magnetic tapes and cartridges. JES/JES is similar to the BBS processing, but instead of utilizing personal computers, transmission of data is done through IBM/MVS mainframe-to-mainframe computers. Only large carriers submit their unit statistical reports through the JES/JES system, which represents approximately 3 percent of total electronic submissions. Approximately 3 percent of electronically submitted unit statistical data is provided to NCCI using mailed diskettes and CD-ROM’s. The diskette/CD is a relatively new method and is normally used when files consist of just a few unit reports. Approximately 3 percent of electronically submitted unit statistical data is provided to NCCI using e-mail, with the data provided as a file attachment.
Unit Report Control (URC) and Unit Report Quality (URQ)

The URC system consists of a series of reports/turnaround documents that give data providers information on units that are about to be due (Predelinquent List) and on units that are considered past due (Delinquent List). These lists utilize both policy and previously reported unit information to determine what units are expected and what units should have been received. These units indicate whether the expected or missing unit is rated, rated-size or non-rated. These documents are produced in both hard copy and electronic forms.

Data providers are required to immediately submit the units listed on the Delinquent List and/or explain the reason why the unit should not be listed in the Predelinquent List turnaround documents. Examples of explanations for why a unit report may not be sent includes a policy cancelled flat, a state written on “if any” basis or incorrect key policy information, etc.

Data providers’ Predelinquent and Delinquent turnaround documents are also processed by the URC system. The URC system edits and produces Turnaround Error/Reject reports whenever the turnaround response or the key information supplied by the data provider through the Predelinquent and Delinquent turnaround documents is not accepted by the URC System. Units that were rejected by URQ for quality reasons will not be considered received by NCCI and therefore may be included on the delinquent list if the unit is not corrected and resubmitted in a timely manner. Data providers have to correct and resubmit all units rejected by the URQ system before URC will consider the unit as being present in the unit database.

The URQ edits are used by NCCI to validate unit reports. Edits of unit report data can be categorized as either Reject or Quality edits. The identification of errors occurs daily as the unit reports are processed through NCCI’s system.

A Reject edit is to ensure that the basic informational fields necessary to process the unit report (i.e. carrier codes, policy code, and state code) are correct. When a data element or record on a unit report fails a reject edit, the entire unit report is rejected and a Reject Facsimile or Electronic Submission Reject Report is produced. A Reject Facsimile is the image of a unit report that was submitted to NCCI, that failed NCCI edits, could not be processed and was rejected from NCCI’s system. Reject Facsimiles identify unit reports not accepted by NCCI’s system and provide carriers with an opportunity to make corrections. Reject reasons include missing or invalid fields, unit reports received out of sequence (e.g. second report received prior to first report), unmatched subsequent reports (e.g. key fields are not matched, such as carrier codes, policy number and state code) and unmatched correction reports (e.g. carrier code of first report not matched with carrier code of subsequent reports).
A Quality edit employs data fields other than those defined as key fields to identify and process unit reports. Quality edits can be categorized as Priority, Default or Suspect. A priority edit involves data critical for the calculation of rates and production of experience ratings. Priority edits can be segregated as Experience Rating (ER), Ratemaking Critical Value (CV), and Ratemaking Non-Critical Value (RM). An ER error is a URQ program error category that identifies errors in data that are crucial for experience rating as well as ratemaking. A CV error and a RM error are URQ program error categories that identify errors in data that are crucial to ratemaking. CV identified errors in data are over a critical value, while RM is associated with errors in data that are under a critical value. A record is considered a critical value if the premium or combined loss (indemnity and medical) is greater than $1,000 (CV) and a non-critical value if it is less than $1,000 (RM).

A default edit error occurs when data is in error and that data has been defaulted to a presumed correct value by NCCI. A suspect error involves data that is suspected of having an error according to reasonableness edits performed by the URQ system.

Priority default and suspect errors will appear on an error list that is sent to the carrier by NCCI. The error list is available on hard copy or electronic print image. The error list is separated into three selections: unmatched unit reports with no errors, unmatched unit reports with errors and matched unit reports with errors. Carriers are responsible to submit a correction report or replacement report for priority errors, and if the default or the suspect value is incorrect. If the default or suspect value is correct, carriers are not required to respond. However, NCCI does not follow up with carriers to ensure that defaulted errors have been corrected.

C2. Experience Rating

Experience modification factors, which are based on past experience and anticipated future experience, increase or decrease an insured’s manual premium. The experience rating process was established to more equitably distribute the costs of workers’ compensation premium to those insureds that incur higher than average losses (indicated by a modification factor of more than 1.0). Conversely, insureds with better than average loss experience (indicated by a modification factor less than 1.0) are given a reduction in their premium costs. Experience modifications are calculated for each insured meeting state mandated premium thresholds by comparing individual loss experience to classification averages.

Once the unit report review process is completed, the data is ready for the experience rating process if it qualifies for experience rating.

All unit data is received by the Experience Rating Department for experience rated policies to generate the experience ratings for policy anniversary dates. The Department may use one, two or three years of a risk’s unit data to determine qualification. A risk is considered eligible for
experience rating if the last year or last two years of the experience period produced a premium which meets the minimum premium requirements for the particular state (for example, the current premium threshold for the State of Oregon is $5,000). A risk is also eligible for experience rating if the average of the premium produced for more than two years meets a lesser minimum premium requirement for the particular state (for example, $2,500 for the State of Oregon).

The policy database (PICS) is used by the Experience Rating Department to determine the carrier of record and dominant policy for the risk’s rating effective date. Newly received unit report data is merged with older data to make up three years of experienced data. The URC uses the key linked information from the corresponding policy information that is stored in PICS. URC tracks the timeliness of the unit statistical data. The Experience Rating Department uses information from URC to note the experience rating as complete or contingent (data identified as not received). If the three-year minimum premium (or alternate) threshold is not met, exception procedures are used to obtain missing data or to produce the experience rating with less than three years of data.

The Unit Report System (URS) is an IDMS database that stores the unit report data to be used in experience rating and ratemaking.

The Experience Rating Department determines whether a unit being received requires revisions to more than one period. Depending on the state, unit changes may apply to past, current or future rating periods. Typical unit changes include correction and subsequent reports, third party recovery on claims, reclassification, and actual payroll information received. In contrast, units received may not apply to any currently experience rated risk. If units received do not apply to any currently experience rated risk, the system evaluates these units and all other units that belong to this insured to determine experience rating eligibility. A risk identification number is assigned sequentially by the system.

The experience rating production system automatically compares payroll and other information submitted by the carrier to information stored in URS. In addition, the experience rating production system performs rule based edits to determine if worksheets meet criteria set by manuals and state specific rules. The validation process generates a valid rating data file and a rejected rating data file. Valid rating data is further separated into single state insureds (intrastate) and multi-state insureds (interstate) files. The valid rating files are processed through calculation programs, which produce rating sheets for each insured. Rating sheets list all payroll and loss data, ELRs (expected losses for a classification per unit of exposure), and D-ratios (losses that are expected to be below a specified dollar amount) used in producing the experience modification factor, which is also listed. Rejected rating data is reviewed, corrected and reprocessed.
Contingent ratings

When data is missing or there is a lapse of coverage of six months or more in an experience period, a contingent rating, where permitted, may be generated. Contingent ratings include a minimum of two years of first report unit experience for a three-year period or one year of first report unit experience for a two-year period.

Preliminary modifications

When an experience rate revision is pending, a preliminary experience modification is calculated and issued by NCCI using current rates. This preliminary modification is applied to the policy until the pending rates are approved by the pertinent state. The experience modification is then recalculated and issued by NCCI.

Pending database

During the period under examination, the “Pending” database was used to store the first report unit data that contained priority errors (a priority error is an error in data that is critical for the calculation of rates and the production of experience ratings). The data is stored in this database until a correction, replacement, or the data provider submits a turnaround (pre-URE only) report. Data that was stored in the pending database was not used in the experience rating process until the priority error was corrected.

Effective April 30, 2001, priority errors are no longer stored in the "Pending" database. Data grade 4 errors are incorrectly reported data elements, which are presently captured in the IDB system as submitted and require a correction report. These errors are included in the ratemaking process and are reviewed as part of the ratemaking validation process. Data grade 5 errors are incorrectly reported data elements captured in IDB as submitted and require a correction report. However, these errors are not included in the ratemaking process.

Examples of data grade 4 errors include invalid flags for assigned risk, canceled policy, estimated exposure, interstate rated, multi-state, non-standard policy, plan type code, exposure coverage type code, employee leasing, and policy type code. Also included in data grade 4 errors are: calculated total (net) premium is negative, duplicate loss constant class on unit, experience mod effective date greater than policy expiration date, calculated premium amount incorrect, rate effective date greater than policy effective date and non-numeric paid indemnity and medical amounts.
Examples of data grade 5 errors include: non-numeric or invalid deductible aggregate amount, deductible by claim amount, deductible loss type code, deductible percentage, deductible type applied code, invalid class code per table/state/effective date, exposure class code cannot have exposure, class code inconsistent with deductible type fields, exposure coverage act code invalid per table, premium amount field non-numeric, accident date outside policy period and claim status code invalid.

Non-affiliate hard copy submission

The data submitted by non-affiliated data providers (i.e. insurance carrier, third party administrator, or self-insureds insurance funds) is reviewed and assigned an identification number for processing. The hard copy reports are submitted by NCCI to ACS Shared Services, Inc. ACS receives the hard copy reports and converts the data to electronic format. In order to ensure accuracy, the reports are double keyed.

The data is transmitted to NCCI’s media center for processing into NCCI’s experience rating production system. Non-affiliate information is not stored in URS. ACS stores non-affiliate information.

Interstate

A risk is eligible for experience rating on a multi-state (interstate) basis when it meets the requirements for intrastate rating in any state and also develops experience during the experience period in one or more additional states. The experience modification for a risk experience rated on a multi-state basis is determined by using the experience of all states included in the experience rating, tabulated separately for each state.
D. EXAMINATION APPROACH

D1. Work Performed by Objective

The examination was conducted in four sections:

- Unit report testing at NCCI Headquarters
- Experience rating testing at NCCI Headquarters
- Unit report testing of six selected carriers data
- Premium audits of employers with Oregon exposure

The general approach to the testing at NCCI’s Headquarters was to determine the procedures for data collection and ensuring data quality and timeliness, including conformity with the Statistical Plan, manuals and NCCI procedures. In determining the approach, the following procedures were performed:

**NCCI Headquarters**

- Reviewed NCCI’s procedures to ensure that all unit reports are received by NCCI.
- Reviewed NCCI’s procedures to ensure the accuracy of the unit report data.
- Reviewed NCCI’s procedures to ensure that all unit reports submitted on magnetic tape are entered accurately into the URS system.
- Reviewed NCCI’s procedures to ensure that all hard copy unit reports are entered accurately into NCCI URS System.
- Examined unit reports for a random sample of policies for agreement with carrier submissions to NCCI.
- Interviewed NCCI employees responsible for NCCI’s policies and procedures that monitor the estimated exposure indicator, solicit subsequent reporting of actual exposures, and evaluate carriers for quality of exposure reporting by classification and state.
- Reviewed NCCI’s procedures to monitor the use of estimated exposures, encouraging carriers to audit exposures, solicit subsequent reporting of actual exposures; and evaluated carriers for quality of exposure reporting by classification and by state.
• Reviewed and evaluated the procedures in place at NCCI to encourage carriers to audit insured exposures competently and timely and report actual exposures promptly.

• Reviewed NCCI’s procedures in place to penalize or provide incentives to carriers to improve the timeliness and quality of statistical reporting.

**Selected Carriers**

The objectives of the testing at the six carrier locations were to determine whether carriers are correctly assigning exposure data to classification and states; determine if carriers are determining actual exposures and reporting them to NCCI on a prompt and timely basis; determine if carriers are properly indicating on unit reports the use of estimated versus actual exposure (payroll) data; and determine if data reported to NCCI is accurately reported.

The evaluation of the carrier's statistical reporting practices included the following:

• Discussed with each carrier the procedures for reporting UR information to NCCI and making corrections to the data;

• Reviewed and ensured that the carrier’s premium audit invoices reconciled to the specific information in the premium audit workpapers if a premium audit was performed;

• Verified that all information on the premium invoice reconciled (including payroll, period, classes, etc.);

• Determined that the results of the premium audit were reported to NCCI;

• Compared the unit report information obtained from NCCI to the carrier’s source documentation;

• Clerically tested totals on unit reports to source documentation;

• Determined whether the risk was intrastate or interstate from data in the carrier’s files;

• Reviewed other documentation in the carrier’s files provided to the examination team including ownership/combination of entities information/changes;
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- Determined if a policy was eligible for experience rating based on carrier records and premium thresholds;

- Reviewed class codes and based on discussion with carrier and review of corroborating documentation, determined if exposure data was being assigned to the proper classification and states;

- Determined whether the carrier used the experience modifier issued by NCCI;

- Selected a judgmental sample of UR’s from carrier records for testing the completeness of NCCI’s system data at NCCI Headquarters;

- Concluded on the results of testing and documented all findings and pertinent details for each carrier; and

- Addressed the potential impact of the use of estimated and improperly assigned exposures on the classification loss cost rates and on experience rating modifications for individual employers.

**Employers with Oregon Exposure**

The objective of the testing at the employer locations was to perform a physical premium audit based on the policy coverage period and compare the results to the carrier's premium audit records.

The evaluation of the selected employers included the following:

- Reviewed NCCI Workers’ Compensation Manuals to assure that the final audit was in keeping with the rules and that each class code assigned was correct for Oregon;

- Reviewed all source documents such as time cards, time sheets, daily logs and recaps and summaries and verified individual employee breakdowns between classifications where the employee was dividing his or her time between assigned classifications;

- Reviewed the business operations of each employer audited with a principal of the business or with his or her authorized representative and ascertained the risk exposures and the correct classifications for the business operations;

- Documented the tabulation of audit worksheets and the completion of the entire audit, including summary sheets;
• Reviewed the documentation of quarterly gross totals, exclusions and inclusions and subject payroll by classification;

• Reviewed the support for a full audit period of a standard exception analysis for firms with an average of fifteen or less employees per standard exception classification;

• Reviewed documentation of both the FICA and State Unemployment payroll totals as verification of the gross payroll not applicable to risks not subject to FICA;

• Summarized the testing procedures and results by employer; and

• Evaluated the impact of the results on the statistical reporting process.

D2. Sampling Approach

The following is an overview of the sampling methodology used to test experience ratings produced by NCCI and unit report data submitted to and processed by NCCI. The approach to testing the accuracy of the data converted by NCCI from unit reports submitted by carriers and the approach to testing the accuracy of the experience ratings produced by NCCI is as follows.

Appropriate methods and assumptions to conduct an examination of NCCI procedures for unit reports consistent with its Statistical Plan and the production of experience ratings for individual employer accounts consistent with the Experience Rating Plan have been applied. An evaluation of NCCI’s procedures to monitor the estimated exposure amount; obtain subsequent reporting of actual exposure; and evaluate each carrier for quality of exposure reporting by classification and by state was also conducted. Any errors were noted and investigated to identify the source of the errors found. All differences were recorded in the workpapers.

Definitions of terms used in this report are as follows:

• Confidence Level: The statistical probability, expressed as a percentage, that the actual error rate in the population does not exceed a stated value (i.e., the achieved upper error limit).

• Achieved Upper Error Limit: This indicates the probable maximum error rate that is estimated to be in the population. It is calculated using probability theory at the specified confidence level based upon the actual sample error rate.
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- Planned Upper Error Limit: This is the preliminary planning estimate or expectation of what the achieved upper error limit will be for the population. It is used in determining sample size. It may vary significantly from the achieved upper error limit.

- Expected Error: This is a preliminary estimate of the anticipated error rate in the population and is used in determining sample size.

- Sample Error Rate: This is the actual error rate observed in the sample.

**NCCI Unit Report Audit**

Testing of the unit report data was accomplished using a statistical sampling approach known as attribute sampling. This approach examines the frequency of errors. The population was defined as unit reports relating to 1993 and subsequent policy years. To determine the sample size for testing, an Arthur Andersen software program was utilized. This software calculates the sample size based on selected parameters for confidence level, expected error rate and upper error limit. Easytrieve PanAudit, a mainframe computer system application approved by the NAIC for use in examinations, was used to extract the data and to select the unit reports for testing. Easytrieve PanAudit was also used to generate a random sample of reports to test.

The examination team determined the statistically valid sample size to test for the unit report data. The random sample was selected at the unit report level. The examination team used the selected unit reports in this sample to compare the data per NCCI's system to the original source data submission (electronic or hard copy) from the carrier to determine whether NCCI correctly processed the following unit report data: report number; policy number; carrier number; policy effective date; policy expiration date; risk id; exposure state; insured's name and address; modification (mod) effective date; rate effective date; policy conditions; deductible type; exposure coverage; exposure amount; manual rate; premium amount; claim number(s); accident date; incurred indemnity; incurred medical; class code; injury code; status and record receipt date.

The number and types of errors were classified with respect to the specific fields tested, and the source of the error was identified. Statistical estimates were made of the rates of the accuracy and completeness of unit report data.

For this unit report sample, an error is defined as any one or more data elements relating to a unit report which was not properly recorded by NCCI from information provided by the carriers. For example, if a carrier submitted an exposure amount that is different from what is identified in NCCI's database, an error exists. Alternatively, if the unit report indicates the exposure is estimated while NCCI shows the data as final, an error exists. If multiple errors occurred on the same unit report, the report itself would be considered in error only once (both errors, however, are listed in the report).
NCCI provided a population size of 15,422,590 unit reports. Using the following parameters, a sample size of 181 was selected for the unit report testing:

- **Confidence Level**: 95%
- **Expected Error Rate**: 2%
- **Planned Upper Error Limit**: 5%

During the reconciliation process of the total unit reports, it was discovered that six unit reports were not provided in the population. Since four of the six reports were from participating states, the examination team audited them as a separate judgmental sample, making the total number of unit reports tested 185.

**Carrier Unit Report Audits**

The second unit report sample consisted of unit report data from six selected carriers. The six selected carriers represented a countrywide premium distribution, participating state representation, a cross-section of NCCI’s Carrier Data Quality Report assessments, consideration of market share and centralized carrier record locations. NCCI provided a download of all unit report information from these six selected carriers. A random sample was generated at the policy level. The examination team reviewed all unit report data supporting each randomly selected policy and compared the unit report data for each state at the first, second, third, fourth and fifth reporting intervals, where applicable, to actual carrier source records. The unit report data per NCCI's system, relating to the selected policies, was validated from the carrier's submissions to NCCI and from the carrier’s supporting/underlying documentation to determine whether the carrier correctly and timely reported the information, including premium audit results.

For the above testing, the examination team determined whether NCCI correctly processed the following unit report data: report number; policy number; carrier number; policy effective date; policy expiration date; risk id; exposure state; insured's name and address; modification (mod) effective date; rate effective date; policy conditions; deductible type; exposure coverage; exposure amount; manual rate; premium amount; claim number(s); accident date; incurred indemnity; incurred medical; class code; injury code; status and record receipt date. The examination team classified the number and types of errors with respect to the specific fields tested, and identified the source of the errors found. Statistical estimates were made of the rates of the accuracy and completeness of unit report data supporting specific policies. Because only six carriers were included in the population to be reviewed, the findings noted relative to these six carriers may not be representative of all carriers from which NCCI collects data.
For this sample, an error is defined as any one or more data elements on unit reports relating to a policy which was not properly reported by the carrier to NCCI, or was reported but a discrepancy was noted, or if the information was reported late. If more than one error is noted for any one policy, the policy will be in error only once (both errors, however, are listed in the report). Also, for this unit report sample, an error is defined as any one or more data elements relating to a policy which was not properly recorded by NCCI from information provided by the carriers. For example, if a carrier submitted an exposure amount that is different from what is identified in NCCI's data, an error exists. Alternatively, if the unit report for a policy indicates the exposure is estimated while NCCI shows the data as final, or if the data was submitted late to NCCI, an error exists. If both errors occurred on the same policy, the policy itself would be considered in error only once (both errors, however, are listed in the report).

NCCI provided a population size of 344,027 policies. Using the following parameters, a sample size of 181 policies was selected for unit report testing:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confidence Level</td>
<td>95%</td>
</tr>
<tr>
<td>Expected Error Rate</td>
<td>2%</td>
</tr>
<tr>
<td>Planned Upper Error Limit</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Employer Audits**

In addition to the carrier audits discussed above, the examination team conducted audits of a sample of employers with Oregon exposure.

The examination team generated a sample of employers from the above policy level unit report sample for the six carriers. It was noted that there were only a few employers with Oregon exposure in this sample. To obtain the additional employers, the examination team segregated all Oregon related business from the data at the six targeted carriers and generated a sample selection of the additional employers to arrive at the desired sample size. This sample was not determined on a statistical sampling basis.

**Experience Rating Audit**

The examination team selected a random sample of rating worksheets produced and released during the period October 14, 1998 through October 14, 2000 to determine if the procedures used to develop the worksheets deviated from NCCI’s Experience Rating Plan. The random sample included all ratings that were released to the carrier, including contingent, preliminary and complete ratings.
The examination team used attribute sampling to test the frequency of errors on ratings produced. Testing addressed the following: rating eligibility; establishment of anniversary rating dates; selection of policy periods to be included in the experience data; combination of employer entities and ownership issues; and use of the correct rating values. In addition, the examination team summarized the nature, amount and types of errors.

An error is defined as a rating that was not produced properly for any reason. For example, if a policy was included in the rating that should not have been or if the claim or claim data was not properly considered, it would be considered an error. If more than one error was discovered for any one rating, the rating was in error only once (all errors, however, are listed in the report).

NCCI provided a population size of 1,604,529 experience ratings. Using the following parameters, a sample size of 184 ratings was selected for testing:

- Confidence Level: 95%
- Expected Error Rate: 7%
- Planned Upper Error Limit: 11%

**Data Analysis**

For data analysis purposes, the examination team performed certain analyses of the unit report population. Two analyses that the examination team performed related to the percentage of policies that are rated versus not rated and how many policies had estimated versus audited exposure (as indicated by the carrier on the unit report). Data files were extracted from NCCI's URS (unit reports) and ER (experience rating) databases.

**D3. Unit Report Testing Procedures at NCCI**

The evaluation of Workers’ Compensation Statistical Plan data was accomplished through analysis and statistical and judgmental sampling procedures.

**Specific Tests Performed**

The examination team tested a random sample of statistical unit reports to determine whether data was accurately reported in the system. The purpose of the review was to evaluate the quality and accuracy of the unit reports maintained in the unit report database as processed by NCCI. The examination team compared unit reports per NCCI’s system to the original submission from the carrier. The examination team reviewed unit report data submitted from each carrier for timeliness, accuracy and completeness.
During the performance of the carrier audits, a judgmental sample of unit reports were selected to test the completeness of NCCI’s system data. The examination team selected a sample from each carrier’s statistical reporting system for 1993 and subsequent policy years. Once selected, the information was reviewed and verified against NCCI’s system data.

The examination team judgmentally selected 20 unit reports from the random sample of unit reports to review the date received recorded in the URS system against the date recorded on the carrier backup data and management report log to ensure its accuracy.

According to the Workers’ Compensation Statistical Plan manuals, exposure and premium amounts reported on the unit report must be based on audited exposures. If an audit has not been made at the time of filing a first report, the data provider may submit estimated exposures and premiums, but must subsequently follow up with a correction report providing the final audited amounts.

Estimated exposure should only be indicated when final exposure information is not available at the time of reporting. First reports are valued at 18 months after the policy effective date and due at NCCI no later than 20 months after the policy effective date. If a first report is submitted with estimated exposure, a correction report including final audited exposures and premium amounts should be submitted no later than the 24th month after the policy effective date. The examination team noted 11 unit reports in the sample of 181 with estimated exposures. It was noted that the unit report system included correction reports for 3 of the 11 policies. Of the 8 remaining policies with estimated exposures, 2 had policy effective dates of 1993, 1 with 1995, 1 with 1997, 2 with 1998 and 2 with 1999 effective dates.

The examination team reviewed NCCI’s procedures to monitor the use of estimated exposures and their encouragement for carriers to audit exposures.

The examination team also reviewed NCCI’s procedures to solicit subsequent reporting of actual exposures and NCCI’s evaluation of carriers for quality of exposure reporting by classification and by state.

To test experience rating eligibility, the examination team selected all unit reports without a risk identification number from the random sample of unit statistical data, resulting in a sample of 101 unit reports. The examination team obtained the risk’s premium history from NCCI’s Risk Information System. Based on the examination team’s review, it was noted that one non-experience rated risk was eligible for experience rating.
D4. Unit Report Testing Procedures at Carriers

The primary objectives of the unit report testing at the carriers’ sites was to evaluate NCCI’s procedures, if any, to identify potential data problems such as the following: (1) if carriers are correctly assigning exposure data to classification and states; (2) if carriers are determining actual exposures and reporting them to NCCI on a prompt and timely basis; (3) if carriers are properly indicating on unit reports the use of estimated (versus actual) exposure (payroll) data; and (4) if data reported to NCCI is accurately processed. This testing consisted of a review of a random sample of unit report data from six selected carriers. From the unit report data of the six carriers, the sample selection was made at the policy level. The examination team reviewed all unit report data supporting each selected policy and compared the unit report data at the first, second, third, fourth and fifth reporting intervals, where applicable, to actual carrier source records at the six carriers. The unit report data per NCCI's system, relating to the selected policies was validated to the carrier's submissions to NCCI and to the carrier's supporting/underlying documentation to ensure that the carrier correctly and timely reported information, including premium audit results.

Letters were sent to the selected carriers that provided a list of the policies that were selected for testing and requested the following items for each policy in the sample to be prepared for review by the examination team:

- A printed copy of all unit report data submitted to NCCI;
- The underwriting file, including the declaration page, policy forms and copies of all endorsements with the amounts submitted to NCCI on the unit reports clearly identified and highlighted;
- A final premium report from the carrier's premium accounting system which shows, for each policy selected, the final premium amount by class;
- The premium audit file with all premium audit workpapers. (If no premium audit was performed, the carrier was requested to provide a written explanation. Premium audit workpapers include premium audit invoices that should contain payroll, period and class information);
- A listing of all claims for each unit report submitted, showing the cut-off date for each unit report submitted. The examination team also requested a current listing by policy year for the policy, inclusive of both incurred and reported dates;
• Claim files with the claim information that was submitted to NCCI clearly marked. (Due to the number of claims on some policies, not all claims were selected for review);

• All experience rating modification worksheets (if experience rated);

• Policy ownership documentation and any changes that occurred during the last three years; and

• Any other supporting documentation for the data submission to NCCI not included above.

The examination team also requested that the carriers provide a written narrative of their procedures and processes for reporting unit statistical information to NCCI and subsequent corrections to, or replacements of the data. The examination team met with the appropriate contacts at each carrier to discuss and document this process.

The examination team conducted the reviews of the six selected carriers. This review included a review of the premium audit workpapers of each sample item. If the premium audit was performed, the examination team reviewed the audit to ensure that the carrier's premium audit invoices reconcile to the specific information in the premium audit workpapers. All information on the invoice was reconciled (including payroll, period, classes, etc.). If the premium audit did not reconcile, the examination team made inquiries of the carrier as to the reason and evaluated all explanations for appropriateness. If no premium audit was performed to date, the examination team determined if one was scheduled. If no audit was scheduled, an inquiry was made of the carrier and documentation of the reason was prepared. Also, it was verified that the UR exposure data was identified as an estimate. Finally, it was verified that the results of the premium audit had been reported to NCCI.

The examination team also compared the unit report information obtained from NCCI to the carrier's source documentation (i.e., policy application file, premium reports, underwriting files, claim runs/files, etc.) and rating plan to verify accuracy in the application and reporting of the following factors, when applicable:

a. Policy number  
b. Report number  
c. Carrier number  
d. Policy effective date  
e. Policy expiration date  
f. Exposure state and coding  
g. Insured's name and address  
h. Mod effective date
i. Rate effective date
j. Policy conditions
k. Deductible type
l. Exposure coverage
m. Exposure amount (estimated vs. actual)
n. Manual rate
o. Premium amount (audited vs. unaudited)
p. Claim number(s)
q. Accident date
r. Incurred indemnity
s. Incurred medical
t. Class code
u. Injury code
v. Status
w. Premium discount amount
x. Expense constant amount
y. Experience modification factor
z. Total modified premium
aa. Application of the correct experience modifier
bb. Any other applicable rating element or discount
c. Explain the nature/propriety of other elements/discounts

The examination team clerically tested the totals on the unit reports to source documentation.

A determination was made as to whether the risk was intrastate or interstate from data in the carrier files. Based upon information available at the carrier, the examination team verified that the interstate risks reflect appropriate split of exposure by state, and that state coding on the unit report is accurate.

A review was conducted of other documentation in the files provided to the examination team including ownership/combination of an entity's information/changes.

A determination if a policy is eligible for experience rating based on carrier records was made. If so, the examination team determined whether NCCI identified the policy as eligible for experience rating.

The examination team reviewed class codes and based on discussions with the carrier and review of corroborating documentation, determined if exposure data was assigned to the proper classifications in accordance with the Experience Rating Plan.
The examination team determined whether the carrier used the experience modifier issued by NCCI.

Also, the examination team selected a judgmental sample of unit reports from the carrier's records for 1993 and subsequent policy years to test the completeness of NCCI's system data. These policies were sent to the NCCI Headquarter team for review and verification to NCCI's system data.

The examination team concluded on the results of this testing overall and by carrier in a written summary memo. Documentation was also provided to support all findings and pertinent details.

**D5. Employer Audit Testing Procedures**

The objective of the testing at the employer locations was to perform a physical premium audit based on the policy coverage periods and compare the results to the carrier's premium audit records. This testing consisted of site visits of 12 employers with Oregon exposures by a premium audit subcontractor, Northwest Audit. The subcontractor conducted premium audits to assess reported premium, insured exposures, state, correct classifications, loss and other information reported by the employer to the carriers.

Letters were sent to the carriers who were represented by the selected employers requesting them to provide an audit package for testing by Northwest Audit. This audit package included the following items from the carrier's records:

- Final premium audit invoice for the subject policy period;
- Auditor's worksheets;
- Policy including declaration sheet and all endorsements;
- Correspondence pertinent to proper completion of the audit including corporate officer waiver and revised audits, if any;
- Claim number, claimant's name, date of injury and class code assigned for all individual claims with a cost of $2,000 or more;
- A determination of whether this policy was closed by final physical field audit, by voluntary reporting by employer, or policy was closed as written and the audit was waived; and
- Name and telephone number of the audit contact person.
Letters were also sent to the selected employers advising them that they had been selected for audit and asking them to provide the following information:

- Quarterly Payroll Tax Records - Federal 941's, Oregon QO's and Schedule 132;
- All payroll records for the audit period, including payroll registers, payroll journals and employee earnings records;
- Any payroll summaries used for the purpose of reporting workers' compensation wages to the carrier;
- Time cards, time sheets or other source documents used to split any workers' wages between classifications if they worked between two or more workers' compensation classifications;
- Cash disbursements, general ledgers, or check registers for the purpose of determining any payments to subcontractors, contract labor or casual labor persons or businesses; and
- Any workers' compensation insurance certificates of coverage or contractor's board registration information on all subcontractors, contract labor or casual labor persons or businesses.

Northwest Audit principals reviewed the audit packages received from the carriers and conducted the review of the employer records.

This review included a determination of subject payrolls from original source records including excludable payrolls for overtime, bonus pay and vacation pay, etc. Verification of gross payrolls with the Quarterly Federal 941 and Oregon State employment records was also performed.

A review of the general ledger, cash disbursements, check registers, income tax returns or any other records deemed necessary to determine whether payments were made to subject subcontractors, contract labor or casual labor was also completed.

A review of all source documents such as time cards, time sheets, daily logs and recaps and summaries to verify individual employee breakdowns between classifications where the employee divided his or her time between assigned classifications was also completed. This is in keeping with the Oregon verifiable records rule allowing any worker to split wages between assignable classifications for the risk, provided that adequate records are maintained to do so. This was reviewed on a per state basis if multi-state coverage was provided.
A review of the business operations of each employer audited with a principal of the business or with his or her authorized representative to ascertain the risk exposures and the correct classification for the business operations was completed.

They also reviewed the tabulation of audit worksheets and the completion of the entire audit, including summary sheets.

During the review of the audit submissions the following information was reviewed: description of the operations and premises, ownership information, classification support, labor interchange, verifiable records, subject and non-subject wages, records, claims data, standard exception analysis, and use of subcontractors.

**D6. Experience Rating Testing Procedures**

The primary objectives of the experience rating testing were (1) to determine if NCCI’s procedures deviate from the Experience Rating Plan by reviewing a random sample of experience ratings; (2) to recommend revisions in the operating procedures of NCCI to achieve concurrence with NCCI Experience Rating Plan rules; (3) to review the timeliness of NCCI’s experience rating computations and the distribution of such information as well as the root causes for untimely ratings and distribution; and (4) to review the operational procedures of NCCI and provide recommendations for improvements and revisions.

The evaluation of the experience rating area was accomplished through interviews with key personnel, control testing and statistical sampling. Actuaries from Arthur Andersen LLP assisted in the review of this area.

To test the accuracy of experience ratings, a random sample of rating worksheets was selected from experience ratings produced and released during the period October 14, 1998 through October 14, 2000 to determine if the procedures used to develop the worksheets deviated from NCCI Experience Rating Plan. The random sample includes contingent, preliminary and complete ratings if they were released to the carrier.

The examination team used attribute sampling to test the frequency of errors on ratings produced. The testing addressed the following: rating eligibility; establishment of anniversary rating dates; selection of policy periods to be included in the experience data; combination of employer entities and ownership issues; and use of the correct rating values.
For this sample, an error was defined as a rating that was not calculated properly for any reason. For example, if a policy was included in a rating and should not have been or if the claim or claim data was not properly considered, it would be considered an error. Again, if more than one error is discovered for any one rating, the rating is in error only once.

NCCI provided a population size of 1,604,529 experience ratings. Using the following parameters, 95% confidence level, 11% upper error limit, and a 7% expected error, a sample size of 184 ratings was selected for the testing.

The following describes sub-samples taken from the experience rating sample explained above:

- In order to verify that the data contained on the experience ratings was accurate, twenty-five percent (25%), or 46 of the 184 experience ratings, were judgmentally selected and reviewed. The data from the experience ratings were traced and agreed to NCCI’s unit report database.

- To verify that NCCI included all applicable unit reports in the sample of experience ratings, fifty (50) of the 184 experience ratings were randomly selected and reviewed. In addition, 10 experience ratings from the 50 random selections were judgmentally selected for the purpose of testing directly from the URS to the experience ratings.

- For intrastate experience ratings, the examination team judgmentally selected one policy from each experience rating for testing of the underlying data. For interstate experience ratings, the examination team judgmentally selected policies with exposures in the participating states. Up to twelve policies were selected from each interstate experience rating where four or more participating states were represented, while one or two policies were judgmentally selected from each interstate experience rating where two or three states were represented.

- For ownership and combination testing, twenty (20) experience ratings were judgmentally selected for the purpose of performing a search of public information for evidence of mergers, acquisitions and other ownership changes. The search covered the 1998 through 2000 time period.

- To ensure that NCCI-provided state rating tables were accurate, twenty (20) data elements from each participating state-provided rating table were judgmentally traced and agreed to NCCI-provided state rating tables.

For intrastate ratings, the premium indicated on the rating was reviewed to verify that the minimum premium requirements were met in accordance with state-specific minimum premium amounts indicated in the Experience Rating Plan Manual, Appendix A-1. For interstate ratings,
in addition to the intrastate step, the examination team verified that the risk developed premium in at least one additional state.

For intrastate ratings, the correct selection of the anniversary rating date (ARD) was verified by agreeing the day and month of the current policy effective date to the day and month of the ARD. For interstate ratings, the current policy from the state with the highest premium was verified as the policy used as the basis for the ARD.

As background, the Experience Rating Plan Manual, Part I, II, G, states that the anniversary rating date is the effective month and day of the policy or policies in effect, unless a different date has been established by the rating organization. According to NCCI’s Experience Rating Procedures Manual, the anniversary rating date is determined as follows:

Intrastate:

1. The effective date of the current policy (if no other policies overlap with it).
2. The policy must be written for a full year.
3. The ARD must be greater than 3 months but not greater than 15 months from the previous rating date.
4. If the most current policy is overlapped by other policies, the ARD is based upon the one with the highest premium.
5. As an example, assume a risk has the following policy effective dates:

   Policy A: 8/13/95-8/13/96
   Policy B: 8/13/96-7/01/97
   Policy C: 7/01/97-7/01/98

   For a previously rated risk, the ARD would be 8/13/97. It would change to 7/1 for the 1998 rating. For a newly qualified risk, the ARD would be immediately set to 7/1/97.

Interstate:

1. The ARD is determined by the effective date of the policy with the state with the highest premium.
2. All other intrastate rules apply.

The ratings were reviewed to confirm that the selection of policies was proper according to the participating states' interpretation of the Experience Rating Plan Manual rules.
Beginning with ARDs for July 1, 2000 and subsequent, the experience period used by NCCI for Oregon experience ratings was revised to extend the eligible experience period by one day. This was tested, as applicable.

Experience ratings were tested for the inclusion of all applicable unit reports. The unit reports contained in the Unit Report System for each policy on the experience ratings tested were compared to the unit reports included on the experience ratings. The policy number, effective date and expiration date of the policy, classification codes, payroll and claim amounts were traced and agreed from URS screen prints to the experience ratings.

The complete status and the revised status of experience ratings were confirmed as appropriate as to the inclusion of all applicable unit reports. The allowance of the release of contingent ratings and/or preliminary ratings by NCCI in the states represented in the experience rating sample was confirmed by reviewing state requirements. In addition, testing was performed to confirm that contingent ratings became complete ratings and preliminary ratings became final.

Ownership and combination documentation provided by NCCI was reviewed to determine if ownership changes or combination of entities were handled in a manner that deviates from the procedures of the NCCI Experience Rating Plan.

Policies from experience ratings were tested by verifying critical attributes from the Unit Report Inquiry System to the experience ratings.

The actual incurred losses and the actual primary losses, which are reflected on the experience rating worksheets, were recalculated. Actual incurred losses were recalculated considering the adjustment based upon injury codes and large loss limitations, which vary by state. Actual primary losses were recalculated based upon the actual incurred losses, limited to $5,000 and, if applicable, modified based upon the injury codes.

Modification factors were recalculated to verify that NCCI correctly calculates experience modifications.

The expected loss ratio (ELR), discount ratio (D-Ratio), ballast and weighting values used in the ratings were verified to the Experience Rating Plan Manual Table of Expected Loss Rates and Discount Ratios (ELR & D-Ratio Table), Table of Weighting Values (W Table) and Table of Ballast Values (B Table), which were in effect at the time of the effective date of the rating. Specifically, all class codes (by entity and by state) were agreed to the ELR in the ELR & D-Ratio Table. For all class codes (by entity and by state), the D-Ratios were agreed to the ELR & D-Ratio Table. Weighting values (item A on rating) were agreed to the W Table, based upon expected losses. Ballast values (item G on rating) were agreed to the B Table, based upon
expected losses. In addition, for interstate risks, the expected losses, weighting and ballast values were recalculated.

For the timeliness review, the initial release date of the experience rating was compared to the rating effective date.

To create an experience rating, policies need to be linked together in order to collect all policy and unit information for a risk. The linking of policies is performed by the automated system and manually. The automated system links policies as they are received and, based on risk ID changes on the policy, reevaluates the links. Experience Rating personnel review name, address, Federal Employer Identification Number (FEIN), other names, and other locations to determine if entities should be linked. Following this review, if two of these criteria are met, the entities are linked together.

The linking criteria, in order of sequence used by NCCI, was:

1. Prior/current policy number and carrier code/group
2. Location and compressed name (Note: to obtain the compressed name, the system takes the insured name and drops off certain characters, i.e., all vowels after the first, small words such as “the” or “of,” and repeated letters to create a shortened version).
3. Location and federal ID number
4. Federal ID number and compressed name
5. Location and risk ID number
6. Federal ID number and risk ID number

If these linking criteria are not met, or if the link elements are not exact matches, NCCI expands the review by comparing policy number, governing class code and policy effective date. NCCI also determines if there was a possible ownership ruling or letter that confirms that the policies should be linked together.

To determine if entities were appropriately linked to other entities, ten (10) entities were judgmentally selected from current automated system reports.

Non-experience rated risks from the NCCI unit report sample were reviewed for experience rating eligibility based upon the minimum premium requirements.
E. FINDINGS

E1. Major Findings

The major findings from the examination of NCCI may be grouped into the following sections:

I. NCCI Headquarters Activities: Findings in this area include issues noted during the testing of unit reports and experience ratings at the headquarter location.

II. Unit Report Testing of Selected Carriers: During the review of the selected carriers, many discrepancies were noted between the information included in the carrier's source files and the information that was included in NCCI's Unit Report database. These discrepancies are noted in this area.

III. Premium Audits of Employers with Oregon Exposures: The review of the employers also indicated areas of discrepancies between the premium audit related information at the employer site and the premium audit information provided by the carriers.

NCCI Headquarter Activities

The findings in this area include issues noted during the testing of unit reports and experience ratings at the headquarter location.

Unit Report Testing at NCCI

1. Based upon the results of the testing, there were 4 unit reports that contained discrepancies between NCCI’s unit report system data and the carrier submitted unit report data. With a sample error rate of 2.2%, there is 95% confidence that the maximum error rate in the population does not exceed 5%. Detailed sampling results are presented in Appendix 1 of this report.

2. For the past several years, NCCI has not been enforcing the fining system it has in place for carriers whose data is not submitted timely or within data quality standards. The Unit Report Control (URC) system is intended to provide additional control by automating requests for specific unit reports. The URC program monitors first, second, third, fourth, and fifth unit reports for rated and non-experience rated policies by producing a series of informational and turnaround documents that are sent to the member companies. These documents allow the member carriers to correct, add and respond to the data provided. Included in the URC program is a fining program that consists of monetary assessments.
against member carriers when one or more first, second, third, fourth, or fifth unit reports for rated policies are not submitted. However, NCCI is not levying actual monetary fines under this program even though the processes are in place and the carriers receive all the reports associated with the penalty program. Instead of penalizing those carriers who do not submit timely unit data, NCCI is considering the development of a new penalty/incentive program to provide financial incentives to carriers to report quality and timely data. NCCI suspended the fining program for policies effective on or after January 1, 1996. It is unclear as to whether regulators were informed that the fining program was not being enforced.

3. **NCCI does not have a procedure in place currently to ensure that unit reports with estimated exposures are ultimately corrected with final audited exposures.** On November 1, 2000, NCCI implemented new edits to prompt carriers for audited exposures when exposures marked as estimated are submitted. NCCI has been developing a new data collection system for units and policies. NCCI’s new unit system that went into effect on April 30, 2001 uses the integrated relational database that NCCI developed in 1999, and it incorporates new and enhanced edits. With the implementation of this new unit system, NCCI will now be positioned to begin development of new queries for on-going review and follow-up on data quality issues where indicated. NCCI considers the amount of units with estimated exposures to be relatively small, both on the basis of counts and amounts.

4. **NCCI does not have a monitoring process in place to routinely and periodically review and analyze the extent of estimated exposures in its unit report database.** This includes monitoring to routinely and periodically review and analyze the extent of estimated exposures in its unit report database for both rated and non-experience rated risks, to analyze the data by carrier, to identify systemic problems and problem carriers for follow-up, or to analyze the impact on exposures and premiums as a result of correcting the data for premium audits.

The examination team reviewed an analysis of the top 20 groups that have a high number of units with estimated exposures. The report identified two carriers with a significant amount of estimated units. According to NCCI, the carriers inaccurately reported the exposures as “estimated” even though the amounts reported were purportedly based on audited amounts.
Experience Rating Testing

5. Based upon the results of the testing, there were 9 experience ratings that deviated from the Experience Rating Plan and/or NCCI’s experience rating procedures. With a sample error rate of 4.9%, there is 95% confidence that the maximum error rate in the population does not exceed 8.4%. As noted above, nine ratings in the sample contained errors, two of which had two errors each, for a total of eleven errors on nine ratings. The error rate is made up of two types of errors. One type relates to “interpretive errors,” or variances from the participating states’ interpretation of the Experience Rating Plan Manual’s rules. Of the eleven errors, six were interpretive errors. The second type of error relates to “execution errors.” Execution errors are all other errors, all of which NCCI agreed are errors in the application of experience rating procedures, such as the use of incorrect Anniversary Rating Dates, loss data or policies, among others. Of the eleven errors, five were execution errors. Detailed sampling results are presented in Appendix 3 of this report.

6. NCCI’s procedures for the inclusion of policy data for experience rating is not consistent with the experience rating rules as interpreted by the participating states. The examination team noted that short-term policies which preceded the normal three year period were included in more than three consecutive ratings. Also, policies with expiration dates within twelve months of the rating effective date are being used. NCCI’s procedures base the selection of policy data on a range of effective dates for policies to be used in the rating, which in some cases, results in a violation of the rules as interpreted by the participating states.

7. During our review of the random sample of 184 experience rating worksheets, the examination team reviewed the current ownership and documentation process to determine if ownership changes or combination of entities deviate from the procedures in the NCCI Experience Rating Plan. Based on the review of the documentation provided from NCCI and the review of the Experience Rating Plan Manual, it does not appear that NCCI is proactive in obtaining the owner/policy combination documentation (ERM14). Additionally, in many instances in the testing of combinations made by the Experience Rating Department, NCCI could not provide evidence of the issuance of the ruling letters required by the Experience Rating Plan Manual and NCCI’s Experience Rating Procedures Manual. Based on the examination team’s review of the Experience Plan Procedures Manual, a letter to document NCCI’s ruling on the combination (“NCCI ruling letter”) should be included in the files.

Six items in the sample of 184 were missing Form ERM14 or comparable documentation from the carrier and 21 items in the sample were missing NCCI’s Ruling Letter.
It was also noted during review of the ownership/combination process, that in many cases, NCCI would make the decision to effect ownership changes and combinations without any notification to either the carrier or the insured.

8. For experience rating eligibility, if data is expected to be reported, eligibility rules treat the missing period as $0 premium for purposes of determining eligibility. Once the missing period is reported, the eligibility rules are applied to the reported premium. However, if the period is not reported, the missing period is still included in the determination of eligibility. As a result, a risk may not qualify for experience rating due to the carrier’s untimely reporting and the use of the $0 premium in the eligibility determination. Additionally, the examination team understands that neither the risk nor the carrier responsible for the missing data is notified of this situation; only the current carrier is notified.

9. The examination team also noted three instances where incorrect data was included in experience ratings. Experience rating item #178 was noted as an error due to the inclusion of an incorrect policy period. NCCI confirmed that the policy was incorrectly included in the rating.

Experience rating sample item #163 was noted as an error. NCCI responded that an analyst error caused the production to be released incorrectly. Incorrect unit report data was included in the rating. As a result, an experience modification factor of 0.75 was calculated, using the incorrect data, while the correct rating calculated an experience modification factor of 0.76.

Experience rating sample item #155 contained an incorrect subject premium amount. The rating reflects a subject premium amount of $476 for this policy. The rating should reflect a subject premium amount of $373. Report 1C1 incorrectly reflects a previously submitted premium amount from Report 1, which is the cause of the error. NCCI did not detect this error. Experience rating does not perform edits against the premium amounts or premium class codes.

10. Upon receipt of the expected/complete information, NCCI does not have specific production and availability or release time requirements of experience ratings; rather they have performance goals that do not appear to be adequate based upon the examination team's review.
• Of the 184 experience rating sample items tested, 69 (or 38%) ratings were initially released within 90 days of the rating effective date, 37 (or 20%) were initially released within 60 days of the rating effective date and 15 (or 8%) were initially released within 30 days of the rating effective date. In addition, of the 69 ratings, 1 rating was initially released on the rating effective date and 8 were initially released after the rating effective date.

Of the 184 experience ratings in the sample, as noted above, 15 were not initially produced and released at least 30 days prior to the rating effective date. NCCI provided the following reasons:

• Due to delays in the processing of unit report data from IDR, which was acquired by NCCI, the production of one rating was delayed.

• For four ratings, the ARD changed from the prior rating, which caused a delay in the production of the rating. An edit error, when the analyst tried to produce the subsequent ARD, was the only indication that the ARD needed to be changed. The present data review procedures should be enhanced to consider ARD changes in a more timely manner in order to prevent delays in rating production.

• Two ratings were self-insured risks prior to the ARD. NCCI relies upon the risk to request an experience rating based upon the unit report data submitted by the risk.

• Three were due to the data from a policy included in the experience period not being considered delinquent.

• The prior year rating was deactivated for one rating. A report indicates ratings which should be reactivated. An analyst did not reactivate the rating in a timely manner.

• Two ratings were the first production of a rating for the risks. A system report is generated, which, in part, identifies risks to be experience rated for the first time. An analyst delay caused the rating to be released less than 30 days prior to the rating effective date.

• One rating was produced prior to the automation of the time trigger process. The data was pending and was not available for timely inclusion in the rating. If the time trigger were automated, the pending data would have been considered automatically and a contingent rating would have been produced in a timely manner.
• The cause of the delay in the production for one rating is unknown. The risk, however, was a large and/or sensitive risk and required a specific analyst’s control over the production.

Other Headquarters Activities

The examination team noted several issues during the above reviews that warranted additional comment in the report. These issues relate to process or procedural improvements recommended for NCCI consideration.

11. NCCI currently has a process in place to "grade" carriers based upon policy submission timeliness, UR timeliness and UR quality. A report card is prepared on an annual basis that summarizes this review. It was noted that some states did not know this process existed and that the report card was available. Additionally, there is no understanding of the criteria or process used by NCCI to award the grades. NCCI evaluates data providers annually on their data reporting performance for the prior year through NCCI’s Carrier Data Quality Report. This report summarizes performance on units, policies, financial calls and detail claim information. The report is provided to the statistical manager and a senior executive for each data provider. A summary report identifying data providers who have failed (i.e. an "F" or "Fail" grade) NCCI’s minimum data reporting standards for timeliness or quality is provided on request to regulatory agencies. The states participating in this examination do not have an understanding of how the grades are derived. However, the scope of this examination did not encompass an evaluation of the merits or appropriateness of the grading methodology used by NCCI.

12. During review of NCCI’s carrier grading process it was noted that the number of carriers with unsatisfactory grades of "D" or "F" relating to unit report timeliness has significantly increased during the examination period. The following results were provided by NCCI by report card year relating to unit report data from the prior year:

- 1997 – 34 companies or 13.9% were unsatisfactory
- 1998 – 29 companies or 11.7% were unsatisfactory
- 1999 – 56 companies or 21.1% were unsatisfactory
- 2000 – 55 companies or 21.1% were unsatisfactory
- 2001 – 58 companies or 21.7% were unsatisfactory
In addition to the increase in the number of carriers performing unsatisfactorily, the number of unit reports submitted late has also increased as indicated below:

<table>
<thead>
<tr>
<th>Report Year</th>
<th>Data Year</th>
<th>Percent Late</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2000</td>
<td>11.7%</td>
</tr>
<tr>
<td>2000</td>
<td>1999</td>
<td>9.7%</td>
</tr>
<tr>
<td>1999</td>
<td>1998</td>
<td>12.2%</td>
</tr>
<tr>
<td>1998</td>
<td>1997</td>
<td>7.5%</td>
</tr>
<tr>
<td>1997</td>
<td>1996</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

For the past 3 years, approximately 11% of all unit reports were submitted late each year. If unit reports which are only one month late are considered, for the past 3 years, approximately 5% of unit reports each year are submitted more than 2 months late and approximately 2% are submitted 4 or more months late or are never received. Due to the significant volume of unit reports expected to be received annually, these percentages result in a significant volume of missing unit reports that require follow-up. Additionally these missing unit reports may impact an insured's ability to qualify for or obtain a complete experience rating.

13. **Currently, there are no performance standards or other measurements of accountability between most states and NCCI for the services they provide.** There is also no formal process for the reporting of changes in NCCI processing activities to regulators.

14. **NCCI's Internal Audit program from January 1, 1999 to June 30, 2001 did not include adequate coverage in the key area of data quality standards and performance.** As stated, we noted NCCI's Internal Audit program from January 1, 1999 to June 30, 2001 did not include adequate coverage in the key area of data quality standards and performance.

**NCCI does not perform trending, profiling or similar advanced analytical procedures of the URS, experience rating and other related data by risk, by classification, by carrier, etc., or employ such computer software, to identify potential data problems or to highlight questions for follow-up with carriers.** While NCCI does perform certain limited data analysis procedures to identify unusual variations in the URS data submitted by carriers and in assessing the reasonableness of experience rating data and ratings, the analytical procedures do not include trending and other advanced data analysis activities as it relates to risks, classifications, carriers, and other data classifications or transactions. Data analysis and monitoring at the transaction level using such means as advanced intelligent system techniques could identify activity that is of interest to NCCI and its stakeholders, particularly in light of the significant volume of transactions and continued growth in activity expected. Isolated, complex, significant and unusual patterns of activity could be analyzed in
the context of what is usual for that risk, classification, carrier or activity. Profiles of risks, exposure classifications, carriers and the like could provide the insight, history and context that could enable NCCI to focus attention on issues that are truly significant to the ratemaking process. NCCI should develop procedures for the performance of trending, profiling and advanced analytical procedures of URS, experience rating and other related data, including a profile by risk by classification, by carrier, etc. to identify anomalies, outliers and other problems or issues with the data. Artificial intelligence and other sophisticated technology means should be investigated for accomplishing such objectives.

Unit Report Testing at Selected Carriers

During the review of the six selected carriers, many discrepancies were noted between the information included in the carrier's source files and the information that was included in NCCI's unit report database. These discrepancies are noted in this area. Detail sampling results are included in Appendix 2.

16. From the carrier testing review, several issues were noted that have a direct impact on the accuracy and timeliness of data reported to NCCI. The following significant issues were identified:

- Policies not audited but reported as audited
- No premium audits ever performed or were untimely performed
- Unit reports not filed in a timely manner
- Risks appearing to be eligible for experience rating, but not rated
- Losses not reported to NCCI
- Discrepancies in the manual rates applied versus reported to NCCI
- Discrepancies in subject premium and exposure amounts
- Missing or inconsistent policy condition codes
- Questionable class code assignments
- Policies that had been cancelled but not reported to NCCI

17. We noted during the carrier reviews that some carriers are only reporting audited exposure. Therefore, if the audits are incomplete as of the reporting deadline, first unit reports may be submitted late or not submitted at all.

NCCI does not have a process in place to perform routine data audits of carriers to ensure that carriers are filing unit statistical information in accordance with NCCI's WCSP Manual, the Unit Report Control Users Guide and the Unit Report Quality Users Guide. During the carrier audit review conducted by the examination team, many
significant issues were noted that would not have otherwise been discovered by NCCI (i.e.,
certain carriers only reporting audited exposures, unreported claims, policies reported as
audited when documentation indicates the policy was not actually audited, incomplete or
missing audits, etc.).

19. **From the audit of the carriers, it was noted that, in numerous instances, the carriers
were not able to produce the source documentation supporting the unit report data.**
Missing documentation included policy files, loss runs, selected claim files, premium audit
files and underwriting files requested by the examination team. Additionally, discrepancies
may have resulted if the carrier did not provide to the examiners accurate or complete support
to substantiate the data in NCCI’s system.

**Premium Audits of Employers with Oregon Exposures**

The review of the employers also indicated areas of discrepancies between the information at the
employer site and the information provided by the carriers. Detailed sampling results are presented in
Appendix 4 of this report.

20. **From the employer testing, several issues were noted that have a direct impact on the
accuracy and timeliness of data reported to NCCI.** The following issues were identified:
   - Employee misclassifications
   - Payroll differences (including understated payroll, overstated payroll, overtime payroll
discrepancies, etc.)
   - Incorrect audit periods
   - Payroll improperly divided or not reconciled

Based upon the limited sample of employers with Oregon exposure, we noted fifteen payroll-
related discrepancies, seven of which involved payroll over/under statements. These issues,
combined with the observations from the carrier audits, indicate that carriers may not be
performing adequate premium audits. The following comments were noted:

- Premium audits appear to be more voluntary than physical inspections or not performed
at all
- Physical inspections are not disclosing all errors
- Within the sample, many discrepancies were generated by employee misclassifications
and payroll differences
E2. Findings by Objective

The following section provides a summary of examination findings organized by objective.

1. **Survey a valid sample of statistical reports to determine whether or not carriers correctly assign exposure data to classifications and states and make valid use of the estimated exposure indicator.** Compare the statistical reports in the sample at first, second, third, fourth and fifth statistical reporting intervals with contemporary records of the carriers and conduct a physical test premium audit of a sub-sample of selected employers with Oregon exposures stratified by premium ranges for six selected carriers.

To satisfy this objective, the examination team completed the testing of the unit statistical reports sample at the carrier locations and the employer premium audit sample. The testing at the carrier locations produced results with error rates or discrepancies well above acceptable levels. In many instances, data supported by the carrier source files did not agree with data included in NCCI’s unit report database. The employer reviews also indicated discrepancies or results above an acceptable level. See the Appendices for specific sample test results. The following specific comments were noted during these reviews.

- From the carrier testing review, several issues have been noted that have a direct impact on the accuracy and timeliness of data reported to NCCI. The following significant issues were identified:
  - Policies not audited but reported as audited
  - No premium audits ever performed or were untimely performed
  - Unit reports not filed in a timely manner
  - Risks appearing to be eligible for experience rating, but not rated
  - Losses not reported to NCCI
  - Discrepancies in the manual rates applied versus reported to NCCI
  - Discrepancies in subject premium and exposure amounts
  - Missing or inconsistent policy condition codes
  - Questionable class code assignments
  - Policies that had been cancelled but not reported to NCCI

From the audit of the carriers, it was noted that, in numerous instances, the carriers were not able to produce the source documentation supporting the unit report data, including policy files, loss runs, selected claim files, premium audit files and underwriting files requested by the examination team. Additionally, discrepancies may have resulted if the
carrier did not provide to the examiners accurate or complete support to substantiate the data in NCCI’s system.

- During the review of unit reports at the carrier locations, the examination team randomly selected unit reports to trace into NCCI’s systems to determine if these reports had been submitted. In one sample item, it was noted that the policy condition code in the carrier source records did not agree with the information reflected in NCCI’s unit report database.

- From the employer premium audit testing, several issues were noted that have a direct impact on the accuracy and timeliness of data reported to NCCI. The following issues were identified:
  - Employee misclassifications
  - Payroll differences (including understated payroll, overstated payroll, overtime payroll discrepancies, etc.)
  - Incorrect audit periods
  - Payroll improperly divided or not reconciled

Based upon a limited sample of employers with Oregon exposure, we noted fifteen payroll-related discrepancies, seven of which involved payroll over/under statements. These issues, combined with the observations from the carrier audits, indicate that carriers may not be performing adequate premium audits. The following comments were noted:

  - Premium audits appear to be more voluntary than physical inspections or not performed at all
  - Physical inspections are not disclosing all errors
  - Within the sample, many discrepancies were generated by employee misclassifications and payroll differences

- During testing of unit reports, it was noted that NCCI could not provide supporting UR carrier data for 21 (or 11%) of the 185 unit reports in the sample.

2. Evaluate the procedures of NCCI to: (a) monitor the use of the estimated exposure indicator; (b) solicit subsequent reporting of actual exposure; and (c) evaluate each carrier for quality of exposure reporting by classification and by state.
The examination team reviewed NCCI's procedures in this area and noted that NCCI does not currently have processes in place to perform these types of reviews. The following specific findings were noted.

- NCCI does not have a procedure in place to ensure that unit reports with estimated exposures are ultimately corrected with final audited exposures. Circular STAT-00-07 states that audited exposures should be reported to NCCI by the 24th month.

- NCCI does not have a monitoring process in place to routinely and periodically review and analyze the extent of estimated exposures in its unit report database for both rated and non-experienced rated risks, to analyze the data by carrier, to identify systemic problems and problem carriers for follow-up, or to analyze the impact on exposures and premiums as a result of correcting the data for premium audits.

- During the period of examination it was noted that NCCI’s process for the correction of unit reports in the pending database is not adequate or effective. Such data, if not corrected, remained indefinitely in the pending database. Under the current relational database system (IDB), this pending data is now included in the "real time" database and is included in the ratemaking process (except for data grade 5 errors).

Examples of data grade 4 errors include invalid flags for assigned risk, canceled policy, estimated exposure, interstate rated, multi-state, non-standard policy, plan type code, coverage type code, employee leasing, and policy type code. Also included in data grade 4 errors are: calculated total premium is negative, duplicate loss constant class on unit, experience mod effective date greater than policy expiration date, calculated premium amount incorrect, rate effective date greater than policy expiration date and non-numeric paid indemnity and medical amounts.

Examples of data grade 5 errors include: non-numeric or invalid deductible aggregate amount, deductible by claim amount, deductible loss type code, deductible percentage, deductible type applied code, invalid class code per table/state/effective date, exposure class code cannot have exposure, class code inconsistent with deductible type fields, exposure coverage act code invalid per table, premium amount field non-numeric, accident date outside policy period and claim status code invalid.

- NCCI's Internal Audit program for the period January 1, 1999 through June 30, 2001 did not include adequate coverage in the key area of data quality standards and performance.
• The examination team judgmentally selected 20 items to review the receipt date recorded in the URS system against the date recorded on the carrier backup data file and management report log. The examination team noted discrepancies in 17 of the 20 items selected for review. It was noted that 16 of the receipt dates tested differed by one day between the receipt dates reflected on the carrier backup data and the management report log and the receipt date recorded in NCCI's URS system. It was noted that one item had a date discrepancy of approximately one week.

During the review of the extracted detail for items selected in the judgmental sample of four unit statistical reports, the examination team noted two items with a receipt date of June 9, 1937. The unit statistical reports were reported via hardcopy units to NCCI and were received in September 1997. NCCI believes this is a keying error, in which the first digit of the administrative number was entered as a "3" instead of a "9."

NCCI’s unit statistical edits focus on the validity of data reported by the data providers, who do not report received date. This is not the issue for electronically received units. NCCI’s system automatically generates the administration number, from which the received date is derived.

• It was noted that NCCI does not perform trending, profiling or similar advanced analytical procedures of the URS, experience rating and other related data by risk, by classification, by carrier, etc, or employ such software, to identify potential data problems or to highlight questions for follow-up with carriers.

• During testing of unit reports, it was noted that in one of the 181 sample items, the standard premium amount recorded on unit report data submitted by the carrier did not agree to NCCI’s URS system data.

According to NCCI, at the time this unit was processed, statistical code 9887 in NCCI’s class code table, which identifies the characteristics of the codes, was inadvertently marked as a debit. The table was updated 6 days after this unit was processed to properly show that statistical code 9887 should be a credit. The table was marked as a debit, when the system checked the totals, through the default edit process, it added the premium for class 9887 instead of subtracting it. NCCI issued a default error for the unit, which was identified as an error and an error report was sent to the carrier. A correction report was never submitted by the carrier.
3. Address the potential impact of the use of estimated or improperly assigned exposure on classification loss cost rates and on experience rating modifications for individual employers.

- Based upon the examination teams review of estimated exposures at NCCI Headquarters and carrier locations, a high percentage of unit reports with estimated exposures were noted.

4. Recommend effective operational procedures for NCCI to motivate carriers to audit employer exposures competently and timely and to report actual exposures promptly.

- For the past several years, NCCI has not been enforcing the fining system it had in place for carriers whose data is not submitted timely or within data quality standards. NCCI suspended the fining program for policies effective on or after 1/1/96.

- During review of NCCI’s carrier-grading process, it was noted that the number of carriers with unsatisfactory grades of "D" or "F" has significantly increased during the examination period. The following results were provided by NCCI:
  - 1997 – 34 companies or 13.9% were unsatisfactory
  - 1998 – 29 companies or 11.7% were unsatisfactory
  - 1999 – 56 companies or 21.1% were unsatisfactory
  - 2000 – 55 companies or 21.1% were unsatisfactory
  - 2001 – 58 companies or 21.7% were unsatisfactory

In addition to the increase in the number of carriers performing unsatisfactorily, the number of unit reports submitted late has also increased as indicated below:

<table>
<thead>
<tr>
<th>Report Year</th>
<th>Data Year</th>
<th>Percent Late</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1996</td>
<td>8.5%</td>
</tr>
<tr>
<td>1998</td>
<td>1997</td>
<td>7.5%</td>
</tr>
<tr>
<td>1999</td>
<td>1998</td>
<td>12.2%</td>
</tr>
<tr>
<td>2000</td>
<td>1999</td>
<td>9.7%</td>
</tr>
<tr>
<td>2001</td>
<td>2000</td>
<td>11.7%</td>
</tr>
</tbody>
</table>

For the past 3 years, approximately 11% of all unit reports were submitted late each year. If unit reports which are only one month late are considered, for the past 3 years, approximately 5% of unit reports each year are submitted more than 2 months late and approximately 2% are submitted 4 or more months late or are never received. Due to the significant volume of unit reports expected to be received annually, these percentages...
result in a significant volume of missing unit reports that require follow-up. Additionally these missing unit reports may impact an insured's ability to qualify for or obtain a complete experience rating.

- In connection with the Oregon Test Audit Program, NCCI has not had a process in place to ensure identified errors are corrected based upon the results of the physical inspections.

- During the examination period it was noted that there is no monitoring process in place to confirm that default edits made by NCCI were appropriate or that carriers have made the required corrections.

- The examination team noted from our carrier reviews that some carriers are only reporting audited exposures. Therefore, if the audits are incomplete as of the reporting deadline, first unit reports may be submitted late or not submitted at all. As indicated in the WCSP, if a final audit has not been made at the time of filing a first report, the data provider must submit estimated exposures and premiums.

- NCCI does not have a process in place to perform routine data audits of carriers to ensure that carriers are filing Unit Statistical information in accordance with NCCI's WCSP Manual, the Unit Report Control Users Guide and the Unit Report Quality Users Guide. During the carrier audit review conducted by the examination team, many significant issues were noted that would not have otherwise been discovered by NCCI (i.e., certain carriers not reporting estimated exposures, unreported claims, policies reported as audited when documentation indicates the policy was not actually audited, incomplete or missing audits, etc). See carrier audit comments for further details.

- NCCI currently has a process in place to "grade" carriers based upon policy submission timeliness, UR timeliness and UR quality. A report card is prepared on an annual basis that summarizes this review. It was noted that some states did not know this process existed and that the report card was available. Additionally, there is no understanding of the criteria or process used by NCCI to award the grades.

5. **Recommend effective penalties and/or incentives to carriers to reduce or eliminate improper exposure reporting and improper use of the estimated exposure indicator.**

- Our findings under this objective also relate to Objective #4 above.
6. Review NCCI’s experience rating procedures and survey a valid sample of ratings to determine if the procedures deviate from the rules specified in NCCI’s Experience Rating Plan. The focus of this review and survey was on the determination of rating eligibility, establishment of anniversary rating dates, selection of policy periods to be included in the experience data, combination of employer entities for rating purposes, and use of the correct rating values.

- NCCI’s procedures for the inclusion of policy data for experience rating are not consistent with the experience rating rules as interpreted by the participating states. The examination team noted that short-term policies which preceded the normal three year period were included in more than three consecutive ratings. Also, policies with expiration dates within twelve months of the rating effective date were being used. NCCI’s procedures base the selection of policy data on a range of effective dates for policies to be used in the rating, which in some cases, results in a violation of the rules as interpreted by the participating states.

- NCCI’s-published rate tables in the Experience Rating Plan Manual for the States of Kentucky (9/1/97) and South Dakota (7/1/97) contain incorrect ballast formulas on the Table of Ballast Values. The experience rating system, however, used the approved ballast formula.

- NCCI’s-published rate tables in the Experience Rating Plan Manual for the States of Arizona (tables effective 10/1/97), Connecticut (1/1/98), Illinois (1/1/98), Indiana (1/1/98), Nebraska (9/1/97), New Hampshire (1/1/98), Utah (12/1/97), Virginia (4/1/98) and Wisconsin (7/1/97) contain incorrect ballast formulas on the Table of Ballast Values. The experience rating system, however, used the approved ballast formula.

- NCCI’s-published rate tables in the Experience Rating Plan Manual for the State of Hawaii (11/1/97) contained incorrect ballast formulas on the Table of Ballast Values. The experience rating system, however, used the approved ballast formula.

- During review of the experience rating sample item #148, it was noted that the Cap on Modifications formula reflected on the published tables was not approved by the State of Alaska.

- Based on the examination team’s testing of experience ratings, it was noted that experience rating sample item #126 shows an ARD of 3/7 when all policies used in this rating have an effective date of 3/12.
• Based on the examination team's testing of experienced ratings, it was noted that experience rating sample item #70 had an incorrect ARD of 2/1. The ARD should be 3/5, as the policy which the ARD is based upon has an effective date of 3/5.

It is noted that the system implemented in 12/96 for the automatic determination of ARDs and the automated system edit to evaluate the validity of ARDs was not effective in this case. This rating was produced after the system was implemented; however, the system edit did not detect the error.

• For the establishment of a policy's ARD for experience rating purposes, NCCI's procedure is to use the current policy period unless it is not a full year policy. In certain instances, such as overlapping intrastate policies, or interstate policies, the premium amount is also a factor.

The examination team noted two experience ratings for which ARDs were determined based upon policies other than current policies. It is noted, however, that NCCI has followed both its Experience Rating Procedures and the Experience Rating Plan Manual rule for the selection of ARDs in the two items below. The examination team noted the following applications of this procedure that do not appear to be reasonable applications of the rule.

Experience rating sample item #2 has an ARD of 11/1/00. The ARD was based upon the policy effective from 11/1/98 to 11/1/99 (premium of $18,084), not the current policy. The current policy effective from 11/3/99 to 10/31/00 was not used, as it was deemed to be a short-term policy (premium of $23,169). In addition, a policy effective from 8/1/99 to 8/1/00 was not used due to it having a small premium amount of $526.

Experience rating sample item #157 has an ARD of 1/1/99. The ARD was based upon the policy effective from 1/1/97 to 1/1/98 (premium $155,331), not the current policy. The current policies are all short-term policies (policy periods: 1/31/98 – 1/1/99 and 1/31/98 – 7/1/98), and were, therefore, not used as the basis for the ARD.

• The examination team noted that sample item #51 should have been included on an experience rating with an ARD of 11/15/00, as the risk met the minimum premium requirements with this policy in the State of Nevada. The policy had $6,713 of premium according to the URS system, which is greater than the $6,000 minimum. As a result of the examination team’s inquiry, a rating with an ARD of 11/15/00 was produced on 7/13/01.
In the review of the random sample of 184 experience rating worksheets, the examination team reviewed the current ownership documentation and review process to determine if ownership changes or combination of entities deviate from the procedures of NCCI’s Experience Rating Plan.

Based on the review of the documentation provided from NCCI and review of the Experience Rating Plan Manual, it does not appear that NCCI is proactive in obtaining the ownership/policy combination documentation (ERM14). Additionally, in many instances in the testing of combinations made by the Experience Rating Department, NCCI could not provide evidence of the issuance of the Ruling Letters required by the Experience Rating Plan Manual and NCCI’s Experience Rating Procedures Manual. Based on the examination team's review of the Experience Plan Procedures Manual, a letter to document NCCI's ruling of the combination ("NCCI Ruling Letter") should be included in the files.

Six items in the sample of 184 were missing Form ERM14 or comparable documentation from the carrier and 21 items in the sample were missing the NCCI Ruling Letter.

It was also noted during review of the ownership/combination process, that in many cases, NCCI would make the decision to make ownership changes and combinations without any notification to either the carrier or the insured.

For experience rating eligibility, if data is expected to be reported, eligibility rules treat the missing period as $0 premium for purposes of determining eligibility. Once the missing period is reported, the eligibility rules are applied to the reported premium. However, if the period is not reported, the missing period is still included in the determination of eligibility. As a result, a risk may not qualify for experience rating due to the carrier’s untimely reporting and the use of the $0 premium in the eligibility determination. Additionally, the examination team understands that neither the risk nor the carrier responsible for the missing data is notified of this situation; only the current carrier is notified.

The examination team noted that five ratings included policies that extend into the twelve-month period prior to the rating effective date. The inclusion is inappropriate based upon the participating states’ interpretation.

Experience rating sample item #163 was noted as an error. NCCI responded that an analyst error caused the 9/20/99 production to be released incorrectly. Incorrect unit report data was included in the rating. As a result, an experience modification factor of
0.75 was calculated, using the incorrect data, while the correct rating calculated an experience modification factor of 0.76.

- Experience rating sample item #155 contains an incorrect subject premium amount. The rating reflects a subject premium amount of $476 for this policy. The rating should reflect a subject premium amount of $373. Report IC1 incorrectly reflects a previously submitted premium amount from Report 1, which is the cause of the error. NCCI did not detect this error. Experience Rating does not perform edits against the premium amounts or premium class codes.

- Experience rating sample item #178 was noted as an error due to the inclusion of an incorrect policy period.

- The examination team noted differences between data reflected in the PICS (Policy Information System) and URS (Unit Report System) for the same policies. We understand that URS is scheduled to be eliminated in the future, with the unit report information being present in IDMS. In addition, NCCI plans to eliminate the PICS system at an unidentified time in the future.

Experience rating sample item #101 is reflected as having an expiration date of 3/1/96 in the PICS system. The URS system, however, reflects an expiration date of 2/29/96. The rating reflects the policy expiration date as 2/29/96.

Experience rating sample item #36 is reflected as being both cancelled and reinstated on 7/23/96 in the PICS system. The URS system, however, reflects an expiration date of 7/23/96. The rating reflects the policy expiration date as 7/23/96.

- During review of the experience rating area, it was noted that six items in the sample were rated based upon contingent ratings with no evidence of a complete rating being subsequently generated through the date of the review. NCCI indicated that, due to the non-submission of unit reports and policies by the carriers, the six contingent ratings remain contingent. When a carrier becomes insolvent, the book of business may be transferred to the applicable state or to one or multiple carriers if the data is not expected to be received due to the insolvency of a carrier, a note is added to the experience rating which indicates that data is missing due to an insolvent carrier. The experience rating remains contingent. The examination team noted two instances where no complete rating was issued (e.g., 3 consecutive policy years of contingent rating only) in the review of the ratings history of a risk. It is noted that many states do accept contingent ratings. Based on 2001 information, contingent ratings represent approximately 6-7% of ratings released.
7. **Recommend revisions to NCCI’s operational procedures to achieve concurrence with the rules in the NCCI Experience Rating Plan.**

   - Our findings under this objective also relate to Objective #6 above.

8. **Assess the timeliness of NCCI’s experience rating computation and distribution.**
   Determine whether lateness results from carrier statistical reports received untimely or failing to pass edits, or from NCCI internal process delays.

   - Of the 184 experience rating sample items tested, 69 (or 38%) ratings were initially released within 90 days of the rating effective date, 37 (or 20%) were initially released within 60 days of the rating effective date and 15 (or 8%) were initially released within 30 days of the rating effective date. In addition, of the 69 ratings, one rating was initially released on the rating effective date and eight were initially released after the rating effective date.

Of the 184 experience ratings in the sample, as noted above, 15 were not initially produced and released at least 30 days prior to the rating effective date. NCCI provided the following reasons:

   - Due to delays in the processing of unit report data from IDR, which was acquired by NCCI, the production of one rating was delayed.

   - For four ratings, the ARD changed from the prior rating, which caused a delay in the production of the rating. An edit error, when the analyst tried to produce the subsequent ARD, was the only indication that the ARD needed to be changed. The present data review procedures should be enhanced to consider ARD changes in a more timely manner in order to prevent delays in rating production.

   - Two ratings were self-insured risks prior to the ARD. NCCI relies upon the risk to request an experience rating based upon the unit report data submitted by the risk.

   - Three were due to the data from a policy included in the experience period not being considered delinquent.

   - The prior year rating was deactivated for one rating. A report indicates ratings which should be reactivated. An analyst did not reactivate the rating in a timely manner.
Two ratings were the first production of a rating for the risks. A system report is generated, which, in part, identifies risks to be experience rated for the first time. An analyst delay caused the rating to be released less than 30 days prior to the rating effective date.

One rating was produced prior to the automation of the time trigger process. The data was pending and was not available for timely inclusion in the rating. If the time trigger were automated, the pending data would have been considered automatically and a contingent rating would have been produced in a timely manner.

The cause of the delay in the production for one rating is unknown. The risk, however, was a large and/or sensitive risk and required a specific analyst’s control over the production.

Currently, NCCI does not have specific production and availability or release time requirements. However, in 2001, they have put into place, the following performance goals:
- 70% of mods are available 2 to 3 months prior to a policy's rating effective date.
- 85% of mods are available 1 to 2 months prior to a policy's rating effective date.
- 80% of the data is available for experience rating two months prior to the rating effective date.
- 90% of the data is available for experience ratings one month prior to the rating effective date.

The examination team does not believe these goals are adequate.

9. **Recommend effective penalties and/or incentives to improve the timeliness and quality of carrier statistical reporting.**

- Currently, there are no performance standards or other measurements of accountability between most States and NCCI for the services they provide. There is also no formal process for the reporting of changes in NCCI processing activities to regulators.

- Our findings under this objective also relate to Objective #4 above.

10. **Recommend revisions to NCCI's operational procedures to achieve timely production and distribution of experience ratings.**

- Our findings under this objective also relate to Objectives #8 and #9 above.
F. RECOMMENDATIONS

We recommend that an examination oversight group be formed of interested regulators, allowing input from NCCI and its carrier members. The recommendations contained in this report should be reviewed during the examination oversight process. This group should weigh the cost/benefit of each recommendation, and develop the optimal solution to achieve the underlying intent of the recommendation.

F1. Priority Recommendations

NCCI Headquarters Activities

Unit Report Testing

1. Reactivate a revised and expanded penalty system and enforce the fines levied against carriers under the penalty system.

NCCI had a fining program in place that consisted of monetary assessments against member carriers when one or more unit reports for policies were not submitted timely or contain an uncorrected priority error. NCCI discontinued the fines for policies effective on or after January 1, 1996.

The examination team recommends that NCCI reactivate the penalty system and enforce the fines levied against carriers under the penalty system. Alternatively, NCCI should expedite as a high priority the implementation of its newly proposed incentive/penalty program that will provide discounts to carriers who submit quality and timely data and charge a premium and fines for those carriers who do not. The program’s objectives should be developed to provide measurable improvements in the areas of quality and timeliness and to allow for enforcement efforts.

The examination team recommends that the penalty system be subjected to regulatory review prior to implementation by NCCI. Also, NCCI should provide periodic evidence to the regulators that the penalty program is effective in obtaining timely and quality data from carriers. In addition, the examination team recommends that a penalty system with no fine caps be in place for chronic problem carriers which may include assessing a fine for each unit report that is late or of unacceptable quality for each day, week or month it is late or incorrect/inadequate.
The examination team also recommends that state regulators consider a penalty system for carriers with late and poor quality reporting practices. States should consider non-monetary penalties such as licensing actions, targeted examination activities or the public notification of problem carriers.

2. **Develop and implement a program to ensure that unit reports with estimated exposures are corrected with final audited exposures.**

NCCI does not have an effective procedure in place to ensure that unit reports with estimated exposures are ultimately corrected with audited exposures. NCCI considers the amount of units with estimated exposures to be relatively small, both on the basis of counts and amounts.

Collecting accurate unit statistical data is critical for experience rating and ratemaking products. The examination team recommends that NCCI develop and implement a program to ensure that unit reports with estimated exposures are corrected with audited exposures in a timely manner.

Penalties should be imposed for each unit report and for each month that estimated exposures remain in the system.

Regulators should consider a penalty system on carriers for not performing premium audits and/or for not reporting audited exposures on a timely basis.

3. **A monitoring system should be developed to review and analyze the extent of estimated exposures in its unit report database for rated and non-experience rated risks, for carriers with a high percentage of units with estimated exposures and for the impact of correcting estimated exposures.**

NCCI does not have a monitoring process in place to routinely and periodically review and analyze the extent of estimated exposures in its unit report database for both rated and non-experience rated risks, to analyze the data by carrier, to identify systemic problems and problem carriers for follow-up, or to analyze the impact on exposures and premiums as a result of correcting the data for premium audits.

A monitoring system should be developed to review and analyze the extent of estimated exposures in its unit report database for rated and non–experience rated risks, for carriers with a high percentage of units with estimated exposures and for the impact of correcting estimated exposures.
NCCI should analyze the change between estimated and audited exposures by carrier and in total to identify trends in under/over reporting of exposures. NCCI should utilize its database(s) for performing exposure and premium comparisons and detecting unusual variations. NCCI should follow-up with carriers who have a high percentage of units with estimated exposures, based upon both total exposure and premiums, to identify and resolve systemic issues.

**Experience Rating Testing**

4. **NCCI should modify its procedures and/or provide additional clarification in the Experience Rating Plan Manual rules regarding the extension of the experience rating period and the inclusion of short-term policies, or amend the Plan to conform with its practices and to allow for consideration of the concerns of regulators.**

The examination team noted short-term policies which preceded the normal three year period were included in more than three consecutive ratings. Also noted were policies with expiration dates within twelve months of the rating effective date are being used. NCCI procedures base the selection of policy data on a range of effective dates for policies to be used in the rating, which in some cases, results in a violation of the rules as interpreted by the participating states.

In addition, the Experience Rating Plan Manual should be redrafted to consider concerns of the regulators and to provide clarification and specificity as to how NCCI should prepare experience ratings.

5. **NCCI should ensure that the required ownership/combination documentation (ERM14) is obtained.** The carrier must submit the Confidential Request for Information Form (ERM14) or similar information in narrative form on the letterhead of the insured, signed by an officer of the company, in accordance with NCCI’s Experience Rating Procedures Manual. NCCI should then determine the appropriateness of the change and any related combination of the entities involved and the NCCI Ruling Letter should be prepared to document the decisions that were made.

NCCI’s Ruling Letter should be mailed to all stakeholders such as the submitter, the current carrier, insured or any carrier who has to apply a modification that would be affected by the ownership change.
NCCI should develop procedures to strengthen the documentation trail in this area, (i.e., to acquire and maintain the proper level of documentation - ERM-14 or comparable documents, and NCCI Ruling Letter and notification documentation).

6. The examination team recommends that the carrier responsible for the missing data be formally notified of the situation and the impact on the insured’s eligibility for experience rating. NCCI should report chronic problem carriers to the domiciliary regulator for assistance in obtaining the missing information. The examination team also recommends that missing data which is expected to be received not be reflected as $0 in the eligibility determination.

7. NCCI should ensure that only correct experience modifications are released by implementing a more thorough review of data on experience ratings. NCCI should evaluate its review and analyst training procedures to ensure that they are adequate to limit the occurrence of manual errors and to ensure that the appropriate policies are included in the experience rating.

8. NCCI should implement a written policy establishing a required timeframe for the production and availability or release of experience ratings once the expected/complete data is available. In addition, the existing NCCI experience rating performance goal percentages should be substantially increased.

Other Headquarters Activities

In addition to the specific comments related to the unit report and experience rating testing areas, the examination team also noted several issues that warrant additional recommendations in the report. These issues relate to process or procedural improvements.

9. States should consider ways to hold NCCI accountable for meeting the data quality and experience rating standards approved and expected by the states.

10. It is recommended that NCCI's Internal Audit Department include comprehensive and targeted data quality audits in their annual audit plan. NCCI's Internal Audit program from January 1, 1999 to June 30, 2001 did not include adequate coverage in the key area of data quality standards and performance.

NCCI should develop procedures for the performance of trending, profiling and advanced analytical procedures of URS, experience rating and other related data, to identify anomalies, outliers or differences in the data by risk, by classification, by carrier, etc. There are third party data analysis software packages, using artificial
intelligence and other sophisticated technology means, available for accomplishing such objectives.

12. **It is recommended that NCCI provide training and education on the carrier report card process and criteria used for the benefit of the various state regulators and for their evaluation of its adequacy.** If a carrier is identified with an unsatisfactory grade, NCCI should immediately notify the domiciliary regulator, unless the regulator elects not to be notified. Consideration by the regulatory oversight group should be given to exploring the legality and benefits of making carrier grades publicly available.

NCCI should evaluate the significant increase in the number of carriers receiving unsatisfactory grades in the report card process in light of suspension of the fining program for policies effective on or after January 1, 1996 and immediately institute corrective action plans for the companies who performed unsatisfactorily in 2001.

**Unit Report Testing of Selected Carriers**

13. **It is recommended that NCCI re-communicate the requirements that have been established as it relates to the timely receipt of first reports.**

In addition, NCCI should reactivate a revised and expanded penalty system to encourage carriers to submit timely reports.

14. **NCCI should evaluate the errors noted during the carrier site visits and address each type of error to determine whether additional actions should be developed, including carrier audits, development of additional analytical and detection procedures and tools, etc. Additional communications to carriers and training should also be considered.**

15. **It is recommended that NCCI establish an audit program to provide countrywide coverage of all carriers.**

NCCI does not have a process in place to perform routine data audits of carriers to ensure that carriers are filing Unit Statistical information in accordance with NCCI Workers’ Compensation Statistical Plan Manual, the Unit Report Control Users Guide and the Unit Report Quality Users Guide.

The examination team recommends that NCCI establish an audit program to provide countrywide coverage of all carriers to ensure that carriers are following the statistical plan rules and the prescribed policies and procedures of NCCI where applicable. The program should include the identification and scheduling of targeted or problem carrier audits. A
review of the cost/benefit of performing audits of randomly selected carriers should also be considered.

NCCI should develop criteria to determine when a particular carrier would be subjected to audit. Such factors should include unsatisfactory grades on NCCI Carrier Data Quality Report, carriers with a high percentage of units with estimated exposures based upon both exposure and premiums, carriers who have a poor response rate to priority 4 and 5 corrections, carriers with merger/acquisition activity, carriers with inexperienced personnel, turnover of personnel or resource constraints, and carriers which use Third Party Administrators (TPAS) or other intermediaries. The examination team recommends that the proposed audit program be subjected to regulatory review prior to implementation by NCCI. The examination team also suggests that the carrier audit program be funded by the reactivated penalty system.

16. **It is recommended that the States and NCCI consider the development of record retention requirements for carriers.**

The examination team recommends that a record retention requirement specific to workers compensation data reported to NCCI should be developed. The issue of data retention related to merger and acquisition activity should be specifically addressed.

**Premium Audits of Employers with Oregon Exposure**

17. **NCCI should evaluate the errors noted during the employer site visits and address each type of error to determine whether additional actions should be developed, including additional employer test audits, development of additional analytical and detection procedures and tools, etc.**

The issues noted further support the previous recommendation that carrier audits are necessary to gain an understanding of existing issues and problems in this environment and to enable NCCI to identify and account for the potential impact of any necessary related adjustments.

**F2. Recommendations by Objective**

The following section provides a summary of examination recommendations organized by RFP objective.
1. **Survey a valid sample of statistical reports to determine whether or not carriers correctly assign exposure data to classifications and states and make valid use of the estimated exposure indicator.** Compare the statistical reports in the sample at first, second, third, fourth and fifth statistical reporting intervals with contemporary records of the carriers and conduct a physical test premium audit of a sub-sample of selected employers with Oregon exposures stratified by premium ranges for six selected carriers.

   - NCCI should evaluate the errors noted during the carrier site visits and address each type of error to determine whether additional actions should be developed, including carrier audits, development of additional analytical and detection procedures and tools, etc. Additional communications to carriers and training should also be considered.

   - It is recommended that the States and NCCI consider the development of record retention requirements for carriers, which is specific to workers compensation data reported to NCCI. The issue of data retention related to merger and acquisition activity should be specifically addressed.

   - It is recommended that NCCI review the current process for data entry of information from carriers and determine if enhancements to the system are necessary.

   - NCCI should evaluate the errors noted during the employer site visits and address each type of error to determine whether additional actions should be developed, including additional employer test audits and development of additional analytical and detection procedures, etc.

   The issues noted further support the previous recommendation that carrier audits are necessary to gain an understanding of existing issues and problems in this environment and to enable NCCI to identify and account for the potential impact of any necessary related adjustments.

   - NCCI record retention and record retrieval policies and procedures should be reviewed and enhanced to ensure that appropriate audit trails exist to support its processes.

2. **Evaluate the procedures of NCCI to:** (a) monitor the use of the estimated exposure indicator; (b) solicit subsequent reporting of actual exposure; and (c) evaluate each carrier for quality of exposure reporting by classification and by state.
• NCCI should develop and implement a program to ensure that unit reports with estimated exposures are corrected with audited exposures in a timely manner (by 20 months). Penalties should be imposed for each unit report and for each month that estimated exposures remain in the system. NCCI should enforce Circular STAT-00-07 that indicates that the reporting of audited exposures should occur by the 24th month. Regulators should consider proposing legislation that will penalize carriers for not performing premium audits and/or for not reporting audited exposures on a timely basis.

• A monitoring system should be developed to review and analyze the extent of estimated exposures in its unit report database for rated and non-experience rated risks, for carriers with a high percentage of units with estimated exposures and for the change impact of correcting estimated exposures. NCCI should analyze the change between estimated and audited exposures by carrier and in total to identify trends in under/over reporting of exposures. NCCI should utilize databases such as the Policy Information System (PICS), for performing exposure and premium comparisons and detecting unusual variations. NCCI should follow-up with carriers who have a high percentage of units with estimated exposures, based upon both total exposure and premiums, to identify and resolve systemic issues. This issue should also be addressed in the revised fining process to provide additional financial incentives to carriers.

• NCCI should require correction or replacement information for unit reports pending correction. The current process is not adequate or effective to ensure correction on a timely basis. This issue should also be addressed in the revised fining program to provide additional financial incentives to carriers.

• It is recommended that NCCI’s Internal Audit Department include comprehensive and targeted data quality audits in their annual audit plan.

• NCCI should review and enhance their procedures to ensure that the receipt date entered into the URS system agrees with the date from the information provided by the carrier. The importance of the accuracy of this data in the carrier incentive and grading systems require that the correct dates be reflected in the systems.

NCCI should develop procedures for the performance of trending, profiling and advanced analytical procedures of URS, experience rating and other related data, including a profile by risk; to identify anomalies, outliers or differences in the data by risk, by classification, by carrier, etc. Artificial intelligence and other sophisticated technology means should be investigated for accomplishing such objectives. There are
third party data analysis software packages, using artificial intelligence and other sophisticated technology means, available for accomplishing such objectives.

- It is recommended that NCCI review the current process for data entry of information from carriers and determine if enhancements to the system are necessary.

3. **Address the potential impact of the use of estimated or improperly assigned exposure on classification loss cost rates and on experience rating modifications for individual employers.**

- From the 181 policies tested at carriers locations and the 12 employer audits that were performed as part of this examination, we noted instances where carriers or employers appeared to misclassify employees. In some instances, the misclassification was such that the employee was assigned to a lower-rated class than was appropriate. If this practice occurs regularly and consistently, a bias in the class rates can result. For example, if an employee in a particularly hazardous class is misclassified into a less hazardous class, a bias and distortion in the class may result due to the premium being coded to the less hazardous class. Additionally, if losses are coded into the correct class, the rate for the more hazardous class will likely move upward since losses are not matched to the corresponding premium. Similarly, the less hazardous class may result in unwarranted rate reductions due to the reflection of the premium amount without the corresponding losses. Experience ratings are based upon expected losses which are the result of loss cost rates multiplied by exposure. Any consistent missetimation of exposure in one direction, upward or downward, can result in a biased experience modification factor.

4. **Recommend effective operational procedures for NCCI to motivate carriers to audit employer exposures competently and timely and to report actual exposures promptly.**

NCCI should reactivate a revised and expanded penalty system and enforce the fines levied against carriers under the existing penalty system. Alternatively, NCCI should expedite as high priority the implementation of the proposed incentive/penalty program that will provide discounts to carriers who submit quality and timely data and charge a premium and fines for those carriers who do not. The program’s objectives should be developed to provide measurable improvements in the areas of quality and timeliness and to allow for enforcement efforts. The examination team recommends that the proposed incentive program be subjected to regulatory review prior to implementation by NCCI. Also, NCCI should provide periodic evidence to the regulators that the incentive/penalty program is effective in obtaining timely and quality data from carriers. In addition, the
examination team recommends that a penalty system with no fine caps be in place for chronic problem carriers which may include assessing a fine for each unit report that is late or of unacceptable quality for each day, week or month it is late or incorrect/inadequate. The examination team also recommends that state regulators institute a penalty system for carriers for late and poor quality reporting. States should also consider non-monetary penalties such as licensing actions, targeted examination activities or the public notification of problem carriers.

- NCCI should evaluate the significant increase in the number of carriers receiving unsatisfactory grades in the report card process in light of suspension of the fining program for policies effective on or after January 1, 1996 and immediately institute corrective action plans for the companies who performed unsatisfactorily in 2001. Consideration by the regulatory oversight group should be given to exploring the legality and benefits of making carrier grades publicly available.

- NCCI should implement a process to ensure corrections are made to the audited data based upon the results of the physical inspections.

- It is recommended that NCCI develop and implement procedures to monitor default edit reports and to confirm whether the data provider has submitted a correction report or a replacement report to NCCI for data that was in error and defaulted by NCCI.

- It is recommended that NCCI re-communicate the requirements that have been established as it relates to the timely receipt of first reports. In addition, NCCI should reactivate a penalty system to encourage carriers to submit timely reports.

The examination team recommends that NCCI establish an audit program to provide countrywide coverage of all carriers and policies to ensure that carriers are following the statistical plan rules and the prescribed policies and procedures of NCCI where applicable. The policy should include the identification and scheduling of targeted or problem carrier audits. A review of the cost/benefit of performing audits of randomly selected carriers should also be considered. NCCI should develop various factors or criteria to determine when a particular carrier would be subjected to audit. Such factors should include unsatisfactory grades on NCCI’s Carrier Data Quality Report, carrier with a high percentage of units with estimated exposures based upon both exposure and premiums, carriers who have a poor response rate to data grade 4 and 5 corrections, carriers with merger/acquisition activity, carriers with inexperienced personnel, turnover of personnel or resource constraints, and carriers which use third party administrators (TPAs) or other intermediaries. The examination team recommends that the proposed audit program be subjected to regulatory review prior to implementation by NCCI. The
examination team also suggests that the carrier audit program be funded by the reactivated penalty system.

- It is recommended that NCCI provide training and education on the carrier report card process and criteria used for the benefit of the various state regulators and for their evaluation of its adequacy. If a carrier is identified with an unsatisfactory grade, NCCI should immediately notify the domiciliary regulator, unless the regulator elects not to be notified.

5. **Recommend effective penalties and/or incentives to carriers to reduce or eliminate improper exposure reporting and improper use of the estimated exposure indicator.**

- Our findings under this objective also relate to Objective #4 above.

6. **Review NCCI’s experience rating procedures and survey a valid sample of ratings to determine if the procedures deviate from the rules specified in NCCI’s Experience Rating Plan.** The focus of this review and survey was on the determination of rating eligibility, establishment of anniversary rating dates, selection of policy periods to be included in the experience data, combination of employer entities for rating purposes, and use of the correct rating values.

- NCCI should modify its procedures and/or provide additional clarification in the Experience Rating Plan Manual rules regarding the extension of the experience rating period and the inclusion of short-term policies, to consider the concerns of the regulators and to provide clarification and specificity as to how NCCI should prepare experience ratings.

- NCCI should ensure that the published rate tables are accurate and approved by the states. Internal procedures should be developed to ensure that published manuals agree to what is in the system and that State approved information is included in the manuals.

- NCCI should implement procedures to ensure the correct establishment of Anniversary Rating Dates (ARD’s). NCCI should ensure that the selection of ARDs are consistent with the expectations of the participating states. At a minimum, any "bypasses" or overrides of automated edits should be specifically reviewed and approved by Experience Rating management. NCCI should periodically perform internal audits of such processes to assess that the edits and controls are operating effectively.
• NCCI should ensure that the required ownership/combination documentation (ERM14) is obtained. The carrier must submit the ERM14 form or similar information in narrative form on the letterhead of the insured, signed by an officer of the company, in accordance with NCCI’s Experience Rating Procedures Manual. NCCI should then determine the appropriateness of the change and any related combination of the entities involved and NCCI’s Ruling Letter should be prepared to document the decisions that were made.

NCCI’s Ruling Letter should be mailed to all stakeholders such as the submitter, the current carrier, insured or any carrier who has to apply a modification that would be affected by the ownership change.

NCCI should develop procedures to strengthen the documentation trail in this area, (i.e., to acquire and maintain the proper level of documentation ERM-14 or comparable documents, and NCCI’s Ruling Letter and notification documentation).

• The examination team recommends that the carrier responsible for the missing data be formally notified of the situation and the impact on the insured’s eligibility for experience rating. NCCI should report chronic problem carriers to the domiciliary regulator for assistance in obtaining the missing information. The examination team also recommends that missing data which is expected to be received not be reflected as $0 in the eligibility determination.

• NCCI should ensure that only correct experience modifications are released by implementing a more thorough review of data on experience ratings. Also, NCCI should evaluate its review and analyst training procedures to ensure that they are adequate to limit the occurrence of manual errors of this nature and to ensure that the appropriate policies are included in the experience ratings.

• Periodic review of all critical data elements in the PICs and URS system should be performed to identify discrepancies and to ensure consistency and accuracy of data. To the extent that existing systems are scheduled to be replaced, data currently residing in these systems should be reconciled prior to any data transfers to ensure the underlying data is accurate and complete.

• States should consider re-addressing the circumstances in which the use of contingent ratings is acceptable and whether this process creates the appropriate incentive for carriers to provide complete and timely data. NCCI, together with the states, should evaluate the impact of the use of contingent ratings on carriers.
NCCI should implement more effective procedures to identify non-experience rated risks that qualify for experience rating.

7. **Recommend revisions to NCCI’s operational procedures to achieve concurrence with the rules in NCCI Experience Rating Plan.**
   - Our findings under this objective also relate to Objective #6 above.

8. **Assess the timeliness of NCCI’s experience rating computation and distribution.**
   Determine whether lateness results from carrier statistical reports received untimely or failing to pass edits, or from NCCI internal process delays.
   - NCCI should implement a written policy establishing a required timeframe for the production and availability or release of ratings once the expected/complete data is available. In addition, NCCI experience rating performance goal percentages should be substantially increased.

9. **Recommend effective penalties and/or incentives to improve the timeliness and quality of carrier statistical reporting.**

   States should consider ways to hold NCCI accountable for meeting the data quality and experience rating standards approved and expected by the states.
   - Our findings under the objective also relate to Objectives #2 and #4 above.

10. **Recommend revisions to NCCI’s operational procedures to achieve timely production and distribution of experience ratings.**
    - Our findings under this objective also relate to Objectives #8 & #9 above.
Appendix 1

Appendix: Summary of Sample Testing Results

Unit Report Sampling Results

<table>
<thead>
<tr>
<th>Sample Name</th>
<th>Unit Statistical Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Size:</td>
<td>15,422,590</td>
</tr>
<tr>
<td>Confidence Level:</td>
<td>95%</td>
</tr>
<tr>
<td>Expected Error:</td>
<td>2%</td>
</tr>
<tr>
<td>Planned Upper Error Limit:</td>
<td>5%</td>
</tr>
<tr>
<td>Sample Size:</td>
<td>181*</td>
</tr>
</tbody>
</table>

*In the data reconciliation process, it was discovered that six unit reports were not included in the population. Four of the six unit reports were from participating states and were tested as a separate judgmental sample. Therefore, a total of 185 unit reports were tested.

1-For this unit report sample, an error is defined as any one or more data elements relating to a unit report which was not properly recorded by NCCI from information provided by the carriers. For the purposes of quantifying unit report level errors, the number of errors per unit report is limited to one.

I. Quantification of Errors – Unit Report Level

<table>
<thead>
<tr>
<th></th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
<th>Achieved Upper Error Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit Statistical Data</td>
<td>4</td>
<td>2.21%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>
## II. Quantification of Errors – Unit Report Level

### Critical Unit Errors

<table>
<thead>
<tr>
<th>Description of Errors</th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>The policy number on the unit report filed by the carrier does not agree with the data reflected in NCCI system records.</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>The standard premium amount recorded in the NCCI URS system did not agree to the premium amounts recorded on the carrier submitted detail report.</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Two unit reports were issued through a Florida self-insured fund. Up until July 1994, Florida self-insured funds used the Bureau of Self Insurance (BSI) forms and filed statistical information with the Department of Labor and Employment Security. NCCI included data in its system that was not reported by the fund or differed from what the fund reported.</td>
<td>2</td>
<td>1.10%</td>
</tr>
</tbody>
</table>

### Quantification of Errors – Unit Report Level

#### Critical Unit Errors

Critical errors are defined as errors in the following data elements: effective date, class code, exposure, subject premium, exposure state, accident date, and loss (indemnity or medical) amount etc.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Number</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Standard Premium</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Modification Effective Date</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Rating Effective Date</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Premium Amount</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Exposure Coverage Code</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Experience Modification Factor</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Standard Premium</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Subject Premium</td>
<td>1</td>
<td>.55%</td>
</tr>
</tbody>
</table>
Appendix 1

Appendix: Summary of Sample Testing Results

Unit Report Sampling Results

Quantification of Errors – Attribute Level
Non-critical Unit Errors

Non-critical errors are defined, as all other errors not specifically identified as critical and excluding missing documentation.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Discount</td>
<td>1</td>
<td>.55%</td>
</tr>
<tr>
<td>Expense Constant</td>
<td>1</td>
<td>.55%</td>
</tr>
</tbody>
</table>

Other Findings

- Missing documentation - The NCCI was unable to locate 17 of the 181 randomly selected unit reports in their archives. Of the four judgmental sample items, we were unable to confirm the data associated with two unit reports. As an alternative procedure, we requested that the carriers provide a copy of the original unit report submitted to NCCI or a comparable report from their unit statistical reporting system that clearly identifies all the data elements tested. The carrier was asked to provide system screen prints or copies of unit reports submitted, including correction and replacement reports. We were unable to test 2 of the 21 confirmations, as the carrier was unable or did not provide a response to the confirmation request.

- A first report is due in the 20th month after the policy effective date. Based on the examiner’s determination of the due date, based on the effective date, there were 15 unit reports that were submitted late.

- There were 11 unit reports noted in the sample with estimated exposure amounts provided at the time of reporting. Based on the review of the unit report database as of June 2001, there were no correction reports providing final audited exposures for 8 of the 11 units that have been submitted. It was noted that the unit report system included correction reports for three of the 11 policies. Of the eight remaining policies with estimated exposures, two had policy effective dates of 1993, one with 1995, one with 1997, two with 1998 and two with 1999 effective dates.

- In the review of the 4 unit reports judgmentally sampled, the examiner noted that NCCI recorded a receipt date of June 9, 1937 for two items. The unit statistical reports were reported via hardcopy units to NCCI and were received in September 1997. NCCI believes these are keying errors.
Appendix 1

Appendix: Summary of Sample Testing Results

Unit Report Sampling Results

- The examiner judgmentally selected 20 unit reports to verify that the date received as recorded in the URS system was accurate. We compared the date in the system to the date recorded on the carrier backup data file. We noted discrepancies in 17 of the 20 unit reports selected for review. It was noted that 16 of the receipt dates tested differed by one day. In one instance, it was noted that the date differed by approximately 1 week.

  Per discussion with NCCI, prior to August 7, 2000, the program used to record the received date in the URS system was encoded to insert the current date minus one day as the received date. According to the Company, this was used to accommodate data processing constraints.

  According to the Company, effective August 7, 2000, the program was modified so that the received date is the same day as received. This was modified due to system changes that enabled more data to be processed on the same day as the electronic submissions were received.

- We selected each unit report of the 181 in the random sample that did not have a Risk ID. This sub-sample is comprised of 101 unit reports, which is the sample used for testing. Based on the review, we noted that one risk should have been experience rated based upon the premium amount.
Appendix: Summary of Sample Testing Results

Carrier Sampling Results

<table>
<thead>
<tr>
<th>Sample Name:</th>
<th>Carrier Audit Policy Level Statistical Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population:</td>
<td>Population of policies for which unit reports were filed for 1993 and subsequent policy years, submitted as of October 14, 2000.</td>
</tr>
<tr>
<td>Population Size:</td>
<td>344,027</td>
</tr>
<tr>
<td>Confidence Level:</td>
<td>95%</td>
</tr>
<tr>
<td>Expected Error:</td>
<td>2%</td>
</tr>
<tr>
<td>Planned Upper Error Limit</td>
<td>5%</td>
</tr>
<tr>
<td>Sample Size:</td>
<td>181</td>
</tr>
</tbody>
</table>

For this sample, an error is defined as any one or more data elements on unit reports relating to a policy which was not properly reported by the carrier to NCCI, or was reported but a discrepancy was noted, or the information was reported late. For the purposes of quantifying policy level errors, the number of errors per policy is limited to one. Errors were categorized into two groups: critical and non-critical errors. Critical errors are defined as errors in those data elements that impact the production of rates and experience ratings. These data elements include policy effective date, class code, exposure amount, premium amount, exposure state, accident date and loss (indemnity and medical) amount. Errors were further categorized into two types: Type A and Type B.

Type A errors are discrepancies between the underlying carrier records and the information submitted to NCCI. Data not reported or reported incorrectly to NCCI are examples of Type A errors.

Type B errors are discrepancies between the information submitted by the carrier to NCCI and what is in NCCI’s system. Type B errors may result from changes to the carrier-submitted data by NCCI as a result of its default edit procedures as well as discrepancies resulting from the carrier not providing to the examiners accurate or complete support to substantiate the data in NCCI’s system.
Appendix: Summary of Sample Testing Results

Carrier Sampling Results

Qualification of Errors – Policy Level

<table>
<thead>
<tr>
<th>Description of Errors</th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
<th>Achieved Upper Error Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies With Critical and Non-critical Errors, including Type A and B errors, Excluding Those With Missing Documentation</td>
<td>115</td>
<td>63.5%</td>
<td>69.5%</td>
</tr>
<tr>
<td>Policies With Critical and Non-critical Errors, including Type A and B errors, Including Those With Missing Documentation</td>
<td>120</td>
<td>66.3%</td>
<td>72.1%</td>
</tr>
<tr>
<td>Policies With Critical Errors, including Type A and B errors, Excluding Those With Missing Documentation</td>
<td>78</td>
<td>43.1%</td>
<td>49.5%</td>
</tr>
</tbody>
</table>

Quantification of Errors and Sample Size – Policy Level by Carrier

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Number of Policies With Errors</th>
<th>Number of Policies With Critical Errors</th>
<th>Number of Policies in Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>10</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>C</td>
<td>37</td>
<td>27</td>
<td>57*</td>
</tr>
<tr>
<td>D</td>
<td>32</td>
<td>22</td>
<td>40</td>
</tr>
<tr>
<td>E</td>
<td>35</td>
<td>25</td>
<td>46</td>
</tr>
<tr>
<td>F</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

*Excludes 5 of 62 originally selected policies for which no documentation was provided.

Description of Documentation Errors

Unit reports and supporting documentation for five policies in the sample could not be located. The inclusion of the unlocated unit reports in the error statistics increased the error count at the policy level only. These errors were not included in the statistics at the attribute level shown on the following page.

<table>
<thead>
<tr>
<th>Number of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
</tr>
</tbody>
</table>
Appendix 2

Appendix: Summary of Sample Testing Results

Carrier Sampling Results

Quantification of Errors – Attribute Level
Errors (excluding missing documentation)

(These 771 attribute errors relate to the 115 policy level errors described above)

<table>
<thead>
<tr>
<th></th>
<th>Number of Errors – Type A</th>
<th>Sample Error Rate – Type A (%)</th>
<th>Number of Errors – Type B</th>
<th>Sample Error Rate – Type B (%)</th>
<th>Number of Errors - Total</th>
<th>Sample Error Rate – Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Number</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Carrier Number</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Policy Effective Date</td>
<td>1</td>
<td>0.55%</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>0.55%</td>
</tr>
<tr>
<td>Exposure State Code</td>
<td>1</td>
<td>0.43%</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>0.43%</td>
</tr>
<tr>
<td>Modification Effective Date</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Rate Effective Date</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Policy Condition Code</td>
<td>20</td>
<td>7.25%</td>
<td>1</td>
<td>0.36%</td>
<td>21</td>
<td>7.61%</td>
</tr>
<tr>
<td>Class or Statistical Code</td>
<td>60</td>
<td>6.01%</td>
<td>7</td>
<td>0.70%</td>
<td>67</td>
<td>6.71%</td>
</tr>
<tr>
<td>Exposure Amount</td>
<td>36</td>
<td>3.61%</td>
<td>10</td>
<td>1.00%</td>
<td>46</td>
<td>4.61%</td>
</tr>
<tr>
<td>Manual Rate</td>
<td>79</td>
<td>7.92%</td>
<td>14</td>
<td>1.40%</td>
<td>93</td>
<td>9.32%</td>
</tr>
<tr>
<td>Premium Amount by Class or Statistical Code</td>
<td>162</td>
<td>16.23%</td>
<td>20</td>
<td>2.00%</td>
<td>182</td>
<td>18.23%</td>
</tr>
<tr>
<td>Experience Modification Factor</td>
<td>23</td>
<td>9.27%</td>
<td>2</td>
<td>0.81%</td>
<td>25</td>
<td>10.08%</td>
</tr>
<tr>
<td>Total Subject Premium</td>
<td>22</td>
<td>7.33%</td>
<td>11</td>
<td>3.67%</td>
<td>33</td>
<td>11.00%</td>
</tr>
<tr>
<td>Total Modified Premium</td>
<td>22</td>
<td>7.33%</td>
<td>0</td>
<td>0.00%</td>
<td>22</td>
<td>7.33%</td>
</tr>
<tr>
<td>Standard Premium</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>0.33%</td>
<td>1</td>
<td>0.33%</td>
</tr>
<tr>
<td>Claim Numbers(s)</td>
<td>9</td>
<td>1.43%</td>
<td>8</td>
<td>1.27%</td>
<td>17</td>
<td>2.70%</td>
</tr>
<tr>
<td>Accident Date</td>
<td>9</td>
<td>1.43%</td>
<td>8</td>
<td>1.27%</td>
<td>17</td>
<td>2.70%</td>
</tr>
<tr>
<td>Loss Class Code</td>
<td>12</td>
<td>1.90%</td>
<td>8</td>
<td>1.27%</td>
<td>20</td>
<td>3.17%</td>
</tr>
<tr>
<td>Injury Code</td>
<td>80</td>
<td>12.70%</td>
<td>8</td>
<td>1.27%</td>
<td>88</td>
<td>13.97%</td>
</tr>
<tr>
<td>Claim Status</td>
<td>10</td>
<td>1.59%</td>
<td>8</td>
<td>1.27%</td>
<td>18</td>
<td>2.86%</td>
</tr>
<tr>
<td>Incurred Indemnity</td>
<td>12</td>
<td>1.90%</td>
<td>8</td>
<td>1.27%</td>
<td>20</td>
<td>3.17%</td>
</tr>
<tr>
<td>Incurred Medical</td>
<td>18</td>
<td>2.86%</td>
<td>11</td>
<td>1.75%</td>
<td>29</td>
<td>4.61%</td>
</tr>
<tr>
<td>Timeliness of Unit Report Filing</td>
<td>40</td>
<td>14.49%</td>
<td>1</td>
<td>0.36%</td>
<td>41</td>
<td>14.85%</td>
</tr>
<tr>
<td>Timeliness of Premium Audit</td>
<td>6</td>
<td>3.31%</td>
<td>0</td>
<td>0.00%</td>
<td>6</td>
<td>3.31%</td>
</tr>
<tr>
<td>Timeliness of Loss Valuation</td>
<td>2</td>
<td>0.32%</td>
<td>0</td>
<td>0.00%</td>
<td>2</td>
<td>0.32%</td>
</tr>
<tr>
<td>Experience Rating Eligibility</td>
<td>21</td>
<td>11.60%</td>
<td>0</td>
<td>0.00%</td>
<td>21</td>
<td>11.60%</td>
</tr>
<tr>
<td>Total Errors Without Missing Documentation</td>
<td><strong>645</strong></td>
<td><strong>N/A</strong></td>
<td><strong>126</strong></td>
<td><strong>N/A</strong></td>
<td><strong>771</strong></td>
<td><strong>N/A</strong></td>
</tr>
</tbody>
</table>
Appendix: Summary of Sample Testing Results

Carrier Sampling Results

Description of Errors

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Description of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Effective Date</td>
<td>Type A</td>
</tr>
<tr>
<td></td>
<td>• There was one instance in which the policy effective date reported by NCCI did not agree to the policy effective date noted on the unit report provided by the carrier. The respective dates were 9/1/93 (NCCI) versus 1/1/93 (Carrier). The examination team verified that the correct date was 9/1/93 by reviewing the underwriting and policy file.</td>
</tr>
<tr>
<td>Exposure State Code</td>
<td>Type A</td>
</tr>
<tr>
<td></td>
<td>• There was one instance in which the carrier reported a state code of &quot;00&quot; on the third unit report submitted for a particular insured. The first and second unit reports reported the appropriate state code.</td>
</tr>
<tr>
<td>Policy Condition Code</td>
<td>Type A</td>
</tr>
<tr>
<td></td>
<td>The policy condition code is used to identify whether the policy is interstate rated, assigned risk, provides excess coverage, is retrospectively rated, was canceled mid-term, or if the exposure data reported is estimated, among others. The examination team noted various discrepancies between the policy conditions coding reported to the NCCI and the policy conditions that should have been reported based upon a review of the source documentation. Specifically:</td>
</tr>
<tr>
<td></td>
<td>• There was one instance in which a policy had exposure in multiple states but was not coded as such on the unit report.</td>
</tr>
<tr>
<td></td>
<td>• There were three instances in which a policy was canceled mid-term but was not reported as such on the unit report.</td>
</tr>
<tr>
<td></td>
<td>• There were fifteen instances in which estimated exposures were reported but not identified as such on the unit report. Further, a corrected report was not filed after the premium audit was performed in those instances in which an audit was performed.</td>
</tr>
</tbody>
</table>
Appendix: Summary of Sample Testing Results

Carrier Sampling Results

- There was one instance in which the unit report indicated interstate rating for a policy that was not interstate rated.

Type B

- The examination team also noted one instance in which the NCCI system does not reflect the coding that was reported by the carrier, based upon the unit information provided to the examiner by the carrier. Specifically, NCCI indicated interstate rating on a first unit report for one of several states on one policy. The policy was properly not coded as interstate rated. The NCCI system reflects the correct coding for the second unit report.

<table>
<thead>
<tr>
<th>Class or Statistical Code</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>There were several types of errors noted as follows:</td>
</tr>
<tr>
<td></td>
<td>- There were nine instances in which the governing class code reported did not match the type of risk insured.</td>
</tr>
<tr>
<td></td>
<td>- There was one instance in which an incorrect class code, due to a typographical error, was reported to NCCI.</td>
</tr>
<tr>
<td></td>
<td>- There were thirty-seven instances in which class or statistical codes, as noted in source documentation, were not reported to NCCI.</td>
</tr>
<tr>
<td></td>
<td>- There were ten instances in which class or statistical codes reported to NCCI were not listed on the premium audit.</td>
</tr>
<tr>
<td></td>
<td>- There were three instances in which the examination team was unable to conclude on the reasonableness of the class code assigned due to a lack of sufficient documentation.</td>
</tr>
</tbody>
</table>

Type B

- The examination team also noted two instances in which the NCCI system did not reflect class codes that were reported by the carrier, based upon the unit information provided to the examiner by the carrier.
- There were five instances in which the NCCI database included class codes that were not reported or could not be verified by the unit information provided to the examiner by the carrier.
### Carrier Sampling Results

<table>
<thead>
<tr>
<th>Exposure Amount</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There were thirty-six instances in which the exposure per the premium audit did not agree to the exposure reported to NCCI. Seventeen of these discrepancies are due to the carrier reporting estimated data initially and not filing correction reports reflecting the audited data. Five of these discrepancies are due to the unit report exposure amounts disagreeing with NCCI and the premium audit. The examination team could not determine the cause of the remaining fourteen discrepancies.</td>
<td></td>
</tr>
</tbody>
</table>

| Type B |
| • There were nine instances in which reported exposures disagree or could not be verified by the unit information provided to the examiner by the carrier with those included in the NCCI system. |
| • There was one instance in which the NCCI system included an exposure amount that was not reported or could not be verified by the unit information provided to the examiner by the carrier. |

<table>
<thead>
<tr>
<th>Manual Rate</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There were eighteen instances in which the carrier did not report a manual rate for a given class code. However, both the NCCI system and the premium audit, where available, reflect manual rates for these class codes and such manual rates agree between the NCCI system and the premium audit.</td>
<td></td>
</tr>
<tr>
<td>• In addition, there were sixty-one instances in which the manual rates per the premium audit did not agree to the manual rates reported to NCCI.</td>
<td></td>
</tr>
</tbody>
</table>

| Type B |
| • The examination team noted one instance wherein a manual rate, along with the related exposure and premium amounts for a particular class code, was reported by the carrier but such data was not reflected in the NCCI system, based upon the unit information provided to the examiner by the carrier. |
Appendix: Summary of Sample Testing Results

Carrier Sampling Results

- Also, an instance was noted by the examination team where a manual rate was included in the NCCI system, along with the related exposure and premium amounts, for a particular class code that could not be verified by the unit information provided to the examiner by the carrier.
- In addition, there were twelve instances in which the manual rate on the NCCI system disagreed with or could not be verified by the unit information provided to the examiner by the carrier.

<table>
<thead>
<tr>
<th>Premium Amount by Class or Statistical Code</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There were several types of errors noted as follows:</td>
<td></td>
</tr>
<tr>
<td>There were eighty-one instances in which the premium per the premium audit did not agree to the premium reported to NCCI. Thirty-five of these errors were due to the carrier initially reporting estimated data and not filing a correction with audited data after the premium audit was performed. In eight instances premium included in the premium audit was not reported to NCCI. Thirty-eight of the errors were due to differences in the manual rates that were applied per the premium audit and manual rates reported to NCCI.</td>
<td></td>
</tr>
<tr>
<td>• There were forty-nine instances in which premium related to class/statistical codes were not reported to NCCI.</td>
<td></td>
</tr>
<tr>
<td>• There were thirty-two instances in which the unit report reflected zero premium for each class code listed but an amount greater than zero was reflected in the NCCI system. The examination team could not determine a cause for this discrepancy. Further, in some instances the premium audit file was not available and therefore, the examination team could not conclude as to the accuracy of the premium amounts reflected in the NCCI system. In those instances where a premium audit file was provided, the premium by class code per the premium audit did not agree to the premium in the NCCI system.</td>
<td></td>
</tr>
</tbody>
</table>

| Type B |
|• There was one instance in which the NCCI system did not reflect a premium amount, based upon the unit information provided to the examiner by the carrier. |
### Carrier Sampling Results

<table>
<thead>
<tr>
<th>Experience Modification Factor</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>There were several types of errors noted as follows:</td>
</tr>
<tr>
<td></td>
<td>• There were fourteen instances in which the experience modification factor applied per review of the premium audit invoice disagreed with the experience modification factor reported to NCCI. In three of those instances, the correct experience modification factor was applied.</td>
</tr>
<tr>
<td></td>
<td>• There were nine additional instances in which the experience modification factor reported to NCCI disagreed with the experience modification factor that was calculated by NCCI and included in the policy file.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There were two instances in which the NCCI system reflected an experience modification factor that was not included or could not be verified by the unit information provided to the examiner by the carrier.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Subject Premium</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>There were several types of errors related to class or statistical codes, exposure, premium by class or statistical code and manual rate as noted above, that resulted in twenty-two instances in which the subject premium reported did not agree to the subject premium per the premium audit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There were nine instances in which NCCI altered the carrier’s unit report data to include increased limits in the total subject premium amount, based upon the unit information provided to the examiner by the carrier.</td>
</tr>
</tbody>
</table>
## Appendix: Summary of Sample Testing Results

### Carrier Sampling Results

<table>
<thead>
<tr>
<th>Category</th>
<th>Type A</th>
<th>Type B</th>
</tr>
</thead>
</table>
| **Total Modified Premium** | • There was one instance in which NCCI altered the carrier’s unit report data to include the flat increase in the total subject premium amount, based upon the unit information provided to the examiner by the carrier.  
• There was one instance in which NCCI improperly included both the original and revised premium amounts in the total subject premium amount, based upon the unit information provided to the examiner by the carrier. |                                                                 |
| **Standard Premium**    | • There were twenty-two instances in which the total modified premium reported did not agree to the total modified premium in the premium audit. Eleven of these instances are due to a difference in the experience modification factor applied versus reported. | • There was one instance in which NCCI improperly included both the original and revised premium amounts in the standard premium, based upon the unit information provided to the examiner by the carrier. |
| **Claim Number(s)**     | • There were nine instances in which the claim number in the loss run disagreed with the claim number reported by the carrier. In four of the nine instances, the loss was not reported to NCCI by the carrier. The remaining instances related to claims data for multiple claims reported as one claim by the carrier. | • There were eight instances in which the NCCI system included claim numbers that were not included or could not be verified by the unit information provided to the examiner by the carrier. |
| **Accident Date**       | • There were nine instances in which the accident date included in the loss run did not agree to the accident date reported to NCCI. These errors are related to the "claim number(s)" errors noted above. | |

2-9
## Appendix: Summary of Sample Testing Results

### Carrier Sampling Results

<table>
<thead>
<tr>
<th>Loss Class Code</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type B</td>
<td>There were twelve instances in which the loss class code listed on the loss run disagreed with the loss class code reported to NCCI. In three of twelve instances a class code was not listed on the loss run, but a class code was reported to NCCI. Consequently, the examination team was unable to conclude as to the accuracy of the loss class codes in those instances. In one of twelve instances, the class code was listed on the loss run, but not reported to the NCCI. The four remaining instances related to five individual claims that were reported to the NCCI on a combined basis.</td>
</tr>
</tbody>
</table>

| Type B          | There were eight instances in which the NCCI system reflected loss class codes that were not included or could not be verified by the unit information provided to the examiner by the carrier. |

<table>
<thead>
<tr>
<th>Injury Code</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type B</td>
<td>There were several types of errors noted as follows:</td>
</tr>
<tr>
<td>Type A</td>
<td>There were thirty-three instances in which an injury code was not listed on the loss run, but an injury code was reported to NCCI by the carrier. Consequently, the engagement team was unable to conclude as to the accuracy of the injury codes reported.</td>
</tr>
<tr>
<td>Type A</td>
<td>There were four instances in which an injury code was listed on the loss run, but not reported to NCCI by the carrier.</td>
</tr>
</tbody>
</table>
## Carrier Sampling Results

<table>
<thead>
<tr>
<th>Category</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Claim Status</strong></td>
<td><strong>Type A</strong></td>
<td>There were ten instances in which the claim status reported on the loss run disagreed with the claim status reported to NCCI on the unit report. In four of the ten instances the claim status was not reported to NCCI.</td>
</tr>
<tr>
<td></td>
<td><strong>Type B</strong></td>
<td>There were eight instances in which the NCCI system reflected a claim status that was not included or could not be verified by the unit information provided to the examiner by the carrier.</td>
</tr>
<tr>
<td><strong>Incurred Indemnity</strong></td>
<td><strong>Type A</strong></td>
<td>There were eleven instances in which the incurred indemnity amount listed on the loss run disagreed with the incurred indemnity amount reported to NCCI by the carrier. In eight of eleven instances, the loss run included an incurred indemnity amount that was not reported to NCCI. In three of eleven instances the incurred indemnity amount listed on the loss run was either greater or lesser than the incurred indemnity amount reported to NCCI. There was one instance in which the incurred indemnity amount per a review of the claim file disagreed with the incurred indemnity amount reported to NCCI. In this instance, the loss run for the policy was not provided to the examination team.</td>
</tr>
<tr>
<td></td>
<td><strong>Type B</strong></td>
<td>There were eight instances in which the NCCI system reflected an incurred indemnity amount that was not included or could not be verified by the unit information provided to the examiner by the carrier.</td>
</tr>
</tbody>
</table>

- **Type A**
- **Type B**
## Appendix: Summary of Sample Testing Results

### Carrier Sampling Results

<table>
<thead>
<tr>
<th>Incurred Medical Type</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>There were several types of errors noted as follows:</td>
</tr>
<tr>
<td></td>
<td>• There were fourteen instances in which the incurred medical amount listed on the loss run disagreed with the incurred medical amount reported to NCCI by the carrier. In eight of fourteen instances, the loss run included an incurred medical amount that was not reported to NCCI. In six of fourteen instances, the incurred medical amount on the loss run was greater or lesser than the incurred medical amount reported to NCCI.</td>
</tr>
<tr>
<td></td>
<td>• There were four instances in which the incurred medical amount per a review of the claim file disagreed with the incurred medical amount reported to NCCI. The loss runs for the related policies were not provided to the examination team.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There were three instances in which the NCCI system did not reflect an incurred medical amount, based upon the unit information provided to the examiner by the carrier.</td>
</tr>
<tr>
<td>• There were eight instances in which the NCCI system reflected an incurred medical amount that was not included or could not be verified by the unit information provided to the examiner by the carrier.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Timeliness of Unit Report Filing Type</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>There were forty instances in which the unit report was not filed timely. In addition, there was one instance in which the filing date could not be determined. Consequently, the examination team could not conclude as to the timeliness of filing in this instance.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There was one instance in which the carrier provided documentation that the unit report was filed on time. However, the NCCI system reflects a received date that indicates that the unit report was not filed timely.</td>
</tr>
</tbody>
</table>
# Appendix: Summary of Sample Testing Results

## Carrier Sampling Results

<table>
<thead>
<tr>
<th>Error Type</th>
<th>Type A</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timeliness of Premium Audit</strong></td>
<td>- There were six instances in which the premium audit was not performed timely.</td>
</tr>
<tr>
<td><strong>Timeliness of Loss Valuation</strong></td>
<td>- There were two instances in which the date of loss valuation could not be determined due to the acquisition of the original carrier by another carrier and the resulting system conversion.</td>
</tr>
<tr>
<td><strong>Experience Rating Eligibility</strong></td>
<td>- There were several types of errors noted as follows:</td>
</tr>
<tr>
<td><strong>Experience Rating Eligibility</strong></td>
<td>- There were seventeen instances in which additional policy information was not available and therefore, the examination team could not conclude as to the eligibility of the insured for an experience rating.</td>
</tr>
<tr>
<td><strong>Experience Rating Eligibility</strong></td>
<td>- There were three instances in which the insured appeared to be eligible for experience rating (subject premium was greater than the minimum premium threshold), but the insured was not experience rated.</td>
</tr>
<tr>
<td><strong>Experience Rating Eligibility</strong></td>
<td>- There was one instance in which the insured was experience rated; however, sufficient policy information was not available to conclude as to the insured’s eligibility for experience rating.</td>
</tr>
</tbody>
</table>

### Errors - Missing Documentation

At the conclusion of each of the carrier audits, the examination team provided each carrier with a detailed description of the discrepancies that were noted during the course of the respective audits to allow the carriers time in which to respond to the findings. Generally, the carriers were given one week to provide additional clarifying information or otherwise prepare a response. Carriers A, B and D provided additional clarifying information or explanations, where available, and where none was available, acknowledged that the noted discrepancies were indeed errors. Carrier C did not respond to the request for additional and/or clarifying information. Carrier E provided additional information, but overall did not adequately respond to our inquiries. Carrier F only provided the statistical data reports that were submitted to NCCI.
Appendix: Summary of Sample Testing Results

Carrier Sampling Results

As a result, the examination team was unable to perform the following procedures on those sample items.

- Review and ensure that the carrier’s premium audit invoices reconcile to the specific information in the premium audit workpapers;
- Verify that all information on the premium invoice reconciles (including payroll, period, classes, etc.) to the underlying premium audit workpapers;
- Determine that the results of the premium audit have been reported to NCCI;
- Compare the unit report information obtained from NCCI to the carrier’s source documentation;
- Clerically test totals on unit reports to source documentation;
- Determine whether risk was intrastate or interstate from data in the carrier’s files;
- Review other documentation in the carrier’s files including ownership/combination of entities information/changes;
- Determine if a policy was eligible for experience rating based on carrier records;
- Review class codes and discuss with carrier and review corroborating documentation to determine if exposure data was assigned to the proper classifications;
- Determine whether the carrier used the experience modifier issued by NCCI;

In addition to the noted discrepancies, each carrier was provided with a list of the documentation that was originally requested but not made available during the respective on-site carrier audit. This documentation included unit reports, underwriting files, policy files, premium audit files, loss runs and selected claim files. Each carrier was given another opportunity to provide such documentation, however, most continue to be outstanding. The following details, by carrier, the number of the various types of documentation that the carriers were unable to produce.
# Appendix: Summary of Sample Testing Results

## Carrier Sampling Results

<table>
<thead>
<tr>
<th>DOCUMENTATION (By Type)</th>
<th>CARRIER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>Unit Report</td>
<td>0</td>
</tr>
<tr>
<td>Policy File</td>
<td>3</td>
</tr>
<tr>
<td>Underwriting File</td>
<td>1</td>
</tr>
<tr>
<td>Premium Audit Invoice</td>
<td>0</td>
</tr>
<tr>
<td>Premium Audit Support</td>
<td>1</td>
</tr>
<tr>
<td>Loss Run</td>
<td>0</td>
</tr>
<tr>
<td>Claim File</td>
<td>0</td>
</tr>
</tbody>
</table>

* The number of claim files, if any, cannot be determined due to the lack of loss run data for the selected policies in the sample.

Due to the lack of documentation noted above, the examination team cannot conclude as to the existence of additional errors in sample items for which such documentation was not provided.
Appendix: Summary of Sample Testing Results

Experience Rating Sampling Results

<table>
<thead>
<tr>
<th>Sample Name:</th>
<th>Experience Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population:</td>
<td>Experience Rating worksheets produced and released during the period October 14, 1998 through October 14, 2000</td>
</tr>
<tr>
<td>Population Size:</td>
<td>1,604,529</td>
</tr>
<tr>
<td>Confidence Level:</td>
<td>95%</td>
</tr>
<tr>
<td>Expected Error:</td>
<td>7%</td>
</tr>
<tr>
<td>Planned Upper Error Limit:</td>
<td>11%</td>
</tr>
<tr>
<td>Sample Size:</td>
<td>184</td>
</tr>
</tbody>
</table>

Quantification of Errors – Experience Rating Level

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
<th>Achieved Upper Error Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience ratings</td>
<td>9</td>
<td>4.89 %</td>
<td>8.40%</td>
</tr>
</tbody>
</table>

As noted above, nine ratings in the sample contained errors, two of which had two errors each, for a total of eleven errors on nine ratings. The error rate is made up of two types of errors. One type relates to “interpretive errors,” or variances from the participating states’ interpretation of the Experience Rating Plan Manual’s rules. Of the eleven errors, six were interpretive errors. The second type of error relates to “execution errors.” Execution errors are all other errors, all of which NCCI agreed are errors in the application of experience rating procedures, such as the use of incorrect Anniversary Rating Dates, loss data or policies, among others. Of the eleven errors, five were execution errors.
Appendix: Summary of Sample Testing Results

Experience Rating Sampling Results

Types of Errors – Experience Rating Level

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Number of Errors</th>
<th>Sample Error Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility of risk for experience rating based upon state-specific premium criteria.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Appropriate selection of Anniversary Rating Date.</td>
<td>2</td>
<td>1.09%</td>
</tr>
<tr>
<td>Appropriate selection of experience period for experience rating.</td>
<td>7</td>
<td>3.80%</td>
</tr>
<tr>
<td>Proper application of the Oregon &quot;one day&quot; rule.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Omission of unit report(s) from experience rating.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Proper ELR values for all class codes (by entity and by state) used in the experience rating.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Proper D-Ratio values for all class codes (by entity and by state) used in the experience rating.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Proper weighting value used in the experience rating.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Proper ballast value used in the experience rating.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Accuracy of the application of unit report data from carrier-submitted unit reports into the experience rating.</td>
<td>2</td>
<td>1.09%</td>
</tr>
<tr>
<td>Proper application of loss limitation and excess loss rules.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Mathematical calculation of experience modification.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Number of Errors</strong></td>
<td>**11 ***</td>
<td></td>
</tr>
</tbody>
</table>

As noted on the preceding page, nine ratings in the sample contained errors, two of which had two errors each, for a total of eleven errors on nine ratings. The error rate is made up of two types of errors. One type relates to “interpretive errors,” or variances from the participating states’ interpretation of the Experience Rating Plan Manual’s rules. Of the eleven errors noted above, six were interpretive errors. The second type of error relates to “execution errors.” Execution errors are all other errors, all of which NCCI agreed are errors in the application of experience rating procedures, such as the use of incorrect Anniversary Rating Dates, loss data or policies, among others. Of the eleven errors, five were execution errors.
Appendix: Summary of Sample Testing Results

Experience Rating Sampling Results

Description of Errors

<table>
<thead>
<tr>
<th>Description of Error</th>
<th>Number of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience rating uses incorrect Anniversary Rating Date. (Execution error)</td>
<td>2</td>
</tr>
<tr>
<td>Policy extends beyond the period allowed by the participating states. (Interpretive error)</td>
<td>5</td>
</tr>
<tr>
<td>Experience rating contains a short-term policy that was used in more than three experience ratings. (Interpretive error)</td>
<td>1</td>
</tr>
<tr>
<td>Policy included in experience period in error. Policy does not fit within the experience period. (Execution error)</td>
<td>1</td>
</tr>
<tr>
<td>Incorrect loss data from a unit report included in experience rating. (Execution error)</td>
<td>1</td>
</tr>
<tr>
<td>Incorrect subject premium amount from unit report included in experience rating. (Execution error)</td>
<td>1</td>
</tr>
</tbody>
</table>

**Total Number of Errors** | 11 *

* The total number of experience ratings with one or more errors is 9. The total number of errors is 11. Two experience ratings each had two errors; however, these experience ratings are counted as one error each in the summary total of Quantification of Errors – Experience Rating Level. The error rate is made up of two types of errors. One type relates to “interpretive errors,” or variances from the participating states’ interpretation of the Experience Rating Plan Manual’s rules. Of the eleven errors noted above, six were interpretive errors. The second type of error relates to “execution errors.” Execution errors are all other errors, all of which NCCI agreed are errors in the application of experience rating procedures, such as the use of incorrect Anniversary Rating Dates, loss data or policies, among others. Of the eleven errors, five were execution errors.

Other Findings

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Number of Findings</th>
<th>Sample Findings Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>If experience rating is contingent, contingent status not allowed in state.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>If experience rating is preliminary, preliminary status not allowed in state.</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Complete or revised status is not appropriate (missing units).</td>
<td>0</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
Appendix 3

Appendix: Summary of Sample Testing Results

Experience Rating Sampling Results

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Number of Findings</th>
<th>Sample Findings Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>If experience rating is contingent, experience rating, as of report date, is not complete. (Note: of the 184 experience ratings in the sample, 12 are contingent.)</td>
<td>6</td>
<td>50.00%</td>
</tr>
<tr>
<td>If experience rating is Preliminary, experience rating was not finalized once rating values were approved by applicable state(s).</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Lack of supporting documentation to validate the accurate combination of entities and the reflection of an ownership change for rating purposes. (Note: of the 184 experience ratings in the sample, 38 have or should have supporting documentation in the file.)</td>
<td>6</td>
<td>17.65%</td>
</tr>
<tr>
<td>Missing NCCI Ruling letters. (Of the 184 experience ratings in the sample, 38 have or should have a copy of the ruling letter in the file.)</td>
<td>21</td>
<td>55.26%</td>
</tr>
<tr>
<td>Untimely release of experience ratings.</td>
<td>15</td>
<td>8.15%</td>
</tr>
<tr>
<td>Data discrepancies between NCCI’s databases.</td>
<td>2</td>
<td>N/A *</td>
</tr>
<tr>
<td>Incorrect NCCI-published State rate tables.</td>
<td>13</td>
<td>N/A *</td>
</tr>
<tr>
<td>Non-current policy used as basis for ARD determination.</td>
<td>2</td>
<td>1.09%</td>
</tr>
<tr>
<td>Treatment of missing data for the determination of experience rating eligibility.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Number of Findings</strong></td>
<td><strong>65</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Sample population for this attribute are not reasonably determinable.

**Description of Findings**

<table>
<thead>
<tr>
<th>Description of Findings</th>
<th>Number of Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent experience ratings remain contingent as of report date.</td>
<td>6</td>
</tr>
<tr>
<td>Unable to determine the appropriateness of the combination of employer entities or the changes of ownership for rating purposes related to six experience ratings due to lack of the required filing documentation.</td>
<td>6</td>
</tr>
<tr>
<td>Experience rating ownership file does not include NCCI’s ruling on the change in ownership or the combination of entities. The ERM-14 is reviewed for completeness and researched by NCCI consultants to determine the appropriate ownership ruling. A letter is written explaining the ownership ruling and any necessary revisions made.</td>
<td>21</td>
</tr>
</tbody>
</table>
## Appendix: Summary of Sample Testing Results

### Experience Rating Sampling Results

<table>
<thead>
<tr>
<th>Description of Findings</th>
<th>Number of Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience rating not released at least 30 days prior to rating effective date. (Note: Of the 15 findings, 1 experience rating was released on the rating effective date and 8 experience ratings were released after the rating effective date.)</td>
<td>15</td>
</tr>
<tr>
<td>The PICS system reflects a policy with an expiration date of 3/1/96, while the URS system reflects the same policy with an expiration date of 2/29/96.</td>
<td>1</td>
</tr>
<tr>
<td>The PICS system reflects a policy as having been both cancelled and reinstated on 7/23/96, while the URS system reflects the same policy with an expiration date of 7/23/96.</td>
<td>1</td>
</tr>
<tr>
<td>The NCCI-published rate tables in the Experience Rating Plan Manual for the States of Arizona (tables effective 10/1/97), Connecticut (1/1/98), Hawaii (11/1/97), Illinois (1/1/98), Indiana (1/1/98), Kentucky (9/1/97), Nebraska (9/1/97), New Hampshire (1/1/98), South Dakota (7/1/97), Utah (12/1/97), Virginia (4/1/98) and Wisconsin (7/1/97) contain incorrect ballast formulas on the Table of Ballast Values.</td>
<td>12</td>
</tr>
<tr>
<td>An unfiled Cap on Modifications formula is included on the State of Alaska January 1, 1999 Table of Ballast Values.</td>
<td>1</td>
</tr>
<tr>
<td>A policy one year prior to the current policy was used as the basis for the selection of the ARD, not the current policy.</td>
<td>2</td>
</tr>
<tr>
<td>For experience rating eligibility, if data is expected to be reported, eligibility rules treat the missing period as $0 premium for purposes of determining eligibility. Once the missing period is reported, the eligibility rules are applied to the reported premium. However, if the period is not reported, the missing period is still included in the determination of eligibility. As a result, a risk may not qualify for experience rating due to the carrier’s untimely reporting and the use of the $0 premium in the eligibility determination. Additionally, neither the risk nor the carrier responsible for the missing data is notified of this situation.</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total Number of Errors** 65
## Employer Audit Sampling Results

### AUDIT RESULTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Total Number of Policies Audited</strong></td>
<td>12</td>
</tr>
<tr>
<td>Total Number of Audits with Differences</td>
<td>11</td>
</tr>
<tr>
<td>Percent with Differences</td>
<td>91.67%</td>
</tr>
<tr>
<td><strong>B. Total Carrier Audit Premium</strong></td>
<td>$178,049</td>
</tr>
<tr>
<td>Total Test Audit Premium</td>
<td>$220,451</td>
</tr>
<tr>
<td>Net Premium Difference</td>
<td>$42,402</td>
</tr>
<tr>
<td>Percent</td>
<td>19.23%</td>
</tr>
<tr>
<td><strong>C. Total Premium Overcharges (4 policies with overcharges)</strong></td>
<td>$1,232</td>
</tr>
<tr>
<td>Total Premium Undercharges (7 policies with undercharges)</td>
<td>$43,634</td>
</tr>
<tr>
<td>Net Premium Undercharge</td>
<td>$42,402</td>
</tr>
<tr>
<td>Percent</td>
<td>19.23%</td>
</tr>
<tr>
<td><strong>D. Total Carrier Audit Exposure</strong></td>
<td>$5,773,438</td>
</tr>
<tr>
<td>Total Test Audit Exposure</td>
<td>$5,836,248</td>
</tr>
<tr>
<td>Net Exposure (Under)/Overstated</td>
<td>(62,810)</td>
</tr>
<tr>
<td>Percent</td>
<td>-1.08%</td>
</tr>
</tbody>
</table>

### E. CAUSE OF ERRORS

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Errors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Misclassification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contracting</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>All Others</td>
<td>1</td>
<td>4.55%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1</td>
<td><strong>4.55%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Errors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Misclassification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officers, Partners, Individual</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Standard Exception</td>
<td>1</td>
<td>4.55%</td>
</tr>
<tr>
<td>Other Employees</td>
<td>2</td>
<td>9.09%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3</td>
<td><strong>13.64%</strong></td>
</tr>
</tbody>
</table>
Appendix: Summary of Sample Testing Results

Employer Audit Sampling Results

<table>
<thead>
<tr>
<th>Payroll Differences:</th>
<th>Number of Errors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understated Payroll</td>
<td>4</td>
<td>18.18%</td>
</tr>
<tr>
<td>Overstated Payroll</td>
<td>3</td>
<td>13.64%</td>
</tr>
<tr>
<td>Officers, Partners, Individual</td>
<td>1</td>
<td>4.55%</td>
</tr>
<tr>
<td>Independent Contractors</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Uninsured Contractors</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Overtime Payroll</td>
<td>3</td>
<td>13.64%</td>
</tr>
<tr>
<td>Payroll Improperly Allocated</td>
<td>3</td>
<td>13.64%</td>
</tr>
<tr>
<td>Payroll Not Reconciled</td>
<td>1</td>
<td>4.55%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>68.18%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Audit Differences:</th>
<th>Number of Errors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorrect Audit Period</td>
<td>2</td>
<td>9.09%</td>
</tr>
<tr>
<td>Incorrect Rates/Experience Modification</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mechanical/Mathematical Error on Audit</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mechanical/Mathematical Error on Invoice</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>All Others</td>
<td>1</td>
<td>4.55%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3</strong></td>
<td><strong>13.64%</strong></td>
</tr>
</tbody>
</table>

**TOTAL ALL ERRORS**                                     | **22**           | **100.00%**|

Note: Four carriers (carriers A, B, C and D) are represented in the twelve employer audits performed.

F. DESCRIPTION OF ERRORS

<table>
<thead>
<tr>
<th>Number of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Misclassification</strong></td>
</tr>
<tr>
<td><strong>All Others</strong></td>
</tr>
<tr>
<td>The risk was improperly classified as 8810, while classification code 8832 is appropriate.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Misclassification</strong></td>
</tr>
<tr>
<td><strong>Standard Exception</strong></td>
</tr>
<tr>
<td>Carrier auditor classified unknown/undocumented employees. Standard exception analysis worksheet was not completed.</td>
</tr>
</tbody>
</table>
### Appendix: Summary of Sample Testing Results

#### Employer Audit Sampling Results

F. DESCRIPTION OF ERRORS

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Number of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other Employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incorrect classification code</td>
<td>used.</td>
<td>1</td>
</tr>
<tr>
<td>Employees in Field Promotion and House Management were misclassified.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Payroll Differences</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understated Payroll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underreported payroll.</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Carrier auditor allowed an incorrect deduction, which is comprised of unreconciled differences.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Carrier performed a prorata closing audit against estimated figures rather than performing a physical audit.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Carrier auditor used an incorrect amount for gross payroll for one quarter.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Overstated Payroll</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Carrier auditor did not deduct unanticipated bonus.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Carrier auditor overstated premium overtime and did not deduct vacation pay.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Non-subject wages, specifically, premium portion of overtime and vacation pay, were not deducted.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Officers, Partners, Individual:</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Officer wage was insufficient as the individual did not meet the exemption criteria for an officer.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Overtime Payroll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrier auditor did not deduct unsubstantiated overtime pay.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Carrier auditor did not deduct premium overtime.</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

4-3
## Appendix: Summary of Sample Testing Results

### Employer Audit Sampling Results

<table>
<thead>
<tr>
<th>F. DESCRIPTION OF ERRORS</th>
<th>Number of Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payroll Improperly Allocated</strong></td>
<td></td>
</tr>
<tr>
<td>Division of payroll into classification code 5102 was incorrect.</td>
<td>1</td>
</tr>
<tr>
<td>Carrier auditor overstated office wages, did not verify the splitting of wages for three employees between two classification codes and meeting time was incorrectly applied to the office classification code.</td>
<td>1</td>
</tr>
<tr>
<td>Verifiable time records were not provided.</td>
<td>1</td>
</tr>
<tr>
<td><strong>Payroll Not Reconciled</strong></td>
<td></td>
</tr>
<tr>
<td>Carrier auditor did not perform a reconciliation, as a &quot;spot check&quot; of deductions was performed with no supporting documentation available.</td>
<td>1</td>
</tr>
<tr>
<td><strong>Other Audit Differences</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Incorrect Audit Period</strong></td>
<td></td>
</tr>
<tr>
<td>Incorrect payroll period used in reporting of wages.</td>
<td>1</td>
</tr>
<tr>
<td>Carrier auditor used incorrect audit period.</td>
<td>1</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
<td></td>
</tr>
<tr>
<td>An incorrect increased limits charge was used by the carrier.</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL ERRORS</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>
Appendix 5
State of Oregon
Department of Consumer and Business Services
Request for Proposal

A. ISSUING OFFICE

Department of Consumer and Business Services
Insurance Division
350 Winter Street NE, Room 440-1
Salem, Oregon 97301-3883
(503) 947-7222

B. PURPOSE

The Department of Consumer and Business Services (Department) is seeking proposals for the purpose of entering into a contract to obtain professional services for examination of statistical reporting and experience rating procedures of a licensed workers’ compensation rating organization. The contract will provide for an investigation into the quality of statistical data reported to the rating organization by licensed insurers and the efforts of the rating organization to encourage or assure data quality. The contract will further provide for an investigation into the experience rating procedures of the rating organization for internal consistency and conformance with rules specified in approved rating plans. We will call the examination according to ORS 731.300 through 731.316, 737.355, 737.515, 737.526, and 737.535. The examination involves the following rating organization licensed according to ORS 737.350 and 737.355:

National Council on Compensation Insurance (NCCI)

The NCCI is located in Boca Raton, Florida, and is a Florida corporation. It is licensed as a workers’ compensation rating organization -- or otherwise enabled to file rating or ratemaking values -- in 32 states and as a statistical agent in six additional states. NCCI produces experience rating modification factors on an intrastate basis in 36 states and on an interstate basis in 40 states.

C. SCOPE OF WORK

The Contractor will apply appropriate and expert methods and assumptions to conduct an examination of the NCCI regarding statistical reporting of estimated exposures consistent with its statistical plan and the processing of experience ratings for individual insured employer accounts consistent with the Experience Rating Plan. The examination must include the following objectives:

1. Survey a valid sample of statistical reports to determine whether or not insurers correctly assign exposure data to classifications and states and make valid use of the estimated exposure indicator. The contractor will need to compare the statistical reports in the sample at first, second, third, fourth, and fifth statistical reporting intervals with contemporary records of the insurers and conduct a
physical test premium audit of a smaller sample of a total of approximately 20 Oregon employers stratified by premium ranges for three targeted insurers and three randomly selected insurers.

2. Evaluate the procedures of NCCI to:
   (a) monitor the estimated exposure indicator;
   (b) solicit subsequent reporting of actual exposure; and
   (c) evaluate each insurer for quality of exposure reporting by classification and by state.

3. Assess the historical impact of the use of estimated or improperly assigned exposure on classification loss cost rates and on experience rating modifications for individual employers.

4. Recommend effective operational procedures for NCCI to motivate insurers to audit insured exposures competently and timely and to report actual exposures promptly.

5. Recommend effective penalties to insurers for improper exposure reporting or for improper use of the estimated exposure indicator or incentives for proper use.

6. Review the NCCI experience rating procedures and survey a valid sample of ratings to determine if the procedures deviate from the rules specified in the NCCI Experience Rating Plan. The review and survey will need to focus on determination of rating eligibility, establishment of anniversary rating dates, selection of policy periods to be included in the experience data, combination of employer entities for rating purposes, and use of the correct rating values.

7. Recommend revisions to NCCI operational procedures to achieve concurrence with the rules in the NCCI Experience Rating Plan.

8. Assess the timeliness of NCCI experience rating computation and distribution. Determine whether lateness results from insurer statistical reports received untimely or failing to pass edits or from NCCI internal process delays.

9. Recommend effective penalties or incentives for improving the timeliness and quality of insurer statistical reporting.

10. Recommend revisions to NCCI operational procedures to achieve timely production and distribution of experience ratings.

The contractor will provide bi-weekly progress reports to the Insurance Division of the Department, during the course of the examination. The bi-weekly progress reports will contain descriptions of the work completed to date, along with preliminary findings and recommendations on any issue outlined in the statement of work as those findings and recommendations are developed. The Insurance Division will
share the periodic preliminary findings and recommendations of the contractor with NCCI for review and comment to the Insurance Division.

The contractor will prepare a draft final report and a final report at the conclusion of the examination. The draft final report and the final report shall include all findings and recommendations and address points listed in the statement of work. The contractor will submit the draft final report to the Insurance Division and to NCCI at least 20 days before completion of the final report. The contractor will permit the Insurance Division and NCCI to review and comment on the draft final report before completing the final report.

The contractor will submit its final report to the Director of the Department within 60 days of the date of completing the examination. The findings and recommendations in the final report must be reliable and unqualified. The Director will provide a copy of that report to NCCI for review and comment, and the opportunity to request a hearing if necessary. The contractor will assist the Director in evaluating the comments of NCCI and will, if necessary, assist in preparing for and will appear at the hearing on the examination report. The Director may direct the contractor to further consider comments presented by NCCI.

The contractor must be available to discuss the progress reports by teleconference and to present one progress report and the final report in person. We anticipate scheduling the in-person conferences with participating states either concurrently with a scheduled NAIC meeting or in Salem, Oregon. At a date to be determined after filing the final report, the contractor shall be available to attend a conference with the Department and the NCCI board.

The Director may file contractor’s final report (with or without changes) as the final report of examination. That report will be available to the public.

The Insurance Division intends to allow insurance regulators from other states that elect to participate in, assist with or review the examination of NCCI to review the progress reports, draft final report and final report of the contractor. The reviews will be subject to obtaining confidentiality agreements from such regulators as required by Oregon law. The contractor will assist the Insurance Division in evaluating and responding to the comments of other state regulators.

D. MINIMUM QUALIFICATIONS OF PROPOSERS

To be eligible to provide the services for this contract, the proposer must demonstrate specialized expertise and ability to perform examination services described previously in Sections B and C. The Department may give preference for experience in the examination of workers’ compensation statistical agents or rating organizations or for other experience providing a thorough understanding of workers’ compensation statistical reporting or rating plans.
Appendix 5

State of Oregon
Department of Consumer and Business Services
Request for Proposal

The contractor and any assigned personnel or subcontractor(s) must not have a current or prior relationship with the National Council on Compensation Insurance within the five years preceding the commencement of the examination that could give rise to a conflict of interest in the performance of this contract.

The contractor(s) selected will be required to provide proof of professional liability insurance with a combined single limit, or the equivalent, of not less than $500,000 for each claim, incident or occurrence. This is to cover damages caused by error, omission or negligent acts related to the professional services to be provided under this contract.

E. PROPOSAL REQUIREMENTS

The proposal must include the following:

- A description of the approach that the proposer would take, the rationale for the proposed approach, and the resources the proposer would devote to performing each task in the scope of the contract.

- A detailed listing of the relevant experience that the proposer has had in performing similar projects within the last ten years, including the purpose of the examination, the project dates, and the names of the clients and of the entity examined. For the previous projects that are most relevant to this RFP, please provide the name and phone number of a contact person at the client.

- The professional qualifications and experience of the personnel to be assigned to the contract, including any subcontractor(s).

- Identification of any subcontractors that are proposed to provide services for this contract and a description of the specific services to be provided.

- A statement describing all current or prior relationships between the proposer, or any of the assigned personnel or subcontractor, and the National Council on Compensation Insurance or a declaration that no such relationships exist or have existed.

- A detailed fee proposal including the maximum total cost (not to be exceeded in any event without amendment to the contract) for the completion of the contract as proposed and an official offer to undertake the contract at the cost quoted, including the dates during which the offer remains valid. The Department will not reimburse for travel expenses, so the fee proposal must have travel cost built into overhead expenses.
An acknowledgment of responsibility to preserve confidentiality of proprietary information and contractual expectations of parties being examined or audited.

A statement that contract terms and conditions of the sample contract are acceptable.

One original and three copies of the proposal, labeled “Confidential - Examination Proposal”, must be submitted to:

Shelley Greiner
Fiscal Services Coordinator
Insurance Division
350 Winter Street NE, Room 440-1
Salem, OR  97301-3883

All proposals must be received no later than 5 P.M. on April 28, 2000 and must contain the binding signature of an authorized official of the proposer. Proposals received after the time and date specified will not be considered. All proposals become the property of the Department and will not be returned.

F. INFORMATION AND PROCEDURES

a. Timetable for Contract Award

1. This RFP is released on March 29, 2000.

2. If requested by three or more persons, the Department may hold a Proposer Conference in Portland, Oregon, no later than April 18, 2000.

3. **All proposals are due by 5:00 p.m. on April 28, 2000.** The Department will not consider proposals received after this date. Protests or requests for change, as permitted by subsection L. of this Section must be received by 5:00 p.m. on April 21, 2000.

4. Oral presentations, if requested, may be conducted on or about May 5, 2000.

5. The Department intends to notify, in writing, all proposers of the apparent selected contractor on or about May 12, 2000.

b. Response to Proposals
The Department reserves the right to reject any and all proposals, if such rejection would be in the public interest.

c. Clarifications

The Department reserves the right to seek clarifications of each proposal and the right to negotiate a final contract in the best interest of the Department, considering cost effectiveness and the level of time and effort required for the services.

d. Cancellation

The Department reserves the right to cancel this solicitation if such cancellation would be in the public interest.

e. Amendments

The Department reserves the right to amend this RFP prior to the date for proposal submission. Amendments will be sent to all persons who request a copy of the RFP. Amendments to the original contract, if made, must be in writing and signed by all parties and receive all necessary State approvals before executed.

f. Terms and Conditions

A sample contract is attached listing terms and conditions required to be met by the contractor selected to enter into a personal services contract. Modification or change to the contract, if made, must be in writing and signed by both parties and receive all necessary State approvals.

g. Insurance Requirements

Exhibit B of the attached sample contract identifies insurance requirements of the Contractor. Proof of insurance will be required before the contract work may be authorized.

h. Withdrawal

If an individual or firm wishes to withdraw a submitted proposal, it must be withdrawn prior to April 28, 2000. A written request to withdraw must be signed by the proposer and submitted to Shelley Greiner at the above address of the issuing office.
i. Cost of Preparing Proposal

All costs incurred in responding to this RFP and/or any supplemental requests by the Department for supplemental information or presentations to the Department are solely the responsibility of the proposers. The Department will not provide reimbursement for such costs.

j. Release of Information

The Department will not inform any proposer or other individual concerning the standing of any proposer with other proposers during the RFP process. The Department will not advise any offeror or other individual of the prices proposed by other offerors during the selection process.

k. Protests of Solicitation

Any person that plans to submit a proposal may submit a written protest or request for change of particular solicitation provisions, specifications, or contract terms and conditions to the Department.

1. Filing: All protests or requests for change must be filed in writing no later than seven calendar days prior to April 28, 2000. The Department will not consider a protest or request for change submitted after 5:00 P.M. on April 21, 2000. The protest or request for change must be filed with:

Shelley Greiner
Fiscal Services Coordinator
Insurance Division
350 Winter Street NE, Room 440-1
Salem, OR 97301-3883

2. Statement of Protest or Request for Change: The protest or request for change must state the basis for the protest or request in clear terms and provide an alternative the protester finds acceptable.

3. Review by Department: The Department will review the protest or request for change for meeting the conditions of this section. A protest or request for change which is accepted will then be considered on the basis of merit. The Department may ask the protester to clarify or amplify statements or to provide proof of claims or other statements. Any such request must be fully responded to within the time designated by
the Department. In the event a protester fails to respond, the protest will be dismissed and no further protest will be accepted from the protester. After consideration of the protest or request for change, the Department will provide the protester with a written response which is intended as a complete answer to the protest or request for change.

L. Protests of Contract Awards

Any proposer that claims to have been adversely affected or aggrieved by the selection of a competing proposer shall have seven calendar days after receiving notification of an apparent winner to submit a written protest.

1. Filing: All protests must be filed in writing no later than seven calendar days following the notification of an apparent contract award. The Department will not consider a protest submitted after the deadline established in this section. The protest must be filed with:

   Jan Cox  
   Department of Consumer and Business Services  
   Business Administration Division  
   350 Winter Street NE, Room 300  
   Salem, OR 97301-3878

2. Statement of Protest: The protest must state the basis for the protest in clear terms. To be found adversely affected or aggrieved, the proposer must demonstrate that all higher-ranking proposers were ineligible for selection.

3. Review by Department: The Department will review the protest for meeting the conditions of this section. A protest which is accepted will then be considered on the basis of merit. The Department may ask the protester to clarify or amplify statements or to provide proof of claims or other statements. Any such request must be fully responded to within the time designated by the Department. In the event a protester fails to respond, the protest will be dismissed and no further protest will be accepted from the protester. After consideration of the protest, the Department will provide the protester with a written response which is intended as a complete answer to the protest. The Director of the Department shall have the authority to settle or resolve a written protest.
4. Judicial Review: Judicial review of the Contracting Agency’s disposition of a written protest submitted in accordance with this rule may be available pursuant to the provisions of ORS 183.484.

G. PUBLIC INFORMATION

All proposals are public information after the proposals have been opened and the selection announcement is made. Copies of public information may be requested by any person. If any part of a proposal or protest is considered a trade secret, the proposer must clearly designate that portion as confidential at the time of submission in order to obtain protection, if any, from disclosure. See Oregon Revised Statutes (ORS) 192.501(2) (Oregon Public Records Law); and ORS 646.461 through 646.475 (Uniform Trade Secrets Act). Application of the Oregon Public Records Law shall determine if the confidential information the proposer claims to be exempt is in fact exempt from disclosure. In the event of a public records request, proposers claiming confidentiality will be notified prior to release of any information.

H. PROPOSAL EVALUATION AND CONTRACT AWARD

A selection committee will be composed of at least three representatives from the Department. Proposals will be judged on the overall quality of content. A point system, described in Section I below, will be used to evaluate the proposals and will be the basis for selection. One or more proposers may be invited to interview with the selection committee.

I. SCORING CRITERIA

1. The availability and capability of the proposer, the assigned personnel, and the identified subcontractor(s), if any, to perform the specified services, with preference given for experience in the areas specified in Section D. (20 points)

2. The proposer’s knowledge and understanding of the required services as shown in the proposed approach to fulfill the purpose of the examination (described in Section B) and accomplish the objectives stated in Section C. (25 points)

3. The demonstrated experience of the proposer to successfully complete similar services on time and within budget. (20 points)

4. The proposer’s quoted “not to exceed” amount for the project. (15 points)
5. Results from oral interviews, if conducted. (20 points)

TOTAL POINTS POSSIBLE: 100

J. EVALUATION AND AWARD

The Department will conduct a comprehensive, fair, and impartial evaluation of the responses received. The selection committee will prepare a written summary and justification for the final rank order of the proposals. The Department will notify all proposers of the apparent selected proposer, who will be requested to enter into a signed contract. The Department intends to seek concurrence of participating states in the apparent selection.

K. CONFERENCES

Finalists may be asked by the selection committee to participate in conferences, oral presentations, or interviews.

L. QUESTIONS

Direct questions or requests for clarification of this RFP to Shelley Greiner, Insurance Division (503) 947-7222. If material changes are made to the RFP specifications the Department will prepare and distribute a written statement to notify all interested proposers of any changes or clarifications that were made to the RFP prior to due date for proposal.

M. RECYCLABLE PRODUCTS

Contractors shall use recyclable products to the maximum extent economically feasible in the performance of the contract work set forth in this document.

N. ATTACHMENTS

1. Sample Contract
AFFIDAVIT

STATE OF OREGON  } ss
County of Marion  }

R. Michael Lamb, being duly sworn, deposes and says that the foregoing report of the multi-state examination of the National Council on Compensation Insurance, Boca Raton, Florida, subscribed by him is true to the best of his knowledge and belief.

R. Michael Lamb, FCAS, MAAA
Casualty Actuary
Department of Consumer and Business Services
Insurance Division
State of Oregon

Subscribed and sworn to before me on the 20th day of February, 2002.

Linda J. Rothenberger
Notary Public for the State of Oregon
My Commission Expires: March 22, 2005
Not for Reprint
February 13, 2002

Jann Goodpaster
Consumer Product Manager
Chief Market Conduct Examiner
Oregon Department of Consumer and Business Services
350 Winter St. NE, Room 440
Salem, OR 97301-3683

Dear Ms. Goodpaster:

This is in response to your January 16, 2002 letter regarding the final draft of the Multi-State Examination of the National Council on Compensation Insurance.

Accompanying this letter is NCCI’s response to the final draft of the examination report. We request that this document be filed with, and made available as part of, the examination report publication.

At this time we acknowledge that the final draft of the examination report is acceptable, and we waive our rights for a hearing.

Please contact Jim DeCesari or myself as follows, to discuss our collective next steps.

Contact
Helen Westervelt  
Jim DeCesari

Telephone
201-386-2626  
561-893-3330

E-Mail
Helen_Westervelt@NCCI.COM  
Jim_DeCesari@NCCI.COM

Sincerely,

Helen Westervelt  
President

C: Michael Lamb, Oregon Insurance Division
   Chapin Clark, Interim CEO, NCCI
   Jim DeCesari, President Data Resources Division, NCCI
Introduction

This document serves as the NCCI response to the examination report on the Multi-State Examination of the National Council on Compensation Insurance, Inc. We recommend that the examination report’s Executive Summary be read prior to reviewing NCCI’s response.

The examination incepted in August 2000 and continued through August 2001. During that timeframe the Arthur Andersen exam team was located at NCCI facilities in Boca Raton, Florida. In addition to designating two senior executives to oversee NCCI participation in the exam, NCCI assembled a project team that included a project lead experienced in examinations and a working team with management and technical representatives from all required departments. The NCCI project lead worked with the Arthur Andersen project lead and their audit team on a daily basis. The NCCI working team was available to the auditors on an as-needed basis. Additional NCCI staff members were brought into the process, as they were needed during the course of the examination.

NCCI also provided informational support to Arthur Andersen during the carrier and employer audits. Subsequently, NCCI worked closely with the Oregon Insurance Division and Arthur Andersen on the next phase of the exam, namely the review of the draft examination report. NCCI provided clarification changes to the content of the draft report, much of which was incorporated in the final report. Areas in which we could not reach total agreement are identified in this document.

Overall Examination Results

The exam testing results are consistent with NCCI’s historical results of similar audits, and are within acceptable audit standards for the collection of unit statistical data and development of experience rating modifications. The recommendations resulting from the exam are aligned with NCCI’s views on improving data quality and we are committed to implementing improvements as they are defined. As noted below, we are already in the process of implementing several of the key recommendations.

Significant Examination Report Recommendations

Developing cost effective solutions to exam report recommendations

Following the adoption of this examination report, NCCI is expecting to work with the Examination Oversight Group on implementing improvements based on the exam’s recommendations. Our understanding is that the oversight group will be composed of interested regulators and NCCI with input from representative carriers and that the group will weigh the cost/benefit to the industry of each proposed solution.

The examination report recommendations were developed in response to specific findings during the course of the exam engagement. Frequently, the examination report builds on a recommendation by also proposing a solution or corrective action that NCCI should undertake to satisfy the recommendation. While the proposed solutions that are in the report have merit, and may represent the ultimate solution, NCCI believes that all reasonable options that achieve the objective should be evaluated during the oversight process. The Oregon regulators and Arthur Andersen agreed with this approach and included statements to this effect in Section 6 of the Executive Summary and Section F of the full report.
To summarize, NCCI is committed to work with the examination oversight group to review each recommendation and define appropriate solutions. We believe that prospective new processes that are considered for implementation at NCCI, insurance companies or employers, must deliver cost effective improvements to the workers compensation system.

Incentive Program

The examination report contains a priority recommendation that NCCI should reactivate a revised and expanded penalty system and enforce monetary fines in the program. To provide background, NCCI did have in place two incentive programs for unit statistical data -- Unit Report Control (timeliness) and Unit Report Quality. The fining components of these programs were temporarily suspended beginning with policies effective January 1996, due to the implementation of the expanded unit report format and edits. The invoicing component of this program continued on into 1998. Thereafter, the reports and follow-up processes built into these incentive programs remained in place, but without monetary fines being levied to carriers.

When the examination began in August 2000, we discussed our current incentive programs and plans to create a new program with the Arthur Andersen examination team. We also explained that the monetary fining components of the incentive programs had been suspended to avoid further burdening the industry beyond the expanded data element reporting requirements of URE. Moreover, the prior programs' individual unit level fining approach led to a cumbersome and labor intensive process that needed to be streamlined.

We explained that our vision was to implement a new incentive program using our new data collection systems, with an integrated relational database for policy and unit statistical data that focused on aggregate reporting behaviors, not on an individual unit-per-unit basis. At the time, we were in the initial stages of developing the specifications for the new incentive program.

Subsequently, the new data collection systems were introduced to the industry in phases, with policies implemented in November 2000 and unit statistical data in May 2001. The new incentive program was developed over the second half of 2001 after carrier review and input.

The new Data Quality Incentive Program applies to policies and unit reports, starting with data received on January 1, 2002. The program is designed to improve the quality and timeliness of policy and unit data through monetary incentives based on overall reporting performance. The program will provide credits to carriers with superior reporting performance and debits to carriers with substandard performance. This credit or debit factor will be applied to the data provider's data management fee, which is the fee that all affiliate companies pay for the data management activities performed by NCCI.

Applying a factor to the data management fee targets those specific carriers who impact NCCI's data handling costs. Carriers who are superior reporters require less attention by NCCI, so their data management fee credit rewards them for superior performance. Carriers who are problematic reporters require additional attention by NCCI, so their data management fee debit appropriately penalizes them for the extra time and cost needed to achieve requisite levels of data timeliness and quality.
We will continually monitor the new Incentive Program and make program adjustments on an as needed basis. During the examination oversight process we will be discussing the Incentive Program, including our experience and opportunities to make program enhancements.

**Carrier Audit Program**

The examination report contains a recommendation that NCCI should establish an audit program to provide countrywide coverage of all carriers. The intent of this program as stated in the examination report, is to ensure that carriers are following the NCCI statistical plan rules and policies and procedures as applicable.

NCCI supports the concept of improving the quality of data submissions for carriers who are problematic reporters. We believe that the examination oversight group should review this recommendation and weigh the cost/benefit of the various options for achieving the data quality improvement objective. Additional research will be required to determine if there are any state regulations or statutes that may limit NCCI’s role in certain types of audit programs.

We also believe that it will be important for the oversight group to obtain feedback from carriers as to what would be reasonable and effective from their perspective.

**Carrier Audit Results**

In addition to the exam activities at NCCI, the Arthur Andersen examiners also performed field audits at six selected carriers. These field audits were to verify the completeness and accuracy of unit statistical data obtained at the carrier locations, as compared to the data reported to NCCI.

The auditors validated the data provided by the carriers with the unit report data provided by NCCI. The examination report categorized discrepancies between the carrier provided data and the data provided by NCCI as “Type A” and “Type B” errors:

- **Type A** errors are discrepancies between the underlying carrier records and the information submitted to NCCI. Data not reported or reported incorrectly to NCCI are examples of Type A errors.
- **Type B** errors are discrepancies between the information submitted by the carrier to NCCI and what is in NCCI’s system. Type B errors may result from changes to the carrier-submitted data by NCCI as a result of its default edit procedures as well as discrepancies resulting from the carrier not providing to the examiners accurate or complete support to substantiate the data in NCCI’s system.

To help clarify, and avoid misinterpretation of, the audit results, NCCI offers the following comments on the Type A and Type B errors. For several reasons, the carrier audit portion of the examination may not be an accurate reflection of the data reporting quality of the six selected carriers.

- The age of many of the unit reports in the sample population. Older unit statistical reports were often difficult to locate at carrier locations, sometimes for reasons outside of the carrier’s control. As an example, one carrier experienced a fire at a facility and these records were destroyed.
The inclusion of non-critical data elements in the error counts. Not all of the data elements sampled impact experience ratings; therefore, raw error counts may not be meaningful.

The inclusion of default edit discrepancies in the Type B error counts. Default editing is performed at NCCI in accordance with published data editing practices. These are documented changes to data reported by carriers. Counting these as errors inflated carrier error totals.

NCCI has not had access to the actual Type A error details to review. We believe reviewing these errors is important, to help us better understand how these errors occurred and to assess the importance of the errors themselves.

Premium Audit of Oregon Employers

One component of the examination included employer audits of selected Oregon based businesses. We have reviewed the examination results and are satisfied that the audit results are within the data quality standards of similar employer audits conducted by NCCI. The examination utilized NCCI’s test audit form, so they were also performing the audit to the same level of detail as our auditing program. This third-party audit provided a valuable comparison to NCCI’s test audit program, and the results closely align with our experience.

Experience Rating Interpretative Differences

The examination report included a priority recommendation concerning the improper inclusion of short-term policies in some of the ratings within the experience rating worksheet sample. This was a topic that was discussed on many occasions, both during the course of the examination and later during the review of the draft examination report. NCCI’s position has been that this data was properly included within the sampled ratings. During our conversations with the Oregon regulators and Arthur Andersen we cited the specific rules on this topic (Part II-C-1 & 2 of the Experience Rating Plan). This rule provides for data to be used under certain criteria related to the valuation date of the policies.

Although we believe that our interpretation of the Experience Rating Plan Manual is the correct one, we do recognize that there is a need to provide additional clarification to this manual rule. These interpretative errors will be successfully addressed in our Experience Rating Plan Manual rewrite project.

The Experience Rating Plan Manual rewrite project was initiated in January 2002. This project entails a complete rewrite of the Experience Rating Plan Manual. We view this as an extremely important project, and one that will address many of the technical issues that have been raised to us by the industry and regulators, including:

- Adjustments to the Change of Ownership rules to counteract fraud and experience modification evasion tactics
- Simplification of the ERM 14 ownership reporting form
- Clarification of the Experience Period rules which document the data used in the experience modification calculation
- Clarification of the Anniversary Rating Date rules which control the effective dates of the experience modifications
RESPONSE TO THE EXAMINATION REPORT
ON THE MULTI-STATE EXAMINATION OF THE
NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC.

- Revision of the Premium Eligibility rules to explain their application in various circumstances
- Clarification of the Loss Limitation rules

In addition, the Experience Rating Plan Manual rewrite will be written in “plain language” and will include a User's Guide containing examples and explanatory information.

NAIC Exam Protocol Task Force

NCCI is actively involved with the NAIC and we will be participating in a 2002 task force which will be established by the Property & Casualty (C) Committee to develop examination protocols for multi-state rating organizations. We believe that this task force will be extremely beneficial to the industry by enabling the examination process to be more standardized and streamlined. By doing so, the fundamental objectives of rating organization exams can be retained, but with greatly increased efficiencies. Establishing exam protocols will provide:

- A more time efficient examination
- A reduced engagement duration
- A more timely examination report
- A cost-reduction benefit to the industry

We believe that the process inefficiencies that were experienced during the examination would have been alleviated with the existence of standardized exam protocols. We look forward to having these developed and in place for future examinations.

Summary

We are pleased that the examination results are consistent with NCCI’s historical results of similar audits, and are within acceptable data quality standards. Overall, we are quite satisfied with the examination, and we are committed to implement improvements as the oversight group develops them.

We believe that the ultimate results of this examination will lead to improvement in the workers compensation system, which is our collective goal.