



**Government of the District of Columbia
Department of Insurance, Securities and Banking**

Stephen C. Taylor
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **The Auto Insurance Plans Service Office.**

ORDER

A Market Conduct Examination of **The Auto Insurance Plans Service Office** as of June 30, 2014 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”) as a participating jurisdiction through the National Association of Insurance Commissioners’ Advisory Organization Examination Oversight (C) Working Group. The Department accepts the report in lieu of a single jurisdiction examination.

It is hereby ordered on this 3rd day of May 2016, that the attached market conduct examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Stephen C. Taylor
Commissioner

AIPSO
302 Central Avenue
Johnston, RI 02919

Report of Examination
As of June 30, 2014

**Examination Report Prepared by Independent
Contractors With Regard to the Multi-State
Market Conduct Examination of AIPSO**

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October 25, 2015

Mr. Joseph Torti, III
Commissioner
Rhode Island Department of Business Regulation
Insurance Regulation Division
Deputy Director and Superintendent of Insurance
1511 Pontiac Avenue
Cranston, RI 02920

Dear Commissioner Torti:

Pursuant to your instructions, a multistate market conduct examination has been conducted of

AIPSO, formerly known as AUTOMOBILE INSURANCE PLAN SERVICE OFFICE
302 Central Avenue
Johnston, RI 02919

Hereinafter referred to as "AIPSO" or "Organization" for the period January 1, 2013 thru June 30, 2014 ("the Period"). The following report of the findings of this Examination is herewith respectfully submitted.

Purpose and Scope of Examination

The Rhode Island Department of Business Regulation, Insurance Division (“RIDBR” or the “Division”) initiated a multi-state market conduct examination (“the Examination”) of AIPSO to validate that the Organization is performing its permitted regulated functions in a manner consistent with state laws and regulations. The scope of the Examination (the “Scope”) included a review of the Organization’s processes and procedures in place during the Period including but not limited to, the preparation of rate indications filings; rules; forms; operations/management; statistical plans; regulatory licenses or other authorization; data receipt and controls; processing; editing and compilation procedures; error handling and related correspondence with reporting statistical agents; report submissions to regulators, as well as compliance with Chapter 25 and its Appendix F and selected sections of Chapter 16 of the 2014 NAIC Market Regulation Handbook (the “Handbook”).

Participating States initially included the following 25 states as of the commencement of the examination on October 6, 2014: Rhode Island (Lead state), Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Georgia, Hawaii, Idaho, Kentucky, Louisiana, Maine, Mississippi, Montana, Nevada, New Hampshire, New Jersey, Pennsylvania, South Dakota, Tennessee, Utah, Virginia, West Virginia, and Wisconsin. On December 11, 2014, the NAIC advised the RIDBR of the following additional participating states: Illinois, Oklahoma, Washington, and the District of Columbia. Due to timing and as approved by the RIDBR, the 3 states as noted above and the District of Columbia were not included in the testing that was conducted during the examination.

The Examination was conducted at the direction and overall management and control of the RIDBR, which served as the Lead State for the Examination. Representatives from the firm of Risk & Regulatory Consulting, LLC (“RRC” or “the Examiners”) were engaged to complete certain examination procedures.

The Examiners workplan, which was reviewed and approved by the RIDBR, was prepared using the relevant guidance and standards of the Handbook and Appendix F confirming that the Organization utilizes consistent procedures and processes for each jurisdiction in which AIPSO operates. AIPSO modifies its procedures and processes to comply with specific state statutes and regulations as appropriate.

The Examiner's workplan included consideration of the following Scope areas:

- Operations/Management/Governance
- Statistical Plans
- Data Collection and Handling
- Correspondence with Insurers and State Regulators
- Report Systems and Data Requests
- Ratemaking
- Form Development
- Other IT related Procedures

The overall results of the examination indicate that AIPSO's processes and procedures related to its regulated operations adequately meet the standards reviewed.

RRC personnel participated in this Examination in their capacity as Examiners. The Examination Team included Actuarial and Information Technology ("IT") Specialists as well as Market Conduct Examiners. RRC provides no representations regarding questions of legal interpretation or opinion. Determination of Findings, if any, constituting potential violations is the sole responsibility of the Lead State. The Examination Report (the "Report") notes that the review of practices, procedures and files was not exhaustive or all-inclusive; thus the failure to identify unacceptable or non-complying practices does not constitute acceptance of these practices.

Company Profile

AIPSO is an advisory organization and service provider for various insurance industry groups responsible for administering the residual market. These services are provided directly to or on behalf of governing committees representing residual market mechanisms in each state. The Organization receives voluntary and residual market data primarily from the three automobile insurance statistical agents as follows: Insurance Services Office (ISO); Independent Statistical Service (ISS) and National Independent Statistical Service (NISS). AIPSO also receives data directly from one small California Insurer. Utilizing this data, AIPSO provides services to the property/casualty insurance industry and makes rate indications submissions to regulators in accordance with the Handbook. As such, AIPSO prepares and files rate indications, forms and manuals of rating rules for private passenger automobile and commercial automobile lines of business.

In 2012, the automobile insurance residual market (the "Market") represented 0.7% of the total direct written premium for the United States automobile insurance market with approximately \$1.4 billion of written premium. The Market represents personal auto and commercial auto risks that cannot obtain insurance coverage through the voluntary market. To address this situation, each state created a mechanism in which automobile drivers with adverse driving records or inexperienced operators could obtain insurance coverage. New Hampshire was the first state to create such a mechanism in 1938, and by 1959, such mechanisms were created in all states. Collectively, these mechanisms constitute the Market. The National Association of Insurance Commissioners ("NAIC") created the National Advisory Committee of Automobile Insurance Plans ("NACAIP") in 1947, and in 1960, this entity was reorganized as the National Industry Committee (NIC). AIPSO was established in 1972 as a non-profit organization by the NIC to service the needs of the Market. AIPSO operations commenced in 1973 and the NIC Board of Directors continued to provide oversight to AIPSO until 1987 when an AIPSO Board of Directors (the "Board") was created and assumed this responsibility. Today, the Board is comprised of 13 members, which are representatives of property and casualty insurers appointed by the American Insurance Association and the Property Casualty Insurers Association of America which are insurance industry trade associations. The Board includes individuals from major property and casualty insurers that are affiliated or non-affiliated with AIPSO; and the largest residual market mechanism managed by AIPSO (currently New Jersey) which is a non-voting member.¹

In addition to the services noted above, AIPSO also offers the following services, which were outside the Scope of the Examination:

- AIPSO Insurance Operations
- State Plan management services
- Legal Counsel and regulatory affairs services
- Statistical and actuarial services
- Insurance policy language
- Rules needed to write and rate insurance policies
- Quota sharing and member's participation services
- Application processing services
- Servicing carrier audit services
- Producer certification services

¹ Source of information in this paragraph: AIPSO FACTS 2013/2014 , Residual Market Overview

- Fraud containment services

Executive Summary

The Examination focused on evaluating AIPSO's regulated operations, including the processes and procedures utilized in collecting and disseminating statistical data, and to determine compliance with applicable regulatory requirements and the Handbook. The Examiners collaborated closely with the RIDBR, throughout the course of the Examination. An introductory meeting was held at AIPSO's office in Johnston, Rhode Island on October 6, 2014. Field work began on October 20, 2014 and was completed on December 17, 2014.

The overall results of the Examination indicate that AIPSO's processes and procedures related to its regulated operations meet the standards reviewed. However, 4 issues were noted in the following areas reviewed: Operations/Management/Governance – Standard 3; Correspondence with Insurers and State Regulators – Standards 1 and 2; and Appendix F areas - User Access to System Software, and User Access to Applications. The noted issues were communicated to AIPSO through Concern Forms that were reviewed and approved by the RIDBR. AIPSO agreed with the 4 issues and provided remediation plans with target dates for implementation. Details regarding the 4 issues are provided under the Results of the Examination.

Examiners Methodology

Additionally, interviews and process walkthroughs with representatives of the Organization were conducted. Targeted testing was performed consistent with examination processes and sampling methodologies. Where appropriate, the Examiners tendered inquiries and follow-up inquiries to AIPSO to gather additional information.

The Examiners developed a sampling methodology in consultation with RIDBR which relied on judgmental sampling, to select samples for review and testing from a population of transactions from certain participating states. Samples were selected for the following Scope areas including:

Rate Indications Filings

- A judgmental sample of 12 rate indications filings was selected, which was representative of the relevant line of business and included filings from a representative number of participating states. The sample included:
- 3 private passenger and 3 commercial auto filing from the population of Group 1 states which are defined by AIPSO as having experience based rate indication related filings. These are large volume states. Please see Appendix A for a listing of states in Groups 1, 2, and 3.
- 1 private passenger and 1 commercial auto filing from the population of Group 2 states which are defined by AIPSO as having blended indication/loss cost multiplier related filings. These are medium volume states.
- 2 private passenger and 2 commercial auto filing from the population of Group 3 states which are defined by AIPSO as having loss cost multiplier related filings. These are small volume states.

Rule Filings

- A judgmental sample of 22 rule filings was selected, representative of the relevant lines of business and included rules from a representative number of participating states.

Form Filings

- A judgmental sample of 19 form filings was selected for testing, which was representative of the lines of business and included laws from a representative number of participating states.

Statistical Plans

- The Examiners confirmed AIPSO does not file statistical plans with the states. The statistical agents issue statistical plans by state and collect the data from the insurance companies. AIPSO obtains summarized and aggregated data that is collected by the statistical agents. This data is reported to AIPSO via the specifications in the AIPSO Statistical Program that is annually issued to the statistical agents. As such, this area was excluded from the scope of review.

Correspondence with Insurers and State Regulators

- The Examiners reviewed AIPSO information, which included the Data Issues Log that contains information regarding untimely data reports and data reporting issues by statistical agent.
- A judgmental sample of 12 statistical agent reports with data reporting issues during the Period was selected.

Data Collection and Handling

- The Examiners reviewed AIPSO information, which included the Transmittal Submissions Log which contains data reports received by statistical agent and state.
- A judgmental sample of 25 statistical agent data submissions during the Period for each of the participating states was selected.

Results of the Examination

A. Review Of Examination Standards

This aspect of the Examination was related to the review and testing, where applicable, of the Standards for each of the identified areas included within the scope of the Examination. These Standards are identified in Chapters 16 and 25 of the Handbook and Appendix F of Chapter 25 were also referenced during the Examination.

The overall results of the Examination did not identify any significant or systemic matters with regards to AIPSO's operations.

I. Operations/Management/Governance

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

Results: Based on the documentation and process review and testing, the Examiners concluded that AIPSO has implemented policies and procedures that ensure the development of rate indications filings in accordance with applicable Actuarial Standards of Practice ("ASOP"). The Organization satisfies the requirements of Standard 2.

Observation: A procedural review and testing of a sample of rate indications filings was performed by the Examiners to address this Standard. Please reference the rate indications filings tested in Appendix B.

Each sample was tested against certain actuarial guidelines, consistent with the Examiner's workplan and as set forth in the ASOP's, and as identified below.

- ASOP #12: Risk Classifications
- ASOP #13: Trending Procedures in Property/Casualty Insurance
- ASOP #23: Data Quality
- ASOP #25: Credibility Procedures
- ASOP #29: Expense Provisions in Property/Casualty Insurance Ratemaking
- ASOP #41: Actuarial Communications

Additionally, testing included a sample of calculations performed by the Organization, which were used to support the derivation of certain rate indications including:

- Loss Development Factors
- Trends Factors
- Procedure for Wind and Water losses (where applicable)
- On-level factors
- Credibility Procedures
- Loss Adjustment Expenses
- Other Expenses

The Examiners also noted that AIPSO performs specific reasonability checks for ratemaking compilations that include the following:

- Aggregate data is received from the three statistical agents, ISO, ISS and NISS. There are other reports submitted to AIPSO directly from Insurers referred to as First Look Reports for the largest states such as New Jersey and New York. These reports include summary level data for exposures, premiums and losses

- The AIPSO Personal Lines Rating Committee (the “PLR Committee”) is comprised of actuaries who are employees of member companies that are responsible for reviewing AIPSO ratemaking procedures and make changes when necessary or prudent. This Committee is also responsible for other functions such as reviewing and maintaining rating programs, rate manuals and coverages. AIPSO has a similar committee for Commercial Lines (the “CL Committee”) with similar responsibilities;
- A Subcommittee of the PLR Committee and CL Committee is the Data Quality Subcommittee (the “DQ Subcommittee”). The Mission of the DQ Subcommittee is to ensure the accurate, complete, and timely reporting of required automobile insurance statistics; annually review and discuss statistical agent performance with the AIPSO Board of Directors; and review statistical data issues and identify methods for improving data quality;
- AIPSO’s data review process includes reasonability checks for changes in average premiums, average losses, and key ratios over time and across statistical agents. Since consistency is a critical aspect for earned premium and loss development, common values should not change. For example, “Red flags” include reported losses in a territory and no corresponding premium, or very high losses in one territory;
- Incomplete data is not accepted by AIPSO. The statistical agent will have to resubmit the entire submission if the data needs to be corrected or completed. Although AIPSO cannot impose fines for poor or incomplete data, the statistical agents may charge the reporting insurance companies if their poor data requires a resubmission;
- There are annual report cards from the statistical agents in reference to insurer compliance with statistical agent reporting requirements. The report cards provide information on the number of states that had timely submissions; resubmissions; and exclusions. The report cards are submitted to the AIPSO Board of Directors and AIPSO’s DQ Subcommittee.; and
- ISO runs AIPSO data through a variety of edit checks that it uses for the voluntary data that ISO customizes for AIPSO.

Additionally, the Examiners reviewed Internal Audit reports related to the rate indication process. There were no corrective actions required in these reports.

Standard 3: *The advisory organization prepares, submits filings as necessary, adheres to applicable state filing and/or approval requirements and written procedures prior to distribution of prospective loss costs, rates, policy forms, endorsements, factors, classifications or rating rule manuals.*

Results: The Examiners reviewed documentation provided by the Organization and performed a process review and testing. As a result, the Examiners determined that AIPSO appears to satisfy the requirements of Standard 3.

Observations: The Examiners selected a judgmental sample of 19 form filings (See Appendix C). The samples consisted of one form filing from each of the Participating States. Although there were originally 25 Participating states participating in the examination, AIPSO only had form filings in 19 of the participating states.

The Examiners reviewed AIPSO's process for preparing and submitting filings, and noted the following:

- 2 of the 19 AIPSO Forms Circular Notices associated with a new or revised form filing contained incorrect information that was sent to subscribing insurers. In one situation, AIPSO indicated that a Montana Form was approved; however, it was not approved for use by the Montana Department of Insurance. In the other instance, the effective date for a New Hampshire Form was incorrectly stated. AIPSO identified these errors and later communicated the correct information for both situations stated above to all impacted parties.
- 1 of the 12 AIPSO Rate Indications Circular Notices reviewed contained incorrect information that was sent to subscribing insurers. This error was associated with a New Jersey filing in which some Rule column headers were incorrectly stated and certain collision rates were misstated. AIPSO identified this error and later communicated the correct information to all impacted parties. Also, AIPSO resubmitted the filing to New Jersey Department of Insurance.

Additionally, the Examiners selected a judgmental sample of 12 rate indications filings as stated in Appendix B. Finally, the Examiners selected a judgmental sample of 22 rules filings (See Appendix D). Again, although there were originally 25 Participating States., AIPSO only had rule filings in 22 of the Participating States.

The Examiners reviewed the selected samples and tested certain filing attributes to determine AIPSO's compliance in reference to Standard 3. The attributes tested included the following:

- AIPSO makes filings with regulators through System for Electronic Rate and Form Filing

("SERFF") or any other State required filing system or process. Over the period of examination, AIPSO has moved almost entirely to electronic filing submissions.

- AIPSO follows its established lead-time guidelines to publish approved material.
- AIPSO is responsive to state filing analyst questions regarding filings.
- The materials distributed by AIPSO are the same as those filed with applicable state insurance departments.
- AIPSO provides accurate information to its subscribing insurers related to the status of the states' approval of the filings and approved usage date of rate indications, policy forms, and rules.
- Instructions are included in the Organization's manuals for all rate indications, policy forms, and rules.
- Negative actions taken by State Regulators are reviewed by AIPSO to confirm that safeguards are in place to prevent a recurrence of any underlying problem(s).
- The Examiner's confirmed there were no unexplained concentrations of negative actions with respect to filings in a particular state or states for the Period. AIPSO represented to the Examiners that the Organization has received no warnings, fines or other negative actions from state regulators for any reason. The Examiners did not identify any information that was contradictory with AIPSO's representations.

The Examiners also noted and reviewed the following policies and procedures:

- AIPSO often adopts policy forms and rules that were created by ISO in response to a new law. Although ISO already filed the information with Departments of Insurance ("DOI"), AIPSO will also file such documents with the DOI.
- AIPSO creates their own personal automobile forms and rules in the following states: California, Connecticut, New Jersey, New York, Pennsylvania, and South Carolina. These forms are referred to as "AIPSO authored."
- AIPSO submits filings using the SERFF or other state- approved filing systems. AIPSO has implemented the use of SERFF in most jurisdictions during the Period. SERFF is now used in the majority of jurisdictions except California where paper filings are submitted.
- AIPSO has procedures in place to review SERFF on a weekly basis to monitor the status of all

inquiries that are made by a DOI analyst that is reviewing the filing. The internal AIPSO files reviewed indicated evidence of such review.

- AIPSO implements new policy forms, rate indications, and rules after receiving DOI approval. Policy forms, rate indications, and rules documents are assigned a number that includes the year of the filing in order to control versions of the information. The prior version of such documents is withdrawn from inventory and is replaced by the new document. While conducting the review, the Examiners did not identify prior versions of documents. Prior versions of documents are archived on AIPSO's imaging software system.
- AIPSO communicates new policy forms, rate indications, and rules to subscribers through Circular Notices. Subscribers access the information from the AIPSO website.

Standard 8: *The organization conducts ongoing research and review of state insurance laws and insurance-related case law in order to be responsive to necessary changes in prospective loss costs, policy forms, endorsements, factors, classifications or manuals, as applicable.*

And

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

Results: The Examiners reviewed the Organization's documentation, performed a process review and testing, and as a result, determined that AIPSO appears to satisfy the requirements of Standards 8 and 11. As respects Standard 11, AIPSO indicated that they did not receive any requests for impact studies from any DOI during the Period. As such, this Standard was reviewed in terms of the how AIPSO internally determines the impact of legislation on AIPSO processes.

Observations: The Examiners confirmed through their review that the Organization has procedures and protocols in place to monitor the regulatory environment that may require changes to rate indications, policy forms, and rules, as applicable, and to evaluate the impact of such developments on the Organization's products and services.

The Examiners conclusions are based on reviewing and confirming that AIPSO has in place, the following protocols and procedures that address Standard 8 as follows:

- AIPSO receives proposed and enacted legislation from several sources including DOI Bulletins; ISO Circular Notices; Case Law Notices; and from its vendors, Statenet and Westlaw Capitol

Watch.

- AIPSO's employees in the Forms Unit and the Actuarial Services Unit receive such law updates. Employees in these Units are assigned responsibility for monitoring the status of laws for the states they are assigned. Also, an attorney in the Legal Services Unit receives updates and is available to assist business units in addressing new law requirements. Employees are responsible for determining the impact of a new law regarding AIPSO policy forms, rules, and rate indications. Business Unit management performs periodic quality reviews to ensure that new law requirements are met.
- The Forms and Actuarial Services Units are responsible for addressing/updating the new law requirements for their respective areas and for submitting required filings to Departments of Insurance. These units are also responsible for communicating the changes to Subscribers.
- AIPSO communicates changes to Subscribers through Circular Notices.

To test AIPSO's procedures regarding the above, the Examiners reviewed the DOI websites for each of the original 25 Participating States. 12 of the 25 states enacted legislation during the period of review that has an impact on AIPSO (See Appendix E).

The sample of new laws and regulations was then matched to the listings of new laws and regulations provided by AIPSO to its subscribing insurers.

The Examiners reviewed the selected samples and tested certain attributes to determine AIPSO's compliance in reference to Standard 8 and 11. The attributes tested included the following:

- AIPSO monitors the status of proposed and enacted legislation, and case law.
- The impact of a new law is determined by the Forms and Actuarial Services Units. These Units are responsible for making changes to policy forms, rules, and rate indications.
- AIPSO submits filings to DOI in a timely manner in order to meet the new law requirements.
- AIPSO communicates new law requirements to Subscribers.

<p>Standard 9: <i>The advisory organization uses objective and established procedures when administering residual market or pool assessments.</i></p>
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Results: The Examiners reviewed documentation provided by AIPSO and conducted an interview with the

employees responsible for this function. As discussed with the RIDBR, no testing was conducted under this standard.

Observations: A procedural review including a process walkthrough with AIPSO key employees was conducted. Based on these steps performed, the Examiners note that the following procedures are in place:

- Every insurer that is licensed to write voluntary automobile business in a state is required to pay an annual fee (assessment) based on their market share. Assessment amounts vary by state.
- Voluntary automobile data by state and insurer is reported to AIPSO through the three statistical reporting agencies: ISO; ISS; and NISS. Also, one insurer in California reports this data directly to AIPSO. This data is utilized to determine assessments.
- AIPSO determines assessments for each state's Automobile Insurance Plan (AIP) on an annual basis. The assessments are comprised of two factors, AIPSO expenses associated with administering the plan, and the AIP cost of the plan. The AIPSO Board approves the AIPSO expense factor, and the Governing Committee for each state approves the AIP factor.
- Insurer assessments for each state in which they are licensed to write voluntary automobile business is based on their percentage of voluntary private passenger liability business in relation to the state total. The same calculation is performed for each insurer's share of commercial business in each state. Assessments are also based on each insurer's residual market written premiums.
- AIPSO allows insurers to pay a portion of annual assessments on a quarterly basis. As such, quarterly invoices that indicate the amounts due on a state basis are sent to insurers. Payments must be remitted to AIPSO within 20 days.
- AIPSO has a penalty program in place regarding delinquent assessment payments from insurers. The penalty program includes measures to involve the Governing Committee of a state in an attempt to collect assessments from delinquent insurers.
- In September of each year, AIPSO reviews budget assessments from the prior calendar year to actual amounts. Based on this review, adjustments are made to the current assessments.

- Each AIP conducts periodic audits regarding the assessment process. Also, AIPSO's external auditor reviewed the internal controls surrounding the assessment process during the 2013 financial review. The Examiners reviewed this report and no concerns regarding this process were noted.

Standard 10: *The advisory organization uses objective and established procedures when administering assigned risks.*

Results: The Examiners reviewed documentation provided by AIPSO and conducted an interview with the employees responsible for this function. As discussed with the RIDBR, no testing was conducted under this standard.

Observations: A procedural review including a process walkthrough with AIPSO key employees was conducted. Based on these steps performed, the Examiners note that the following procedures are in place:

- Every insurer that is licensed to write voluntary automobile business in a state is required to subscribe to the state plan that addresses residual market automobile business. An insurer's share of the residual market business in a state is based upon their voluntary market share in that state.
- Voluntary automobile data by state and insurer is reported to AIPSO through five statistical reporting agencies: AAIS; ISO; ISS; MSO; and NISS. Also, one insurer in California reports this data directly to AIPSO. There are also several insurers that report their voluntary market data directly to AIPSO. This data is utilized to determine quota shares.
- AIPSO verifies insurer level data against the NAIC annual statement data.
- The AIPSO Quota Development System determines quotas for each insurer or insurance group (affiliated insurers) on an annual basis. The quotas are updated quarterly.
- Quotas are based on an insurer's or insurance group's percentage of voluntary private passenger liability business in relation to the state total. The same calculation is performed for each insurer's share of commercial business in each state and for determining shares of the auto residual market pooling mechanisms, as applicable. Quotas are also based on the insurer's residual market assignments from the prior year

where applicable.

- AIPSO provides the quota shares to each state Plan only; the state Plan determines whether or not to provide the information to their Governing Committee.
- The AIP for each state receives residual market new business applications from producers. These applications are sent electronically to AIPSO through their Electronic Application Submission Interface (EASi). For New York applicants, applicants are submitted electronically to AIPSO through the New York AIP Producer Application Submission System (PASS).
- Applications submitted to AIPSO through EASi and PASS are electronically sent to AIPSO's Application Processing System (APS). APS distributes applications to insurers based upon their quota share that is reviewed against AIPSO's Quota System.
- Set quotas are reviewed annually against current results. If an insurer has not met their quota or they exceeded their quota, such data is factored into the quota calculation for the next year.
- Each AIP conducts periodic audits regarding the quota process. Also, Internal Audit conducts periodic reviews regarding this process. No audits were conducted during the Period and the most recent audit was conducted by Internal Audit in 2012. Internal Audit conducted an application level audit of the Quota Development System, to determine if the development of the annual quota ratios are accurately calculated to ensure equitable distribution of assignment of applications which are eligible for coverage based on each company's individual quota. No issues were identified during the audit.

Standard 12: *The advisory organization has an up-to-date, valid internal or external audit program.*

Results: The Examiners reviewed documentation and related information as provided by AIPSO and conducted a process review and testing, noting that AIPSO appears to satisfy the requirements of Standard 12.

Observations: A procedural review including a process walkthrough with AIPSO key employees was conducted, and certain testing was performed by the Examiners related to the Organization's audit programs. Based on interviews held and the review of various reports and related documentation from the

Period, the Examiners were able to confirm that AIPSO maintains an Internal Audit Department. Also, AIPSO's External Auditor performs annual financial statement reviews.

The Examiners obtained the Internal Audit and Audit Committee Charters and listing of all audits that took place during the period. The Examiners also obtained and reviewed seven audit reports pertaining to information technology, actuarial, disaster recovery/business continuity, and the external auditor's report. All issues identified in audit reports are followed by corrective action plans in which Internal Audit monitors until closure. Please note that none of the issues identified were within the Scope but the Examiners confirmed AIPSO's internal processes for issue identification and remediation.

Standard 13: *The advisory organization has appropriate controls, safeguards and procedures for protecting the integrity of computer information.*

Results: The Examiners reviewed documentation provided by AIPSO and conducted a process review and testing and, as a result, noted that AIPSO appears to satisfy the requirements of Standard 13.

Observations: A procedural review, which included a process walkthrough with AIPSO key resources, was performed to identify the controls the Organization has in place specific to Standard 13. Further, testing was also performed to evaluate the safeguards and procedures for protecting the integrity of computer information.

The Examiners confirmed that appropriate physical security safeguards are in place regarding their computer facility. Also, the Examiners performed certain testing related to logical security, specific to user access within certain of the Organization's critical IT applications. Logical security testing was performed for the following system levels:

- Active Directory ("AD") level,
- Actuarial Application

The Examiners also reviewed AIPSO's "change management" protocols related to the IT controls and safeguards to address protecting computer related information. Change management refers to the processes and procedures followed when a change is needed within the application for an enhancement to functionality or to repair an issue identified. In doing so, the Examiners confirmed that AIPSO's change management process is centralized and managed by the Organization's Change Management Team, which coordinates changes through AIPSO's System Development Life Cycle ("SDLC"). The Examiners reviewed the written protocols and procedures utilized by AIPSO for administration of changes to the Actuarial Application. For proper segregation of duties, the network team performs all migrations of

application code to the production environment. No significant changes were made to the Actuarial Application during the Period.

The Examiners also confirmed that AIPSO utilizes industry recognized tools and services for intrusion detection and prevention. Any potential security exceptions identified by the tools are logged and reviewed by AIPSO's Security staff. All incoming email is scanned using an email spam and malware filtering service.

Computer viruses represent risk to any organization but even more so for businesses such as AIPSO; an entity that utilizes and maintains significant volumes of data, as evidenced by the scope of Standard 13. As such, the Examiners investigated and reviewed AIPSO's protocols and procedures and found that the Organization's potential virus detection and prevention is enabled at the server and workstation level using an industry recognized anti-virus program. The Examiners obtained evidence that the virus definitions were up-to-date at the server and workstation levels.

The Examiners also reviewed and confirmed the following AIPSO IT protocols, including:

- Sensitive data may not be transmitted outside of the Organization' network unless encrypted consistent with AIPSO's Information Security Policy.
- All laptops are encrypted utilizing PGP encryption.
- The Organization's network is protected by firewalls, and any changes to the firewalls must be processed through the formal change management process.
- Authorized users may access resources (i.e. Windows File Shares, Actuarial Application, Email) on the AIPSO network remotely through a secure remote access gateway requiring user ID and password.

Finally, the Examiners confirmed that AIPSO has established a formal Information Security Incident Management Policy, which addresses AIPSO's initial response protocols, notification and incident reporting.

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

Results: The Examiners reviewed documentation provided by AIPSO and performed a process review and note that AIPSO appears to satisfy the requirements of Standard 14.

Observations: A procedural review was performed, which included a review of AIPSO's Business Continuity and Disaster Recovery ("BCDR") plan.

The Examiner's review of AIPSO's BCDR Plan determined the following:

- AIPSO adopted the standards set forth by the National Incident Management System ("NIMS"), which is a consistent nationwide core set of concepts and principles that enable effective, efficient, and collaborative incident management in conjunction with the public sector.
- The Organization's Senior Management Team is responsible for activating Incident Command. The Incident Command model provides a single point of control for the initial assessment and review of an incident, and coordinates recovery activities.
- AIPSO established in 2002, its Crisis Management Steering Team, which directed the formation of the Business Continuity/Disaster Recovery Unit ("BCDRU") in 2007.
- The BCDRU is responsible for communicating, documenting and training employees on emergency procedures and their role in the recovery of critical IT functions.
- AIPSO's BCDR Plan is designed to provide immediate response to, and subsequent recovery from, any unplanned business interruption, whether minor or major in nature. The BCDR plan is designed to foster preparedness throughout the organization that will enable AIPSO personnel to respond safely and effectively in the event of a BCDR incident. The BCDR plan includes back up work sites at AIPSO regional offices where applicable and at an off-site disaster recovery center. The Organization also has a contractual relationship with SunGard in order to provide a contingent work site.
- The BCDR Plan is periodically reviewed in its entirety, by the Senior Management Team, the BCDRU, Incident Commanders, and Incident Command and Support Team Leaders, as well as their backup personnel, to ensure the material is current and the procedures are documented accurately.
- Testing of the BCDR Plan is conducted periodically to validate the BCDR Plan, and the plan will change appropriately based on the results. AIPSO Internal Audit may audit the entire plan, or selected portions of it.

The Examiners noted that AIPSO conducted two exercises in August 2013 and May 2014. The exercises were performed in the AIPSO Home Office in Johnston, RI and at the Organization's back up site in Marlborough, MA. Each exercise identified issues that were followed by corrective action plans that were reviewed by the Examiners. Please note that none of the issues identified were within the Scope of our review, but the Examiners confirmed AIPSO's internal processes for issue identification and remediation.

The AIPSO Internal Audit Unit conducts periodic reviews of the BCDR. An audit was conducted in September 2013 and issues were identified and followed by corrective action plans that were reviewed by the Examiners. Please note that none of the issues identified were within the Scope of our review, but the Examiners confirmed AIPSO's internal processes for issue identification and remediation.

Standard 15: *The advisory organization is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the advisory organization.*

Results: The Examiners discussed this Standard with key AIPSO employees and it was determined that AIPSO does not utilize third parties to perform any tasks associated with the Scope. The Examiners discussed this matter with the RIDBR who agreed Standard 15 would not apply to the Examination.

Standard 16: *Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.*

Results: The Examiners reviewed documentation and related information provided by the Organization and also performed a process review. The Examiners note that AIPSO appears to satisfy the requirements of Standard 16.

Observations: The Examiners obtained and reviewed AIPSO's record retention procedures which contain business unit specific retention requirements. Additionally, the Examiners confirmed that the Organization permanently maintains documents related to DOI filings, including rate indications, forms, and rules.

The Examiners note that throughout the course of the Examination, AIPSO provided all requested documentation and related information without exception, and the documentation was orderly managed, legible, and the structure of the files and data was organized. As such, the Examiners offer that the Organization's ability to provide all requested documentation suggests in part that AIPSO's record retention policies are operating effectively.

Standard 17: *The advisory organization is appropriately licensed.*

Results: The Examiners reviewed documentation and related information provided by AIPSO and performed testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 17.

Observations: The Examiners requested the Organization's licenses and for each jurisdiction where the Organization operates, noting that each jurisdiction establishes the requirements that determine the type of license that is granted.

AIPSO was responsive in providing the licenses and/or registrations for each jurisdiction, which the Examiners then reviewed to confirm the requirements of Standard 17.

The Examiners review confirmed the following:

- AIPSO is licensed in all 50 states and the District of Columbia with the exception of Maryland, Massachusetts, Oklahoma, and Texas.
- AIPSO is licensed as a rating service, advisory service, or statistical agency in each state in which it conducts transactions.

The Examiners confirmed through their testing that a copy of the current license for AIPSO for each state or territory was provided.

Standard 18: *The advisory organization cooperates on a timely basis with examiners performing the examination.*

Results: During the Examination, the Examiners requested certain data, documentation and related materials as well as requesting meetings and interviews with AIPSO resources. Based on the Organization's responses to the Examiners, it is noted that AIPSO appears to satisfy the requirements of Standard 18.

Observations: To assist in evaluating AIPSO's cooperation during the Examination, a request log was maintained that documented the date each request was tendered to the Organization, the date a response was due and the date on which the response was ultimately received. Additionally, regularly scheduled status calls and/or meetings were held, which afforded the Examiners the opportunity to discuss outstanding requests, the progress of the Examination and immediate needs of the Examination, including the timeliness in responding to the Examiner's requests.

AIPSO's responses to requests were provided in a timely manner and the Organization's cooperation during testing, contributed to an efficient examination process.

Standard 19: *The advisory organization has developed and implemented written policies, standards and procedures for the management of insurance information.*

Results: Upon reviewing Standard 19 with the Organization, AIPSO suggested that in reference to the examination scope, the Standard does not apply since the Organization does not fall under the purview of the Gramm-Leach-Bliley Act or the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”). Also, AIPSO indicated that in relation to the examination scope, they do not receive any personally identifiable information. The Examiners discussed this matter with the RIDBR who disagreed with AIPSO’s position and requested that the Organization provide a legal opinion to support their conclusion. **Observations:** AIPSO provided a legal opinion arguing that “*AIPSO, in its capacity as an Advisory Organization is not subject to GLBA [Gramm-Leach Bliley Act]. Moreover, AIPSO, in its capacity as an Advisory Organization, does not maintain non-public personally identifiable customer information.*” *Notwithstanding this position, AIPSO represented that “...its safeguards are in compliance with the requirements of Standard 19.”*

The RIDBR reviewed AIPSO’s legal opinion and disagreed. RIDBR believes that AIPSO and other advisory organizations, as licensees of RIDBR, as subject to Insurance Regulation 107 and, therefore, Standard 19. RIDBR acknowledges AIPSO’s statement that their security safeguards are in compliance with the requirements of Standard 19 and will, therefore, take no further action on this issues at this time.

II. Management and Organizational Controls

The scope of the Examination included a review of Appendix F to Chapter 25 and additional areas of review as requested by the RIDBR consistent with the Examiners approved workplan. Although Appendix F does not include specific Standards, the guidance does identify areas to be included in an examination of an Advisory Organization.

To address the Appendix F areas of review, the Examiners conducted a procedural review, including a process walkthrough with AIPSO key employees and testing where relevant as follows:

A. Change Management

The Examiners reviewed AIPSO’s change management process and noted the following:

- Any change must be approved by an Authorized Approver at the management level prior to implementation.

- Only explicitly authorized personnel may have the ability to make changes to network production systems.
- The Organization utilizes its IT network team to deploy changes for acceptance and production environments. The network team is independent from the development teams and all changes are documented using specific forms, which are maintained in a central library.
- The Organization's Network Team Project Booklet summarizes approved projects, current status, pending projects that are scheduled and future projects that are yet to be scheduled.
- There have been no significant changes to the Actuarial Application during the Period.

B. Risk Assessment

The Examiners noted that routine audits were incorporated with the Organizations annual internal audit plan for the Period, which included 4 IT based audits and performed by AIPSO IT credentialed resources. The Examiners reviewed the audit notification for the IT audits, which included the scope, objectives, and timing for the audits. The Examiners confirmed that AIPSO's Internal Auditors document issues and concerns identified during audits within a report, which included remediation plans. The status of the plans is periodically updated until the issues are ultimately closed. Findings are presented to the Board of Directors three times per year by the Director of Internal Audit.

C. Physical Security

The Examiners reviewed the Organization's physical security systems to determine if processes and systems are in place to ensure and maintain physical security. The review also included the Organization's emergency response procedures should a computer security incident occur.

A procedural review, including a process walkthrough with AIPSO key employees, and testing were performed to address this area of the Examination. The Examiners walkthrough of AIPSO's computer facility confirmed that the Organization has established physical security safeguards. The Examiners confirmed that physical security requirements regarding AIPSO's Data Center are formally documented in the Organization's Data Center Access Policy.

AIPSO's Security Policy outlines AIPSO's user access procedures and confirms that all user access requests must be formally approved by the employee's manager. The Examiners also reviewed user access to the Data Center and confirmed appropriate access. The Examiners confirmed through their

review and testing, and related work that AIPSO has established formal operational and data breach procedures, which include roles and responsibilities, severity levels, entry and exit criteria, and status reporting.

D. Logical Security

The Examiners performed certain testing related to logical security, including user access within the Actuarial Application and the Organization's network, the requirement and configuration of password rules and security monitoring enabled on the AIPSO network. The Examiners determined that Microsoft Active Directory is utilized to control access to the Actuarial application and network. Modifications to user access including new and terminated user requests, as well as changes to existing users are performed through a formal request process. Passwords configuration requirements are defined within AIPSO security policy and meet the requirements of Appendix F. Security monitoring tools are enabled to detect and prevent security risks on the AIPSO network. The Examiners found no logical security exceptions. For additional details related to logical security, refer to sections E, F, G, H, and I below.

E. Passwords

The Examiners reviewed and confirmed AIPSO's password configuration procedures, which are documented within the Network User Account Password Policy. The Examiners review confirmed that AIPSO's passwords are:

- (1) required to expire after a certain number of days;
- (2) Be a minimum length of characters; and
- (3) Include a combination of alpha, numeric and other characters.

The Examiners also reviewed screenshots from AIPSO's systems identifying password configurations documented within the policy and ensured that these configurations are set within the system consistent with the policy. Password configuration for the Actuarial Application and Active Directory meet the requirements of Appendix F.

F. User Access – System Software

The Examiner's performed a procedural review and conducted testing of user access of AIPSO's systems included in the scope of the Examination. The Examiners reviewed AIPSO's process and controls related to user access to applications, and note the following:

- Microsoft Active Directory (AD) controls access to the company network, Actuarial Application and electronic folders that contain Actuarial documents. Per the discussion, it was noted that a periodic re-certification of user access and permissions granted is not performed at the network or application layer.
- New users are granted access to systems based on individual roles established by AIPSO's business units and are based on job responsibilities. User access requests are communicated by AIPSO's Human Resource (HR) area and must be documented and approved by the employee's manager.

During the Period, no new users ID's were created for the Actuarial Application, however 1 user changed positions which required a change to access rights. The Examiners reviewed the specific change request, confirming the change was approved and implemented consistent with the request. The Examiners noted that user access re-certifications for the Actuarial Application are not performed. During the Examination, AIPSO provided remediation plans with target dates for implementation.

The Examiners also reviewed AIPSO's procedures for handling employee terminations specific to user access. AIPSO's Human Resource area communicates to the Automation Support Team, when an employee termination occurs. Automation Support then disables the network and application accounts based on the details within the request from Human Resources. One user with access to the Actuarial Application was terminated within the Period. The Examiners reviewed the change request for this terminated user to ensure timely removal from AIPSO systems. No exceptions were noted.

G. User Access - Applications

The Examiner's performed a procedural review and conducted testing of user access of AIPSO's systems applications included in the scope of the Examination including AIPSO's process and controls related to user access creation and termination. The following was noted during the review:

Microsoft Active Directory (AD) controls access to the company network, Actuarial Application and electronic folders that contain Actuarial documents. The Examiners noted that a periodic re-certification of user access and permissions granted is not performed at the network or application layer. The Examiners

also confirmed the following:

- The Actuarial Application is a Microsoft Windows based system protected by Active Directory Security. Active Directory is a widely used directory service developed by Microsoft that is used to maintain user access and permissions to Windows based systems.
- The level of user access is determined based on the groups they are assigned which are based on job responsibilities.
- User access to the Active Directory is administered by the Organization's Automation Support.

H. Privileged User Access

The Examiners reviewed the Organization's protocols and procedures related to privileged user access and confirmed that there are 2 User Identification's at the administrator level that have access. Administrator level access provides full read and write access to all data and functions within the Actuarial Application, which is appropriate based on the size of the Actuarial Department.

I. Security Monitoring and Management

The Examiners noted that AIPSO prepares a variety of security reports, which are generated and periodically reviewed by management and/or the Organization's Security team. The Examiners obtained and reviewed log reports for the application, network and database areas. Please refer to Standard 13 in the Operations Management section of the report above.

J. Application Management

The Examiners performed a procedural review and conducted testing of Application Change Management. The Examiners reviewed AIPSO's process and controls related to user access to applications, and noted the following issue: The Organization utilizes Microsoft Excel spreadsheets for rating analysis. Though changes to spreadsheets occur very infrequently (approximately 1x per year), a formal process that includes testing and approval of the changes made to Microsoft Excel spreadsheets is not in place. AIPSO should consider creating a review program regarding spreadsheet changes. During the Examination, AIPSO provided remediation plans with target dates for implementation.

The Examiners confirmed through process walkthrough with AIPSO key employees that application

changes flow through a documented SDLC process. Application changes are tested and approved at the management level prior to deployment. Changes must be approved by an Authorized Approver prior to implementation. Only explicitly authorized personnel may have the ability to make changes to network production systems. AIPSO utilizes its IT network team to deploy changes to for acceptance and production environments. The network team is independent from the development teams and all changes are documented and recorded using the appropriate forms, which are maintained in a central library.

K. Disaster Recovery/Contingency Planning

The Examiners discussed previously in the Report our review of AIPSO's Disaster Recovery Plan. Please refer to the Operations Management section Standard 14 above.

L. Operations and Processing Controls

During the review of this area, the Examiners learned that AIPSO's Operations team meets weekly to discuss new and ongoing issues and problems that occurred during the prior week. Further, formal operations and breach management procedures are in place, which include roles and responsibilities, severity levels, entry and exit criteria, and status reporting. The Examiners obtained and reviewed the documented procedures. The Examiners noted that the Actuarial Application does not utilize automated job processing.

Based on the review of documentation and the results of process reviews and testing where conducted, the Examiners note that AIPSO appears to be addressing the aforementioned areas of Appendix F to Chapter 25.

III. Review of Statistical Plans

The Examiners confirmed that AIPSO does not file statistical plans with any state. The statistical agents (ISO, ISS, and NISS) issue statistical plans and collect the data from the insurance companies. AIPSO obtains summarized and aggregated data that is collected by the statistical agents. This data is reported to AIPSO via the specifications in the AIPSO Statistical Program that is annually issued to the statistical agents. The Examiners discussed this matter with the RIDBR who agreed this section was not included in the scope of review.

IV. Data Collection and Handling

The data collection and handling aspect of the Examination focused on the Examiners confirming whether AIPSO adequately tests data for validity, completeness and reasonableness. The areas to be considered in this type of review include data quality, data checking procedures and edit programs.

Standard 1: *The statistical agent's series of edits are sufficient to catch material errors in data submitted by a Company/entity.*

Results: The Examiners reviewed documentation and related information and conducted a process review and testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 1.

Observations: The Examiners performed a procedural review, including a process walkthrough with AIPSO key employees, to address Standard 1. The Examiners confirmed that Actuarial System validation edits are described in the Actuarial Edit Definitions that were reviewed by the Examiners. The following validation edits are created to confirm compliance with established requirements.

- **Field Edits** - Performed on a record basis and on each and every field the edits are performed to determine validity of each field. For example, territory and class codes are validated.
- **Relationship Edits** - More subjective in nature and performed on a transaction basis. The edits test for reasonableness of data entered in comparison to coverage deductibles. For example, reviewing and validating a deductible's coverage may identify outliers that would indicate there may be a material reporting error, triggering further review by the Actuarial Services Unit.

Standard 2: *All data that is collected pursuant to the statistical plan is run through the editing process.*

And

Standard 3: *Determine that all databases are updated as needed with all accepted Company data.*

Results: Based on the documentation reviewed and the results of the process review and testing, the Examiners note that AIPSO appears to satisfy the requirements of Standard 2 and Standard 3.

Observations: The Examiners performed a procedural review, including a process walkthrough with AIPSO key employees, as well as testing to address the scope of Standard 2 and Standard 3. The Examiners reviewed several of the Organization's data quality control processes to ensure the completeness and accuracy of data.

The Examiners also noted that the AIPSO Actuarial Services Unit performs specific reasonability checks for statistical compilations that include the following:

- Reasonability Checks through the Data Quality Report – This report is reviewed by the data analysts to identify missing data and data anomalies at the statistical agent level - losses, claim counts, decrease in premiums indicating a reporting insurer delinquency in reporting; premium/loss mismatch; shifting of data between categories; unusual loss severity, frequency, pure premium, loss ratio; and unusually high or low average premium. If issues are identified, AIPSO will follow up with the statistical agent to address the matters.
- Data Error Reports – This report indicates instances where statistical agent level data was not reported according to the specifications of the AIPSO statistical program. AIPSO will follow up with the statistical agent to address these issues.
- Exclusion Reports – This report is reviewed to identify any large insurers that are excluded from the statistical agent's data submission.
- Inclusion Reports – This report states the insurers that are included in the statistical agent data submission.
- Mapping Reports – Statistical agent data received is summarized and mapped by certain characteristics such as classification code, territory, penalty point, good driver, commercial vehicle type, or lines to an alternate data field.
- Distribution Reports – Statewide data is reviewed by the statistical agent using this report that states the exposures, premiums, losses, and claims by territory and in relation to the statewide percentage.
- Balancing Reports – The data analysts reviews the totals in the transmittal file and the balance table to ensure that they match. The data analysts also compare prior statistical agent reporting period data submissions as stated in the Data Quality Report in order to identify changes in the data, or unusual or unexpected loss development. Data is also compared on a state level by statistical agent in order to identify any unusual patterns.

AIPSO maintains a Data Issues log to document data issues and to monitor the status of these issues. Statistical agents follow up with the insurers associated with each error in order to correct the data. On occasion, at the request of the statistical agent, AIPSO may work directly with the insurer in an attempt to

correct the reporting error. If the data cannot be corrected, AIPSO will discuss the reporting issue with the respective state's Governing Committee in order to determine if the insurer's data should be excluded.

The Examiners selected a judgmental sample of 25 statistical agent data submissions during the Period for testing. Please see Appendix F. The Examiners also performed a walkthrough with AIPSO's IT resources to review sample edits within the applications. Additionally, the Examiners reviewed Internal Audit reports related to data edits within the Actuarial System. There were no corrective actions required in these reports.

Standard 4: Determine that statistical data is reconciled to the State Page Exhibit of Premium and Losses, Statutory Page 14, of the NAIC Annual Statement on an annual basis.

Results: The Examiners discussed this Standard with key AIPSO employees and it was determined that statistical agents are responsible for this standard. AIPSO is focused only on residual market data whereas the statistical agents are focused on voluntary and residual market data. The Examiners discussed this matter with the RIDBR who agreed no testing was to be conducted under this standard.

Standard 5: Determine that all calculations associated with the database have been accurately applied.

Results: The Examiners reviewed documentation and related information and conducted a process review and performed testing. The Examiners note AIPSO appears to satisfy the requirements of Standard 5.

Observations: A procedural review, including a process walkthrough with AIPSO key employees, was performed to address this standard. As stated under Standard 2 above, AIPSO performs a transmittal balancing procedure for all data submissions where totals of submitted data by state, line, and call period are compared to transmittal state totals submitted by the statistical agent as specified in the Statistical Program. The AIPSO Statistical Program contains transmittal error tolerances by data element.

Field and Relational Edit amounts exceeding the thresholds are reviewed with the statistical agent. Through the review of a sample of 25 statistical agent data submissions, the Examiners confirmed that the tolerance levels are appropriately applied by the AIPSO Actuarial System and flagged for further review by data analysts.

A more detailed review of database calculations occurs when actuarial analysts prepare reports from the databases. These are reviewed for reasonableness and completeness. If an anomaly is identified, the analyst traces the anomaly through the report system to the database and back to the data reported by

statistical agents, which ensures that the anomaly is data driven and not due to a flaw in the calculation process.

Standard 6: Where applicable, the statistical agent employs use of data completeness tests as outlined in the NAIC Statistical Handbook of Data Available to Insurance Regulators.

Results: Based on the documentation reviewed and the results of the process review and testing, the Examiners note that AIPSO appears to satisfy the requirements of Standard 6.

Observations: The Examiners performed a procedural review, including a process walkthrough with AIPSO key employees, as well as testing to address the scope of Standard 6. The quality review of the statistical agent submissions occurs as the data is received. The data is validated against the valid values defined in the AIPSO Statistical Program, which is included in the Field and Relational Edits as noted under Standard 1 above.

The Examiners reviewed several of the Organization's data quality control processes to ensure the completeness and accuracy of data which includes the following.

- Reasonability Checks through the Data Quality Report – This report is reviewed by the data analysts to identify missing data and data anomalies at the statistical agent level - losses, claim counts, decrease in premiums indicating a reporting insurer delinquency in reporting; premium/loss mismatch; shifting of data between categories; unusual loss severity, frequency, pure premium, loss ratio; and unusually high or low average premium. AIPSO will follow up with the statistical agent to address these issues.
- Data Error Reports – This report indicates statistical agent level data that was not reported according to the specifications of the AIPSO statistical program. AIPSO will follow up with the statistical agent to address these issues.
- Mapping Reports – Statistical agent data received is summarized and mapped by certain characteristics such as classification code, territory, penalty point, good driver, commercial vehicle type, or lines to an alternate data field.
- Distribution Reports – Statewide data is reviewed by statistical agent by using this report that states the exposures, premiums, losses, and claims by territory and in relation to the statewide percentage.

- Balancing Reports – The data analysts reviews the totals in the transmittal file and the balance table to ensure that they match. The data analysts also compare prior statistical agent reporting period data submissions as stated in the Data Quality Report in order to identify changes in the data, or unusual or unexpected loss development. Data is also compared on a state level by statistical agent in order to identify any unusual patterns.

V. Correspondence with Insurers and State Regulators

The purpose of this section of the Examination is for the Examiners to review and confirm whether AIPSO promptly notifies the statistical agents (and regulators, as requested or required) when a problem with or question about the data is found, in which the statistical agents follow up with the reporting insurer whose data is problematic, if the reporting insurer/statistical agents do not respond within the appropriate time frame.

Standard 1: *The statistical agent keeps track of companies that fail to meet deadlines.*

And

Standard 2: *The statistical agent has established procedures for notifying companies (and regulators, as requested or required) of material errors and for correcting those errors.*

And

Standard 3: *The statistical agent maintains a follow-up procedure with companies that have reporting errors or questions.*

Results: The Examiners reviewed documentation and related information and conducted a process review and performed testing. The Examiners note that AIPSO appears to satisfy the requirements for Standard 1, Standard 2 and Standard 3.

Observations: A procedural review and testing was performed to address the above referenced Standards. The Examiners reviewed AIPSO's procedures regarding the tracking and reporting of data submissions for those statistical agents that fail to meet deadlines. Also, a review of the Annual AIPSO Statistical Program manual ("manual") that is sent to statistical agents was performed.

The manual includes information in reference to how statistical agents are to report data and correct reporting errors. Additionally, the manual explains how statistical agents are to resubmit data. The

Examiners confirmed that AIPSO reviews the Data Issues Log and Transmittal Submission Schedule at least weekly in order to identify statistical agents that are delinquent in reporting and/or have reporting errors. AIPSO tracks and follows up with these statistical agents until issues are resolved. The Examiners note that within their follow up correspondence, AIPSO does not provide a timeframe in which statistical agents must address reporting issues. Also, AIPSO does not verify that the statistical agent has fined the reporting insurer in accordance with their penalty program, where applicable. During the Examination, AIPSO provided remediation plans with target dates for implementation.

Based on the Examiner's review of these procedures, it was noted that the Organization has controls and procedures for determining its statistical agents reporting status. In addition, AIPSO has processes and procedures established to communicate with delinquent statistical agents and those with reporting errors.

In addition to the above review, the Examiners utilized the AIPSO Data Issues Log to select a judgmental sample of 12 instances in which statistical agents either had reporting errors or did not report timely. There were data issues in 12 of the 25 original Participating States. The sample consisted of one transaction for each of the participating states in which a data issue occurred during the period of review (See Appendix G).

Correspondence for each sample was tested with regards to certain attributes including the following:

- The initial due date of the request
- The dates of first follow up with statistical agent
- The timeliness of original notification
- Additional follow-up notifications
- Monitoring of the issue(s) through completion (statistical agents corrected errors or submitted past due reports)
- Any required notifications to the State Program Manager or Governing Committee

Standard 4: *Review any additional data quality programs maintained by the statistical agent pertaining to data collected pursuant to the statistical plan.*

Results: The Examiners reviewed documentation and related information and conducted a process review and performed testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 4.

Observations: The Examiners performed a procedural review, including a process walkthrough with AIPSO key employees, as well as testing to address the scope of Standard 4. The Examiners reviewed several of the Organization's data quality control processes to ensure the completeness and accuracy of data as stated above in the Data Collection and Handling Section. The Examiners also reviewed the 2013 annual report cards for each of the three statistical agents. In addition, AIPSO has the following data quality programs in place:

- The AIPSO PLR Committee is comprised of several senior managers employed by member companies that are responsible for reviewing ratemaking procedures and make changes when necessary or prudent. This Committee is also responsible for other functions such as reviewing and maintaining rating programs, rate manuals and coverages. AIPSO has a similar Committee for CL Committee with similar responsibilities as stated above.
- A Subcommittee of the PLR Committee and the CL Committee is the DQ Subcommittee. The Mission of the DQ Subcommittee is to ensure the accurate, complete, and timely reporting of required automobile insurance statistics employed by AIPSO in pursuit of appropriate rate levels and equitable sharing of residual market insureds.
- There are annual report cards from the statistical agents in reference to insurer compliance with statistical agent reporting requirements. The report cards provide information on the number of states that had timely submissions; resubmissions; and exclusions. The report cards are submitted to the AIPSO Board of Directors and AIPSO's DQ Subcommittee.

Standard 5: *With each standard premium and loss report to the states, the advisory organization provides a listing of companies whose data is included in the compilations and a historical report listing insurers whose data for the state was excluded, as set forth in Section 2.4 of the NAIC Statistical Handbook of Data Available to Insurance Regulators.*

Results: The Examiner reviewed documentation and related information and performed a process review. The Examiners note that AIPSO appears to satisfy the requirements of this request.

Observations: The Examiners incorporated the review and testing for this standard concurrent with the review of the 12 rate indications filings conducted under the Operations and Management section, Standard 2.

In so doing the Examiners confirmed that the annual statistical submissions to the states included a listing of statistical reporting insurers whose data is included in the compilations and a historical report listing of

insurers whose data for the state was excluded, as set forth in Section 2.4 of the NAIC Statistical Handbook of Data Available.

VI. Reports, Report Systems and Other Data Requests

The Reports, Report Systems and Other Data Requests aspect of the Examination focused on the Examiners review of AIPSO's reports and other statistical compilations prepared for state regulators, as well as confirming the Organization's internal procedures for preparing reports and responding to data requests, including the timeliness and quality of the response.

Standard 1: *All calculations used to develop the database have been performed accurately.*

Results: The Examiners reviewed documentation and related information and conducted a process review and performed testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 1.

Observations: The Examiners performed a procedural review, including a process walkthrough with AIPSO key employees, to address Standard 1, which included obtaining and reviewing AIPSO's Statistical Program and Statistical Compilation processes and procedures. Through this review, the Examiners confirmed that the Organization processes submitted data through their editing systems and other calculations are performed to decide whether further corrective action is necessary.

Standard 2: *The statistical agent has accurately extracted the appropriate information from the statistical database.*

Results: The Examiners reviewed documentation and related information and conducted a process review and performed testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 2.

Observations: The Examiners performed a procedural review, including a process walkthrough with representatives of AIPSO, as well as performing testing to address the requirements of Standard 2. The Examiners review of AIPSO's data processing completeness and reasonability checks for statistical compilations included the data validity and data collection and handling procedures described under Standard 1 of the Data Collection and Handling section of this report. AIPSO also performs additional actions, which includes:

- Missing data and data anomalies at the statistical agent and state level - losses, claim counts, decrease in premiums indicating a reporting insurer delinquency in reporting; premium/loss mismatch; shifting of data between categories; unusual loss severity, frequency, pure premium, loss ratio; and unusually high or low average premium.
- AIPSO reviews for other types of anomalies, which it completes at the statistical agent level, such as changes in previously reported data, unusual or unexpected loss development, and shifts in territory.

Following the reasonability checks, AIPSO prepares aggregate statistical compilations and then a call-to-call check with the prior year's compilation is performed. Any significant changes in overlapping years, or unexpected differences in latest (new) year compared to earlier years, are investigated and explained before the compilation is released.

To confirm the Examiners understanding of the above process and procedures, walkthroughs were performed, which included the review of sample reports, for each of the samples included in the scope of the Examination.

Standard 3: *Any data extracted from the statistical database has been accurately reviewed with any additional data obtained directly from a Company in preparing a response to a data request.*

And

Standard 4: *Data collected, in addition to the data collected under the statistical plan, was adequately reviewed for quality and compiled according to applicable statutes, rules and regulations.*

Results: The two Standards were discussed with AIPSO personnel and the Examiners confirmed that there have been no inquiries made during the Period. The Examiners discussed this matter with the RIDBR who agreed that no additional work was deemed necessary regarding Standards 3 and 4.

VII. Ratemaking Functions

The purpose of this aspect of the Examination was to review AIPSO's rate indications reports and reporting systems, if any, as well as its internal procedures for preparing related reports and responding to data requests, including the timeliness and quality of the response.

Standard 1: *The advisory organization submits filings and/or submissions to the state within the established time frame.*

Results: The Examiners reviewed documentation and related information and conducted a process review and testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 1. Please refer to the Operation Management Section of this report, Standard 3 for review results.

Observations: The Examiners note that AIPSO prepares advisory rate indications that contain rates. The Examiners reviewed the Organization's written policies and procedures for the preparation and submission of policy forms and filings and written procedures to effect compliance with applicable state filing and/or approval prior to distribution.

VIII. Form Development Review

The purpose of this aspect of the Examination was for the Examiners to review AIPSO's processes for the development, maintenance and filing of forms for insurance programs.

Standard 1: *The advisory organization has processes in place to identify and provide subscribers with necessary changes (by virtue of changes in state laws or case law) to advisory forms, rules or loss costs*

Results: The Examiners reviewed documentation and related information and performed testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 1.

Please note for reference that this Standard was reviewed under Section I, Operations and Management Standard 8.

Standard 2: *The advisory organization has quality assurance processes in place to review submissions of forms, rates, loss costs or other submissions prior to filing or submitting to the applicable state.*

Results: The Examiners reviewed documentation and related information and performed testing. The Examiners note that AIPSO appears to satisfy the requirements of Standard 2.

Please note for reference that this Standard was reviewed under Section I, Operations and Management Standard 3.

Appendix A – Groups 1, 2, and 3

State	Private Passenger Auto Group 1, 2, or 3	Commercial Auto Group 1, 2, or 3
		Commercial Auto
Alabama	3	3
Alaska	3	3
Arizona	3	3
Arkansas	3	3
California	1 (low cost) or 2 (all other)	1
Colorado	3	3
Connecticut	2	2
Delaware	3	3
Dist. Of Columbia	2	3
Florida	2	2
Georgia	3	3
Hawaii*		
Idaho	3	3
Illinois	2	2
Indiana	3	3
Iowa	3	3
Kansas	1	1
Kentucky	3	3
Louisiana	3	2
Maine	3	3
Michigan	2	1
Minnesota	3	3
Mississippi	3	3
Missouri	3	3
Montana	3	3

State	Private Passenger Auto Group 1, 2, or 3	Commercial Auto Group 1, 2, or 3
Nebraska	3	3
Nevada	3	3
New Hampshire	2	2
New Jersey	1	1
New Mexico	3	3
New York	1	1
North Dakota	3	3
Ohio	3	3
Oklahoma	3	3
Oregon	3	3
Pennsylvania	1	1
Rhode Island	1	2
South Carolina	3	3
South Dakota	3	3
Tennessee	3	3
Utah	3	3
Vermont	2	3
Virginia	1	1
Washington	3	3
West Virginia	3	3
Wisconsin	3	2
Wyoming	3	3

1. * AIPSO does not prepare Rate Indications in this state.
2. Please note: The definitions of Groups 1, 2, and 3 can be found on page 6 of the Examination Report.

Appendix B – Rate Indications Filing Sample

Sample	Group	LOB	ST	Description	Filing Designation
Filing 01	#1	PP	CA	Personal Auto	LC 14-01
Filing 02	#1	PP	RI	Personal Auto	RI 13-04
Filing 03	#1	PP	NJ	Personal Auto	JP 13-02
Filing 04	#1	CA	NJ	Commercial Auto	NJ 13-04
Filing 05	#1	CA	VA	Commercial Auto	VA 14-01
Filing 06	#1	CA	CA	Commercial Auto	CA 13-07
Filing 07	#2	PA	CT	Personal Auto	CT 13-04
Filing 08	#2	CA	CT	Commercial Auto	CT 13-05
Filing 09	#3	PA	TN	Personal Auto	TN 13-01
Filing 10	#3	PA	AK	Personal Auto	AK 13-02
Filing 11	#3	CA	MS	Commercial Auto	MS 14-03
Filing 12	#3	CA	ID	Commercial Auto	ID 13-08

Appendix C - Form Filings Samples

Sample	State	Line of Business	AIPSO Filing Number
Forms 1	AK	Commercial Auto	AK 13-04
Forms 2	AZ	Commercial Auto	AZ 13-07
Forms 3	AR	Personal Auto	AR 14-02
Forms 4	CA	Commercial Auto	CA 13-09
Forms 5	CO	Personal Auto	CO 13-07
Forms 6	CT	Commercial Auto	CT 13-07
Forms 7	ID	Commercial Auto	ID 13-07
Forms 8	LA	Personal Auto	LA 14-02
Forms 9	ME	Commercial Auto	ME 13-04
Forms10	MT	Commercial Auto	MT 13-04
Forms11	NV	Commercial Auto	NV 13-06
Forms12	NH	Commercial Auto	NH 14-04
Forms13	NJ	Personal Auto	JB 14-01
Forms 14	PA	Commercial Auto	PA 13-09
Forms 15	RI	Personal Auto	RI 14-04
Forms 16	SD	Personal Auto	SD 13-01
Forms 17	UT	Commercial Auto	UT 13-08
Forms 18	WV	Personal Auto	WV 13-05
Forms 19	WI	Personal Auto	WI 13-04

Appendix D - Rule Filings Samples

Sample	State	Line of Business	AIPSO Filing
Rules 1	AK	Commercial Auto	AK 13-04
Rules 2	AZ	Commercial Auto	AZ 13-07
Rules 3	AR	Personal Auto	AR 14-02
Rules 4	CA	Commercial Auto	CA 13-09
Rules 5	CO	Personal Auto	CO 13-07
Rules 6	CT	Commercial Auto	CT 13-07
Rules 7	HI	Personal and Commercial Auto	HI 12-03
Rules 8	ID	Commercial Auto	ID 13-07
Rules 9	LA	Personal Auto	LA 14-02
Rules 10	ME	Commercial Auto	ME 13-04
Rules 11	MS	Personal Auto	MS 13-02
Rules 12	MT	Commercial Auto	MT 13-04
Rules 13	NV	Commercial Auto	NV 13-06
Rules 14	NH	Personal Auto	NH 13-01
Rules 15	NJ	Personal Auto	JB 14-01
Rules 16	PA	Commercial Auto	PA 13-09
Rules 17	RI	Personal Auto	RI 14-04
Rules 18	SD	Personal Auto	SD 14-01
Rules 19	TN	Personal Auto	TN 13-02
Rules 20	UT	Personal Auto	UT 13-02
Rules 21	WV	Personal Auto	WV 14-01
Rules 22	WI	Personal Auto	WI 13-04

Appendix E - New Laws and Regulations Sample

Sample #	State	Identifier	Date
1	CA	CA 12-04	3/1/2013
2	CO	CO 13-08	1/1/2014
3	HI	HI 12-03	6/1/2013
4	ID	ID 13-06	2/1/2014
5	MS	MS 14-02	7/1/2014
6	NH	NP 13-01	2/11/2013
7	NJ	NJ 14-02	4/1/2014
8	PA	PA 14-01	7/1/2014
9	RI	RI 14-07	7/1/2014
10	SD	SD 13-01	9/1/2013
11	UT	UT 13-01	2/1/2014
12	WV	WV 13-05	12/1/2013

Appendix F – Statistical Agent Correspondence Sample

Sample	State	Issue Number
1	NJ	269
2	HI	305
3	PA	251
4	NH	338
5	VA	88
6	CA	106
7	WV	109
8	AK	247
9	AZ	111
10	CT	300
11	KY	325
12	RI	315

Appendix G – Data Collection and Handling Sample

Sample	State	Submission ID
1	AR	1919
2	PA	1955
3	HI	1952
4	NJ	1942
5, 6	GA & NV	1937
7,8, 9, 10	AZ,ME,VA, & WV	1905
11	KY	1902
12	CA	1899
13	RI	1860
14	LA	1854
15, 16	CT & NH	1890
17	MS	1901
18	ID	1907
19	AK	1908
20, 21	MT & TN	1922
122, 23	SD & UT	1930
24	CO	1918
25	WI	1917