

MCAS BEST PRACTICES GUIDE

Introduction

The Market Conduct Annual Statement (MCAS) was developed with the input of state insurance regulators and representatives from the insurance industry to provide an analysis tool for certain key market data elements. Some of the states collected private passenger auto data as early as the 1990s. In 2003, the NAIC Market Regulation and Consumer Affairs (D) Committee established an annual statement pilot program for life and annuity and property/casualty companies. Today, the vast majority of the states participate in MCAS and the NAIC collects the data on behalf of the states.

By using common data and analysis, the states have a uniform method of comparing the performance of companies. If a company's performance appears to be unusual as compared to the industry, the state will want to undertake further review of that company. The purpose of this document is to share some best practices in the collection and review of MCAS data.

Please note that this document will be updated as new MCAS lines are added or timelines for filings are changed.

Before moving forward with follow-up activity or continuum actions, the following three principles should be considered:

- Always refer back to the underlying raw data.
- Before moving on, check the company comments.
- Always interpret the MCAS within the context of all other available information.

The MCAS was initiated as a pilot project among nine jurisdictions and has now expanded to 46 jurisdictions. Data consists of various market indicators, primarily related to two areas:

- Claims handling – claim denials, processing times and lawsuit activity.
- Underwriting – new issues, policies in force, non-renewals and cancellations.

Other line-specific indicators are used to determine, for example, the number of policy exchanges and resisted claims for life insurance policies.

Currently, MCAS data are collected for private passenger automobile insurance, homeowners insurance, and individual life and annuity products. The MCAS for long-term care insurance is under development; it is anticipated that additional lines of business will be added in the future.

Current developments to the MCAS can be found on the NAIC website at: www.naic.org/industry_market_conduct_statement.htm.

The MCAS Industry User Guide can be found at: http://www.naic.org/documents/mcas_2013_user_guide.pdf.

The MCAS Timetable

The MCAS process begins in November, when call letters are sent to the companies. On July 1, 60 days after the due date (April 30), scorecards are posted on the MCAS Web page. The scorecard allows companies to compare their specific results to the rest of industry for the particular line of business. [Appendix A](#) contains a flow chart showing the current MCAS timeline.

From Call Letter to MCAS Submission Tool Availability

In September, the NAIC requests that the participating states' MCAS contacts submit any changes to data call letters. These letters will be sent to companies to obtain information for the next year. The data call letter identifies changes to the MCAS submission, as well as the contact person for the state requesting the submission.

In December, the data call letters are sent to each company's MCAS contact; companies are expected to keep their contact information current. At the same time, the NAIC updates its submission portal in preparation for the submission of new data. As a result, by January 31, companies may no longer use the MCAS portal to make changes to the prior year's data. Changes needed to prior year's data need prior approval from the state(s) affected. To ensure that companies are aware of the submission requirements, the NAIC develops training classes for company, as well as state, representatives.

Several methods are used to address questions by the companies regarding data submissions, including bulletin boards, frequently asked questions (FAQs), training webinars and other resources. The NAIC maintains a Web page dedicated to explaining the MCAS process and any changes expected. These resources are available to assist the states with incoming questions from insurance companies.

Waiver and Extension Requests

Companies are to submit MCAS data between April 1 and April 30.

Data call letters are sent to each company that exceeds premium thresholds on the financial annual statement (FAS) for each line of business captured by MCAS. Because there are slight definitional discrepancies between the FAS and MCAS, a company may receive a call letter even though they are exempt from filing. For example, antique auto products may be reported in the FAS as private passenger auto business, while such products are excluded from the MCAS. In these situations, the company may request a waiver from each state in which it markets these products. Please Note: Companies that market regular private passenger auto products and reach the \$50,000 threshold are still required to file even if they also market custom auto products.

It is recommended that the states verify the company's request prior to granting a waiver. For example, there may be situations where the company requests a waiver when the product line is actually covered under MCAS. This has happened in the past when companies stated they only market motorcycle coverages. While there was a time when motorcycle coverages were excluded from MCAS, this was changed for the 2011 submission. As some companies were not aware of the change, waivers were requested.

There are situations where the company knows it will not be able to submit its MCAS filing on a

timely basis. In these situations, the company may request an extension of up to 60 days. Requests should be accompanied by a reasonably specific explanation for the request. Consideration of extension requests should include a review of prior requests; the involvement of the state of domicile; and contacts with the company from other states. In addition, the company's rationale for the extension request should be critically evaluated. For example, company ABC requests a 60-day extension because the filer will be out of the office in April. As the company could still submit the filing in May, it is not clear why an extension of 60 days should be necessary.

If a company's request is not processed in I-SITE, the state analyst will not be able to see if the company has actually filed when reviewing the MCAS Filing Status Report. Coordination among the states is important to maintain consistency. Otherwise, one state may grant a 60-day extension where another might not grant one at all.

For additional reference, please see Page 11 of the MCAS Industry User Guide (http://www.naic.org/documents/mcas_2013_user_guide.pdf). For situations where a company requests more than a two-week extension, it is recommended that such an extension request be coordinated with other MCAS states.

Validation of Incoming Data

It is important to review the MCAS Correspondence Tracking link in the Summary Reports Section of I-SITE when beginning review of a company. The NAIC notifies reporting companies by email if data anomalies are discovered.

In addition, inferences should be based only on statistically credible data. If the company is small and has few claims, a delay in a small number of claims could create a large impact on various ratios. The company should also be aware that its data is outside the norm and provide comments. If the company has made comments, the analyst should review them by going to the MCAS Pick-A-Page Section and select the Jurat Company Contact Information report, as well as the interrogatories. Alternatively, the analyst could use the QuickLink application to run a query of all companies that have submitted comments.

NAIC STAFF MCAS DATA REVIEW

The NAIC performs a series of data edits that test for the reasonableness and internal consistency of MCAS submissions. Validation testing begins when the company submits its data through the MCAS portal.

Tier 1: Validation Review

Once a company has submitted its MCAS data, the NAIC performs validations to test the data for internal consistency and reasonability. For example, a validation exception is generated if a company's direct written premiums reported on their FAS and those reported on the MCAS vary by +/- 20%. All validation warnings can be viewed on the company's Validation Exception Report, which is available on I-SITE. These tolerances have been established to avoid corresponding with insurers regarding validations that are generated due to small amounts of data provided by the company or small (immaterial) differences.

The following table provides examples of MCAS data validation conducted by the NAIC:

Line of Business	Validation Description	Review Tolerance
PPA/HO	claims closed w/o pay > claims closed with pay	(claims closed with pay + claims closed w/o pay) >= 100 claims AND >= 25% more claims closed w/o pay than with pay
PPA/HO	policies in force < new policies issued	policies in force and policies issued each must be >= 500 AND policies in force is three times < new policies issued
HO	FAS direct written premiums (DWP) and MCAS DWP vary by +/- 20%	MCAS > FAS by >= 100% OR FAS > MCAS by > = 20%
Life/Annuity	total claims closed with payment <= claims denied, resisted or compromised	(total claims closed with payment) + (claims denied, resisted or compromised) >= 100
Life/Annuity	replacements applied for < policies issued	(replacements applied for + policies issued) >=100 AND >= 25% more replacements applied for than policies issued
Life/Annuity	If new policies issued or policies in force >0 then DWP must be > 0	(new policies issued >50) OR (policies in force > 100) AND DWP = 0
Life/Annuity	If DWP > 0 then (policies issued + policies in force) must be > 0	DWP > 100,000 AND Policies in force = 0

Tier 2: Ratio and Indicator Review

- The MCAS published ratios are also reviewed to find any company ratios generated from data entry errors or other data anomalies. The ratio results for a given state are reviewed by sorting them to find extreme high or low values. The data is then further examined to determine if a possible data error exists.
- In addition to the MCAS published ratios, additional ratios and indicators are examined to find potential data errors. Following are examples of additional ratios and indicators that are used by NAIC staff:

PPA/HO	Dwellings or autos to policies in force
PPA/HO	DWP to policies in force
PPA/HO	Claims opened to policies in force
PPA/HO	Suits open during the period to policies in force
PPA/HO	Suits open end of period to (claims/1000)
PPA/HO	Median days as reported compared to calculated median days
LIFE	Denied, resisted or compromised claims to policies in force
LIFE/ANNUITY	Surrenders to policies in force
LIFE/ANNUITY	DWP to policies in force
LIFE	Face amount of policies in force to policies in force
LIFE	Face amount of policies issued to policies issued
LIFE	Death claims to policies in force
ANNUITY	Immediate contracts issued to policies in force
ANNUITY	Deferred contracts issued to policies in force
ANNUITY	Immediate contracts issued to deferred contracts issued

Tier 3: Individual Data Element Review

- Once the previous two tiers of review have been completed, each individual data element, by line of business and state, are reviewed. This review is done to find possible data errors. Where possible, the data element values are compared to the value reported in the previous year to find significant changes in reporting.

Please Note: It is the responsibility of the states to verify that the data is reasonable. For example, are ratios that are found to be extreme outliers an accurate reflection of company market practices, or are they reporting errors?

Analysis

- Ratios

For specifics on ratio formulas, see:

http://www.naic.org/documents/industry_mcas_2013_scorecard_ratio_formulas.pdf.

The core of any MCAS analysis consists of developing ratios that serve as potential indicators of company performance and comparing these ratios to an industry-wide baseline. To assess the degree to which ratios deviate from the baseline, analysis can be done in various ways. One of the easiest is to use the MCAS Market Analysis Prioritization Tool (MAPT) for the respective line of business and determine the average for each ratio. Then, identify companies with ratios substantially above that average. For example, private passenger auto Ratio 3 is the percentage of claims paid beyond 60 days. If the state average for all private passenger auto companies is 25%, then companies with a value of 50% could be considered outliers. Though there may be situations where the focus is on very high ratios, attention should be paid to low ratios, as well. A company with a very low ratio of 5% for Ratio 3 may not be conducting any investigations and simply paying all claims. This could have a future impact for the company if loss ratios suddenly increase.

- Ranks

The company's ratio rank is a function of the company's ratio value compared to those of all other filing companies. A ranking of zero indicates the ratio value is zero, null or incalculable. A ranking of 21 indicates the ratio value is greater than 100 or the ratio has the highest value of those being ranked. This may be due to anomalies with the data. It should be noted that private passenger auto and homeowners underwriting ratios cannot be calculated at the coverage level, as underwriting information is collected only at the line of business level.

In addition to the overall ranks, the homeowners and private passenger auto lines of business have a claims rank, an underwriting rank and a suits rank. These supplemental ranks are calculated at the line of business, state and national levels. Ranks can be used to look at multiple companies simultaneously. Outliers can be identified by finding the mean and then calculating the standard deviation in Microsoft Excel or other spreadsheet programs.

Ranks should be evaluated with an understanding of the data elements and underlying raw data. There may be variations in the raw data that make a company appear normal when looking at the ranking. Also, companies with low ranks may actually have concerns associated with them. Very low ranks may indicate problems with the company's data. Analysts should not concentrate only on those companies with higher ranks. On occasion, it has been noted that carriers with low underwriting ranks failed to report certain underwriting-related activity; e.g., nonrenewals or cancellations. It should be noted, however, that ranks can be trended; i.e., companies moving up or down in ranks over a three-year period can be identified.

Of particular concern is to determine whether the underlying data is statistically credible. Due to what statisticians term the "law of large numbers," valid inferences require a sufficient volume of data points. Ratios for smaller companies may not be meaningful indicators of general business practices but, rather, random fluctuations in the underlying data. For example, if a company has only three claims and two of them were denied, their ratio of denials is 60%, and is very likely well above the industry norm. However, any inferences based on this ratio are likely to be unwarranted.

- Tools and Reports Available

When reviewing MCAS filings, the analyst may find it useful to review rate and form filings to see what business is being marketed. The company's Management's Discussion and Analysis (MDA) filing may also assist. The MCAS MAP-T is a great tool to conduct analysis, as additional worksheets can be added for doing sorts or conditional formatting, and columns that are not needed can be hidden.

Review of the interrogatories is also helpful. Companies are to report if they are still actively writing; if there has been a significant event or business strategy change that affects the data; or if the insurer has sold, closed, or moved a block of business to another company. Having this knowledge is extremely helpful when reviewing the company's data, especially when comparing it to prior years.

I-SITE also shows premium changes per year, which may be of assistance.

As previously noted, QuickLink is a database tool that can be used to query the NAIC MCAS databases. Reports can be generated from the data, as needed. For example, all companies that submit comments can quickly be sorted through QuickLink to see if the comments are relevant to the data submitted. Also, companies that have significant outliers can be queried to see if there are comments that provide an explanation.

QuickLink can be downloaded from the File Repository under the Utilities page of I-SITE at <https://i-site.naic.org/frep/Search.jsp> and typing "QuickLink" as the file name. The NAIC provides classes on how to use Quicklinks.

Microsoft Access can also be used to query several MAPT reports at the same time.

- Analysis Techniques

Analysis is an ongoing process, but it should begin as soon as data becomes available. The MCAS MAPT can be used to review rankings and ratios. The mean of the data can be identified, and data that significantly deviate from the mean can be viewed as outliers. In other

situations, depending on the skew of the data, using the median may be more representative of the center point of the data. Whether to use the mean or the median should be based on the analyst's judgment, based upon a particular data set.

Thresholds can also be established. With Excel, conditional formatting can be used to quickly identify outliers. Analyst may also use highlighted colors with conditional formatting.

- Trending

The MCAS MAP-T provides the availability to trend data. Companies that ranked low in prior years but high in the current year can be quickly identified. Claims payment patterns can also be trended to see if there are any patterns of concern. If a company is just entering a product line, trending can be used to identify the new activity and the company's growth. If a company is leaving a market or shifting product lines, these activities can also be monitored.

Data needs to be monitored to identify false trends or reporting errors. If the company recently expanded into the state but trending indicates a decline, then additional steps to verify the data must take place. This may require contacting the company or performing market analysis.

- Comparisons

Once the data is in a searchable format, such as Excel or Access, additional comparisons can be performed. The data can be viewed by insurer group to identify possible non-standard underwriting companies or outlying companies that are part of the group.

Company to Company

Comparisons to other companies can also be conducted. If the industry is seeing higher claims utilization, is that reflected in the data? Are some companies affected more than others?

Newer companies may behave differently than older ones or may have slightly different policyholder demographics.

Standard versus Non-standard Lines

As it is important for the analyst to know the company being reviewed, there are times where there is value to looking at the rate or form filings to determine if products offered are non-standard or non-standard. Some companies that offer non-standard lines, such as homeowners or private passenger auto, may rank higher on many ratios than standard or preferred coverage. For example, non-standard companies' ratios generated from claims data may deviate from the industry norm because, historically, more claims are filed by non-standard policy owners or insureds are harder to locate. By understanding the product design before review, the analyst can determine if the non-standard company should be reviewed separately from the other companies.

Company to State Ratio

The company can be viewed in relation to the state-wide ratios. Is the company significantly higher or lower than average compared to other companies? Does a particular ratio appear to be high for a company compared to the state ratio? Is the company still writing in the line of business? Are there any trends over the past several years? These questions need to be

considered when looking at company data compared to state ratios.

State Ratios to Other State Ratios

Average ratios or company ratios may differ between the states. If the company is writing the same product in specific states, MCAS data in those states may be relevant. The company may have different claims adjusters in different states. Also, data that should be similar between the states may be vastly different.

The analyst may review neighboring states for comparisons of state ratios or may look for states that have similar premium volumes and demographics. This approach may identify if the company has similar issues in multiple states and allow the analyst to develop strategies to resolve them.

Review of Individual Company Data

The underlying data must always be considered. If a company has very few claims and reports a delay in only one, this might cause the rankings and ratios to spike significantly. Annuity companies that no longer write business may see Ratio 3 spike when a consumer surrenders a policy.

It is important to note that the ratios are based of the underlying data. If the underlying data has inconsistencies, it may not be noticed by looking at the overall ratios.

As stated previously, the analyst needs to know and understand the various companies' markets and how business is conducted in the state. If ratios are outliers, the analyst should look at the underlying data to see if the ratios are skewed for certain types of claims. For example, for private passenger auto claims, the analyst should look at how claims are processed for collision, bodily injury, etc.

Also be careful of "false positives." For example, Ratio 3 for life and annuities measures surrenders to new policies issued. If the company writes little or no new business, but has surrenders, this ratio may be very high. Again, it is important to know what the company writes in the respective state. Where applicable, this can be determined by reviewing filings submitted to the state for review. The company may also use its comments section to provide clarification of outliers.

- Combining MCAS with Other Market Information Tools

Analysis should not focus exclusively on MCAS data to make inferences about a company's market behavior. Data from other NAIC systems—such as the Regulatory Information Retrieval System (RIRS), Market Analysis Review System (MARS), Examination Tracking System (ETS) and Mark Analysis Prioritization Tool (MAPT)—provide a basis for a much more general overview of a company's market performance. The data may be viewed in conjunction with the MAP-T by a specific line of business; e.g., private passenger, homeowners, life, etc. The state insurance department's complaint database can be a resource, as well. By the time MCAS data is received, there may be five or six months of complaint data available within the department not viewable from the I-SITE Level 1 screens. In addition, other states may have already performed Level 1 or other analyses, and such actions can be viewed in I-SITE. Just because the MCAS filing is unremarkable and does not reveal any areas of concern, the analyst should not infer that the company does not have other issues. For example, the company could still be marketing

unapproved forms through unlicensed producers, or engaging in other behaviors not be reflected in the MCAS ratios.

Late Filings and Revised Filings

- Impact on Analysis

Late or inaccurate filings may impact statewide ratios. Companies should be encouraged to file timely and accurately. Changes associated with re-filings are detailed in the “MCAS Audit Trail” report, as are any comments the company may have as to why the data was changed. Companies that submit data late, or with changes, may have internal control issues. It also needs to be determined if a company is re-filing for a small number of states or is re-filing globally.

The analyst should review the filings submitted to other states in these situations. If filings in other states have the same issues, then coordination with other states, or the domestic state, should be initiated when contacting the company.

Scorecards

MCAS scorecards are produced each year to show the jurisdiction-wide ratio and the distribution of ratios for all companies filing an MCAS in a given jurisdiction. Individual company ratio information is available through the online MCAS application. A company may gain a better understanding of where they fit in the insurance marketplace and what opportunities may exist to improve their performance in a jurisdiction by comparing their jurisdiction-specific ratios to the scorecard for that jurisdiction. Each year, the most recent scorecards for all participating MCAS jurisdictions are made available on the NAIC MCAS Web page (www.naic.org/industry_mcas_states.htm).

Next Steps

- When to Contact the Company

If MCAS data anomalies have no apparent explanation, then the analyst should contact the company’s MCAS representative. Every effort should be made to determine whether the data are accurate, and whether the representative can provide an explanation for the anomalies related to a company’s market practices. For example, does a high ratio of claims closed without payment reflect the manner in which claims are counted in the production of the MCAS, as opposed to claims handling practices? If the company representative appears to lack training or the understanding to adequately address concerns, then additional analysis of the company may be appropriate.

- Integrating MCAS Data into the Market Analysis Framework

Level 1 analysis incorporates MCAS data for certain lines (auto, homeowners, individual life and annuity) and the states that require MCAS submissions. It is important to note, however, that there are states that do not require MCAS submissions; in these cases, MCAS data will not be incorporated into Level 1 or Level 2 analysis.

As noted in this document, there may be a variety of reasons a company may be an outlier unrelated to market practices; in these cases, a Level 1 and/or Level 2 analysis may be revealing.

The analyst may also want to review Level 1 and Level 2 analyses conducted by other states prior to contacting the company about issues or concerns. This will allow the analyst to detect possible data issues, as opposed to contacting the company on a range of issues that may not represent true concerns. There may be other times when the company may need to be contacted directly. For example, a significant number of lawsuits may require contact with the company for clarification.

- Re-filings; Changes to the Data

Company re-filings should be kept to a minimum. A significant volume of re-filings can alter overall state ratios and change company rankings. Regulators should develop strategies to ensure data is submitted correctly the first time. Companies that habitually re-file over several years should be identified and contacted to help remediate difficulties. Companies should submit an extension request rather than submit data known to be incorrect with the expectation that it can simply re-file at a later date. If a company does have to re-file, it should provide a complete explanation, in the comments section, of the data errors and steps taken to ensure there is not recurrence. As noted previously, companies that have a pattern of submitting late or re-filing may have other internal control issues that require additional analysis.

- Keeping Up-to-Date on MCAS Changes
- Regular Training

The NAIC provides webinars detailing changes to the MCAS data process. Additional information is also available on the NAIC website. To properly analyze the MCAS data, the analyst needs to stay current on what the ratios and data elements mean and why these elements were chosen.

For companies not familiar with the MCAS process, the NAIC provides training on how to submit filings.

- Integrating Other Data into MCAS

The intent of market analysis is to understand how companies interact with consumers. Are claims paid timely and correctly? Are the products marketed appropriate for the consumer? If the analyst has an understanding of the products filed and approved, the type of producer marketing the product and how the company pays claims, the analyst will have an easier time understanding the company's MCAS submission. If the MCAS data suggests a change in the company's practices, then the analyst can be more proactive in protecting consumers.

Appendix A
MCAS Timeline

