

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.