

Date: 3/7/22

Virtual Meeting

MARKET CONDUCT EXAMINATION GUIDELINES (D) WORKING GROUP

Thursday, March 10, 2022

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Damion Hughes, Chair	Colorado	Leatrice Geckler	New Mexico
Erica Weyhenmeyer, Vice Chair	Illinois	Sylvia Lawson	New York
Sarah Borunda	Arizona	Teresa Knowles	North Carolina
Crystal Phelps/Teri Ann Mecca	Arkansas	Todd Oberholtzer	Ohio
Kurt Swan	Connecticut	Landon Hubbard	Oklahoma
Frank Pyle	Delaware	Brian Fordham/ Tashia Sizemore	Oregon
Sharon Shipp	District of Columbia	Gary Jones/Crystal Welsh/ Paul Townsen	Pennsylvania
Elizabeth Nunes/ Paula Shamburger	Georgia	Matt Gendron/ Brett Bache	Rhode Island
Doug Ommen	Iowa	Matthew Tarpley	Texas
Ron Kreiter	Kentucky	Tanji J. Northrup/ Shelley Wiseman	Utah
Mary Lou Moran	Massachusetts	Karla Nuisl	Vermont
Jill Huisken	Michigan	Julie Fairbanks	Virginia
Paul Hanson	Minnesota	Jeanette Plitt	Washington
Win Nickens/Jo LeDuc	Missouri	Desiree Mauller	West Virginia
Peggy Willard-Ross/ Hermoliva Abejar	Nevada	Rebecca Rebholz/ Diane Dambach	Wisconsin
Maureen Belanger/ Edwin Pugsley	New Hampshire		
Ralph Boeckman	New Jersey		

NAIC Support Staff: Petra Wallace/Lois E. Alexander

AGENDA

1. Hear Opening Remarks—*Damion Hughes (CO)*
2. Discuss Potential 2022 Working Group Tasks—*Damion Hughes (CO)* Attachment 1
3. Review and Discuss Revisions to Chapter 21—Conducting the Property and Casualty Examination of the *Market Regulation Handbook, Oct. 27, 2021, Draft* Attachment 2
 —*Sharon Shipp and Patrice Garnette (DC)*
 - A. Industry Trade Associations Nov. 11, 2021, Comments Received Nov. 23, 2021
 - B. Examination Resources Dec. 17, 2021, Comments

4. Review and Discuss Revisions to Chapter 20—General Examination Standards of the *Market Regulation Handbook*, Oct. 27, 2021, Draft—*Ron Kreiter (KY)*
Attachment 3
 - A. State Farm Nov. 24, 2021, Comments
 - B. American Council of Life Insurers (ACLI) Dec. 17, 2021, Comments
5. Discuss Any Other Matters Brought Before the Working Group
—*Damion Hughes (CO)*
6. Adjournment

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Market Conduct Examination Guidelines (D) Working Group 2022 Charges

(Posted on the Working Group's web page at

<https://content.naic.org/cmtedmarketconductexamguidelines.htm>)

The Market Conduct Examination Guidelines (D) Working Group will:

1. Develop market conduct examination standards, as necessary, for inclusion in the *Market Regulation Handbook*.
2. Monitor the adoption and revision of NAIC models and develop market conduct examination standards to correspond with adopted NAIC models.
3. Develop updated standardized data requests, as necessary, for inclusion in the *Market Regulation Handbook*.
4. Develop uniform market conduct procedural guidance (e.g., a library, depository or warehouse with market conduct examination templates, such as an exam call letter, exam exit agenda, etc.) for inclusion in, or for use in conjunction with, the *Market Regulation Handbook*.
5. Coordinate with the Innovation, Cybersecurity, and Technology (H) Committee to develop market conduct examiner guidance for the oversight of regulated entities' use of insurance and non-insurance consumer data and models using algorithms and artificial intelligence (AI).
6. Discuss the effectiveness of group supervision of market conduct risks and develop examination procedural guidance, as necessary.
7. Discuss the role of market conduct examiners in reviewing insurers' corporate governance as outlined in the *Corporate Governance Annual Disclosure Model Act* (#305) and the *Corporate Governance Annual Disclosure Model Regulation* (#306).

Chapter 21—Conducting the Property and Casualty Examination

IMPORTANT NOTE:

The standards set forth in this chapter are based on established procedures and/or NAIC models, not on the laws and regulations of any specific jurisdiction. This handbook is a guide to assist examiners in the examination process. Since it is based on NAIC models, use of the handbook should be adapted to reflect each state's own laws and regulations with appropriate consideration for any bulletins, audit procedures, examination scope and the priorities of examination. Further important information on this and how to use this handbook is included in Chapter 1—Introduction.

This chapter provides a suggested format for conducting property/casualty insurance regulated entity examinations. Procedures for conducting life and health insurance regulated entity examinations and other types of specialized examinations—such as managed care organizations, third-party administrators and surplus lines brokers—may be found in separate chapters.

The examination of property/casualty insurance operations may involve any review of one or a combination of the following business areas:

- A. Operations/Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Licensing
- E. Policyholder Service
- F. Underwriting and Rating
- G. Claims

When conducting an examination that reviews these areas, there are essential tests that should be completed. The tests are applied to determine if the regulated entity is meeting standards. Some standards may not be applicable to all jurisdictions. The standards may suggest other areas of review that may be appropriate on an individual state basis.

When an examination involves a depository institution or their affiliates, the bank may also be regulated by federal agencies such as the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board, the Office of Thrift Supervision (OTS) or the Federal Deposit Insurance Corporation (FDIC). Many states have executed an agreement to share complaint information with one or more of these federal agencies. If the examination results find adverse trends or a pattern of activities that may be of concern to a federal agency and there is an agreement to share information, it may be appropriate to notify the agency of the examination findings.

A. Operations/Management

Use the standards for this business area that are listed in Chapter 20—General Examination Standards.

B. Complaint Handling

Use the standards for this business area that are listed in Chapter 20—General Examination Standards.

C. Marketing and Sales

Use the standards for this business area that are listed in Chapter 20—General Examination Standards and the standards set forth below.

**STANDARDS
MARKETING AND SALES**

Standard 1

The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ New business policy forms and certificate of insurance
- _____ Advertising materials
- _____ Disclosure materials
- _____ Marketing complaints
- _____ Underwriting guidelines

Others Reviewed

- _____
- _____

NAIC Model References

Mass Marketing of Property and Liability Insurance Model Regulation (#710)
Group Personal Lines Property and Casualty Insurance Model Act (#760)
Real Property Lender Placed Model Act (#631), Sections 5, 8 and 9

Review Procedures and Criteria

Review documentation in new business policy files to determine a legitimate basis for the group. If not evident from the file, request additional documentation from the regulated entity to verify that the group is not fictitious.

Review underwriting guidelines, new business policy files, advertising materials, disclosure materials and complaints to verify:

- Compulsory participation not required for employment or group membership;
- Tie-in sales are not a condition of purchase; and
- Disclosures are provided, as required.

D. Producer Licensing

Use the standards for this business area that are listed in Chapter 20—General Examination Standards.

E. Policyholder Service

Use the standards for this business area that are listed in Chapter 20—General Examination Standards and the standards set forth below.

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**STANDARDS
POLICYHOLDER SERVICE**

Standard 1
Claims history and loss information is provided to the insured in a timely manner.

Apply To: All regulated entities

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Claim files

_____ Regulated entity's procedures manuals

Others Reviewed

NAIC Model References

Unfair Trade Practices Act (#880), Section 4(O)

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)

Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Review sample claim files to determine if the regulated entity is providing loss information for the three previous years to the first named insured within 30 days of receipt of the written request, including:

- On all claims, the date and description of occurrence and the total amount of payment; and
- For any occurrence not included above, the date and description of occurrence.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

F. Underwriting and Rating

1. Statistical Coding

In addition to the general standards, the examiner should review the regulated entity's statistical coding procedures. Coding on individual policies should be current and accurate. The examiner should determine to what statistical agencies the regulated entity reports its rating/underwriting data.

The examiner should confirm that the regulated entity is using the most current codes, classes, territories, town protection classes, ZIP codes, etc.

Errors should be noted with regard to overcharges or undercharges.

Additional introductory material is located in Chapter 20—General Examination Standards of this handbook.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 1
Credits, debits and deviations are consistently applied on a non-discriminatory basis.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Underwriting files and supporting documentation
- _____ Insurance department approval of deviations (if applicable)

Others Reviewed

NAIC Model References

- Property and Casualty Model Rating Guideline (File and Use Version) (#1775)*
- Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)*
- Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)*
- Unfair Trade Practices Act (#880)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Credits and deviations should be filed, where required.

Determine if credits and deviations are applied consistently.

Determine if the reasons for use of credits and deviations are documented.

Verify proper handling of consent-to-rate or excess rate forms.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
UNDERWRITING AND RATING**

Standard 2

Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Underwriting files, including the Individual Risk Premium Modification (IRPM) worksheet

_____ Schedule rating worksheet where IRPM worksheet is used

Others Reviewed

NAIC Model References

Property and Casualty Model Rating Guideline (File and Use Version) (#1775)

Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)

Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)

Unfair Trade Practices Act (#880)

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)

Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Verify that the application of the plan complies with limitations imposed by the state.

Verify that changes in the amounts of credit or debit are supported by documentation or an explanation that is consistent with the change. Also verify that the basis for use is appropriate (i.e., based on objective criteria, not on perceived competitive pressures).

Determine if the regulated entity is adjusting individual premiums to target premium levels for competitive reasons. Typically, the test for this is to review the documentation in the underwriting files.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
UNDERWRITING AND RATING**

Standard 3

Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss costs and expense multipliers filed with the insurance department.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ National Council on Compensation Insurance (NCCI) pure premium tables

_____ Regulated entity's filed multipliers that modify the NCCI's (or similar advisory organization) filed loss costs

_____ Rate charts by classification codes (charts maintained at the regulated entity level)

Others Reviewed

NAIC Model References

Property and Casualty Model Rating Guideline (File and Use Version) (#1775)

Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)

Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)

Review Procedures and Criteria

Obtain from the regulated entity the filed expense multipliers which were applicable at the inception of the policy. (This filing should be stamped either "Approved" or "Filed" by the insurance department.)

Obtain the regulated entity's table of rates for each classification code. Check the sample's premium audit data (showing the actual rate charged to an employer for individual classification codes) against the table of rates, which includes the NCCI's (or similar advisory organization) loss costs and the filed expense multiplier, to verify accuracy.

The regulated entity's documents should be reviewed. Any additional areas or lack of information should be discussed with the regulated entity's management.

STANDARDS UNDERWRITING AND RATING

Standard 4

Verification of premium audit accuracy and the proper application of rating factors.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Insurance department approved and/or filed rating plans, including risk modification plans
- _____ Copies of cost containment certificates and loss improvement criteria to determine cost containment discount
- _____ Final rate manual tables by classification codes applicable to the period under examination (tables maintained at the regulated entity level)
- _____ Workers' Compensation Experience Modification Rating Sheets pertaining to the policy sample (experience modifiers as published by the NCCI and similar advisory organizations)
- _____ Documentation showing regulated entity's separate rates for mortgage servicer obtained lender-placed insurance versus voluntary insurance on real estate owned property

Others Reviewed

- _____
- _____

NAIC Model References

- Property and Casualty Model Rating Guideline (File and Use Version) (#1775)*
- Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)*
- Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*
- Real Property Lender Placed Model Act (#631), Section 9*

Review Procedures and Criteria

The purpose of this review is to determine that the final premium charged to the employer is being applied correctly, fairly and consistently.

The sample's premium audits should contain specific information on each policy. The sample's information should be compared to the NCCI unit statistical report and to the company's rating plan, to verify accuracy in the application and reporting of the following factors when applicable:

- Premiums by classification code;
- Payroll exposure;

- Schedule rating;
- Cost containment discount;
- Premium discounting;
- Designated medical provider discount;
- Expense loading;
- Application of the correct experience modifier;
- Small employer discount;
- Discount for rehiring previously disabled employees; and
- Any other rating elements.

The company documents should be reviewed. Any additional areas or lack of information should be discussed with company management.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
UNDERWRITING AND RATING**

**Standard 5
Verification of experience modification factors.**

Apply to: All workers' compensation examinations

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Premium audit reports from the policy sample
- _____ Experience rating rules published by the NCCI (and similar advisory organizations)
- _____ Workers' compensation experience modification rating sheets pertaining to the policy sample (experience modifiers pertaining to the policy sample as published by the NCCI and similar advisory organizations)
- _____ Unit statistical reports pertaining to the policy sample and used to report the regulated entity's information (data) to the NCCI and similar advisory organizations

Others Reviewed

- _____
- _____

NAIC Model References

- Property and Casualty Model Rating Guideline (File and Use Version) (#1775)*
- Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)*
- Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

The experience modifier issued by the NCCI (and similar advisory organizations) should reflect the information reported to the NCCI (or similar advisory organization) using the unit statistical reports. Experience modifiers should be reconciled to what is reported on the unit statistical reports and what is shown on the workers' compensation experience modification rating sheets.

Net loss reporting should be properly applied to both large and small deductible policies.

The regulated entity's documents should be reviewed. Any additional areas or lack of information should be discussed with the regulated entity's management.

STANDARDS UNDERWRITING AND RATING

Standard 6 Verification of loss reporting.

Apply to: All workers' compensation examinations

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ NCCI (and similar advisory organizations') rules governing the reporting of losses on unit statistical reports
- _____ Loss data pertaining to the policy sample and maintained by the regulated entity
- _____ Unit statistical reports pertaining to the policy sample and used to report regulated entity information to the NCCI (and similar advisory organizations)

Applicable reports filed with the commissioner (e.g., required reporting for insurers with at least \$100,000 in direct written premium for lender-placed insurance, required rate filing for insurers with an annual loss ratio of less than 35% in any lender-placed program for two consecutive years)

Others Reviewed

- _____
- _____

NAIC Model References

Property and Casualty Model Rating Guideline (File and Use Version) (#1775)
Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)
Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)
Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)
Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)
Real Property Lender Placed Model Act (#631), Section 9

Review Procedures and Criteria

Losses under each policy should be clearly and accurately maintained at the regulated entity, so that paid amounts, reserves, ~~and~~ deductibles and any excess amounts paid to the mortgagor can be easily reviewed. The sample data should be compared to the unit statistical reports to verify accuracy of reporting of the following items:

- Paid losses;
- Paid loss adjustment expenses;
- Net of deductible reporting on the unit statistical reports;
- Adjustments to reserves and revised unit statistical reports; and
- Any other adjustments, such as subrogation.

The regulated entity's documents should be reviewed. Any additional areas or lack of information should be discussed with the regulated entity's management.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 7

Verification of the regulated entity’s data provided in response to the NCCI call on deductibles.

Apply to: All workers’ compensation examinations

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ The NCCI (or similar advisory organization) data call and resulting report made by the insurance regulated entity to the NCCI (or similar advisory organization)
- _____ Loss data pertaining to sample policies written on a deductible basis and maintained by the regulated entity
- _____ Unit statistical reports pertaining to sample policies written on a deductible basis and used to report regulated entity information to the NCCI (and similar advisory organizations)

Others Reviewed

- _____
- _____

NAIC Model References

- Property and Casualty Model Rating Guideline (File and Use Version) (#1775)*
- Property and Casualty Model Rating Guideline (Prior Approval Version) (#1780)*
- Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)*
- Guidelines for the Filing of Workers’ Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers’ Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Note that a new sample (the “deductible sample”) should be taken for this standard, sampling only policies with deductibles (both large and small deductibles).

During an examination, it should be verified that losses are reported on the unit statistical reports to the NCCI (or similar advisory organizations) net of deductibles. The Independent Deductible Data Call that the NCCI requests should be reported gross, including the deductibles. This must be verified with the policy sample, unit statistical reports and loss data maintained by the regulated entity.

The regulated entity’s documents should be reviewed. Any additional areas or lack of information should be discussed with the regulated entity’s management.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
UNDERWRITING AND RATING**

Standard 8

Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than before the effective date of the insurance, near the expiration of a claim, or following a claim.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Application

_____ Underwriting files

Others Reviewed

NAIC Model References

Unfair Trade Practices Act (#880)

Real Property Lender Placed Model Act (#631), Section 4

Review Procedures and Criteria

Decisions should be based on information that reasonably should have been developed at the inception of the policy or during initial underwriting and not, through audit or other means, before the policy went into effect or after the policy has expired.

Determine if the initial underwriting of a policy is based on the information obtained after a claim is submitted.

**STANDARDS
UNDERWRITING AND RATING**

Standard 9
Audits, when required, are conducted accurately and timely.

Apply to: All auditable personal policies

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Underwriting files

_____ Premium audits pertaining to the policy sample

_____ Payroll records associated with the premium audits and with the policy sample

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Verify that all auditable commercial policies have a structured system for conducting payroll or other audits used to verify final premium.

Verify what is all auditable commercial policies' procedure for waiving audits. Verify that the basis is reasonable.

Determine what is all auditable commercial policies' time frame for completion of audits. Companies typically have a time frame for the completion of an audit following expiration.

Verify if all auditable commercial policies' auditors or independent auditors conduct audits.

Perform an independent verification to ensure that return premiums are received by insureds in a timely manner.

**STANDARDS
UNDERWRITING AND RATING**

Standard 10

The regulated entity's underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and the regulated entity's guidelines in the selection of risks.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ New business application
- _____ All underwriting information obtained
- _____ Regulated entity's underwriting guidelines
- _____ Underwriting bulletins
- _____ Declination procedures
- _____ Agency agreements and correspondence with producers
- _____ Interoffice memoranda and regulated entity minutes
- _____ Policy declaration page
- _____ Underwriter's file or notes on a system log

Others Reviewed

NAIC Model References

- Insurance Fraud Prevention Model Act (#680)*
- Model Regulation on Unfair Discrimination in Life and Health Insurance on the Basis of Physical or Mental Impairment (#887)*
- Model Regulation on Unfair Discrimination on Basis of Blindness or Partial Blindness (#888)*
- Unfair Trade Practices Act (#880)*
- Credit Reports and Insurance Underwriting White Paper*

Review Procedures and Criteria

Review relevant underwriting information to ensure that no unfair discrimination is occurring, according to the state's definition of unfair discrimination.

Determine if the regulated entity is following its underwriting guidelines, and that the guidelines conform to state laws and are not unfairly discriminatory.

Determine, if required, that the regulated entity's underwriting guidelines have been filed with the insurance department.

Review interoffice memoranda for evidence of anti-competitive behavior.

Underwriting guidelines may vary by geographic areas in the jurisdiction and, therefore, such guidelines should be reviewed for each regional office being examined.

Some indication of industry underwriting practices may be obtained by survey of residual markets (e.g., FAIR Plan and JUA), surplus lines markets and consent-to-rate filings.

Inconsistent handling of rating or underwriting practices, even if not intentional, can result in unfair discrimination, including requests for supplemental information.

Examine new business applications for the required fraud warning statement.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 11

All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ New business application
- _____ Policy declaration page
- _____ Insurance department approval for forms and endorsements
- _____ Regulated entity's files or register of approved forms

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Trade Practices Act (#880)*
- Insurance Fraud Prevention Model Act (#680)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if the forms and endorsements have been filed.

Determine if the regulated entity lists all forms and endorsements that form part of the contract on the declaration page.

Examine new business applications for the required fraud warning statement.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
UNDERWRITING AND RATING**

Standard 12

Regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.

Apply to: All automobile lines

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Underwriting files

_____ Regulated entity's rating system

_____ Regulated entity's symbol or Insurance Services Office (ISO) symbol manual

Others Reviewed

NAIC Model References

Unfair Trade Practices Act (#880)

Insurance Fraud Prevention Model Act (#680)

Review Procedures and Criteria

Determine how the regulated entity checks the validity of the vehicle identification number (VIN) on the application. The regulated entity may use an automated program to verify the accuracy of the VIN.

Verify if the regulated entity is a member of or reports to any fraud detection bureau or organization. Some state statutes require reporting of suspected fraud.

Determine how a regulated entity handles updated symbols.

Determine if the correct symbol has been used.

**STANDARDS
UNDERWRITING AND RATING**

Standard 13

The regulated entity does not engage in collusive or anti-competitive underwriting practices.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Underwriting files

Books and records containing compensation, contingent commissions, profit sharing and other payments dependent on profitability or loss ratios

Third party agreements for outsourced services

Others Reviewed

NAIC Model References

Unfair Trade Practices Act (#880)

Real Property Lender Placed Model Act (#631), Section 6

Review Procedures and Criteria

Any practice suggesting anti-competitive behavior may involve legal considerations that should be referred to insurance department legal counsel. This would include engaging in collusive underwriting practices that may inhibit competition; e.g., entering into an agreement with other companies to divide the auto market within the jurisdiction by territory.

The examiner should be aware of unlawful pricing and other prohibited anti-competitive acts or practices.

**STANDARDS
UNDERWRITING AND RATING**

Standard 14

The regulated entity’s underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations in its application of mass marketing plans.

Apply to: All property and casualty companies with mass marketing plans

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ New business policy files

_____ Underwriting guidelines

_____ Canceled and nonrenewed policies

Others Reviewed

NAIC Model References

Mass Marketing of Property and Liability Insurance Model Regulation (#710)
Credit Reports and Insurance Underwriting White Paper

Review Procedures and Criteria

Review documentation in new business policy files and underwriting guidelines to determine that the regulated entity does not apply underwriting standards to a mass marketing program that are more restrictive than those applied to an individually underwritten program.

Review underwriting guidelines, canceled and nonrenewed policy files to verify that failure of the employer or group to remit premium is not regarded as “nonpayment of premium” for the insured, unless the insured is sent appropriate notice and has failed to make timely payment.

Review underwriting guidelines and policy forms to verify that the employee or group member is given the right to continue coverage for 60 days after leaving employment or the group.

Review canceled and nonrenewed policies to verify that the notice of right to employee or member is given at cancellation or nonrenewal; allowing the employer or group to provide additional explanation why the individual should not be canceled.

**STANDARDS
UNDERWRITING AND RATING**

Standard 15

All group personal lines property and casualty policies and programs meet minimum requirements.

Apply to: Group personal lines property and casualty insurance

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Master policy

_____ Program rules

_____ Certificates

Others Reviewed

NAIC Model References

Group Personal Lines Property and Casualty Insurance Model Act (#760)

Review Procedures and Criteria

Check for state jurisdictional requirements regarding group policies.

Verify that conversion options are included in notices of individual terminations.

Determine that conversion policies issued on an individual basis effective upon termination or ineligibility date have coverage and limits at least equal to the minimum coverage and limits required by statute.

Determine that program rules do not contain any provision making participation in the group program a condition of employment or membership in a group, nor subject employees or members to any penalty for non-participation.

Determine that group coverage is not contingent upon the purchase of any other insurance, product or service.

Confirm that any experience refund or dividend is applied for the sole benefit of the insured employee or member to the extent that any experience refund or dividend exceeds the policy or certificateholder's contribution to the premium for the period covered.

**STANDARDS
UNDERWRITING AND RATING**

Standard 16

Cancellation/nonrenewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Policy contract
- _____ Notice of cancellation/nonrenewal
- _____ Insurance department's approval of forms
- _____ Underwriter's file or notes on a system log
- _____ Insured's request (if applicable)
- _____ Regulated entity's cancellation/nonrenewal guidelines
- _____ Certificate of mailing
- _____ Producer records/notices issued

Others Reviewed

NAIC Model References

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)
Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Determine if the notice of cancellation/nonrenewal was valid according to policy provisions and state law.

Does the notice of cancellation include the specific reason for cancellation where required?

Are adverse underwriting decision notices provided where required?

Review cancellation notice and billing notices, grace period descriptions, reinstatement offers, lapse notices, etc., to ensure the form, if necessary, has been approved by the insurance department.

Review the notice and the certificate of mailing to ensure that adequate notice of cancellation/nonrenewal was provided to the insured and any mortgagees or lien holders.

Does the regulated entity lull insureds into a false sense of security through use of misleading billing notices, grace period descriptions, reinstatement offers, lapse notices, etc.?

If cancellation was at the insured's request, ensure that there is proper documentation.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 17
All policies are correctly coded.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Underwriting files

_____ Regulated entity's rating system

_____ Regulated entity's coding manual

_____ Rating organization's coding manual

Others Reviewed

NAIC Model References

Model Regulation to Require Reporting of Statistical Data by Property and Casualty Insurance Companies
(#751)

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)

Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Determine that the regulated entity confirms that the coding as reported by the producer is correct and current.

Determine that the regulated entity promptly updates all coding manuals and programs.

Determine that the regulated entity correctly codes all policies according to current codes.

Determine that the regulated entity reviews data errors and subsequent changes are made.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
UNDERWRITING AND RATING**

Standard 18

Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports decisions made.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Application

_____ Underwriting files

_____ Electronic documentation

_____ Policy

Others Reviewed

NAIC Model References

Review Procedures and Criteria

Application should be complete and signed, where required (includes electronic signatures).

Determine that the underwriting file contains necessary information to tell the regulated entity what exposure it has.

Determine when and under what conditions the regulated entity requires a physical inspection, a motor vehicle report (MVR), an inspection report, a credit report or other underwriting information to confirm exposure or premium basis.

Verify that when a policy is issued on a basis other than applied for, that notice of an adverse underwriting decision is provided in accordance with applicable state statutes and regulations.

G. Claims

In addition to the general examination techniques, the examiner should define the scope of the property/casualty claims examination in terms of the lines of business and type of claims covered. Lines of business should be defined as specifically as possible; e.g., physical damage coverage rather than automobile coverage. Types of claims covered should differentiate between first-party and third-party claims or total losses and partial losses.

Claim procedure manuals, adjuster training manuals and claim bulletins should be reviewed. Regulated entity procedures for total loss settlement, salvage disposition and subrogation efforts should be determined. If the jurisdiction licenses company or independent adjusters, licensing records should be cross checked with claim adjustment records to ensure that assigned adjusters are properly licensed.

a. Total loss survey

Record identifying data, such as claim/policy number, date of loss and claimant's name. Review files for accuracy and adequacy of documentation. Review files for method of vehicle evaluation and compare with specific state requirements. Review reductions in value for appropriateness and accuracy. Review file for state-specific additions to value, such as sales tax or title fees.

Review file for correct disposition of salvage and compliance with specific state requirements for disposition of title and registration.

b. Subrogation survey

From the regulated entity's records, select a representative sample of the subrogated files with complete or partial recoveries. Record identifying data such as claim/policy number, date of loss and claimant name. Review files to determine if the subrogated amount included the insured's deductible. It should also be determined if the deductible was recovered and whether it was returned to the insured.

If a partial recovery was made, was a pro rata amount returned? Specific state requirements should be reviewed to determine the regulated entity's compliance. Determine if the insured's recovery was reduced by collection charges. Determine if the specific state law permits the reductions. Determine if recovery was reduced by written or oral agreements with other companies. Determine if such agreement is in compliance with specific state laws.

c. Loss statistical reporting

Determine to which statistical agencies the regulated entity reports its loss data. Review claim drafts to determine if loss data is correctly coded as to the proper line of business. Review drafts to determine if claim expenses are separated from claim payments. If the review indicates significant errors in coding, the data should be included in the report.

**STANDARDS
CLAIMS**

Standard 1

Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity's claim procedure manuals
- _____ Claim training manuals
- _____ Claim files

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's procedures manual to determine if guidelines exist for the use of the reservation of rights letter and notice of excess of loss.

Claims where the regulated entity has reason to question coverage should have a reservation of rights letter sent to the insured.

Claims where it is apparent that the amount of loss will exceed policy limits should have an excess of loss letter sent to the insured.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
CLAIMS**

Standard 2

Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Subrogation register
- _____ Subrogation files
- _____ Review the regulated entity's subrogation and recovery procedures

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if the regulated entity refunds deductibles from subrogation proceeds.

Determine if, upon complete recovery, the insured's deductible is promptly refunded.

Determine if refunds are made periodically on no less than a pro rata basis for long-term subrogation cases. Requirements may vary among states.

Determine if recovery payments are made to employees under workers' compensation, when applicable.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
CLAIMS**

Standard 3
Loss statistical coding is complete and accurate.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Claim files

_____ Regulated entity's claims coding manual

_____ Regulated entity's coding system

_____ Rating organization's coding manual

Others Reviewed

NAIC Model References

Model Regulation to Require Reporting of Statistical Data by Property and Casualty Insurance Companies
(#751)

Unfair Claims Settlement Practices Act (#900)

Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)

*Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer
Organization Arrangements* (#1950)

Review Procedures and Criteria

Determine that the regulated entity codes the correct loss data onto the draft copies or system.

Determine that the regulated entity promptly updates all coding manual and programs.

Determine that the regulated entity accurately codes the loss amounts. Determine that the regulated entity separates loss amounts from loss expense amounts.

Determine that the regulated entity reviews data errors and subsequent changes are made.

It is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.



November 11, 2021

Commissioner Damion Hughes, Chair
 Market Conduct Examination Guidelines (D) Working Group
 National Association of Insurance Commissioners
 1100 Walnut Street, Suite 1500
 Kansas City, MO 64106-2197

Re: New Exposure Draft Revisions to Chapter 21-Conducting the Property and Casualty Examination incorporating the NAIC Real Property Lender-Placed Insurance Model Act (Model #631)-Comments of the Industry Trade Associations

Dear Commissioner Hughes:

On behalf of the *American Bankers Association*, the *Consumer Credit Industry Association*, *The Council of Insurance Agents & Brokers*, *The National Association of Mutual Insurance Companies*, and the *American Property Casualty Insurance Association* (collectively “Industry”) we write to support the incorporation of certain elements of the NAIC Real Property Lender-Placed Insurance Model Act (“Model Act”) into the Property and Casualty Market Conduct Exam Guidelines (“Guidelines”) and appreciate the diligence and effort that went into the new exposure drafts released by the Market Conduct Examination Guidelines Working Group (the “Working Group”).

During the most recent conference call held by the Working Group on November 4, 2021, the Industry voiced a recommendation that some limited edits to the currently exposed draft would further align the Guidelines with the Model Act. The Industry greatly appreciates the support shown by the Working Group with this recommendation. Accordingly, in the spirit of this discussion, the Industry recommends the following suggested edits to the Guidelines for the Working Group’s consideration:

- **Standard 1** on page 2 is a revision to include certificates of insurance within recommended documents to be reviewed by examiners.
 - This revision is a natural extension of the requirements reflected in the Model Act and we recognize the need for the review of the lender placed insurance certificates. The Industry suggests the following change clarifying the examination of certificates of insurance is in reference to lender placed insurance only.
 - Suggested revision:
 - New business policy forms and certificates of insurance (such certificates will only be requested for lender-placed insurance policies)
- **Standard 4** on Page 9 is a revision to include evidence of separate rates for mortgage servicer obtained lender-placed insurance versus voluntary insurance on real estate owned property.

Industry Trade Associations 11-11-21 Comments, Received by NAIC 11-23-21

- This revision aligns with the requirements in Section 9(D) of the Model Act; however, the Industry suggests an edit to the language clarifying that this document request is only in reference to lender-placed insurance.
- Suggested revision:
 - **For lender-placed insurance**, documentation showing regulated entity's separate rates for mortgage servicer obtained lender-placed insurance versus voluntary insurance on real estate owned property
- **Standard 6** on Page 12 is a revision to ensure the applicable reports under Section 9 of the Model Act have been filed. Revisions to the Review Procedures and Criteria include a provision to ensure that excess amounts paid to mortgagors can be easily reviewed.
 - The "*Apply to*" section of the Standard indicates that Standard 6-Verification of Loss Reporting only applies to worker's compensation examinations. This application should be updated so it also applies to lender-placed insurance.
 - Suggested revision:
 - **Apply to: All workers' compensation examinations and lender-placed insurance examinations, as applicable.**
 - We are including 'as applicable' because NCCI standards do not apply to lender-placed insurance which are referenced in the Documents to be Reviewed section.
 - The Working Group revision on Documents to be Reviewed aligns with the Model Act Section 9(F) and mostly aligns with Section 9(G) *but* fails to note the exclusion of lender-placed flood insurance under the Model Act from the reporting requirements for when a program experiences annual loss ratios of less than 35% for two consecutive years. This recommendation was identified by Industry on the last Working Group conference call and the Working Group agreed on an update to the revision.
 - Suggested revision:
 - Applicable reports filed with the commissioner (e.g., required reporting for insurers with at least \$100,000 in direct written premium for lender-placed insurance, **and** required rate filing for insurers with an annual loss ratio of less than 35% in any lender-placed program, **except with respect to lender-placed flood insurance**, for two consecutive years).
 - The Working Group revision in the Review Procedures and Criteria addressing excess amounts paid to a mortgagor aligns with the Model Act; however, the Industry recommends an edit to clarify that this just applies to lender-placed insurance.
 - Suggested revision:
 - Losses under each policy should be clearly and accurately maintained at the regulated entity, so that paid amounts, reserves, deductibles, and, **with respect to losses under lender-placed insurance policies**, any excess amounts paid to the mortgagor, can be easily reviewed. The sample data should be compared to the unit statistical reports to verify accuracy of reporting of the following items:
- **Standard 13** on Page 21 is a revision to ensure examiners review records related to certain compensation and third-party outsourcing agreements.
 - This revision addresses important requirements included in the Model Act and the Industry recognizes the necessity for examiner review of these documents to ensure compliance. As the Industry has recommended for several of the other changes above, the Industry suggests the following change clarifying that these documents for review apply to lender-placed insurance only.
 - Suggested revision:
 - **For lender-placed insurers**, books and records containing compensation, contingent commissions, profit sharing and other payments dependent on profitability or loss ratios
 - **For lender-placed insurers**, third party agreements for outsourced services

Again, Industry fully supports the addition of the Model Act into the Guidelines and appreciates the Working Group's work and subsequent consideration of the Industry's recommendations. This exercise further solidifies the continued collaboration between the NAIC and Industry.

Thank you for consideration of these comments.

Tom Keepers
President & CEO
Consumer Credit Industry Association

Robert W. Woody
Vice President & Counsel
American Property Casualty Insurance

J. Kevin A. McKechine
Senior Vice President and Executive Director
American Bankers Association
Office of Insurance Advocacy

Cate Paolino
Director of Public Policy
National Association
of Mutual Insurance Companies

Cari Lee
Director of State Government Affairs
The Council of Insurance Agents and Brokers

Cc: Deputy Commissioner Sharon Shipp, District of Columbia



December 17, 2021

Mr. Damion Hughes
Market Conduct Examination Standards (D) Working Group Chair

Ms. Erica Weyhenmeyer
Market Conduct Examination Standards (D) Working Group Vice Chair

Ms. Petra Wallace
Market Regulation Specialist

NAIC Central Office
1100 Walnut, Suite 1500
Kansas City, MO 64106-2197

RE: Request for Comments on Core Competencies and Standards of Chapter 21 – Conducting the Property and Casualty Examination - NAIC *Market Regulation Handbook*.

Dear Mr. Hughes, Ms. Weyhenmeyer and Ms. Wallace:

Examination Resources, LLC ("ER") would like to provide comments on the proposed October 27, 2021 changes to Chapter 21 – Conducting the Property and Casualty Examination of the NAIC *Market Regulation Handbook*.

ER's mission is to provide consulting services that efficiently and effectively meet our clients' objectives and improve the quality of insurance regulation with the goal of safeguarding policyholders. ER has been providing insurance regulatory consulting services since 2002 solely to insurance regulators and is currently conducting property, casualty, life, annuity and health market conduct examinations for several states and the federal government.

ER appreciates the opportunity to provide our thoughts on the proposed changes to Standard 8.

The current wording is as follows:

Standard 8: Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

The proposed wording is as follows:

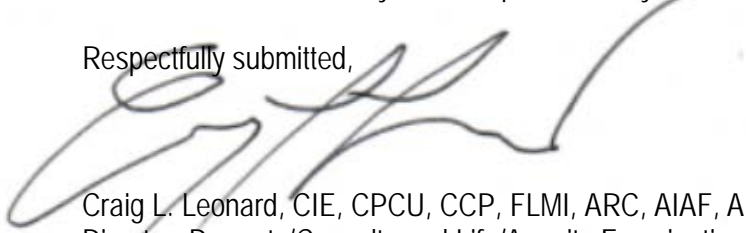
Standard 8: Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than before the effective date of the insurance, near the expiration of a claim, or following a claim.

We believe the suggested wording changes will cause confusion among both examiners and regulated entity staff. For example, the proposed revised language found in the second line stating, "before the effective date of the insurance" appears indistinguishable from the prior language stating, "developed at or near inception of the coverage" and may cause confusion in regards to what the underwriting, rating and classification is based on. In addition, we are uncertain of the meaning of the phrase "near the expiration of a claim."

Since the standard is applicable to all Property & Casualty Underwriting and Rating reviews, we believe the original language remains efficient for the examination of most coverages as it is written. We suggest any changes, specific to a limited line of business, are more appropriately placed in the "Review Procedures and Criteria" section with a note regarding the applicable lines of business that would be subject to any clarification.

Feel free to contact me if you have questions. My direct line is (816) 213-5680.

Respectfully submitted,



Craig L. Leonard, CIE, CPCU, CCP, FLMI, ARC, AIAF, ARM, MCM
Director, Property/Casualty and Life/Annuity Examinations
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cc: Rebecca Belanger, Managing Member, RebeccaBelanger@examresources.net

Chapter 20—General Examination Standards

The examination of the insurance operations of a regulated entity may involve reviewing one or more of the following business areas:

- A. Operations/Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Licensing
- E. Policyholder Service
- F. Underwriting and Rating
- G. Claims

When conducting an examination that reviews these areas, there are essential tests that should be completed. The tests are applied to determine if the regulated entity is meeting standards. Some standards may not be applicable to all jurisdictions. The standards may suggest other areas of review that may be appropriate on an individual state basis.

When an examination involves a depository institution or their affiliates, the bank may also be regulated by federal agencies, such as the Office of the Comptroller of the Currency, the Federal Reserve Board, the Office of Thrift Supervision or the Federal Deposit Insurance Corporation. In addition, banks may also be regulated at the state level. Many states have executed an agreement to share complaint information with one or more of these federal or state agencies. If the examination results find adverse trends or a pattern of activities that may be of concern to a federal or state agency and there is an agreement to share information, it may be appropriate to notify the agency of the examination findings.

This chapter contains examination standards that are relevant to nearly all types of examinations. Chapters 21 through 32 contain standards that are specific to various product lines and specialized entities.

A. Operations/Management

1. Purpose

The Operations/Management portion of the examination is designed to provide a view of what the regulated entity is and how it operates. It is not based on sampling techniques; it is more concerned with structure. This review is not intended to duplicate a financial examination review, but is important in providing the market conduct examiner with an understanding of the examinee. Many troubled companies have become so because management has not been structured to recognize and address the problems that can arise in the insurance industry. The areas to be considered in this kind of review include:

- a. History;
- b. Profile;
- c. Subcontractor oversight;
- d. Internal audits;
- e. Antifraud initiatives;
- f. Certificates of authority;
- g. Disaster recovery plan;
- h. Computer systems;
- i. Minutes from all meetings attended by the board of directors; and
- j. Privacy.

2. Techniques

Typically, the items to be reviewed here can be prepared by the regulated entity and provided at the pre-examination conference. Supplemental information, including history and profile may be available in the insurance department files. Other items suggest an active review of regulated entity files relating to managing general agent (MGA) or subcontractor oversight, internal audits, procedure manuals, record management, computer systems controls and antifraud plans. The latter category of items should have substantial supporting documentation.

The absence of subcontractor oversight, internal audit functions, written procedures or an antifraud plan should be specifically noted when preparing the examination report.

a. History

The examiner should prepare for the examination report a very brief history of the regulated entity, including its formation; its type; its structure, including the parent corporation and other members of the group; and any major changes that are relevant to the current examination.

b. Profile

The profile includes an overview of the regulated entity's operations, including management structure, type of carrier, states where the regulated entity is licensed and the entity's major line(s) of business. A total change in the management team may generate the need to review the regulated entity on an abbreviated time cycle.

The examiner should review Market Action Tracking System (MATS) findings from prior examinations, Regulatory Information Retrieval System (RIRS) results, complaint index reports and reports from other NAIC applications and databases to determine if other regulators have expressed concerns that may require additional attention during the examination. RIRS and MATS information should not be included in the examination report.

The total written premiums for the major lines of business should be compared to the total writing in a given state to determine the market share. The loss, expense and combined ratios can be obtained from the expense exhibit attached to the annual statement or the NAIC Financial Analyst Workbench (FAW) system and may be calculated for the specific jurisdiction. Review IRIS ratios, which can be an indicator of market conduct problems. The surplus ratio should also be examined and noted for the period under review. Substantial shifts in the geographical area of operation and kinds of business written and volume should be noted, questioned and described.

c. Subcontractor Oversight

The jurisdiction's statutes on MGAs and other subcontractors are sources of tests for this oversight. The aim is to ensure that a regulated entity using subcontractors engages in a realistic level of oversight. Contracts should be reviewed to ensure compliance with the MGA statutes governing contract content and oversight features. The focus is on the oversight impacting records and actions considered in a market conduct examination such as, but not limited to, trade practices, claims practices, policy selection and issuance, rating, complaint handling, etc. Examiners should pay particular attention to a subcontractor's dealings with policyholders and claimants.

d. Internal Audits

A regulated entity that has no internal audit function lacks the ready means to detect structural problems until after problems have occurred. Any questionable findings about the internal audit function should be referred to the Examiner-in-Charge.

e. Antifraud Plans

The regulated entity should have antifraud plans which are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. In addition, insurers may be required by law to establish antifraud plans, and examiners should be aware of any state-specific legal requirements pertaining to antifraud measures.

The guidelines set forth in the *Antifraud Plan Guideline* (#1690), adopted by the NAIC in March 2011, are intended to provide a road map for state fraud bureaus, insurers' Special Investigative Units (SIU)s or contracted SIU vendors for preparation of an antifraud plan.

Flexibility should be allowed for each insurer to develop a plan that meets its individual needs and still meet state compliance standards. The *Antifraud Plan Guideline* does not preempt other state laws or preempt or amend any guidance previously published by the NAIC Antifraud (D) Task Force or in the *Fraud Prevention Model Act* (#680).

f. Certificates of Authority

The examiner should determine if the regulated entity's operations conform with the regulated entity's certificates of authority.

g. Disaster Recovery Plan

It is essential that the regulated entity has a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. The examiners should determine if the regulated entity maintains separate backups of all records and facilities to continue operations.

h. Computer Systems

The examiners should determine the types of controls, safeguards and procedures for protecting the integrity of the computer information. The focus in this case is on those records subject to a market conduct examination that are maintained in electronic format, such as, but not limited to, underwriting files, claim files, rate and form filings, complaint files, statistical data used to support rates, etc.

The regulated entity should identify the location(s) of all websites maintained by or for and authorized by the regulated entity and all approved producer sites.

In addition, an Internet search using the regulated entity's name should be conducted using a search engine such as Yahoo, Google or a metasearch (aggregator) search engine such as WebCrawler. If any additional sites are located that the regulated entity did not identify, it should be specifically noted when preparing the examination report. The examiner should be mindful that some searches may produce a large volume of "hits." In such a situation, the examiner should employ sampling techniques to determine the regulated entity's general practices on the Internet.

i. Minutes from All Meetings Attended by the Board of Directors

A review of the minutes of meetings with the board of directors should be conducted to ensure the board has proper oversight of the company's operations and activities. Note: When a credit company is the subject of an examination, examiners should be aware that there may be statutes, rules, and regulations with specific requirements regarding the organization and structure of credit organizations.

j. Privacy

The NAIC has adopted several sets of privacy requirements, and examiners will need to determine which requirement(s) the state imposes to conduct an examination. The first is the *NAIC Insurance Information and Privacy Protection Model Act* (#670) (hereinafter, the 1982 Model Act). The second NAIC approach was the *Health Information Privacy Model Act* (#55), which, according to NAIC records, as of April 2015 had not been adopted by any state, although a few states have related laws.

The NAIC then adopted a model titled *Privacy of Consumer Financial and Health Information Regulation* (#672) (hereinafter, the 2000 Model Privacy Regulation) to assist states with promulgation of regulations to comply with certain requirements of Title V of the federal Gramm-Leach-Bliley Act (GLBA) (PL 102-106), enacted by Congress in 1999. And, in 2002, the *Standards for Safeguarding Customer Information Model Regulation* (#673) (hereinafter, the 2002 Model Information Security Regulation) was adopted to assist states in establishing standards for development and implementation of safeguards by insurers to protect customer information, also required by Title V of GLBA.

In some cases, a state may have one or more of these measures, or a combination thereof, in force. NAIC records indicate that as of April 2015, 39 states plus the District of Columbia and Puerto Rico have enacted regulations/laws based on the 2000 Model Privacy Regulation.

1982 Model Act (#670)

The 1982 Model Act is focused primarily on the insurance application process, underwriting, policy issuance and related transactions. It requires various disclosures to applicants regarding the insurer's practices (e.g., that an investigative consumer report may be obtained and that information may be disclosed to insurance support organizations which, in turn, may retain and later re-disclose the information to others) and the applicant's rights (e.g., that the applicant has a right to obtain a copy of any investigative consumer report and that the applicant has the rights of access to and correction of information about him/her).

Notices providing these disclosures may be required at application and whenever there is a "change of status"—e.g., at renewal or reinstatement—if new or additional information is to be collected from a source other than the applicant. There is no requirement for annual notices. If an insurer intends to disclose information for the marketing of a product or service, the customer must be given an opportunity to opt out. Operations/Management Examination Standards #10 and #11 in this chapter are applicable only for those states that have enacted the 1982 Model Act or substantially similar privacy requirements.

2000 Model Privacy Regulation (#672)

The 2000 Model Privacy Regulation was adopted to implement certain privacy provisions of the Gramm-Leach-Bliley Act. Title V of GLBA addressed the confidentiality of information about customers of "financial institutions," a term that includes insurance companies, banks and depository institutions, broker-dealers, investment companies, registered investment advisors and a variety of other kinds of businesses. Title V, as further implemented by the 2000 Model Privacy Regulation, requires that financial institutions establish and implement a privacy policy and

provide notices to customers describing such policies and the customer's rights to opt out of disclosures other than those allowed by the exceptions in Sections 14 through 16 (Section 17B of the 2000 Model Privacy Regulation sets forth exceptions for the customer authorization requirement for certain health information disclosures). The adoption of regulations and guidelines was delegated to the functional regulators of the various financial institutions.

The federal functional regulators (including, among others, the Securities and Exchange Commission, the Office of the Comptroller of Currency and the Federal Trade Commission) and the NAIC have taken substantially similar positions in their regulations regarding the disclosure of customer personal information and notices. The federal regulations are nearly identical to each other, with very minor differences to reflect the different financial products and services involved and related business practices. The 2000 Model Privacy Regulation is very similar to the federal regulations with respect to the treatment of financial information, with appropriate changes for insurance products and services, as well as established business practices and relationships.

The notices required by the 2000 Model Privacy Regulation include initial, revised and annual privacy notices, which must reflect the privacy policy, including financial information disclosure practices, of the insurance regulated entity or other licensee. It should be noted that privacy policies differ from insurer to insurer, from insurer to other licensee, etc. There is no set format required for privacy notices, although they must be "clear and conspicuous" as that term is defined in the regulation. The regulation does, however, list the topics that the privacy notice must address. Since a privacy notice reflects a specific insurer's or other licensee's own particular financial information privacy practices, notices will legitimately differ.

The 2000 Model Privacy Regulation differs from the federal agency regulations in that the model includes protections for certain health information. In general, a licensee must get an individual's approval (opt-in) prior to disclosing nonpublic personal health information, unless the disclosure falls under an exception listed in Subsection 17B or the licensee is in compliance with the health privacy regulation promulgated by the U.S. Department of Health and Human Services (HHS) pursuant to the federal Health Information Portability and Accountability Act (HIPAA). Even if the licensee is not subject to HIPAA, the 2000 Model Privacy Regulation allows the option of complying with the HHS standards as an alternative to the NAIC standards.

Operations/Management Examination Standards #12, #13, #14, #15 and #16 in this chapter are applicable for examination of compliance with the 2000 Model Privacy Regulation regarding the disclosure of customer information.

2002 Model Information Security Regulation (#673)

The 2002 Model Information Security Regulation was adopted to establish standards regarding safeguarding of customer information, also required by Title V of GLBA. It should be noted that the 2002 Model Information Security Regulation requires that a licensee establish an information security program "appropriate to the size and complexity of the licensee," as well as appropriate to the "nature and scope of (the licensee's) activities." The regulation provides illustrative examples of various factors that a licensee may consider when developing its information security program. Operations/Management Examination Standard #17 in this chapter is applicable for examination of compliance with the 2002 Model Information Security Regulation for security standards.

Insurance Data Security Model Law (#668)

Operations/Management Examination Standard #17 in this chapter is also applicable for examination of compliance with the *Insurance Data Security Model Law* (#668). Note: When reviewing a regulated entity's information security program for compliance with applicable state statutes, rules or regulations relating to Model #668, in the absence of a "Cybersecurity Event," as defined in applicable state statutes, rules or regulations, please refer to the Insurance Data

Security Pre-Breach Checklist found in the Reference Documents of the *Market Regulation Handbook*. Regulators may access Reference Documents on StateNet at the link Market Regulation Handbook, Handbook Updates and Reference Documents. Non-regulators may access Reference Documents via their login credentials on NAIC Account Manager at https://www.naic.org/account_manager.htm.

When reviewing a regulated entity’s information security program and response to a “Cybersecurity Event” for compliance with applicable state statutes, rules or regulations relating to the *Insurance Data Security Model Law* (Model #668), after a Cybersecurity Event has occurred, as defined in applicable state statutes, rules or regulations, please refer to the Insurance Data Security Post-Breach Checklist provided as Addendum A to Operations/Management Examination Standard 17 in this chapter.

3. Tests and Standards

The operations and management review includes, but is not limited to, the following standards addressing various aspects of a regulated entity’s operations. The sequence of the standards listed here does not indicate priority of the standard.

DRAFT

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 1

The regulated entity has an up-to-date, valid internal or external audit program.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Audit plan and regulated entities' procedural manuals
- _____ Audit reports and results

Others Reviewed

- _____
- _____

NAIC Model References

Consumer Credit Insurance Model Regulation (#370), Section 12
Model Regulation to Require Reporting of Statistical Data by Property and Casualty Insurance Companies
(#751), Section 11
Best Practices Organizations White Paper
Insurance Holding Company System Regulatory Model Act (#440)

Review Procedures and Criteria

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

Determine how management is using the reports.

Determine if the regulated entity responds to internal audit recommendations to correct, modify and implement procedures.

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

Determine if the regulated entity conducts periodic reviews of creditors with respect to their credit insurance business with such creditors.

Determine if the regulated entity has adopted edit and audit procedures to screen and check data submitted by the regulated entity's statistical agent.

Determine if the NAIC Liquidity Stress Test Framework needs to be utilized for a specified data year.

Determine if there is a holding company system in place. And if so, whether there should be a group capital calculation request from the U.S. Federal Reserve or whether a lead state commissioner should require a group capital calculation for US operations of any non-U.S. based insurance holding company system.

Determine if the confidentiality of any group capital contribution or group capital ratio is maintained and if the confidentiality of the liquid stress test results and supporting disclosure are maintained which includes any Federal Reserve Board filings and information.

Note: The examiner should be mindful of the proprietary nature of internal audit reports. Administrative action should not be recommended by the examiner based on results of internal audit findings for which the regulated entity has taken appropriate corrective action.

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**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 2

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

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Electronic records control, recovery/backup plan and regulated entity's procedural manuals; whether the records are electronic

_____ Negotiated contracts

Others Reviewed

NAIC Model References

NAIC Insurance Information and Privacy Protection Model Act (#670)

Health Information Privacy Model Act (#55)

Standards for Safeguarding Consumer Information Model Regulation (#673)

Review Procedures and Criteria

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

Review computer security procedures.

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

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

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 3

The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Regulated entity antifraud plan and procedural manuals

Others Reviewed

NAIC Model References

Insurance Fraud Prevention Model Act (#680)

Antifraud Plan Guideline (#1690)

Stranger-Originated Annuity Transactions (STOA) NAIC Sample Bulletin

Review Procedures and Criteria

Review the regulated entity's antifraud initiatives in conjunction with applicable statutory requirements. Antifraud initiatives may include fraud investigators, who may be insurer employees or independent contractors, and an antifraud plan.

Verify that the insurer, if required by applicable state statutes, rules and regulations, submits its antifraud plan to the insurance commissioner:

- Within ninety days of receiving a certificate of authority;
- Every five years thereafter; and
- Within thirty days of a material change made to the antifraud plan.

Determine if the plan is adequate, up-to-date and in compliance with statutes, rules and regulations.

Review the regulated entity's implementation (staffing, support, etc.) of its plan and, if necessary, discuss with management.

Note: An SIU antifraud plan may cover several insurer entities within a regulated entity, if one SIU has the fraud investigation mission for all entities.

Verify that the insurer's antifraud plan includes the following five sections:

1. General Requirements

- An acknowledgment that the SIU has established criteria that will be used for the investigation of acts of suspected insurance fraud relating to the different types of insurance offered by that insurer;
- An acknowledgement that the insurer or SIU shall record the date that suspected fraudulent activity is detected, and shall record the date that reports of such suspected insurance fraud were sent directly to the insurance department or other applicable state regulatory agency within a specific time frame;
- A provision stating whether the SIU is an internal unit or an external or third-party unit;
- If the SIU is an internal unit, provide a description of whether the unit is part of the insurer's claims or underwriting departments, or whether it is separate from such departments;
- A written description or chart outlining the organizational arrangement of the insurer's antifraud positions responsible for the investigation and reporting of possible fraudulent insurance acts:
 - If the SIU is an internal unit, the insurer shall provide general contact information for the company's SIU;
 - If the SIU is an external unit, the insurer shall provide (1) the name of the company or companies used; (2) contact information for the company; and (3) a company organizational chart. The insurer shall specify the person or position at the insurer responsible for maintaining contact with the external SIU company; and
 - If an external SIU is employed for purposes of surveillance, the insurer shall include a description of the policies and procedures implemented;
- A provision where the insurer provides the appropriate NAIC individual and group code numbers;
- A statement as to whether the insurer has implemented a fraud awareness or outreach program. If the insurer has an awareness or outreach program, a brief description of the program shall be included; and
- If the SIU is a third-party unit, a description of the insurer's policies and procedures for ensuring that the third-party unit fulfills its contractual obligations to the insurer and a copy of the contract with the third-party vendor.

Note: States that do not mandate fraud reporting should revise or remove inapplicable requirements from this section.

2. Prevention, Detection and Investigation of Fraud

- A description of the insurer's corporate policies for preventing fraudulent insurance acts by its policyholders;
- A description of the insurer's established fraud detection procedures (i.e. technology and other detection procedures);
- A description of the internal referral criteria used in reporting suspicious claims of insurance fraud for investigation by the SIU;
- A description of the SIU investigation program (i.e. by business line, external form claims adjustment, vendor management Statement of Positions (SOPs); and
- A description of the insurer's policies and procedures for referring suspicious or fraudulent activity from its claims or underwriting departments to the SIU.

3. Reporting of Fraud

- A description of the insurer's reporting procedures for the mandatory reporting of possible fraudulent insurance acts to the insurance commissioner or applicable state regulatory agency pursuant to applicable state statutes, rules and regulations;

- A description of the insurer's criteria or threshold for reporting fraud to the insurance commissioner; and
- A description of the insurer's means of submission of suspected fraud reports to the insurance commissioner (e.g., the NAIC Online Fraud Reporting System (OFRS), National Insurance Crime Bureau (NICB), National Health Care Anti-Fraud Association (NHCAA), electronic state system or other).

Note: States that do not mandate fraud reporting should revise or remove inapplicable requirements from this section.

Note: The examiner should be aware of any applicable state statutes, rules and regulations regarding state antifraud mandatory reporting methods.

4. Education and Training

- If applicable, a description of the insurer's plan for antifraud education and training initiatives of any personnel involved in antifraud related efforts. This description shall include:
 - The internal positions the insurer offers regular education and training, such as underwriters, adjusters, claims representatives, appointed agents, attorneys, etc.;
 - If the training will be internal and/or external;
 - Number of hours expected per year; and
 - If training includes ethics, false claims or other legal-related issues.

5. Internal Fraud Detection and Prevention

- A description of insurer's internal fraud detection policy for employees, consultants or others, such as underwriters, claims representatives, appointed agents, etc.; and
- A description of the insurer's internal fraud reporting system.

Determine if the regulated entity has procedures in place to prevent persons convicted of a felony involving dishonesty or breach of trust from participating in the business of insurance.

Determine if the regulated entity has procedures in place to provide information regarding fraudulent insurance acts to the insurance commissioner and in a manner prescribed by the insurance commissioner.

Examiners may wish to remind insurers that sell annuities of the existence of the *Stranger-Originated Annuity Transactions (STOA) NAIC Sample Bulletin* because sales of stranger-originated annuities may be an indicator of potentially fraudulent transactions.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 4
The regulated entity has a valid disaster recovery plan.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Description of the regulated entity’s disaster recovery plan, procedural manuals and controls
- _____ Description of protective devices for various hazards and procedures/controls for protection from those hazards
- _____ Negotiated contracts

Others Reviewed

- _____
- _____

NAIC Model References

Market Conduct Record Retention and Production Model Regulation (#910)

Review Procedures and Criteria

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

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

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

Operations/Management Examination Standard #2 in this chapter also addresses disaster recovery issues.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 5

Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, managing general agents (MGAs), general agents (GAs), third-party administrators (TPAs) and management agreements, must comply with applicable licensing requirements, statutes, rules and regulations.

Apply to All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Contracts

Others Reviewed

NAIC Model References

Service Contracts Model Act (#685)

Managing General Agents Act (#225)

Registration and Regulation of Third-Party Administrators, An NAIC Guideline (#1090)

Third Party Administrator Statute (#90)

Review Procedures and Criteria

Review the contract to determine compliance with state statutes and rules.

The contract should specify the responsibilities of the subcontractor regarding recordkeeping and responsibilities of the regulated entity for conducting audits.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 6

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

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Contracts

_____ Audit reports

Others Reviewed

NAIC Model References

Managing General Agents Act (#225), Section 5
Registration and Regulation of Third-Party Administrators, An NAIC Guideline (#1090)
Third Party Administrator Statute (#90), Section 6
Consumer Credit Insurance Model Regulation (#370), Section 12
Variable Life Insurance Model Regulation (#270)

Review Procedures and Criteria

Entities can include an MGA, GA or TPA. Suppliers of consulting, investment, administrative, sales, marketing, custodial or other services with respect to variable life insurance operations are also considered entities (*Variable Life Insurance Model Regulation (#270), Section 3E*).

Review entity contracts to determine compliance with statutes, rules and regulations. The contract should specify the responsibilities of the MGA, GA and TPA concerning recordkeeping and responsibilities of the regulated entity for conducting audits.

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

Review activities of entities to ensure compliance with applicable statutes and rules.

For credit insurance, each insurer is responsible for conducting a thorough periodic review of creditors with respect to their credit insurance business. The review should ensure compliance with statutes, rules and regulations. Written records of the reviews must be maintained by the insurer.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 7

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

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ All records, files and documents

Others Reviewed

NAIC Model References

Model Regulation for Complaint Records to be Maintained Pursuant to the NAIC Unfair Trade Practices Act (#884)

Market Conduct Record Retention and Production Model Regulation (#910)

Unfair Claims Settlement Practices Act (#900)

Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)

Model Law on Examinations (#390), Section 4

Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)

The Use of Social Media in Insurance White Paper

Review Procedures and Criteria

Evaluate the orderly organization, legibility and structure of files.

Review state record retention requirements to determine regulated entity compliance.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 8

The regulated entity is licensed for the lines of business that are being written.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Certificate of authority or other similar documents
- _____ Access NAIC financial system
- _____ Regulated entity system

Others Reviewed

- _____
- _____

NAIC Model References

- Service Contracts Model Act (#685)*
- Nonadmitted Insurance Model Act (#870)*
- Unauthorized Transaction of Insurance Criminal Model Act (#890)*

Review Procedures and Criteria

Review certificates of authority; compare writings with authorized lines.

Review financial annual statement submitted to the NAIC; compare writings with authorized states.

Obtain explanation of any discrepancies.

Access regulated entity system to verify that writings are in line with written premium reported in the financial annual statement.

Automation Tip:

The Financial Applications section of NAIC iSite+ contains the annual statement financial information for insurance companies that report to the NAIC. The most useful for market conduct examiners would be the annual statement Pick-a-Page. The State Page Exhibit displays the direct written premiums in any particular state for any particular year.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 9

The regulated entity cooperates on a timely basis with examiners performing the examinations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations, especially insurance examination law

_____ All records, files and documents

Others Reviewed

NAIC Model References

Model Law on Examinations (#390)

Review Procedures and Criteria

Monitor regulated entity's cooperation during the course of the examination; this may be noted in the examination report.

Automation Tip:

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

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 10

The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Written procedures of regulated entity for maintaining personal information and privileged information of applicants and policyholders
- _____ The “Notice of Information Practices” required to be provided to applicants and policyholders
- _____ Disclosure authorization forms
- _____ Written procedures for the correction, amendment or deletion of recorded personal information

Others Reviewed

- _____
- _____

NAIC Model References

- NAIC Insurance Information and Privacy Protection Model Act (#670)*
- Health Information Privacy Model Act (#55)*
- Unfair Discrimination Against Subjects of Abuse in Property and Casualty Insurance Model Act (#898)*
- Unfair Discrimination Against Subjects of Abuse in Life Insurance Model Act (#896)*
- Unfair Discrimination Against Subjects of Abuse in Health Benefit Plans Model Act (#895)*
- The Use of Social Media in Insurance White Paper*

Review Procedures and Criteria

Determine if the regulated entity appropriately provides a “notice of information practices” that contains the required information.

Determine if the content of disclosure authorization forms meet content standards.

Determine if the regulated entity properly handles the use of investigative consumer reports.

Determine if the regulated entity’s procedures appropriately limit access to personal information.

Determine if the regulated entity provides specific and accurate reasons for adverse underwriting decisions.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 11

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

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity procedure manual
- _____ Regulated entity training manual
- _____ Internal regulated entity claim audit procedures
- _____ Regulated entity bulletins regarding insurance information
- _____ Contractual arrangements between the carrier and a person other than the covered person

Others Reviewed

- _____
- _____

NAIC Model References

Health Information Privacy Model Act (#55), Section 5
NAIC Insurance Information and Privacy Protection Model Act (#670), Sections 4-9

Review Procedures and Criteria

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

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

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

Review the regulated entity's training manual to determine whether the regulated entity's employees are properly trained on the handling of insurance information.

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

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

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

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

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**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 12

The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity privacy policies and procedures
- _____ Other regulated entity manuals/instruction books
- _____ Communication provided by the regulated entity to employees and producers subject to the regulated entity’s privacy policies
- _____ Prior to conducting an examination, the examiner should review the state’s definition of “customer” and “consumer” to determine appropriate usage of the terms. The examiner should also review the various exceptions and exclusions contained in the state’s privacy act/regulation.

Others Reviewed

- _____
- _____

NAIC Model References

Privacy of Consumer Financial and Health Information Model Regulation (#672)

Review Procedures and Criteria

Review the regulated entity’s policies, practices and procedures regarding protection and disclosure of nonpublic personal information of customers, former customers and consumers who are not customers, to verify that they comply with applicable state laws regarding privacy.

Review employee procedures regarding the treatment of nonpublic personal information to verify that they comply with the regulated entity’s privacy policies, practices and procedures and with applicable state laws regarding privacy.

As applicable, verify that the regulated entity/licensee has provided a copy of its privacy notice to its producers.

Determine that the regulated entity does not unfairly discriminate against customers and consumers who are not customers who (1) have opted out from the disclosure of nonpublic personal financial information to nonaffiliated third parties; and (2) have not authorized disclosure of nonpublic personal health information, if applicable.

Review all privacy-related consumer complaints and inquiries.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 13

The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Regulated entity privacy policies and procedures

_____ Sample notices to customers: initial, annual, revised and simplified, if applicable

_____ Sample notices to consumers that are not customers, if applicable: initial (standard and short-form) notices and revised notice

_____ Prior to conducting an examination, the examiner should review the state’s definition of “customer” and “consumer” to determine appropriate usage of the terms. The examiner should also review the various exceptions and exclusions contained in the state’s privacy act/regulation.

Others Reviewed

NAIC Model References

Privacy of Consumer Financial and Health Information Model Regulation (#672)

Review Procedures and Criteria

Review the content of the regulated entity’s initial, annual and revised notices.

Verify that these notices are clear and conspicuous and accurately reflect privacy policies and practices.

Notices should include the following:

- Identification of the regulated entity, if applicable;
- The categories of nonpublic personal financial information that the regulated entity collects;
- The categories of nonpublic personal financial information that the regulated entity discloses, if applicable;
- The categories of affiliates and nonaffiliated third parties to whom the regulated entity discloses nonpublic personal financial information, other than disclosures permitted under Sections 15 and 16 of Model #672, if applicable;
- The categories of nonpublic personal financial information about the regulated entity’s former customers that the regulated entity discloses and the categories of affiliates and nonaffiliated third parties to whom the regulated entity discloses nonpublic personal financial information about the regulated entity’s former customers, other than disclosures permitted under Sections 15 and 16 of Model #672, if applicable;

- If a regulated entity discloses nonpublic personal financial information to a nonaffiliated third party under Section 14 of Model #672, a separate description of the categories of information the regulated entity discloses and the categories of third parties with whom the regulated entity has contracted;
- An explanation of the consumer's right to opt out of the disclosure of nonpublic personal financial information to nonaffiliated third parties, including the methods by which the consumer may exercise that right, if applicable;
- Any disclosures that the regulated entity may make under Section 603(d)(2)(A)(iii) of the federal Fair Credit Reporting Act (15 USC Section 1681a(d)(2)(A)(iii) (i.e., notices regarding the ability to opt out of disclosures of information among affiliates, other than transaction and experience information);
- The regulated entity's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information; and
- If a regulated entity only discloses nonpublic personal financial information as authorized under Sections 15 and 16 of Model #672, a statement that indicates the regulated entity makes disclosures to other affiliated or nonaffiliated third parties, as applicable, as permitted by law.

Review the content of the regulated entity's simplified notice, if applicable, which shall include:

- Identification of the regulated entity and affiliates or subsidiaries, if applicable;
- The categories of nonpublic personal financial information that the regulated entity collects;
- The regulated entity's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information; and
- That the regulated entity only discloses nonpublic personal financial information to affiliates and nonaffiliated third parties, as applicable, as authorized under Sections 15 and 16 of Model #672.

Review the content of the regulated entity's short-form notice for consumers who are not customers, if applicable, which shall state that the regulated entity's privacy notice is available upon request and provide a reasonable means by which the consumer may obtain a full notice.

Verify that the regulated entity's process for delivery of notices includes:

- Initial notice, if applicable, to consumers who are not customers;
- Initial notice to all customers, as required;
- Annual notice to all customers, as required;
- Revised notice to customers and consumers who are not customers entitled to notice, if applicable;
- Where applicable, simplified notices to customers, if the regulated entity only discloses nonpublic personal financial information about customers and former customers to affiliates and nonaffiliated third parties as authorized under Sections 15 and 16 of Model #672 (or the applicable sections under state law regarding privacy); and
- Short-form notices to consumers who are not customers, in lieu of initial notices, if applicable.

Verify that a notice is delivered to the regulated entity's customers at or prior to the time the regulated entity establishes a customer relationship (initial notice), and at least once in any period of 12 consecutive months or once in each calendar year thereafter (annual notice) during the continuation of the customer relationship, if appropriate. If initial notice was provided to customers after the customer relationship was established, verify that the notice was delivered within a reasonable time after the customer relationship was established and (1) establishing the customer relationship was not at the customer's election; or (2) providing notice at or prior to the establishment of the relationship would have substantially delayed the customer's transaction and the customer agreed to receive the notice at a later time.

Verify that if the regulated entity discloses any consumer's nonpublic personal financial information to any nonaffiliated third party, other than as authorized under Section 15 or 16 of Model #672 (or the applicable sections under state laws regarding privacy), the regulated entity delivers a notice before disclosing the information.

Verify that individuals deemed consumers under applicable law are provided with an initial notice where applicable (such as where a licensee discloses a claimant's nonpublic personal financial information outside Sections 14 through 16 of Model #672 or its equivalent under state laws regarding privacy).

Verify that a notice was delivered to the regulated entity's customers and, if applicable, to consumers who are not customers in a manner that can reasonably be expected to provide actual notice.

Verify that a notice was provided to the regulated entity's customers and, if applicable, to consumers who are not customers, in writing, or, if the licensee provides and if the consumer has agreed, electronically.

Verify that the regulated entity has provided customers with clear and conspicuous initial, annual and revised notices in a manner that allows the customer to retain the notices or obtain them later in writing or, if the customer has agreed, electronically.

If the regulated entity is an excess lines insurer and does not disclose nonpublic personal financial information to nonaffiliated third parties, except as authorized under Sections 15 and 16 of Model #672, verify that the notice set forth in Section 4Q(3)(ii) of Model #672 has been delivered to all customers at the time the regulated entity established ongoing relationships with the customers. If the regulated entity makes disclosures other than as authorized under Sections 15 and 16 of Model #672, the regulated entity is required to comply with applicable initial, annual and revised notice requirements and the opt-out requirements.

Review the regulated entity's notice content and notice delivery procedures to verify that the regulated entity complies with applicable statutes, rules and regulations regarding privacy.

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**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 14

If the regulated entity discloses information subject to an opt-out right, the regulated entity has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the regulated entity provides opt-out notices to its customers and other affected consumers.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity privacy policies and procedures
- _____ Sample notices to customers: initial, annual and, if applicable, revised
- _____ Sample notices to consumers who are not customers, if applicable
- _____ Sample opt-out notice, if applicable
- _____ Regulated entity records of consumers and other customers who have opted out, if applicable
- _____ Communication of customers' and consumers who are not customers' opt-out elections to producers of record
- _____ Prior to conducting an examination, the examiner should review the state's definition of "customer" and "consumer" to determine appropriate usage of the terms. The examiner should also review the various exceptions and exclusions contained in the state's privacy act/regulation.

Others Reviewed

NAIC Model References

Privacy of Consumer Financial and Health Information Model Regulation (#672)

Review Procedures and Criteria

Determine whether the regulated entity discloses nonpublic personal information relating to customers or consumers who are not customers beyond the scope permitted under Sections 14, 15 and 16 of Model #672.

- Verify that consumers who may be affected by such disclosures have been offered the opportunity to opt out before the disclosures are made. Continue with Steps 1 through 5 below.
- If not, verify that any communications the regulated entity makes regarding opt-out rights are accurate and are in compliance with applicable law.
 1. If applicable, verify that the regulated entity has policies and procedures in place so that customers and other affected consumers may opt out of the disclosure of their nonpublic personal

financial information to nonaffiliated third parties, except to the extent such disclosure is permitted under Sections 14, 15 and 16 of Model #672.

2. If applicable, review the regulated entity's policies and procedures to verify that the regulated entity has the capability to keep nonpublic personal financial information from being unlawfully disclosed to nonaffiliated third parties when a consumer has opted out.
3. If applicable, verify that the regulated entity does not disclose, directly or through any affiliate, unless authorized or permitted by applicable federal and/or state law or regulations, nonpublic personal financial information about a consumer or to a nonaffiliated third party except when:
 - The regulated entity has provided a notice to the consumer;
 - The regulated entity has provided an opt-out notice to the consumer;
 - The regulated entity has given the consumer a reasonable opportunity to opt out of the disclosure before the regulated entity discloses the consumer's nonpublic personal financial information to a nonaffiliated third party; and
 - The consumer does not opt out.
4. As applicable, determine that the regulated entity's initial, annual, revised and short-form notices accurately explain the consumer's right to opt-out, including the methods by which the consumer may exercise that right at any time, in accordance with applicable law and the regulated entity's policies and procedures.
5. If applicable, review the content of the regulated entity's opt-out notice to determine if it is clear and conspicuous and includes, either on the form or on the initial privacy notice:
 - A statement that the regulated entity discloses or reserves the right to disclose nonpublic personal financial information about its consumer to a nonaffiliated third party;
 - A statement that the consumer has the right to opt out of that disclosure; and
 - A reasonable means by which the consumer may exercise the opt-out right.

**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 15

The regulated entity’s collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity privacy policies and procedures
- _____ Joint marketing agreements, if any
- _____ Sample service agreements, if any, with nonaffiliated third parties involved in the regulated entity’s marketing activities
- _____ Prior to conducting an examination, the examiner should review the state’s definition of “customer” and “consumer” to determine appropriate usage of the terms. The examiner should also review the various exceptions and exclusions contained in the state’s privacy act/regulation.

Others Reviewed

- _____
- _____

NAIC Model References

Privacy of Consumer Financial and Health Information Model Regulation (#672)

Review Procedures and Criteria

If the regulated entity discloses nonpublic personal financial information of its customers or consumers who are not customers to nonaffiliated third parties for joint marketing purposes, verify that all such disclosures are in compliance with Model #672:

- Verify that the regulated entity has provided initial notices to its customers and other affected consumers that include the required information regarding the regulated entity’s joint marketing and servicing activities; and
- Review joint marketing agreements, where applicable, to verify that they prohibit the nonaffiliated third party from disclosing or using the nonpublic personal financial information received from the regulated entity other than to carry out the purposes for which the regulated entity disclosed the information, including use under an exception in Sections 15 or 16 of Model #672.

Verify that the regulated entity does not disclose nonpublic personal financial information that it receives from a nonaffiliated financial institution, except in compliance with Model #672.

Review sample service agreements under which a third party markets a licensee’s own products and services, if any, to verify inclusion of non-disclosure requirements.

Verify that the regulated entity prohibits disclosure of policy numbers or similar forms of access numbers or access codes for a consumer’s policy or transaction account to any nonaffiliated third party, except as permitted by applicable law or regulation regarding privacy.

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**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 16

In states promulgating the health information provisions of the *Privacy of Consumer Financial and Health Information Model Regulation* (#672), or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed, except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity privacy policies and procedures
- _____ Sample authorizations used by the regulated entity to permit disclosure of nonpublic personal health information, if applicable
- _____ Regulated entity records of customer and other consumer authorizations
- _____ Prior to conducting an examination, the examiner should review the state’s definition of “customer” and “consumer” to determine appropriate usage of the terms. The examiner should also review the various exceptions and exclusions contained in the state’s privacy act/regulation.

Others Reviewed

- _____
- _____

NAIC Model References

Privacy of Consumer Financial and Health Information Model Regulation (#672)

Review Procedures and Criteria

If applicable, verify that the regulated entity has policies and procedures in place to secure authorizations from its customers and consumers who are not customers before disclosing their nonpublic personal health information to nonaffiliated third parties, except to the extent such disclosure is permitted under Subsection 17B of Model #672.

If applicable, verify that the regulated entity has obtained valid authorizations from customers and consumers who are not customers before disclosing their nonpublic personal health information, except to the extent such disclosures are permitted under Subsection 17B of Model #672. A valid authorization shall include:

- The identity of the consumer who is the subject of the nonpublic personal health information;
- A general description of the types of nonpublic personal health information to be disclosed;
- A general description of the parties to whom the licensee discloses nonpublic personal health information;
- A general description of the purpose of the disclosure of the nonpublic personal health information;
- A general explanation of how the nonpublic personal health information will be used;

- The signature of the consumer who is the subject of the nonpublic personal health information or the individual who is legally empowered to grant disclosure authority and the date signed;
- A notice of the length of time for which the authorization is valid; and
- A notice that the consumer may revoke the authorization at any time, and an explanation of the procedure for making a revocation.

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**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 17

Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity written materials describing its information security program
- _____ Regulated entity policies, procedures and other materials it uses to implement its information security program
- _____ Prior to conducting an examination, the examiner should review the state’s definition of “customer” and “consumer” to determine appropriate usage of the terms. The examiner should also review the various exceptions and exclusions contained in the state’s privacy act/regulation.

Others Reviewed

- _____
- _____

NAIC Model References

Standards for Safeguarding Customer Information Model Regulation (#673)

Insurance Data Security Model Law (#668)

Review Procedures and Criteria

Note: When reviewing a regulated entity’s information security program for compliance with applicable state statutes, rules or regulations relating to the *Insurance Data Security Model Law* (Model #668), in the absence of a Cybersecurity Event, as defined in applicable state statutes, rules or regulations, please refer to the Insurance Data Security Pre-Breach Checklist found in the Reference Documents of the *Market Regulation Handbook*. Regulators may access Reference Documents on StateNet at the link Market Regulation Handbook, Handbook Updates and Reference Documents. Non-regulators may access Reference Documents via NAIC Account Manager at https://www.naic.org/account_manager.htm.

Note: When reviewing a regulated entity’s information security program and response to a Cybersecurity Event for compliance with applicable state statutes, rules or regulations relating to the *Insurance Data Security Model Law* (Model #668), after a Cybersecurity Event has occurred, as defined in applicable state statutes, rules or regulations, please refer to the Insurance Data Security Post-Breach Checklist provided as Addendum A to Operations/Management Examination Standard 17 in Chapter 20—General Examination Standards.

Review the regulated entity’s written information security program to determine whether the security program includes administrative, technical and physical safeguards.

Determine whether, when developing safeguards, the regulated entity took into consideration the:

- Size and complexity of the regulated entity; and
- Nature and scope of regulated entity's activities.

In making the assessment above, consider factors such as: (1) the products and services offered by the regulated entity; (2) the methods of distribution for the products and services; (3) the types of information maintained by the regulated entity; (4) the size of the regulated entity (which may include the number of employees and the volume of business, etc.); (5) the marketing arrangements; and (6) the extent to which, or methods by which, the regulated entity communicates electronically with customers, producers and other third parties.

Evaluate whether the regulated entity's information security program is designed to:

- Ensure the security and confidentiality of customer information;
- Protect against any anticipated threats or hazards to the security or integrity of the information; and
- Protect against unauthorized access to or use of the information that could result in substantial harm or inconvenience to any customer.

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ADDENDUM A TO OPERATIONS/MANAGEMENT STANDARD 17
CHAPTER 20—GENERAL EXAMINATION STANDARDS
MARKET REGULATION HANDBOOK
INSURANCE DATA SECURITY POST-BREACH CHECKLIST

**Supplemental Incident Response Plan Investigation (Post-Breach) and Notification Cybersecurity Event Checklist for Operations/Management Standard #17
 Model #668, Sections 5 and 6**

Company Name	
Period of Examination	
Examination Field Date	
Prepared By	
Date	

GUIDANCE

Insurance Data Security Model Law (#668)

The guidance that follows should only be used in states that have enacted the *Insurance Data Security Model Law* (#668) or legislation, which is substantially similar to Model #668. Moreover, in performing work during an exam in relation to Model #668, it is important that the examiners first obtain an understanding and leverage the work performed by other units in the department, including but not limited to, financial examination-related work.

OVERVIEW

The purpose and intent of Model #668 is to establish standards for data security and standards for the investigation of and notification to the Commissioner or Director of Insurance of a Cybersecurity Event affecting Licensees.

REVIEW GUIDELINES AND INSTRUCTIONS

When reviewing a Licensee’s Information Security Program (ISP) for compliance with Model #668 for the prevention of a Cybersecurity Event, as defined in Model #668, please refer to the pre-breach examination checklist in the Reference Documents of the *Market Regulation Handbook* . Regulators can access the pre-breach examination checklist on the Market Regulation Handbook Reference Documents web page on StateNet. Non-regulators may access the pre-breach examination checklist at https://www.naic.org/account_manager.htm.

When reviewing a Licensee’s ISP and response to a Cybersecurity Event for compliance with Model #668 subsequent to a suspected and/or known Cybersecurity Event, as defined in Model #668, please refer to both the pre-breach examination checklist and the post-breach examination checklist.

When considering whether to underake such a review, refer to Section 9 of Model #668, which provides certain exceptions to compliance for licensees with fewer than 10 employees; licensees subject to the Health Insurance Portability and Accountability Act (HIPAA) (Pub.L. 104–191, 110 Stat. 1936, enacted Aug. 21, 1996); and certain employees, agents, representatives, or designees of licensees who are in themselves licensees.

ADDENDUM A TO OPERATIONS/MANAGEMENT STANDARD 17
CHAPTER 20—GENERAL EXAMINATION STANDARDS
MARKET REGULATION HANDBOOK
INSURANCE DATA SECURITY POST-BREACH CHECKLIST, CONT'D

Supplemental Incident Response Plan Investigation (Post-Breach) and Notification Cybersecurity Event Checklist for Operations/Management Standard #17
Model #668, Sections 5 and 6

Company Name	
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Examination Field Date	
Prepared By	
Date	

POST-EVENT INVESTIGATION BY LICENSEE (Section 5)

REVIEW CRITERIA	NOTES (YES, NO, NOT APPLICABLE, OTHER)
1. Did the Licensee conduct a prompt investigation of the Cybersecurity Event? (Section 5A)	
2. Did the Licensee appropriately determine the nature and scope of the Cybersecurity Event? (Section 5B)	

NOTICE TO COMMISSIONER/DIRECTOR OF INSURANCE (Section 6)

REVIEW CRITERIA	NOTES (YES, NO, NOT APPLICABLE, OTHER)
3. Did the Licensee provide timely notice (no later than 72 hours) to the Commissioner or Director of Insurance following the Cybersecurity Event? (Section 6A)	
4. Did the notification to the Commissioner or Director of Insurance include the following information, to the extent reasonably available? (Section 6B)	
4a. The date of the Cybersecurity Event, or the date upon which it was discovered?	
4b. A description of how the Nonpublic Information was exposed, lost, stolen or breached, including the specific roles and responsibilities of Third-Party Service Providers, if any?	
4c. How the Cybersecurity Event was discovered?	
4d. Whether any lost, stolen or breached Nonpublic Information has been recovered, and if so, how this was done?	
4e. The identity of the source of the Cybersecurity Event?	
4f. Whether the Licensee has filed a police report or has notified any regulatory, government or law enforcement agencies? (If YES, did the Licensee provide the date(s) of such notification(s)?)	
4g. A description of the specific types of Nonpublic Information acquired without authorization?	
4h. The period during which the Information System was compromised by the Cybersecurity Event?	
4i. A best estimate of the number of total Consumers in this state and globally affected by the Cybersecurity Event?	
4j. The results of any internal review of automated controls and internal procedures and whether or not such controls and procedures were followed?	

**ADDENDUM A TO OPERATIONS/MANAGEMENT STANDARD 17
CHAPTER 20—GENERAL EXAMINATION STANDARDS
MARKET REGULATION HANDBOOK
INSURANCE DATA SECURITY POST-BREACH CHECKLIST, CONT'D**

**Supplemental Incident Response Plan Investigation (Post-Breach) and Notification Cybersecurity Event Checklist for Operations/Management Standard #17
Model #668, Sections 5 and 6**

Company Name	
Period of Examination	
Examination Field Date	
Prepared By	
Date	

NOTICE TO COMMISSIONER/DIRECTOR OF INSURANCE (Section 6) (CONT'D)

REVIEW CRITERIA	NOTES (YES, NO, NOT APPLICABLE, OTHER)
4k. A description of efforts being undertaken to remediate the circumstances which permitted the Cybersecurity Event to occur?	
4l. A copy of the Licensee's privacy policy and a statement outlining the steps the Licensee will take to investigate the Cybersecurity Event and to notify affected Consumers?	
4m. The name of a contact person familiar with the Cybersecurity Event and authorized to act for the Licensee?	
5. Did the Licensee provide timely updates to the initial notification and Questions 4a–4m above? (Section 6B)	

OTHER NOTIFICATIONS (Section 6)

REVIEW CRITERIA	NOTES (YES, NO, NOT APPLICABLE, OTHER)
6. Did the Licensee provide timely and sufficient notice of the Cybersecurity Event to Consumers? (If YES, did the Licensee provide a copy of the notification to the Commissioner(s)/Directors of all affected states?) (Section 6C)	
7. Did the reinsurer Licensee provide timely and sufficient notice of the Cybersecurity Event to ceding insurers? (Section 6E)	
8. Did the Licensee provide timely and sufficient notice of the Cybersecurity Event to independent insurance producers and/or producers of record of affected Consumers? (Section 6F)	

THIRD-PARTY SERVICE PROVIDERS

REVIEW CRITERIA	NOTES (YES, NO, NOT APPLICABLE, OTHER)
9. Did the Cybersecurity Event occur at a Third-Party Service Provider? (If YES, did the Licensee fulfill its obligations to ensure compliance with this law, either directly or by the Third-Party Service Provider?) (Sections 5C and 6D)	

**ADDENDUM A TO OPERATIONS/MANAGEMENT STANDARD 17
 CHAPTER 20—GENERAL EXAMINATION STANDARDS
 MARKET REGULATION HANDBOOK
 INSURANCE DATA SECURITY POST-BREACH CHECKLIST, CONT'D**

**Supplemental Incident Response Plan Investigation (Post-Breach) and Notification Cybersecurity Event Checklist for Operations/Management Standard #17
 Model #668, Sections 5 and 6**

Company Name	
Period of Examination	
Examination Field Date	
Prepared By	
Date	

POST-EVENT ANALYSIS

REVIEW CRITERIA	NOTES (YES, NO, NOT APPLICABLE, OTHER)
10. What changes, if any, are being considered to the Licensee's ISP as a result of the Cybersecurity Event and the Licensee's response?	

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**STANDARDS
OPERATIONS/MANAGEMENT**

Standard 18

All data required to be reported to departments of insurance is complete and accurate.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Claim files
- _____ Underwriting files
- _____ Regulated entity's medical professional liability closed claim reports (if applicable)
- _____ Regulated entity's Market Conduct Annual Statement (MCAS) submissions
- _____ Regulated entity's responses to state-specific data requests

Others Reviewed

Statutory or regulatory authority for state-specific data requests

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Medical Professional Liability Closed Claim Reporting Model Law (#77)*
- Market Conduct Surveillance Model Law (#693)*

Review Procedures and Criteria

Interview the regulated entity's personnel who prepare loss statistical reports, medical professional liability loss reports, MCAS data and state-specific data requests; analyze regulated entity's internal communications between various departments which report same.

Determine that the regulated entity reviews data errors and subsequent changes are made.

Determine if the regulated entity's medical professional liability closed claims reports are accurate and reported within the required time frame.

Request that the regulated entity reconcile closed claims reports, state-specific data requests and MCAS data with the State Page of the annual statement to include payments, case reserves, and defense cost containment expenses, and explain differences.

Request that the regulated entity reconcile closed claims reports to data provided on the standardized data request.

B. Complaint Handling

1. Purpose

The NAIC definition of a complaint is “any written communication that expresses dissatisfaction with a specific person or entity subject to regulation under the state’s insurance laws. An oral communication, which is subsequently converted to a written form, would meet the definition of a complaint for this purpose.” The examiner should review the regulated entity’s procedures for processing consumer or other related complaints. Specific problem areas may necessitate an overall review of a particular segment of the regulated entity’s operation.

If a regulated entity is using social media, the examiner should review the regulated entity’s policies and procedures with regard to regulated entity handling of complaints received via social media, in which the regulated entity is active.

2. Techniques

A review of complaint handling should incorporate both consumer direct complaints to the regulated entity and those complaints filed with the insurance department. The examiner should reconcile the regulated entity’s complaint register with a list of complaints from the insurance department. A random sample of complaints should be selected for review from the regulated entity’s complaint register. If such a register is not maintained, alternative methods of isolating complaints may be implemented.

The examiner should review the frequency of similar complaints and be aware of any pattern of specific type of complaints. The examiner should take into consideration the increase of complaints that typically follows a catastrophe. Should the type of complaints generated be cause for unusual concern, specific measures should be instituted to investigate other areas of the regulated entity’s operations. This may include modifying the scope of examination to examine specific regulated entity behavior.

The examiner should review the NAIC Complaints Database System (CDS) to determine the regulated entity’s complaint index, along with any adverse trends in complaint volume. The examiner may wish to review complaint trends and the complaint index for the preceding three years.

The examiner should review the final disposition of the complaints and determine if the regulated entity has taken adequate steps to finalize the complaint. The examiner should determine if the actions taken are in compliance with statutes, rules and regulations.

In states that have established a statutory or regulatory standard of promptness, a study should be conducted to determine how promptly the regulated entity responds to complaints, the adequacy of the responses and what, if any, actions were taken to resolve the problems.

If the examination involves a depository institution or their affiliates, it may also be regulated by a federal agency, such as the Office of the Comptroller of the Currency, the Federal Reserve Board, the Office of Thrift Supervision or the Federal Deposit Insurance Corporation. In addition, banks may also be regulated at the state level. If the state has signed an agreement to share complaint information with these agencies, any adverse trends or pattern of concern to the examiners may be identified and relayed to the agency.

3. Tests and Standards

The complaint handling review includes, but is not limited to, the following standards addressing various aspects of a regulated entity’s operations. The sequence of the standards listed here does not indicate priority of the standard.

STANDARDS COMPLAINT HANDLING

Standard 1

All complaints are recorded in the required format on the regulated entity's complaint register.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Regulated entity complaint register

_____ Insurance department's complaint records

_____ Direct consumer complaints

_____ Complaints received electronically (i.e., via Internet or email)

Others Reviewed

NAIC Model References

Model Regulation for Complaint Records to be Maintained Pursuant to the NAIC Unfair Trade Practices Act
(#884)

Consumer Complaints White Paper
Unfair Trade Practices Act (#880), Section 4K

Review Procedures and Criteria

All of the above should be reviewed to make sure the regulated entity is:

- Recording all complaints (both consumer direct and insurance department); and
- Recording required information in the regulated entity complaint register.

Determine if the regulated entity complaint register meets minimum standards as required by law. At a minimum, the complaint register should include:

- Line of business;
- Function (underwriting, marketing and sales, claims, policyholder services or miscellaneous); and
- Reason for complaint (underwriting, application, cancellation, rescission, nonrenewal).

Automation Tip:

Most companies maintain this information in some sort of PC-based spreadsheet format, such as Lotus or Excel. Request that this spreadsheet be copied in its usual format for comparison with insurance department records. Do not specify which data to be supplied, but instead go with exactly what the regulated entity tracks. A review can be made to see if they contain the information that should be collected from each complaint. Then, a sample can be pulled to review individual complaints to see if the regulated entity's procedures are being followed.

Obtain complaint data file from the insurance department (in whatever format available; e.g., ASCII text file, Microsoft Access, etc.). Convert the data file to a format compatible to the spreadsheet/database from the regulated entity. Compare the complainant name, claim number, policy number, etc., in both files to determine if all of the insurance department complaints were correctly logged by the regulated entity.

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**STANDARDS
COMPLAINT HANDLING**

Standard 2

The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Complaint handling procedure manuals

_____ Policy files

Others Reviewed

NAIC Model References

Unfair Claims Settlement Practices Act (#900)

Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)

Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)

Consumer Complaints White Paper

Review Procedures and Criteria

Review the regulated entity's manuals to verify that complaint procedures exist.

Determine whether there are sufficient procedures in place to require satisfactory handling of complaints received, as well as internal procedures for analysis in areas developing complaints.

Determine whether there is a method for distribution of and obtaining and recording responses to complaints. This method should be sufficient to allow response within the time frame required by state law.

The regulated entity should provide a telephone number and address for consumer inquiries.

STANDARDS COMPLAINT HANDLING

Standard 3

The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ Regulated entity complaint register
- _____ Complaint letter or email and regulated entity complaint response
- _____ Supporting documentation (claim files, underwriting files, etc.)
- _____ Regulated entity correspondence

Others Reviewed

- _____
- _____

NAIC Model References

Unfair Claims Settlement Practices Act (#900)
Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)
Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)
Consumer Complaints White Paper

Review Procedures and Criteria

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

Criteria for reviewing complaint responses:

- The response is timely;
- The response is complete and responds to all issues raised;
- The response includes adequate documentation to support the respondent's position;
- The respondent's actions are appropriate from a business practice standpoint;
- The respondent's actions comply with all applicable statutes, rules and policy or contract provisions; and
- The appropriate remedies for the consumer are identified.

**STANDARDS
COMPLAINT HANDLING**

Standard 4

The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Complaint letter or email
- _____ Regulated entity response and supporting documentation
- _____ Regulated entity complaint register

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Consumer Complaints White Paper*

Review Procedures and Criteria

Review complaints to ensure regulated entity is maintaining adequate documentation.

Determine if the regulated entity's response is timely. The examiner should refer to state laws for the required time frame.

Automation Tip:

Most companies maintain this information in some sort of PC-based spreadsheet format, such as Lotus or Excel. Request that this spreadsheet be copied in its usual format for comparison with insurance department records. Using either an Excel spreadsheet or a Microsoft Access database, calculate the number of days between the date the complaint was received and the date a final resolution was sent to the complainant. Use the features of either application to identify those complaints where the number of days to resolve the complaint exceeds the statutory standard.

C. Marketing and Sales

1. Purpose

The Marketing and Sales portion of the examination is designed to evaluate the representations made by the regulated entity about its product(s) or services. It is not typically based on sampling techniques. The areas to be considered in this kind of review include all media (radio, television, videotape, electronic medium, social media, etc.), written and verbal advertising and sales materials.

2. Techniques

This area of review should include all advertising and sales material and all producer sales training materials to determine compliance with statutes, rules and regulations. Information from other jurisdictions may be reviewed, if appropriate. The examiner may contact policyholders, producers and others to verify the accuracy of information provided or to obtain additional information.

As with all of its advertising, regardless of the medium, every regulated entity is required to have procedures in place to establish and, at all times, maintain a system of control over the content, form and method of dissemination of all of its advertisements. All of these advertisements maintained by or for the regulated entity and authorized by the regulated entity are the responsibility of the regulated entity.

The exact same regulations and statutes (such as the *Unfair Trade Practices Act* (#880)) that apply to conventional advertising also apply to Internet advertising. Bearing that in mind, when the examiner is reviewing a regulated entity's Internet advertisements, it is important to also review the safeguards implemented by the regulated entity.

All advertisements are required to be truthful and not misleading in fact or by implication. The form and content of an advertisement of a policy shall be sufficiently clear so as to avoid deception. The advertisement shall not have the capacity or tendency to mislead or deceive. Whether an advertisement has the capacity or tendency to mislead or deceive shall be determined upon reviewing the overall impression that the advertisement reasonably may be expected to create upon a person of average education or intelligence within the segment of the public to which the advertisement is directed.

3. Tests and Standards

The marketing and sales review includes, but is not limited to, the following standards addressing various aspects of the marketing and sales function. The sequence of the standards listed here does not indicate priority of the standard.

**STANDARDS
MARKETING AND SALES**

Standard 1

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ All regulated entity advertising and sales materials, including radio and audiovisual items such as television commercials, telemarketing scripts, pictorial materials, social media or other electronic medium
- _____ Policy forms as they coincide with advertising and sales materials
- _____ Producer's own advertising and sales materials
- _____ Regulated entity policies and procedures

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Trade Practices Act (#880)*
- Advertisements of Life Insurance and Annuities Model Regulation (#570), Section 3B*
- Risk-Based Capital (RBC) for Insurers Model Act (#312), Section 8B*
- Life Insurance Disclosure Model Regulation (#580), Section 8C*
- Life and Health Insurance Guaranty Association Model Act (#520), Section 19A*
- Long-Term Care Insurance Model Act (#640)*
- Life Insurance Illustrations Model Regulation (#582)*
- Small Employer and Individual Health Insurance Availability Model Act (#35)*
- Model Regulation to Implement the Individual Accident and Sickness Insurance Minimum Standards Model Act (#171), Section 7(H)(1)(a)(I)*
- Advertisements of Accident and Sickness Insurance Model Regulation (#40)*
- Individual Health Insurance Portability Model Act (#37), Section 5*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Home Service Disclosure Model Act (#920)*
- Marketing Insurance Over the Internet White Paper*
- Group Health Insurance Standards Model Act (#100)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- The Use of Social Media in Insurance White Paper*
- Insurance Holding Company System Regulatory Model Act (#440)*

IIPRC Uniform Standard References

IIPRC Standards for Individual Long-Term Care Advertising Materials (applicable to individual long-term care (LTC) products and associated advertising materials submitted and/or approved by the IIPRC)

Review Procedures and Criteria

Review advertising materials in conjunction with the appropriate policy form. If statistics are included, proper citation should be included in the documentation.

Materials should not:

- Misrepresent the dividends or share of the surplus to be received on any policy;
- Make a false or misleading statement as to the dividends or share of the surplus previously paid on the policy;
- Misrepresent any policy as being shares of stock;
- Misrepresent policy benefits forms or conditions by failing to disclose limitations, exclusions or reductions or use terms or expressions that are misleading or ambiguous;
- Make unfair or incomplete comparisons with other policies;
- Make false, deceptive or misleading statements or representations with respect to any person, regulated entity or organization in the conduct of insurance business; and
- Offer unlawful rebates or inducements.

Materials should:

- Disclose the name and address of insurer;
- Comply with applicable statutes, rules and regulations; and
- Cite the source of statistics used by the regulated entity.

Determine if the regulated entity approves producer sales materials and advertising. Determine if advertisements or lead-generating calls falsely project the image that they were sent by a government agency.

Review the regulated entity's and producer's websites with the following questions in mind:

- Does the website disclose who is selling/advertising/servicing for the website?
- Does the website disclose what is being sold or advertised?
- If required by statutes, rules or regulations, does the website reveal the physical location of the regulated entity/entities?
- Does the website reveal the jurisdictions where the advertised product is (or is not) approved, or use some other mechanism (including, but not limited to, identifying persons by geographic location) to accomplish an appropriate result?

For the review of Internet advertisements:

- Run an inquiry with the regulated entity's name;
- Review the regulated entity's home page;
- Identify all lines of business referenced on the regulated entity's home page;
- Research the ability to request more information about a particular product and verify the information provided is accurate; and
- Review the regulated entity's procedures related to producers advertising on the Internet and ensure the regulated entity requires prior approval of the producer pages, if the regulated entity name is used.

For the review of social media:

- Perform a search of social media sites with the regulated entity’s name;
- Identify social media sites in which the regulated entity is active;
- Review identified social media sites and verify any product information provided by the regulated entity is accurate;
- Review the regulated entity’s policies and procedures to identify the personnel involved in monitoring the regulated entity’s marketing and sales-related social media activity;
- Review the regulated entity’s policies and procedures for tracking marketing and sales-related social media requiring regulated entity review; and
- If the regulated entity requires preapproval of producer advertising on the Internet, review the regulated entity’s preapproval procedures to determine whether the regulated entity identifies marketing and sales-related social media as also requiring regulated entity preapproval.

For the review of group capital calculation, resulting group capital ratio and liquidity stress test:

- Review the making, publishing, disseminating, circulating or placing before the public, or causing directly or indirectly to be made, published, disseminated, circulated or placed before the public in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio or television station or any electronic means of communication available to the public, or in any other way as an advertisement, announcement or statement containing a representation or statement with regard to the group capital calculation, group capital ratio, the liquidity stress test results, or supporting disclosures for the liquidity stress test of any insurer or any insurer group, or of any component derived in the calculation by any insurer, broker, or other person engaged in any manner in the insurance business because it would be misleading and is therefore prohibited; and
- Review if any materially false statement with respect to the group capital calculation, resulting group capital ratio, an inappropriate comparison of any amount to an insurer’s or insurance group’s group capital calculation or resulting group capital ratio, liquidity stress test result, supporting disclosures for the liquidity stress test, or an inappropriate comparison of any amount to an insurer’s or insurance group’s liquidity stress test result or supporting disclosures is published in any written publication and if the insurer is able to demonstrate to the commissioner with substantial proof the falsity of such statement or the inappropriateness, as the case may be, then the insurer may publish announcements in a written publication if the sole purpose of the announcement is to rebut the materially false statement.

Automation Tip:

Enter a summary of all marketing materials of whatever description in an Excel spreadsheet. Capture the regulated entity’s name of the material; the form number, if any; the edition date, if any; source, if applicable; and media, such as Internet or direct mail. Include fields to note exceptions, such as unsupported statistics or possible misleading statements. Insert each possible violation/exception in a separate field.

Statistics and statements are likely to be repeated in more than one “piece” of marketing material. It is also possible that one piece of marketing material will contain more than one violation/exception.

The spreadsheet will make it easier to track any repeated statements and to identify any marketing material containing apparent multiple violations/exceptions.

**STANDARDS
MARKETING AND SALES**

Standard 2
Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Regulated entity’s producer training manuals, videos and sales scripts

Others Reviewed

NAIC Model References

Producer Licensing Model Act (#218)

Life Insurance Disclosure Model Regulation (#580), Section 5A(2)

Advertisements of Life Insurance and Annuities Model Regulation (#570)

Small Employer and Individual Health Insurance Availability Model Act (#35)

Individual Health Insurance Portability Model Act (#37), Sections 11D and 11E

Title Insurers Model Act (#628)

Title Insurance Agent Model Act (#230)

Advertisements of Accident and Sickness Insurance Model Regulation (#40)

Group Health Insurance Standards Model Act (#100)

Long-Term Care Insurance Model Act (#640)

Medicare Supplement Insurance Minimum Standards Model Act (#650)

Model Regulation to Implement the Medicare Supplement Insurance Minimum Standards Model Act (#651)

Review Procedures and Criteria

Review all producers’ training materials for compliance with state statutes, rules and regulations.

Review materials for references to employing unfair discrimination tactics or avoiding statutory compliance.

Determine whether producers’ prepared materials are permitted and, if so, under what conditions and controls.

The examiners should be aware of the results of the review of common consumer complaints against the regulated entity, as that could point toward problems in this area.

Automation Tip:

Enter a summary of all training materials of whatever description in an Excel spreadsheet. Capture the regulated entity's name of the material; the form number, if any; the edition date, if any; source, if applicable; and media, such as video, sales script, etc. Include fields to note exceptions, such as incomplete disclosure or possible misleading statements. Insert each possible violation/exception in a separate field.

Statistics and statements are likely to be repeated in more than one "piece" of training material. It is also possible that one piece of training material will contain more than one violation/exception.

The spreadsheet will make it easier to track any repeated statements and to identify any training material containing apparent multiple violations/exceptions.

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**STANDARDS
MARKETING AND SALES**

Standard 3
Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Bulletins, newsletters and memos

_____ Organizational chart of marketing division

Others Reviewed

NAIC Model References

Unfair Trade Practices Act (#880)

Small Employer and Individual Health Insurance Availability Model Act (#35)

Title Insurers Model Act (#628)

Title Insurance Agent Model Act (#230)

Group Health Insurance Standards Model Act (#100)

Long-Term Care Insurance Model Act (#640)

Medicare Supplement Insurance Minimum Standards Model Act (#650)

Model Regulation to Implement the Medicare Supplement Insurance Minimum Standards Model Act (#651)

Review Procedures and Criteria

Review written and electronic communication between the regulated entity and producers in accordance with applicable statutes, rules and regulations.

Determine if communication includes references to new rates, rules and regulations.

Determine if communication conforms to Marketing and Sales Examination Standard #1 in this chapter when referencing advertising and sales.

Determine if the regulated entity uses email to communicate with producers. The examiner should ask to review saved, stored or archived email that was broadcast to the sales force.

Automation Tip:

Enter a summary of all producer communications of whatever description in an Excel spreadsheet. Capture the regulated entity's title or subject line for the communication, the date of the communication, source of the communication, etc. Include fields to note exceptions, such as misleading statements or instructions to producers that are in conflict with statutes or regulations. Insert each possible violation/exception in a separate field.

Statistics and statements are likely to be repeated in more than one regulated entity communication. It is also possible that a single regulated entity communication will contain more than one violation/exception.

The Excel spreadsheet will make it easier to track any repeated statements and to identify any regulated entity communications containing apparent multiple violations/exceptions.

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D. Producer Licensing

1. Purpose

The producer licensing portion of the examination is designed to test a regulated entity's compliance with state producer licensing laws and rules. The focus of the standard relating to producer accounts current is to aid in the detection of fraud or misuse of funds held by the producer in a fiduciary capacity.

2. Techniques

The examiner should review and compare information obtained from insurance departments and regulated entity records pertaining to licenses held by individuals or entities soliciting business on behalf of the regulated entity. Information related to producer licensing may be obtained from the NAIC State Producer Licensing Database (SPLD). In addition to aggregate listings of licensed/appointed/terminated producers, compliance with producer licensing statutes should be verified during the review of individual policy files, which take place during other portions of the examination (see Section F Underwriting and Rating in this chapter).

The examiner should compare information obtained from insurance departments and regulated entity records pertaining to the licenses held by individuals or entities soliciting business on behalf of the regulated entity. Insurance department records may be obtained through the NAIC SPLD, if the state is actively submitting information to the database. The SPLD contains information about a producer's license and any appointments they have with a regulated entity.

3. Tests and Standards

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

**STANDARDS
PRODUCER LICENSING**

Standard 1

Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Insurance department listing of producers and, if applicable, adjusters or the SPLD (State Producer Licensing Database)
- _____ Regulated entity listing of currently licensed and/or appointed producers and, if applicable, adjusters
- _____ Regulated entity listing of commissions

Others Reviewed

- _____
- _____

NAIC Model References

- Mass Marketing of Property and Liability Insurance Model Regulation (#710)*
- Producer Licensing Model Act (#218)*
- Title Insurance Agent Model Act (#230)*
- Independent Adjuster Licensing Guideline (#1224)*

Review Procedures and Criteria

Reconcile above regulated entity lists with corresponding insurance department lists to determine any discrepancies. If the state is actively participating in the State Producer Licensing Database (SPLD), the examiner should validate the producer's or adjuster's licensure status through the SPLD in lieu of obtaining a hardcopy of the producer's or adjuster's license.

Determine that any producer writing business in connection with a mass marketing plan is appropriately licensed.

Refer discrepancies to appropriate divisions within the insurance department.

Automation Tip:

Obtain from the regulated entity a list of all producers licensed and appointed at any time during the examination period, and, where applicable, all company or contracted independent adjusters licensed at any time during the examination period. Include the producer's or adjuster's National Producer Number (NPN) or, if unavailable, Social Security number, Federal Employer Identification number, name, address, licensed date, appointed date, type of license, and internal regulated entity or employee number for the producer. Obtain from the insurance department's licensing division a similar list. Obtain from the regulated entity a list of all producers who received commission during the examination period. Include the producer's National Producer Number (NPN) or, if unavailable, Social Security number, Federal Employer Identification number, name, address, licensed date, appointed date, type of license, date first commission received and internal regulated entity or employee number for the producer. Obtain from the regulated entity a list of all new business written during the examination period. Include the date the policy was issued and the producer's internal regulated entity or employee number.

- Compare the regulated entity's producer and adjuster licensing list to the insurance department's licensed producers list by comparing National Producer Numbers (NPN) or, if unavailable, Social Security numbers, Federal Employer Identification numbers, extracting any producers on the regulated entity's list who are not on the insurance department's list;
- Compare the regulated entity's commissions list to the insurance department's licensed producers list by comparing National Producer Numbers (NPN) or, if unavailable, Social Security numbers, Federal Employer Identification numbers, extracting any producers on the regulated entity's list who are not on the insurance department's list. Also compare commission first earned dates to the insurance department's license/appointment dates to see if commissions were earned prior to license/appointment date; and
- Compare the regulated entity's new business written list to the insurance department's licensed producers list by comparing National Producer Numbers (NPN) or, if unavailable, Social Security numbers, Federal Employer Identification numbers or internal regulated entity/employee numbers), extracting any producers on the regulated entity's list who are not on the insurance department's list. Also compare policy issued date to the insurance department's license/appointment dates to see if policies were written prior to license/appointment date. This may need to be cross-referenced with the regulated entity's licensed producer list to correlate the producer's National Producer Number (NPN) and the internal regulated entity/employee number.

**STANDARDS
PRODUCER LICENSING**

Standard 2

The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ New business application
- _____ Insurance department listing of licensed and/or appointed producers or the State Producer Licensing Database (SPLD)
- _____ Copy of producer's license or electronic verification of producer's license via the State Producer Licensing Database (SPLD)
- _____ Regulated entity listing of all currently licensed and/or appointed producers
- _____ Notice of appointment
- _____ Regulated entity procedures for appointing a producer
- _____ Regulated entity list of commissions paid by line of business

Others Reviewed

NAIC Model References

- Producer Licensing Model Act (#218)*
- Title Insurance Agent Model Act (#230)*
- Unfair Trade Practices Act (#880)*
- Long-Term Care Insurance Model Act (#640)*

Review Procedures and Criteria

Review the regulated entity's procedures for the appointment of producers.

Review the producer's license and the appointment records. Determine if the appointment was effective within 15 days of the producer writing business on behalf of the regulated entity.

Review the producer's authority for the types of business he/she is eligible to solicit. Determine if the producer is acting within the scope of that authority.

Determine that the producer has met continuing education requirements and, if appropriate, has met the producer training requirements for selling long-term care insurance (LTCI).

Identify the producer of each selected policy and determine proper licensure and appointment (if required).

Automation Tip:

Obtain from the regulated entity a list of all producers licensed and appointed at anytime during the examination period. Include the producer's National Producer Number (NPN) or, if unavailable, Social Security number or Federal Employer Identification number, name, address, licensed date, appointed date, type of license and internal regulated entity or employee number for the producer. Obtain from the insurance department's licensing division a list of all producers licensed and appointed at any time during the examination period. Include the producer's National Producer Number (NPN) or, if unavailable, Social Security number or Federal Employer Identification number, name, address, licensed date, appointed date, applicable jurisdictions and type of license. Obtain from the regulated entity a list of all applications taken during the examination period. Include the date the application was taken, the producer's internal regulated entity or employee number and the jurisdiction where the application was taken. Compare these files using National Producer Numbers (NPN) or, if unavailable, Social Security numbers or Federal Employer Identification numbers and internal regulated entity/employee number for the producer and jurisdictions. Extract any producers who took applications from jurisdictions where they were not licensed/appointed.

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**STANDARDS
PRODUCER LICENSING**

Standard 3

Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity/agency contracts
- _____ Regulated entity listing of producer terminations for examination review period
- _____ Regulated entity listing of commissions
- _____ Insurance department listing of terminations
- _____ Copies of individual termination notifications sent to terminated producers
- _____ Copies of individual termination notifications sent to insurance department

Others Reviewed

- _____
- _____

NAIC Model References

Producer Licensing Model Act (#218)
Title Insurance Agent Model Act (#230)

Review Procedures and Criteria

Reconcile the regulated entity's listing of producer terminations with the listing of commissions paid to determine if payouts are being made properly to terminated producers.

Review individual termination notices from the regulated entity to producers to determine compliance with termination notification periods and allowance for renewal commissions.

Refer any discovery of terminated producers still submitting new business to appropriate divisions within the insurance department.

Review the regulated entity's contract with producers to determine how commissions are paid to producers who have been terminated (e.g., vesting provisions).

Compare the regulated entity's listing of producer terminations with the National Insurance Producer Registry (NIPR) to ensure accuracy in reporting.

**STANDARDS
PRODUCER LICENSING**

Standard 4

The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Listing of appointments and terminations for examination review period
- _____ Listing of producer appointments by line of business (if applicable) by producer's business ZIP code
- _____ Listing of terminations by line of business (if applicable) by producer's business ZIP code
- _____ Regulated entity market plan or synopsis

Others Reviewed

- _____
- _____

NAIC Model References

Unfair Trade Practices Act (#880)

Review Procedures and Criteria

Compare the number of appointments/terminations for the current review period with previous review period and, if difference is significant, determine the reason(s).

Review the regulated entity's marketing plan.

Review ZIP code listings to determine the placement of producers and if there is evidence of under-served or over-served geographical areas.

Automation Tip:

Obtain from the regulated entity a list of all producers licensed and appointed at any time during the examination period. Include the producer's National Producer Number (NPN) or, if unavailable, Social Security number, Federal Employer Identification number, name, address, county, ZIP code, licensed date, appointed date, termination date, type of license and internal regulated entity or employee number for the producer. Extract a list of all producers that were licensed/appointed and/or terminated during the examination period. Run a count on the number of producers that are licensed/appointed by ZIP code or county and a count on the number of producers terminated by ZIP code or county. Also run a count on the original file by ZIP code or county. A comparison of the counts may show ZIP codes or counties that are under-served or over-served.

**STANDARDS
PRODUCER LICENSING**

**Standard 5
Records of terminated producers adequately document reasons for terminations.**

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity listings of terminated producers for examination review period
- _____ Regulated entity individual files of terminated producers
- _____ Insurance department's list of acceptable reasons for terminations

Others Reviewed

- _____
- _____

NAIC Model References

Producer Licensing Model Act (#218)
Title Insurance Agent Model Act (#230)

Review Procedures and Criteria

Determine reasons for producer terminations.

Review all or sample of individual terminated producer files.

Review above documents for inadequately or inaccurately documented termination reasons. If necessary, refer to the appropriate division within the insurance department.

Compare the regulated entity's listing of producer terminations with NIPR to ensure accuracy in reporting.

Determine if the insurance department is notified of termination for cause (if applicable).

Automation Tip:

Obtain from the regulated entity a list of all producers terminated at any time during the examination period. Include the producer's National Producer Number (NPN) or, if unavailable, Social Security number, Federal Employer Identification number, name, address, termination date and reason for termination. Review the regulated entity's files for these producers to determine if the terminations were adequately documented.

**STANDARDS
PRODUCER LICENSING**

Standard 6

Producer account balances are in accordance with the producer's contract with the insurer.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Listing of producer accounts current exceeding contract limits

_____ Producer and/or agency contracts

Others Reviewed

NAIC Model References

Producer Licensing Model Act (#218)

Title Insurance Agent Model Act (#230)

Unfair Trade Practices Act (#880)

Insurance Fraud Prevention Model Act (#680)

Review Procedures and Criteria

Review listing of producer accounts current.

Discuss excessive balances with the regulated entity.

Accounts current exceeding contract limits may indicate producer mishandling of funds.

Refer to appropriate division within the insurance department.

E. Policyholder Service

1. Purpose

The policyholder service portion of the examination is designed to test a regulated entity's compliance with statutes regarding notice/billing, delays/no response, and premium refund and coverage questions.

2. Techniques

While larger companies may have a full staff to handle policyholder service, smaller companies may well do policyholder service as a function of the claims or underwriting department.

Policyholder service departments vary from regulated entity to regulated entity. Some companies do only what is required of them by state statute (i.e., notification of the toll-free number or policyholder complaint telephone number). In contrast, some actually contact policyholders that have had occasion to deal directly with the regulated entity, such as presenting a claim or requesting a policy change.

It is important that the examiner check with the examination coordinator to determine where the policyholder service function lies and then apply the following tests to determine the effectiveness of the unit.

3. Tests and Standards

The policyholder service review includes, but is not limited to, the following standards related to the adequacy and level of policyholder service provided by the regulated entity. The sequence of the standards listed here does not indicate priority of the standard.

**STANDARDS
POLICYHOLDER SERVICE**

Standard 1

Premium notices and billing notices are sent out with an adequate amount of advance notice.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)

_____ Underwriting files

_____ Underwriting procedure manuals

Others Reviewed

NAIC Model References

Improper Termination Practices Model Act (#915)

Property Insurance Declination, Termination and Disclosure Model Act (#720)

Automobile Insurance Declination, Termination and Disclosure Model Act (#725)

Universal Life Insurance Model Regulation (#585), Section 7F

Review Procedures and Criteria

Check renewal business to determine if the regulated entity's procedures for handling renewals are in accordance with state guidelines.

Check underwriting files to determine if premium notices for endorsements were sent timely, and not at audit or policy expiration.

Check mailroom for billings sent out by the regulated entity to ensure timeliness.

Automation Tip:

Obtain from the regulated entity a data file of all cancellations due to nonpayment. Include in the file the policy number, the date the notice was generated/mailed and the effective date of the cancellation. Using either a spreadsheet or database (if the file is quite large, use ACL), calculate the number of days between the date the regulated entity represents the notice was generated/mailed and the effective date of the cancellation. Using ACL or some other sampling software, select a sample of cancellation and premium notices that appear to conform to state requirements. Request documentation that the notice was mailed on the date reported by the regulated entity. Also extract a report of all notices, which apparently fail to comply with state requirements and submit to the regulated entity for explanations.

**STANDARDS
POLICYHOLDER SERVICE**

Standard 2
Policy issuance and insured-requested cancellations are timely.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Underwriting manuals
- _____ Insured's request for cancellation
- _____ Cancellation notices
- _____ Procedure manuals
- _____ Underwriting files

Others Reviewed

- _____
- _____

NAIC Model References

Unfair Trade Practices Act (#880)

Review Procedures and Criteria

Determine if insured-requested cancellations are handled in a timely manner without excessive paperwork requirements for the insured.

Perform a time study on policy issuance to determine that policies and endorsements are issued in a timely manner.

**STANDARDS
POLICYHOLDER SERVICE**

Standard 3

All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Regulated entity correspondence files

_____ Electronic correspondence

_____ Policy/Underwriting files

Others Reviewed

NAIC Model References

NAIC Insurance Information and Privacy Protection Model Act (#670)

Unfair Claims Settlement Practices Act (#990)

Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)

Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)

Title Insurers Model Act (#628)

Title Insurance Agent Model Act (#230)

Review Procedures and Criteria

Review correspondence to ensure that the response was made by the appropriate department.

Ensure the original question or problem was properly addressed in a timely manner.

Determine if the regulated entity responds to inquiries from the applicant regarding the specific reason(s) for adverse underwriting decisions.

Review correspondence contained in the policy files from the regulated entity to determine appropriateness and timeliness of handling.

**STANDARDS
POLICYHOLDER SERVICE**

Standard 4

Whenever the regulated entity transfers the obligation of its contracts to another regulated entity pursuant to an assumption reinsurance agreement, the regulated entity has gained prior approval of the insurance department, and the regulated entity has sent the required notices to affected policyholders.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Assumption reinsurance agreements

_____ Order of insurance commissioner approving assumption reinsurance agreement

_____ Notice of transfer sent to policyholders, producers and brokers

_____ Response card sent to policyholders

_____ Written regulated entity procedures for handling inquiries regarding the assumption transaction and for processing the policyholders' response cards

Others Reviewed

NAIC Model References

Assumption Reinsurance Model Act (#803)

Review Procedures and Criteria

According to the model act, “assumption reinsurance agreement” means any contract which both:

- Transfers insurance obligations and/or risks of existing or in force contracts of insurance from a transferring insurer to an assuming insurer; and
- Is intended to affect a novation of the transferred contract of insurance with the result that the assuming insurer becomes directly liable to the policyholders of the transferring insurer.

Determine if any assumption reinsurance agreements exist.

Obtain a list of policyholders covered by any assumption reinsurance agreements in order to determine sample.

Determine if the class of policyholder or type of product was covered by the assumption reinsurance agreement.

Determine if affected policyholders received the notice of transfer and the response card and that each includes appropriate language.

Determine whether the regulated entity appropriately handled a policyholder’s right to reject the transfer.

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**STANDARDS
POLICYHOLDER SERVICE**

Standard 5
Policy transactions are processed accurately and completely.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)

_____ Regulated entity correspondence files

_____ Policy underwriting files involving nonforfeiture, surrenders, benefit changes, existing policy changes and other post-issue transactions

Others Reviewed

NAIC Model References

Modified Guaranteed Annuity Model Regulation (#255), Section 6B(1)(b)
Consumer Credit Insurance Model Act (#360)

Review Procedures and Criteria

Ensure proper documentation is maintained for the following:

- Cash surrenders;
- Policy loans;
- Bank draft acceptance and clearance; and
- Beneficiary changes.

Ensure that policyholder requests are processed as soon as reasonably possible.

Ensure that matured endowments are processed when due. Determine if the regulated entity takes appropriate steps to notify policyholders of guaranteed options to purchase additional insurance.

Premium refunds for modified guaranteed life products. Special requirements may exist, under policy provisions or state law, for calculation of refunds involving “10-day right to return” periods for life products, which include a separate account.

For credit insurance, if a debt is refinanced prior to the scheduled maturity date, the in force insurance must be terminated before any new insurance is issued.

**STANDARDS
POLICYHOLDER SERVICE**

Standard 6

Reasonable attempts to locate missing policyholders or beneficiaries are made.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Schedule F of the annual statement
- _____ Policies scheduled for matured endowments
- _____ Underwriting files
- _____ Unpaid payees of returned benefit checks

Others Reviewed

- _____
- _____

NAIC Model References

Review Procedures and Criteria

Determine if the regulated entity has made reasonable attempts to locate beneficiaries, policyholders and recipients of unclaimed properties.

**STANDARDS
POLICYHOLDER SERVICE**

Standard 7

Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ Policy contract
- _____ Notice of cancellation/nonrenewal
- _____ Refund check or complete documentation of refund, if canceled check information is maintained on the computer system

Others Reviewed

- _____
- _____

NAIC Model References

Consumer Credit Insurance Model Regulation (#370)
Universal Life Insurance Model Regulation (#585)

Review Procedures and Criteria

Calculate the unearned premium (short rate, pro rata or sum of digits method) in accordance with policy provisions or state law.

Verify that refunds provided to producers are properly distributed.

Verify that unearned premiums were returned to the insured in a timely manner.

Verify that the regulated entity adheres to applicable “free look” periods.

For credit insurance:

- If the creditor has opened a line of credit for a debtor and is charging for the line of credit rather than the amount of debt (i.e., credit cards), at the debtor’s death the insured amount due is the amount of established credit against premium was last charged;
- If a debtor prepays the debt in full, any credit insurance shall be terminated and an appropriate refund of premium shall be paid or credited to the debtor; and
- In the event of termination, no charge may be made for the first 15 days of a month and a full month may be charged for over 16 days.

F. Underwriting and Rating

1. Purpose

These standards, in general, apply to insurance companies, although some or all of these standards may be applicable to other regulated entities to the extent that they address functions that have been delegated to them by insurance companies.

The underwriting portion of the examination is designed to provide a view of how the regulated entity treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. It is concerned with compliance issues. The areas to be considered in this kind of review include:

- a. Rating practices;
- b. Underwriting practices;
- c. Use of correct and properly filed and approved forms and endorsements;
- d. Termination practices;
- e. Unfair discrimination;
- f. Use of proper disclosures, buyers' guides and delivery receipts;
- g. Reinsurance; and
- h. Statistical coding.

2. Techniques

During an examination, it is necessary for examiners to review a number of information sources, including:

- Rating manuals and rate cards;
- Rate classifications;
- Symbol manuals or tables;
- Rating systems filed with regulators;
- Payment plans;
- Minimum premiums;
- Policy fees;
- Discounts;
- Dividend rating plans;
- Regulated entity automated rating systems;
- Rating materials provided to producers;
- Reinsurer policies/treaties;
- Reinsurer guidelines and manuals;
- Documentation of required disclosures and delivery receipts;
- Premium statements and billing statements;
- Premium refund documentation;
- Replacement and conservation materials;
- Underwriting manuals, guidelines and classification manuals;
- Medical underwriting manuals;
- Issued and renewed policy and certificate files;
- Canceled and nonrenewed policy and certificate files;
- Declined applications and notices;
- Individual and group lapsed policy files and notices;
- Individual and group nonforfeiture files and notices;

- Rescission files;
- Underwriting guidelines;
- Sample of premium audit files;
- Applicable policy forms and endorsements and summaries;
- Producer licensing information;
- Group trust and association arrangements where applicable;
- Producer compensation agreements where applicable;
- Statistical reporting requirements; and
- Underwriting files content and structure.

For purposes of this chapter, “underwriting file” means the file or files containing the new business application; renewal application; rate calculation sheets; billings; audits, including binders; engineering reports; inspection reports; risk or hazard investigative or evaluation reports; motor vehicle reports (MVRs); credit reports; all underwriting information obtained or developed; policy declaration page; endorsements; premium finance agreements with regulated entities activities; cancellation or reinstatement notices; correspondence; and any other documentation supporting selection, classification, rating or termination of the risk.

In selecting samples for testing, personal lines should generally not be combined with commercial lines. These two areas are generally not homogeneous, and conclusions or inferences to be made from the results of sampling may not be valid if combined. The examiner should be familiar with any statutory or regulatory distinctions made between personal lines and commercial lines as respects the various tests to be developed. Then examiners also should be familiar with the process for gathering and processing underwriting information, and the quality controls for the issuance of policies, endorsements and premium statement/billings. The list of files from which a sample is to be drawn may be generated through a computer run or in some cases through a policy register covering the period of time selected in the notice or call of examination.

Determine the regulated entity’s policy population (policy count) by line of business. Review a random selection of business for application of a particular test or apply specific tests to a census population using automated tools. (In the event specific files are chosen for a target review, the examiner must be certain the examination results are clearly identified as being from the target selection.) The examiner should maintain a list of the various tests to be applied to each file in the sample. This will aid in consistency by ensuring that each test is considered for each file in the sample.

If exceptions are noted, the examiner must determine if the exception is caused by such practices as use of faulty automated rating systems, or development of improperly or vaguely worded manuals or guidelines. When exceptions are noted, it is advisable to determine the scope and extent of the problem. The examiner responses should maximize objectivity; the examiner should avoid replacing examiner judgment for regulated entity judgment.

a. Rating Practices

It is necessary to determine if the regulated entity is in compliance with rating systems that have been filed with, and, in some cases, approved by the various state insurance departments. Where rates are not required to be filed with an applicable regulatory agency, it is prudent to determine if rates are being applied consistently and in accordance with the regulated entity's own rating methods. In general, rates should not be unfairly discriminatory. Wide-scale application of incorrect rates by a regulated entity may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a regulated entity is engaged in unfair competitive practices. Inconsistent application of rates, individual risk premium modifications, modification factors and deviations can result in unfair discrimination.

The procedure for determining adherence to rates filed or used by a regulated entity varies between personal lines and commercial lines. There can also be considerable variation by kind of insurance. The examiner should become familiar with the regulated entity's policy form numbers or other identification procedures, inasmuch as references may be made to such numbers or procedures in lieu of having the particular form attached. If policies are issued by an automated system, the examiner should manually rate policies based on a selection of various classes and various territories to verify that the computer has been programmed correctly. Once this has been established, the examiner should check only the input data for other policies against the information included in the inspection report or from information obtained from other sources in order to determine that they have been rated correctly. If rating exceptions are noted, the examiner must determine if the exception is caused by such practices as use of faulty automated rating systems, or development of improperly or vaguely worded rating manuals. When exceptions are noted, it is advisable to determine the scope and extent of the problem.

When possible, the examination team should make use of audit software to verify correct application of specific rating components. This allows for a more thorough review and can save time during the examination process. All new automated audit applications that are developed should be submitted to the NAIC File Repository, in order to assist in building a comprehensive set of audit programs.

Rating practices of renewal policies, as well as newly issued policies, should be reviewed. By reviewing renewal policies, the examiner can verify whether the regulated entity is updating rating components, such as vehicle-identification number (VIN) symbol changes or property protection class changes. The examiner can look for cases where initial year premium rates were set at artificially low levels for competitive reasons.

The complexity of rating systems varies greatly from line to line. Some lines require little in the way of documentation focused on the appropriate use of the rating system. Some systems are so complex that appropriate determination is difficult if a worksheet is not maintained. This is generally more true of commercial lines than it is for personal lines. The examiner should ensure that the underwriting files contain sufficient information to support the rates that have been applied to a policy. Inherent in the more complex systems is the concern for unfair discrimination.

Examiners may wish to review situations involving multiple related companies under common underwriting management for issues involving unfair discrimination between similarly situated policyholders.

Restraint of trade issues also may be involved if there are indications of two or more unrelated companies attempting to conspire to monopolize an insurance market.

b. Underwriting Practices

The examiner should review relevant underwriting information; e.g., the regulated entity's underwriting guidelines, underwriting bulletins, declination procedures, agency agreements and correspondence with producers. Interoffice memoranda and regulated entity minutes, which may furnish evidence of anti-competitive behavior, may also be requested. In addition to reviewing the content of the above information for indications of unfairly discriminatory practices, the examination team also will use the above information to determine regulated entity compliance with its own manuals and guidelines. The examiner should confirm that the regulated entity's underwriters and producers consistently apply the regulated entity's guidelines for all business selected or rejected. The examination team should verify that the regulated entity has correctly classified insured individuals.

File documentation should also be sufficient to support underwriting decisions made. Underwriting decisions that are adequately documented generally afford management of the regulated entity the opportunity to know what business it has selected through its underwriters and producers. The examiner should verify that properly licensed and appointed (where applicable) producers have been used in the production of business.

Underwriting guidelines may vary by geographic areas in the jurisdiction and, therefore, such guidelines should be reviewed for each regional office being examined.

Any practice suggesting anti-competitive behavior may involve legal considerations that should be referred to insurance department counsel. Ultimately, the information so obtained may be useful in drafting legislation or regulations.

In some lines of business, a survey of nonstandard (e.g., surplus lines markets and consent-to-rate filings) and residual markets (e.g., FAIR—Fair Access to Insurance Requirements Plan, JUA—Joint Underwriting Association and high-risk health pools) may provide some insight into general industry underwriting practices.

c. Use of Correct and Properly Filed Forms and Endorsements

The examination team should verify that all policy forms and endorsements used have been filed with the appropriate regulatory authority, if applicable. Additionally, the examination team should verify the consistent and correct use of policy forms and endorsements. The examiner should also be mindful of possible outdated forms or endorsements. If coverages and riders requested by the applicant are not issued, proper notification should be provided to the applicant. In some cases, supplemental applications are appropriate.

If the forms have been approved by the Interstate Insurance Product Regulation Commission (IIPRC), the examiner should verify that the compacting state was included in the IIPRC-approved product filing and the form being marketed has a prefix of "ICCxx" (where "xx" represents the appropriate year the form was submitted for filing). If IIPRC-approved forms are being used or mixed and matched with forms approved by the compacting state, the examiner may wish to verify the forms approved by the compacting state were identified on the statement of intent schedule, which is required to be submitted, updated and maintained by the insurer in the product filing submitted to the IIPRC. Compacting states have access through the NAIC System for Electronic Rate and Form Filing (SERFF) to product filings submitted to the IIPRC for approval and use in their respective state or jurisdiction and can use the export tool in SERFF to extract relevant information.

d. Termination Practices

The examiner should review the regulated entity's declination, cancellation and nonrenewal of policy practices to determine compliance with applicable statutes, rules and regulations and to determine conformance with regulated entity rules, guidelines and policy provisions.

The review of cancellation and nonrenewal practices in a particular line of insurance should involve a request for the underwriting file for each policy selected from the random sample of canceled policies. For nonrenewals, the examiner should select the sample from the expiration list. Cancellations of specific lines of business have unique requirements. The sampling should be completed separately for each product line in order to get a fair sampling for each line of business to be reviewed. The examiner should review material submitted to determine that the cancellations comply with statutory provisions and policy provisions.

Cancellation processing for nonpayment of premium should include a formal notice to the insured. Some companies use the last billing notice as the cancellation notice. If this is the case, that billing notice must clearly state the effective date of termination of coverage, the insured's rights to an explanation, as provided by statutes where required, and a concise statement of the reason for termination of coverage. Make sure that the loss payee is receiving a copy of the same notice, or separate notice from the regulated entity, to advise that coverage is being terminated. Refer to the specific statute and rule that applies.

The accuracy of return premiums on canceled policies and, in particular, pro rata vs. short rate return of premiums should be verified. When coverage other than homeowners is canceled at the request of the insured, short rate methodology should be used. Cancellations initiated by the regulated entity and all homeowner cancellations should be pro rata.

The examination team should review reinstatement offers and determine what the regulated entity practice is for offering reinstatement. Additionally, the examination team should be mindful of billing practices that may encourage policy lapses.

e. Declination Practices

The examiner should review the regulated entity's declination of policy practices to determine compliance with applicable statutes, rules and regulations and to determine conformance with regulated entity rules and guidelines. "Declination" includes only refusal of an insurer to issue a policy upon receipt of a written nonbinding application or written request for coverage from a producer or an applicant, or the refusal of a producer or broker to transmit to an insurer a written nonbinding application or written request for coverage.

Insurers should maintain declination files and producers should maintain files on declinations made on behalf of the regulated entity. The applicant must be provided with a written, specific reason for the declination.

The review of declination practices in a particular line of insurance should involve a request for the underwriting file for each policy selected from the random sample of declinations. The sampling should be completed separately for each product line in order to get a fair sampling for each line of business to be reviewed. The examiner should review material submitted to determine that the declinations are in compliance with the applicable rules and regulations and in conformance with the rules and guidelines for the specific line of business.

f. Reinsurance

Most state statutes include a feature that for many lines of business the regulated entity is not permitted to place more than 10 percent of its surplus to policyholders at risk on any one placement of insurance. While this is primarily a solvency issue, it is one that market conduct examiners are in an ideal position to test in view of the sampling of underwriting files utilized for other tests.

Adherence to the requirement is easy to test but requires familiarity with the structure and content of the reinsurance treaties covering the business written by the regulated entity. This item is particularly important for companies that hold minimal policyholder surplus accounts (i.e., surplus of less than \$10 million). It may also reflect on the care the regulated entity's management places on its selection of business, and represent a danger to the financial health of the regulated entity. Errors in this area should result in alerts to the insurance department's financial examiners. Any tests of this type must be coordinated with the state's financial examiners.

3. Tests and Standards

The underwriting and rating review includes, but is not limited to, the following standards addressing various aspects of the regulated entity's underwriting activities. The sequence of the standards listed here does not indicate priority of the standard.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 1

The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ New business application

_____ All underwriting information obtained

_____ Rating manuals

_____ Policy declaration page

_____ Underwriter's file or notes on a system log

Others Reviewed

NAIC Model References

Property and Casualty Model Rating Law Guideline (File and Use Version) (#1775)

Property and Casualty Model Rating Law Guideline (Prior Approval Version) (#1780)

Property and Casualty Commercial Rate and Policy Form Model Law (Condensed) (#777)

Small Employer and Individual Health Insurance Availability Model Act (#35)

Stop Loss Insurance Model Act (#92)

Individual Health Insurance Portability Model Act (#37), Sections 5A–H, 5J, 5K, 7 and 9

Medicare Supplement Insurance Minimum Standards Model Act (#650)

Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)

Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Verify all rating factors, including class, territory, symbol assignment, surcharges, deductible factors and increased limit factors.

If no source document application exists, review what procedures the regulated entity has in place to determine the accuracy of the information that was given to issue the policy.

Calculate the policy premium to verify it is in accordance with filed rates.

Verify that the proper rules are being used.

Verify that the filed implementation date is used uniformly, including at different branches.

Confirm that rates in use were filed and approved prior to use, where required.

Confirm that rates in use have been submitted as required, if system is other than prior approval.

Verify the basis of premium is correct.

Verify that the protection classes and other rating factors are correct.

Verify that the rating rules are properly utilized. The examiner should be alert for incorrect interpretation of rating rules.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

Automation Tip:

Obtain from the regulated entity a data file that contains new business written during the examination period. The file should contain policy number, policy form, address, territory code or any other rating factor that is standardized by the regulated entity. Obtain from the regulated entity a data file that contains these standardized rating factors. For example, if the regulated entity underwrites by county, then obtain a data file that contains the county codes and a new business file that contains the policyholder's county. Compare the two files to see if the appropriate rating code is being applied. Since variations can happen, ask for explanations only in areas where the error rate is unacceptable.

**STANDARDS
UNDERWRITING AND RATING**

Standard 2

All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ Underwriting or policy files
- _____ Lapsed policies
- _____ Rating/Quote information provided electronically

Others Reviewed

- _____
- _____

NAIC Model References

- Cancer Insurance Shopper's Guide*
- Model Regulation to Implement the Small Employer Insurance Portability Model Act (#119)*
- Small Employer and Individual Health Insurance Availability Model Act (#35)*
- Accident and Sickness Insurance Minimum Standards Model Act (#170), Section 5*
- Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (#171), Sections 8A(10) and 8A(11)*
- Consumer Credit Insurance Model Act (#360)*
- Individual Health Insurance Portability Model Act (#37), Section 11*
- Unfair Trade Practices Act (#880)*
- Long-Term Care Insurance Model Act (#640)*
- Long-Term Care Insurance Model Regulation (#641)*
- Life Insurance Disclosure Model Regulation (#580), Section 5A(1)*
- Life Insurance Illustrations Model Regulation (#582)*
- Consumer Credit Insurance Model Regulation (#370)*
- Charitable Gift Annuities Model Act (#240)*
- Charitable Gift Annuities Exemption Model Act (#241)*
- Bulletin pertaining to Voluntary Expedited Filing Procedures for Insurance Applications Developed to allow Depository Institutions to meet their Disclosure Obligations under Section 305 of the Gramm-Leach-Bliley Act*
- Group Life Insurance Definition and Group Life Insurance Standard Provisions Model Act (#565)*
- Military Sales Practices Model Regulation (#568)*
- Group Health Insurance Standards Model Act (#100)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)
Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Verify that written notice of Medicare supplement replacements are provided to applicants and existing insurers and that appropriate buyer's guides are used.

Verify that appropriate notices regarding credit-related coverages are documented.

Verify that notices regarding the existence of health insurance pools are provided, where applicable.

Review other notices and disclosures required by various jurisdictions.

Determine if state law requires that telephone help numbers be provided, including state insurance department telephone numbers and addresses.

Determine if changes in coverage are disclosed in a timely manner.

Determine if the regulated entity underwriting guidelines comply with applicable statutes, rules and regulations.

Determine if mandated optional coverages are disclosed and documented.

Verify that quotations are made accurately and in a timely manner.

Verify that delivery receipts are obtained where necessary.

Verify that changes in rates are disclosed in a timely manner and in accordance with applicable statutes, rules, regulations and policy provisions.

Determine if the regulated entity is in compliance with rules related to fair marketing.

Verify that the *Shopper's Guide to Cancer Insurance* complies with required disclosures and policy limitations.

Ensure disclosures to consumers represent the applicable consumer protections required by state law, including:

- Limits on preexisting condition exclusions;
- Prohibitions on discrimination based on health status and related factors;
- Guaranteed renewals for all policies, with certain exceptions;
- Limits on the factors that can be used to establish and change premium rates; and
- Descriptive information about all available health benefit plans.

Ensure the regulated entity maintains complete and detailed descriptions of its rating and underwriting practices for individuals and small groups at its principal place of business.

Where required, individual accident and sickness insurance policies shall include with delivery or application an outline of coverage, in a prescribed format. Outlines of coverage delivered in connection with individual hospital confinement indemnity, specified disease or limited benefit health insurance coverages to persons eligible for Medicare by reason of age shall contain language that indicates "This policy IS NOT A MEDICARE SUPPLEMENT policy. If you are eligible for Medicare, review the Medicare Supplement Buyer's Guide available from the regulated entity."

Insurers shall give any person applying for specified disease insurance a buyer's guide approved by the insurance commissioner. Direct response insurers shall provide the buyer's guide upon request, but not later than the time the policy is delivered.

Credit disability income products

Ensure the debtor is provided a disclosure with the following information prior to the election to purchase insurance:

- That the purchase of consumer credit insurance is optional and not a condition of obtaining credit approval;
- If more than one kind of consumer credit insurance is being made available to the debtor, whether the debtor can purchase each kind separately or the multiple coverages only as a package;
- The conditions of eligibility;
- That, if the consumer has other insurance that covers the risk, he or she may not want or need credit insurance;
- That within the first 30 days after receiving the individual policy or group certificate, the debtor may cancel the coverage and have all premiums paid by the debtor refunded or credited. Thereafter, the debtor may cancel the policy at any time during the term of the loan and receive a refund of any of the unearned premium. However, only in those instances where insurance is a requirement for the extension of credit, the debtor may be required to offer evidence of alternative insurance acceptable to the creditor at the time of cancellation;
- A brief description of the coverage, including a description of the amount, the term, any exceptions, limitations and exclusions, the insured event, any waiting or elimination period, any deductible, any applicable waiver of premium provision, to whom the benefits would be paid and the premium rate for each coverage or for all coverages in a package; and
- That, if the premium or insurance charge is financed, it will be subject to finance charges at the rate applicable to the credit transaction.

LTC products

Verify that written notice of LTC replacements is provided to applicants and existing insurers, suitability worksheets are completed and submitted and that appropriate buyer's guides and contract or policy summaries are used.

Ensure the entity maintains, at its home office or principal office, a complete file containing one specimen copy of each disclosure document authorized and used by the entity (i.e., buyer's guide, contract, outline of coverage, statement of policy information for applicant, etc.). The file should contain one copy of each authorized form for a period of 3 years following the date of its last authorized use. Many jurisdictions have repealed the requirement for policy summaries if the product is declared to be marketed with an illustration that meets the requirements of statutes, rules and regulations.

Workers' compensation products

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

IIPRC-approved products

If the forms and advertisements have been approved by the Interstate Insurance Product Regulation Commission (IIPRC), please note that the notices and disclosures required to be included within the approved forms and advertisements are governed by the IIPRC uniform standards and not state law. State law that requires notices and disclosures during the sale, underwriting and claims processes are still applicable to products and advertisements approved by the IIPRC, provided such state law requirements do not pertain to or affect the content or approval of the IIPRC-approved products and advertisements.

**STANDARDS
UNDERWRITING AND RATING**

Standard 3

The regulated entity does not permit illegal rebating, commission-cutting or inducements.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Complaint files/logs

_____ Underwriting files

Others Reviewed

NAIC Model References

Unfair Trade Practices Act (#880)

Producer Licensing Model Act (#218)

Interest-Indexed Annuity Contracts Model Regulation (#235)

Consumer Credit Insurance Model Regulation (#370)

Individual Health Insurance Portability Model Act (#37), Section 11

Title Insurers Model Act (#628)

Title Insurance Agent Model Act (#230)

Medicare Supplement Insurance Minimum Standards Model Act (#650)

Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)

Review Procedures and Criteria

Check commission schedule for inappropriate variances.

Determine that producer commissions adhere to the commission schedule and, if not, verify that the file documentation reflects reasons for the variance.

Check billings and invoices for varying commission percentages.

Check regulated entity advertising for indications of illegal commission-cutting or inducements.

**STANDARDS
UNDERWRITING AND RATING**

Standard 4

The regulated entity's underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ New business and renewal applications
- _____ All underwriting information obtained
- _____ Regulated entity underwriting guidelines
- _____ Underwriting bulletins
- _____ Declination procedures
- _____ Agency agreements and correspondence with producers
- _____ Interoffice memoranda and regulated entity minutes
- _____ Policy declaration page
- _____ Underwriter's file or notes on a system log

Others Reviewed

- _____
- _____

NAIC Model References

- Insurance Fraud Prevention Model Act (#680)*
- Model Regulation on Unfair Discrimination in Life and Health Insurance on the Basis of Physical or Mental Impairment (#887)*
- Model Regulation on Unfair Discrimination on Basis of Blindness or Partial Blindness (#888)*
- Unfair Trade Practices Act (#880)*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Military Sales Practices Model Regulation (#568)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- Small Employer and Individual Health Insurance Availability Model Act (#35)*
- Group Health Insurance Standards Model Act (#100)*
- Stranger-Originated Annuity Transactions (STOA) NAIC Sample Bulletin*

Review Procedures and Criteria

Review relevant underwriting information to ensure that no unfair discrimination is occurring according to the state's definition of unfair discrimination.

Determine if the regulated entity is following its underwriting guidelines, and that the guidelines conform to state laws and are not unfairly discriminatory.

Determine, if required, that the regulated entity's underwriting guidelines have been filed with the insurance department.

Review interoffice memoranda for evidence of anti-competitive behavior.

Underwriting guidelines may vary by geographic areas in the jurisdiction and, therefore, such guidelines should be reviewed for each regional office being examined.

Ensure that the regulated entity does not discriminate against individuals by using any of an individual's past lawful travel or future lawful travel plans to refuse life insurance, refuse to continue existing life insurance, or limit the amount, extent or kind of life insurance available to an individual.

Ensure that the regulated entity's procedures are in compliance with the Genetic Information Nondiscrimination Act (GINA).

Some indication of industry underwriting practices may be obtained by a survey of residual markets (FAIR Plan and JUA), surplus lines markets and consent-to-rate filings.

Inconsistent handling of rating or underwriting practices, even if not intentioned, can result in unfair discrimination, including requests for supplemental information.

Examine new business and renewal applications for the required fraud warning statement.

Review whether the insurer has established a system of STOA-related oversight (underwriting criteria). If not, discuss the existence of the STOA bulletin with the insurer. The examiner should be mindful that the provisions within the bulletin may not be legally required by their applicable jurisdiction.

**STANDARDS
UNDERWRITING AND RATING**

Standard 5

All forms, including policies, contracts, riders, amendments, endorsement forms and certificates are filed with the insurance department, if applicable.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ New business application
- _____ Policy or contract determination page
- _____ Regulated entity's approval register
- _____ Insurance department's approval for all forms, including policies, contracts, riders, amendments, endorsements and certificates (Note: All forms submitted to the IIPRC for approval in the applicable compacting state can be verified through the NAIC System for Electronic Rate and Form Filing (SERFF) or by contacting the designated IIPRC representative(s) within the compacting state)

Others Reviewed

- _____
- _____

NAIC Model References

- Health Policy Rate and Form Model [Act] [Regulation] (#165)*
- Individual Health Insurance Portability Model Act (#37), Sections 7 and 9*
- Insurance Fraud Prevention Model Act (#680)*
- Unfair Trade Practices Act (#880)*
- Group Health Insurance Standards Model Act (#100)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if the forms and endorsements have been filed. Where required, determine that either prior approval has been obtained or that applicable waiting periods following the filing have been met.

Determine if the regulated entity lists, on the summary page, all forms that constitute a part of the contract.

Examine new business applications for the required fraud warning statement.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 6

Policies, contracts, riders, amendments and endorsements are issued or renewed accurately, timely and completely.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ Underwriting files
- _____ Application
- _____ Underwriting procedure manuals
- _____ Underwriting and binding guidelines

Others Reviewed

- _____
- _____

NAIC Model References

- Anti-Arson Application Model Bill (#715)*
- Improper Termination Practices Model Act (#915)*
- Property Insurance Declination, Termination and Disclosure Model Act (#720)*
- Automobile Insurance Declination, Termination and Disclosure Model Act (#725)*
- Consumer Credit Insurance Model Regulation (#370)*
- Consumer Credit Insurance Model Act (#360)*
- Health Policy Rate and Form Model [Act] [Regulation] (#165)*
- Uniform Individual Accident and Sickness Policy Provision Law (#180), Sections 2A(7), 2B(5) and 5C*
- Model Regulation to Implement the Individual Accident and Sickness Insurance Minimum Standards Act (#171), Sections 6G and 8A(2)*
- Administrative Procedure Relative to Renewability and Cancellation Provisions in the Approval of Accident and Health Policies Drafted In Accordance with the Uniform Individual Accident and Sickness Provision Law, Section 8*
- Individual Health Insurance Portability Model Act (#37), Sections 6, 7, 8 and 11*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- Small Employer and Individual Health Insurance Availability Model Act (#35)*
- Group Health Insurance Standards Model Act (#100)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if policies and endorsements are issued in appropriate time frames.

Verify how much time elapses between completion of the application and issuance of coverage.

Note that this standard may need flexibility or special application when dealing with assigned risk plans, joint insurance arrangements, anti-arson applications, FAIR (Fair Access to Insurance Requirements) plans or other involuntary business.

Review new issues prior to mailing to ensure correct procedures, forms, disclosures, etc., are used.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 7

Rejections and declinations are not unfairly discriminatory.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Policy contract
- _____ Notice of declination
- _____ Regulated entity guidelines for cancellation/nonrenewal/declination
- _____ Producer records/issued policies and declinations

Others Reviewed

- _____ The Genetic Information Nondiscrimination Act (GINA)
- _____ _____

NAIC Model References

- NAIC Insurance Information and Privacy Protection Model Act (#670), Sections 10-12*
- Small Employer and Individual Health Insurance Availability Model Act (#35)*
- Group Health Insurance Standards Model Act (#100)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- Unfair Trade Practices Act (#880)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if the regulated entity provides valid reasons for rejection/declination when required.

Determine if the regulated entity responds to inquiries from the applicant regarding the specific reason(s) for adverse underwriting decisions. Was the adverse underwriting decision based on previous adverse underwriting decisions?

Determine if the regulated entity uses valid reasons for rejection/declination and documents these reasons.

Review the regulated entity's procedures for rejection/declination to determine if the regulated entity is following its own guidelines.

Determine if the regulated entity monitors agency rejection/declination for appropriate practices.

Review for any unfairly discriminatory practices.

Verify appropriate refund has been made to the applicant.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
UNDERWRITING AND RATING**

Standard 8

Cancellation/nonrenewal, discontinuance and declination notices comply with policy and contract provisions, state laws and the regulated entity’s guidelines.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations (Note: Reference applicable Interstate Insurance Product Regulation Commission (IIPRC) uniform standards for products approved by the IIPRC)
- _____ Policy contract
- _____ Notice of cancellation/nonrenewal
- _____ Agent’s/MGA’s/Underwriter’s file or notes on a system log
- _____ Producer records/notices issued
- _____ Insured’s request (if applicable)
- _____ Regulated entity cancellation/nonrenewal guidelines

Others Reviewed

- _____
- _____

NAIC Model References

- Property Insurance Declination, Termination and Disclosure Model Act (#720)*
- Automobile Insurance Declination, Termination and Disclosure Model Act (#725)*
- Improper Termination Practices Model Act (#915), Section 8A*
- Unfair Trade Practices Act (#880)*
- Group Coverage Discontinuance and Replacement Model Regulation (#110)*
- Individual Health Insurance Portability Model Act (#37), Section 11*
- Long-Term Care Insurance Model Act (#640)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- Small Employer and Individual Health Insurance Availability Model Act (#35)*
- Group Health Insurance Standards Model Act (#100)*
- Guidelines for the Filing of Workers’ Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers’ Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if the reason for cancellation/nonrenewal or declination was valid according to policy provisions and state law.

Review the regulated entity's procedures for cancellation/nonrenewal and declinations to determine if the regulated entity is following its own guidelines.

Review regulated entity-initiated cancellations and consider a separate sample for insured-initiated cancellation.

Determine if the regulated entity monitors agency cancellation, declination and nonrenewals for appropriate practices.

Review for any unfairly discriminatory practices.

Review declinations, including declinations made by producers on behalf of the regulated entity. Declinations shall, as required, include the specific reasons for the declination.

Review notice of cancellation/nonrenewal to determine that it was mailed or delivered by the insurer to the first named insured's last known address.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

Automation Tip:

Obtain from the regulated entity a data file of all cancellations/nonrenewals and declinations during the examination period. Include in the file the policy number, the date the notice was generated/mailed and the effective date of the cancellation/nonrenewal or declination. Using either a spreadsheet or database (if the file is quite large, use ACL), calculate the number of days between the date the regulated entity represents the notice was generated/mailed and the effective date of the cancellation/nonrenewal or declination. Using ACL or some other sampling software, select a sample of cancellation and premium notices that appear to conform to state requirements. Request documentation that the notice was mailed on the date reported by the regulated entity. Also extract a report of all notices which apparently fail to comply with state requirements and submit to the regulated entity for explanations.

**STANDARDS
UNDERWRITING AND RATING**

Standard 9
Rescissions are not made for non-material misrepresentation.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ List of rescinded policies
- _____ Underwriting files and supporting documentation, including claim files

Others Reviewed

- _____ Case law for state impacted
- _____
- _____

NAIC Model References

- Improper Termination Practices Model Act (#915)*
- Unfair Trade Practices Act (#880)*
- Long-Term Care Insurance Model Act (#640)*
- Medicare Supplement Insurance Minimum Standards Model Act (#650)*
- Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*
- Group Health Insurance Standards Model Act (#100)*

Review Procedures and Criteria

Determine if rescinded policies indicate a trend toward post-claim underwriting practices.

Determine if decisions to rescind policies are made in accordance with applicable statutes, rules and regulations.

G. Claims

1. Purpose

These standards, in general, apply to insurance companies, although some or all of these standards may be applicable to other regulated entities to the extent that they address functions that have been delegated to them by insurance companies. The claims portion of the examination is designed to provide a view of how the regulated entity treats claimants and whether that treatment is in compliance with applicable statutes, rules and regulations. It is determined by testing a random sampling of files and applying various tests to open and closed claims.

For purposes of this chapter, “claim file” means the file or files containing the notice of claim, claim forms, proof of loss, medical records, health facility pre-admission certification or utilization review documentation, settlement demands, accident reports, police reports, adjusters’ logs, claim investigation documentation, inspection reports, supporting bills (including electronic payment records, estimates and valuation worksheets), correspondence to and from insureds and claimants or their representatives, complaint correspondence, copies of claim checks and/or check numbers and amounts, releases, all applicable notices and correspondence used for determining and concluding claim payments or denials, subrogation and salvage documentation, and any other documentation necessary to support claim-handling activity.

The review is concerned with the regulated entity’s claims practices by line of business for compliance with statutes, rules and regulations and policy provisions. The areas to be considered in this kind of review include:

- a. Time studies to measure acknowledgment, investigation and settlement times;
- b. General handling study;
- c. Total loss valuation survey;
- d. Closed without payment survey;
- e. Subrogation survey;
- f. Litigation survey;
- g. Unfair claims practices survey;
- h. Claims form review;
- i. Loss statistical reporting survey;
- j. Time study on canceled checks; and
- k. Review of other procedures, as deemed necessary.

2. Techniques

Each area of claims review involves selecting a sample of claims (open, closed without payment, closed, denied). However, it is not necessary to use different samples to review timeliness of payment, conformity to policy language or adequacy of proof.

A general approach to examination would be to:

- Define the scope of the examination in terms of the lines of business and type of claims covered. Lines of business should be defined as specifically as possible; e.g., physical damage coverage rather than automobile coverage.
- Become familiar with the regulated entity’s claim handling procedures for the line of business identified. Review corresponding policy forms for coverage, exclusions and nonstandard provisions. Review the methods for processing claims from notification to conclusion. Review with the claim manager or other appropriate personnel the maintenance of claim records and draft and settlement authority.

- Select a representative sample of files to be reviewed. Chapter 17—Sampling of this handbook should be reviewed. If field sizes are relatively small and the regulated entity’s records appear complete, representative samples or a census should be selected. In the case of large field sizes and incomplete or complicated records, the use of audit software should be considered. Care should be taken that no adverse selection occurs.

a. Time studies to measure acknowledgment, investigation and settlement times

Record the date of loss/claim, the date reported to the producer or regulated entity, the date sufficient information was available to determine the regulated entity’s liability and the date the regulated entity accepted or rejected the claim. Record identifying data, such as the claim/policy number and the claimant’s name.

Determine for each claim the number of days the regulated entity took to accomplish each category. Compare days required by regulated entity to appropriate state standards and document those claims that exceed standards for inclusion in the report. Delays beyond the control of the regulated entity should be excluded; e.g., a delay caused by an uncooperative insured. Establish a mean and median time to acknowledge, investigate and accept/deny claims, if necessary, to determine a business practice.

Caution: If a file has a violation of a standard with multiple tests, and the standard is the item measured, the file can only fail one time. If the individual test is the item measured, the file can fail each test. If failure of a standard or of a test ensures failure of another standard or test under another standard, then no substitution of the file need occur. The relationship, however, should be explained.

b. General handling study

Record identifying data such as claim/policy number, date of loss and claimant name. Files should be reviewed for adequate and accurate documentation. Correct application of deductibles, coinsurance and limits of coverage should be established. Mathematical accuracy should be determined. Reductions based on depreciation, obsolescence, etc., should be reviewed for fairness and accuracy.

Checks or drafts should be reviewed for correct payees. Files should be reviewed for specific state requirements. Compliance with the regulated entity’s own standards should be established.

c. Closed without payment review

This includes denied, rejected, incomplete and claims not paid for any other reason, including deductibles/waiting periods not met. Conduct tests similar to “General handling study” above. Record identifying data such as claim/policy number, date of loss and claimant name. Review specific state requirements for content and method of denial notification to the claimant. Note general handling by the regulated entity to determine validity of its action in the final disposition of these types of claims.

d. Litigation survey

Determine the extent of suits against the regulated entity. Separate first- and third-party actions. If a review is deemed appropriate, select a representative sample or census.

Record identifying data such as claim/policy number, date of loss and claimant name. Files should be reviewed to determine the basis for suit and the regulated entity's position for denial or settlement offer. Closed litigated files should be reviewed to determine accuracy, regulated entity position and if punitive or bad faith judgments were rendered. Recognition of attorney-client privileged documents or work products should occur during the file review. A principal focus is compliance with unfair claims practices statutes and regulations.

e. Unfair claims practices review

Record identifying data such as claim/policy number, date of loss and claimant name. Review selected files for violations of specific state unfair claims practices, such as misrepresentation of policy provisions or concealment of coverage.

Calculate error ratios for the sample and field sizes. This is especially important in this study, since most unfair claims practices statutes make reference to "business practices."

f. Claim forms

Request copies of all claim forms in use for the lines of business being examined. Forms should be reviewed for content and appropriate usage. Inappropriate forms should be documented and included in the report. Claim forms also may be reviewed as they are encountered in the file reviews.

g. Review of canceled drafts/checks

This review should be considered if solvency is an issue, if the examiner determines delays in issuing a payment, or if consumer complaints indicated delays that are not supported by other time studies.

From the regulated entity's records, select a representative sample of the type of claims being reviewed. The selection should include drafts/checks reflecting a substantial payment amount on any one claim. Compare the date the regulated entity indicated the draft/check was forwarded to the claimant with the date the draft/check was presented for payment. If the review indicates significant and numerous delays in presenting drafts/checks for payment, additional investigation to determine the causes should be done.

Canceled checks should be reviewed to verify that the amount paid and the claim amount approved are the same, that payees are the same and that the information recorded in the computer system matches what is on the check (payee, amount, date of check, etc.).

h. Review of other procedures

Other review, as deemed necessary, should follow the same format for objectivity and sampling techniques as those already described. These reviews may be instituted by consumer complaints regarding specific claims practices and should be tailored to resolve specific issues.

3. Tests and Standards

The claims review includes, but is not limited to, the following standards addressing various aspects of the regulated entity's claim handling practices. The sequence of the standards listed here does not indicate priority of the standard.

**STANDARDS
CLAIMS**

Standard 1

The initial contact by the regulated entity with the claimant is within the required time frame.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manuals
- _____ Internal regulated entity claims audit reports
- _____ Claim files

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's procedures, training manuals and bulletins to determine if regulated entity standards exist. Determine whether the regulated entity's standards comply with applicable statutes, rules and regulations.

Determine if initial contact procedures are in place and in compliance with the mandated time frame. Perform a time study of acknowledgment times.

Determine if initial contact with claimants meets required contract standards.

Determine if subsequent responses and claim handling delay notices comply with applicable statutes, rules and regulations.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
CLAIMS**

Standard 2
Timely investigations are conducted.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manual
- _____ Internal regulated entity claims audit reports
- _____ Claim bulletins
- _____ Antifraud procedures

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Consumer Credit Insurance Model Act (#360)*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's procedures, training manuals and claim bulletins to determine if regulated entity standards exist and whether standards comply with state statutes.

Determine if investigations are initiated and concluded in compliance with state statutes.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
CLAIMS**

Standard 3
Claims are resolved in a timely manner.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manuals
- _____ Internal regulated entity claims audit reports
- _____ Review of canceled claim checks
- _____ Claim files

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Consumer Credit Insurance Model Act (#360)*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's procedures, training manuals and claim bulletins to determine if regulated entity standards exist and whether standards comply with state statutes.

Determine if claim resolutions—i.e., liability, determinations, coverage questions and claims payment—are made in accordance with state requirements. Perform time studies to measure the settlement time of claims.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

Automation Tip:

Obtain from the regulated entity a listing of claims closed with payment or claims closed without payment by claim feature. Include in the file the claim number(s), date the claim was reported to the regulated entity, the first payment date (if applicable), and the date the claim feature was closed. Using ACL, a database or spreadsheet, calculate the number of days from the date the claim feature was closed to the date the claim was reported. Group the number of days in any appropriate time periods, for example, 1 to 15 days, 16 to 30 days, etc., and perform a count on each time period. Investigate any patterns of untimeliness.

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**STANDARDS
CLAIMS**

Standard 4
The regulated entity responds to claims correspondence in a timely manner.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manuals
- _____ Claim files
- _____ Electronic claims correspondence

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Consumer Credit Insurance Model Act (#360)*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's procedures, training manuals and claim bulletins to determine if regulated entity standards exist and whether standards comply with state statutes.

Determine if correspondence related to claims is responded to in accordance with state requirements.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
CLAIMS**

Standard 5
Claim files are adequately documented.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Electronic records of claims activities
- _____ Claims training manuals
- _____ Internal regulated entity claims audit reports
- _____ Claim bulletins
- _____ Claim files
- _____ Claim forms

Others Reviewed

- _____
- _____

NAIC Model References

- Insurance Fraud Prevention Model Act (#680)*
- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Title Insurers Model Act (#628)*
- Title Insurance Agent Model Act (#230)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's procedures, training manuals and claim bulletins to determine if regulated entity standards exist and whether standards comply with state statutes.

Determine if quality of the claim documentation meets state requirements.

Determine if claim files retention/destruction program meets state requirements.

Determine if claim files documentation is sufficient to support or justify the ultimate claim determination.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
CLAIMS**

Standard 6

Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPAA), rules and regulations.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manuals
- _____ Internal regulated entity claims audit reports
- _____ Claim bulletins
- _____ Regulated entity claim forms manual
- _____ Regulated entity subrogation and salvage logs
- _____ Claim files
- _____ Regulated entity depreciation schedules
- _____ Auto—total loss evaluation procedures

Others Reviewed

NAIC Model References

- Insurance Fraud Prevention Model Act (#680)*
- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Retained Asset Accounts Sample Bulletin (#573)*
- Consumer Credit Insurance Model Regulation (#360)*
- Long-Term Care Insurance Model Act (#640)*
- Coordination of Benefits Model Regulation (#120)*
- Off-Label Drug Use Model Act (#148), Section 4*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review regulated entity procedures, training manuals and claim bulletins to determine if regulated entity standards exist and whether standards comply with state statutes.

Determine if the regulated entity's procedures provide for the detection and reporting of fraudulent or potentially fraudulent insurance acts to the commissioner.

Determine if claim handling meets state-specific statutes and regulations as applied to total loss evaluations, sales tax payment, disposition of salvage, correct payees, improper release of claims, proper payment of non-disputed claims and proper referral of suspicious claims.

Determine if coverage was checked for proper application of deductible or appropriate exclusionary language.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
CLAIMS**

Standard 7
Regulated entity claim forms are appropriate for the type of product.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Claim forms for product being examined

_____ Electronic claims notification screens

_____ Claim files

Others Reviewed

NAIC Model References

Insurance Fraud Prevention Model Act (#680)

Unfair Claims Settlement Practices Act (#900)

Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)

Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)

Standardized Health Claim Form Model Regulation (#30)

Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)

Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)

Review Procedures and Criteria

Determine if claim form(s) include appropriate content and are used appropriately. Use of inappropriate forms should be documented and included in the examination report.

Review claim forms as they are encountered in the file reviews.

Examine all claim forms for the required fraud warning statement.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
CLAIMS**

Standard 8

Claim files are reserved in accordance with the regulated entity's established procedures.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manuals
- _____ Internal claims audit reports
- _____ Individual claim file
- _____ Average reserve data

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Review the regulated entity's claims procedure manuals for established reserving practices.

Determine if individual reserves are evaluated and posted.

Determine if reserve adjustments are made.

Determine if reserves are excessive/inadequate.

Determine if reserves are reduced, if a redundancy is apparent.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

**STANDARDS
CLAIMS**

Standard 9
Denied and closed without payment claims are handled in accordance with policy provisions and state law.

Apply to: All regulated entities

Priority: Essential

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Regulated entity claims procedure manuals
- _____ Claims training manuals
- _____ Internal regulated entity claims audit reports
- _____ Claim bulletins
- _____ Claim files

Others Reviewed

- _____
- _____

NAIC Model References

- Insurance Fraud Prevention Model Act (#680)*
- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*
- Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (#1970)*
- Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950)*

Review Procedures and Criteria

Determine if denied and closed without payment claims are based on policy provisions and applicable state statutes and regulations.

Determine if notices of claim denials reference specific policy provisions or exclusions.

Determine if the regulated entity provides claimants with a reasonable basis for the denial, when required by statutes, rules or regulations.

Where required, determine if claimants are provided with instructions for having rebuttals to denials reviewed by the insurance department or by the regulated entity.

Determine if the regulated entity refers suspicious claims to a regulatory authority/law enforcement agency, when appropriate.

When conducting an examination on workers' compensation, it is recommended that separate samples be obtained for standard voluntary market, assigned risk (if applicable), large deductible (if applicable) and PEO accounts.

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**STANDARDS
CLAIMS**

Standard 10
Canceled benefit checks and drafts reflect appropriate claim handling practices.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

- _____ Applicable statutes, rules and regulations
- _____ Cashed benefit checks and drafts
- _____ Regulated entity claims procedure manuals

Others Reviewed

- _____
- _____

NAIC Model References

- Unfair Claims Settlement Practices Act (#900)*
- Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)*
- Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)*

Review Procedures and Criteria

Perform a time study on canceled claim checks or drafts to ascertain whether claim proceeds are being promptly mailed or delivered.

Determine if canceled checks include the correct payee and are for the correct amount.

Ascertain whether payment checks indicate the payment is “final” when such is not the case.

Ascertain whether checks or drafts purport to release the insurer from total liability when such is not the case.

Review endorsements to see if they are consistent with the payee name listed on the check.

If drafts are used, ascertain whether there is prompt clearance by the insurer.

**STANDARDS
CLAIMS**

Standard 11

Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Apply to: All regulated entities

Priority: Recommended

Documents to be Reviewed

_____ Applicable statutes, rules and regulations

_____ Closed litigated claim files

_____ Regulated entity claims procedure manuals

Others Reviewed

NAIC Model References

Unfair Claims Settlement Practices Act (#900)

Unfair Property/Casualty Claims Settlement Practices Model Regulation (#902)

Unfair Life, Accident and Health Claims Settlement Practices Model Regulation (#903)

Review Procedures and Criteria

Review a sample or entire population of closed litigated claim files, if feasible. Determine if litigated files indicate problematic claim handling practices. If warranted, notify the insurance department's financial examination division.

Note: The examiner should review applicable state statutes to determine which particular claims should adhere to this standard. For example, bodily injury claims may not readily fit this standard.

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November 24, 2021
Via Electronic Delivery

Mr. Damion Hughes, Chair
Director of Market Regulation
Department of Regulatory Agencies
Division of Insurance
1560 Broadway, Suite 850
Denver, Colorado, 80202

Attention: Ms. Petra Wallace

RE: NAIC Market Conduct Examination Guidelines (D) Working Group Chapter 20 Proposed Changes

Mr. Hughes:

State Farm Mutual® Automobile Insurance Company and its affiliates ("State Farm"), appreciate the opportunity to submit these comments concerning the exposed draft of revisions to Chapter 20 Conducting the Property and Casualty Examination of the Market Regulation Handbook.

State Farm is concerned with the appropriateness of the review during a Market Conduct Examination (MCE) for compliance with the Insurance Holding Company System Regulatory Model Act (#440) concerning the Group Capital Calculation and liquidity stress test through Chapter 20 under the Operations/Management Standards on page 7 and 8 to:

- Determine if the NAIC Liquidity Stress Test Framework needs to be utilized for a specified data year.
- Determine if there is a holding company system in place. And if so, whether there should be a group capital calculation request from the U.S. Federal Reserve or whether a lead state commissioner should require a group capital calculation for US operations of any non-U.S. based insurance holding company system.
- Determine if the confidentiality of any group capital contribution or group capital ratio is maintained and if the confidentiality of the liquid stress test results and supporting disclosure are maintained which includes any Federal Reserve Board filings and information.

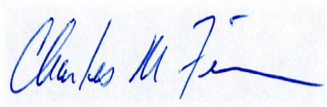
State Farm
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The MCE should not duplicate efforts of the lead state's or domestic regulator's financial solvency review of domestic regulated insurers. The lead state or domestic regulator maintains the authority to provide exemptions from the GCC and liquidity stress tests and are given the responsibility of compliance for these provisions and the annual review of these filings. As a national writer of property and casualty insurance, State Farm could possibly be under examination by multiple states simultaneously that are not a domestic or lead state regulator and who ultimately does not have responsibility for compliance and/or evaluation of the GCC or liquidity stress filings. State Farm believes that the MCE should be focused on applicable state marketplace laws of the state conducting the MCE and whether there is compliance in those marketplace laws. The MCE should not concern financial solvency and its evaluation tools when the authority and responsibility has been given to the lead state or domestic regulator. State Farm respectfully requests that the revisions to Chapter 21 under the Operations/Management Standards on pages 7 and 8 be removed.

However, State Farm supports the revisions to include the listing of the Insurance Holding Company System Regulatory Model Act (#440) along with the specific provision, Section 8(G), that prohibit the use of or marketing related to the GCC and liquidity stress test under the Marketing and Sales Standards on page 46, similar to how Risk Based Capital Model Law is listed. State Farm questions why the revisions on page 48 are included that specifically call out the GCC and liquidity stress test and suggest that these could be made generic to apply to all prohibited marketing activity whether related to GCC, liquidity stress test, Risk Based Capital, Unfair Trade Practices or any other law listed back on page 46. This would provide guidance for all the laws listed and not just GCC and liquidity stress test results.

Thank you for your time and consideration of these comments. If there are any questions concerning these comments, please contact me.

Sincerely,



Chuck Feinen
State Farm Mutual Automobile Insurance Company

Enclosures



Gabrielle Griffith
Senior Policy Analyst and NAIC Coordinator
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gabriellegriffith@acli.com

December 17, 2021

Mr. Damion Hughes, Chair
Director of Market Regulation
Department of Regulatory Agencies
Division of Insurance
1560 Broadway, Suite 850
Denver, Colorado, 80202

Sent via email to Petra Wallace, Senior Market Regulation Specialist

**Re: NAIC Market Conduct Examinations Guidelines (D) Working Group Chapter 20
Proposed Changes**

Dear Mr. Hughes:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit the comments below, concerning the exposed draft revisions to Chapter 20 of the General Examination Standards in regard to the *Insurance Holding Company System Regulatory Model Act* (Model #440).

We are concerned with the inclusion of needing to review for compliance under Model #440, during a Market Conduct Examination (MCE), the Group Capital Calculation (GCC) and liquidity stress test (LST) under the Operations/Management Standards on pages 7 and 8 to:

- Determine if the NAIC Liquidity Stress Test Framework needs to be utilized for a specified data year.
- Determine if there is a holding company system in place. And if so, whether there should be a group capital calculation request from the U.S. Federal Reserve or whether a lead state commissioner should require a group capital calculation for US operations of any non-U.S. based insurance holding company system.
- Determine if the confidentiality of any group capital contribution or group capital ratio is maintained and if the confidentiality of the liquid stress test results and supporting

disclosure are maintained which includes any Federal Reserve Board filings and information.

The included language relates to 1) information that is to be filed with the commissioner in the context of an acquisition or merger; and 2) information that may be requested by the insurer of a domestic legal entity. Under GCC and LST, the lead state or domestic regulator maintains the authority to provide exemptions from the GCC and liquidity stress tests and are given the responsibility of compliance for these provisions and the annual review of these filings. The Market Conduct Examination (MCE) should be focused on applicable state marketplace laws of the state conducting the MCE and whether there is compliance in those marketplace laws. The MCE should not analyze financial solvency and its evaluation tools when the authority and responsibility has been given to the lead state or domestic regulator. Since neither involves an audit of the GCC or liquidity stress testing and there are no audit requirements for such, we feel that that this does not need to be addressed in this program. We respectfully request that the revisions to Chapter 20 under the Operations/Management Standards on pages 7 and 8 be removed.

We also recommend that direct reference to the GCC and LST be removed from the Marketing and Sales Standards on page 48 or, in the very least these could be made generic to apply to all prohibited marketing activity for any of the NAIC Model References listed on page 46.

Thank you again for the opportunity to submit comments.

Sincerely,



Gabrielle Griffith
Senior Policy Analyst
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