



**THE COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF***

**THE WORKERS' COMPENSATION RATING AND  
INSPECTION BUREAU OF MASSACHUSETTS**

**Boston, Massachusetts**

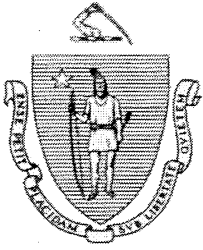
**As of December 31, 2017**

**EMPLOYER ID NO. 04-1591010**

**THE WORKERS' COMPENSATION RATING AND  
INSPECTION BUREAU OF MASSACHUSETTS**

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**COMMONWEALTH OF MASSACHUSETTS**  
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August 17, 2018

The Honorable Gary D. Anderson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, Massachusetts 02118

Honorable Commissioner:

Pursuant to your instructions and in accordance with the General Laws of Massachusetts ("MGL"), Chapter 152, Section 52C, an examination has been made of:

**THE WORKERS' COMPENSATION RATING AND  
INSPECTION BUREAU OF MASSACHUSETTS**  
Boston, Massachusetts

at its home office located at:

101 Arch Street, Boston, Massachusetts 02110

The following report thereon respectfully is submitted.

## **SCOPE OF EXAMINATION**

An examination of The Workers' Compensation Rating and Inspection Bureau of Massachusetts ("WCRIBMA" or "Bureau") was conducted by the Massachusetts Division of Insurance ("Division") for the period from January 1, 2017, through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of the examination.

A tailored audit approach was developed to perform the examination of the Bureau using the guidance and standards of the *NAIC Market Regulation Handbook Chapter 25 – Conducting the Advisory Organization Examination*, the market conduct examination standards of the Division, and the Massachusetts insurance laws, regulations, and bulletins. The following describes the procedures performed and the findings for the procedural steps therein.

The basic business areas that were reviewed in this examination were:

- I. Advisory Organizations Operations / Management / Governance
- II. Statistical Plans
- III. Data Collection and Handling
- IV. Correspondence with Insurers and States
- V. Reports, Report Systems, and Other Data Requests
- VI. Ratemaking Functions
- VII. Classification and Appeal Handling
- VIII. Form Development
- IX. Inspection Services
- X. Residual Market Functions – Plan Administration
- XI. Residual Market Functions – Reinsurance Administration

## **HISTORY**

### **General**

WCRIBMA was formed in Massachusetts in 1915 and is a private, non-profit, unincorporated association of insurers that is licensed by the Division as a rating organization for workers' compensation insurance in Massachusetts. As a licensed rating organization, the Bureau collects policy, claims, and financial data from all carriers licensed to sell workers' compensation insurance in Massachusetts and it issues experience modifications and classification rulings for the employers in the Commonwealth of Massachusetts. It files rates, classifications, and rating plans on behalf of its member insurers. WCRIBMA is the Workers' Compensation Statistical Agent and it administers the activities of the Massachusetts Workers' Compensation Assigned Risk Pool ("Pool") for the Massachusetts Commissioner of Insurance ("Commissioner"). It also is the coverage verification entity for the Department of Industrial Accidents ("DIA").

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

The Pool is comprised of all insurers writing workers' compensation insurance in Massachusetts. It is administered in accordance with the Massachusetts Workers' Compensation Assigned Risk Pool Plan of Operation ("Plan of Operation") as approved by the Commissioner, with some accounting, actuarial, and financial services provided by the National Council on Compensation Insurance, Inc. ("NCCI"). The Pool commenced operation on January 1, 1991, and its members are responsible for reinsuring all risks assigned to it under Massachusetts law.

### Management

The operations of WCRIBMA are governed by its Constitution. Every insurer authorized by the Commonwealth of Massachusetts to issue policies providing workers' compensation insurance and employers' liability coverage may become a member of the Bureau. Any insurer so authorized, but not a member, may subscribe to the services of WCRIBMA subject to rules and regulations to be made by the Governing Committee, as approved by the Commissioner as reasonable. As of December 31, 2017, there were 382 members of the Bureau.

A Governing Committee shall have charge of the administration of WCRIBMA; shall have supervision and direction over all other committees; shall have power to appoint or remove all officers of the Bureau; may appoint such supplementary committees as it deems necessary; and may provide for the stamping and verification of all policies, subject to the Bureau's jurisdiction, issued by its members and subscribers. All Committees of the Bureau shall consist of members of WCRIBMA, unless the Governing Committee of the Bureau otherwise directs.

### *Governing Committee*

The Governing Committee shall make and adopt a statistical plan and shall make and adopt rates, classifications, rating plans and rules relating thereto, and shall have authority to order filings thereof to be made by the President, or such other person as the Governing Committee may appoint, on behalf of the Bureau and its members and subscribers. The Governing Committee shall have the authority to make and adopt data reporting incentive programs that may include quality and timeliness requirements, standards, and associated fines or other penalties.

The Governing Committee shall be composed of no fewer than twelve members. At each annual meeting of the Bureau, members shall elect no fewer than nine and no more than eleven members of WCRIBMA to serve on such Committee until the next annual meeting, provided, however, that no more than one member from a company group shall serve on the Governing Committee at any one time. The term "company group" whenever used herein refers to companies controlling, controlled by, or under common control with other companies. The newly elected members of the Governing Committee shall appoint no fewer than three non-member representatives to serve on the Governing Committee until the next annual meeting. The three non-member representatives shall consist of one labor representative, one employer representative, and one agent/producer representative.

The ten member carriers elected by the membership to the Governing Committee at the Annual Meeting in May 2017 and the three non-member representatives subsequently appointed by the

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

newly elected Governing Committee for a term of one year were as follows on December 31, 2017:

Acadia Insurance Company	Liberty Mutual Insurance Company
AIM Mutual Insurance Company	National Union Fire Ins. Co. of Pittsburgh, PA
Arbella Protection Insurance Co., Inc.	Star Insurance Company
Atlantic Charter Insurance Company	Travelers Indemnity Company
Hanover Insurance Company	Zurich American Insurance Company
* Associated Industries of Massachusetts	* Massachusetts Association of Insurance Agents
* Massachusetts AFL / CIO	

\* Denotes non-member representative

### *Committees*

In addition to the Governing Committee, the Bureau's Constitution specifies that the members of the Governing Committee shall appoint the members of four named committees: Residual Market Committee, Safety Inspection Committee, Actuarial Committee, and Audit Committee.

A Residual Market Committee shall be composed of not more than ten members to be appointed at each annual meeting and serve until the next annual meeting. It shall monitor and administer the Pool, unless the Governing Committee otherwise directs.

A Safety Inspection Committee composed of six members shall advise other committees of the Bureau on matters within their respective jurisdiction, with respect to the measurement of physical hazards and their effect on classifications, rules, rates and rating plans, and shall have such other powers and duties as may be prescribed in the Constitution or conferred upon it by the Governing Committee.

An Actuarial Committee composed of not more than twelve members shall formulate a statistical plan and necessary amendments for recommendation to the Governing Committee, shall advise and make recommendations to other Committees of the Bureau on actuarial and statistical matters, and shall have such other powers and duties as may be prescribed in the Constitution or conferred upon it by the Governing Committee.

An Audit Committee composed of either three or five members will act in accordance with its Charter in assisting the Governing Committee in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and financial reporting practices of the Bureau and it shall have such other powers and duties as may be prescribed in the Constitution or conferred by the Governing Committee.

At its meeting in May 2017, the Governing Committee appointed members to the above-named Committees and appointed members to the following five additional Committees or Subcommittees, with duties and responsibilities as their names denote: Appeals Subcommittee, Budget-Personnel Overview Committee, Claims Committee, Insurance Fraud Subcommittee, and Rate Filing Strategy Subcommittee. At that meeting, the Governing Committee also appointed five of its members to serve on the Board of Governors of the Insurance Fraud Bureau

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

of Massachusetts ("IFB"); as required by statute, members of WCRIBMA contribute one-half of the administrative and operational costs of IFB.

### *Officers*

The Bureau's Constitution states that the officers shall be a President and such other officers as the Governing Committee may deem necessary or advisable, and the Governing Committee shall define their duties. Among the President's duties per the Constitution, he/she shall be responsible for all property of the Bureau, shall receive and carefully keep all moneys of the Bureau, shall disburse the same only for the business of the Bureau, and shall account to the Governing Committee for all such disbursements.

At December 31, 2017, the key executive positions of the Bureau were:

<u>Executive:</u>	<u>Position:</u>	<u>Department:</u>
Daniel R. Judson	President	Executive
<i>[currently vacant]</i>	Vice President	Actuarial & Data Operations
Daniel Crowley	Vice President	Customer Services & Residual Markets
Christopher Timbone	Vice President & C.I.O.	Information Technology
Virginia A. McCarthy	General Counsel	Legal
Eric Wildman	Director	Finance & Administration

### **EXAMINATION STANDARDS**

The following sections discuss the operational areas of the Bureau that were examined by the Division. Standards were reviewed in accordance with guidance and standards of *NAIC Market Regulation Handbook, Chapter 25 – Conducting the Advisory Organization Examination*.

#### **Section I – Advisory Organizations Operations / Management / Governance**

Standard 1 – The advisory organization has implemented written policies and procedures to prevent anti-competitive practices in the insurance marketplace, as related to the advisory organization's services and communications to insurers.

*Controls Assessment* – The Bureau has a written Anti-Trust Guideline policy for all WCRIBMA staff that was published in 2007 and rewritten in 2010. An Anti-Trust Statement is read at the start of all WCRIBMA committee meetings. In addition, the Bureau/Producer Advisory group utilizes its own Anti-Trust Statement.

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

*Controls Assessment* – This Standard is not applicable. WCRIBMA does not develop loss costs; it develops rates. The Bureau utilizes the skills of credentialed in-house and consulting actuaries in the development and presentation of those rates to the Commissioner for review and approval.

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

*Controls Assessment* – The Bureau submits all filings to the Division using the NAIC's System for Electronic Rate and Form Filing ("SERFF") in accordance with Division Bulletin 2008-08, "Guidelines for the Submission of Form, Rate, and Rule Materials for Review by the Massachusetts Division of Insurance" and Bulletin 2008-19, "Guidelines for the Submission of Fees Associated with Form, Rate, and Rule Materials Filed with the Massachusetts Division of Insurance". Further, WCRIBMA's State Filing Information webpage provides information to member carriers about mandatory use of SERFF for rate, rule, and form filings.

Standard 4 – Experience rating factors are developed in a correct and timely manner.

*Controls Assessment* – Participation in the Experience Rating Plan is mandatory for all eligible insureds. The object of the Experience Rating Plan is to recognize the differences between individual insureds through the use of the individual insured's own loss experience. The experience rating process serves as a means of using a history of past losses to be an indicator of an insured's future loss pattern by comparing the experience of individual insured to that of the average insured in the same classification. Using an insured's past experience, the experience modification is determined by comparing actual losses to expected losses. Insurance carriers are required to submit unit statistical reports to the Bureau for each policy that they issue with Massachusetts exposure. The payroll and claim information from these unit statistical reports is used by WCRIBMA to calculate the insured's experience modification. The experience of all insureds eligible for combination under the Experience Rating Plan, regardless of whether insurance is provided by one or more policies or insurance carriers, will be combined in the calculation of the experience modification. The Bureau posts the experience rating factors in the members area of its website. In 2017, 95% of experience ratings were sent out prior to their rating effective date.

Standard 5 – The advisory organization performs thorough and meaningful inspections and research when required for individual insured rating classification.

*Controls Assessment* – The Bureau is able to obtain a significant amount of reliable information directly from the insurers and policyholders, and there is much information available about many employers on the Internet; as a result WCRIBMA rarely needs to conduct on-site inspections. When the Bureau issues a classification ruling, the inspection reports submitted by the insurer, descriptions submitted by the employer, and information collected from the Internet are utilized when conducting the in-office classification review. WCRIBMA maintains a Classification Unit of three individuals within the Customer Services Department who review all workers' compensation assigned risk applications



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received on a daily basis and regularly respond to classification related correspondence. When it is determined that an on-site classification inspection is necessary in a particular instance, the staff of the Classification Unit will perform an inspection.

Standard 6 – The advisory organization develops sound, understandable, and appropriate risk classifications.

*Controls Assessment* – The Bureau maintains the Massachusetts Workers Compensation and Employers Liability Insurance Manual (“Mass Manual”) which is approved by the Commissioner. Complementing the Mass Manual, WCRIBMA also has prepared and maintains a Massachusetts Master Alphabetical Classification Index as a reference guide for the application of the appropriate workers’ compensation classifications to businesses in Massachusetts. In that Massachusetts uses the NCCI Scopes Manual as a guide for understanding and assigning workers’ compensation classifications, the Bureau provides NCCI its exceptions to the Scopes Manual, located in the State Addendum section of each classification code. WCRIBMA also has Class Code Look-Up and Classification Revision History pages on its website to assist member companies and the producer community.

Standard 7 – Loss control services are effective and based on valid risk management, engineering, and scientific evidence.

*Controls Assessment* – This standard is not applicable to WCRIBMA because the Bureau does not provide loss control services; however, in its role as administrator of the Pool, the Bureau provides the assigned carriers with Loss Control Performance Standards which have been approved by the Commissioner.

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

*Controls Assessment* – The Bureau’s General Counsel regularly monitors statutes and case law in order to be responsive to necessary changes in rates, policy forms, endorsements, factor calculations, and classifications or manuals. Workers’ compensation legislative and regulatory activity, including legislative proposals, regulations, and other government activities also are monitored to determine what action may be required. Outside counsel is retained as needed.

Standard 9 – The advisory organization uses objective and established procedures when administering residual market or pool assessments.

*Controls Assessment* – WCRIBMA administers the Pool in accordance with the Plan of Operation, including a Voluntary Direct Assignment Carrier (“VDAC”) Program. The Bureau follows the documented procedures for the calculation of the Pool’s participation ratios used to assess members of the Pool and the specific procedures for the calculation of take-out credits used in such calculations. There are additional documented procedures for

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

the VDAC reapportionment process used to calculate the reapportionment ratios applied to members of the Pool that participate as VDAC carriers.

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

*Controls Assessment* – The Bureau administers the Pool in accordance with the Plan of Operation which includes performance standards for assigned carriers, a Paid Loss Ratio Incentive Program, compliance ratios, and determination of servicing carrier fees. The Bureau has documented its very detailed and specific procedures with regard to calculating the assignment quotas for servicing carriers and VDAC carriers, application distribution rules, data security procedures, and procedures for assigned risk applications. It also has published Pool procedures for new applications and existing policies and it has published the Residual Market Premium Algorithm in the Mass Manual to ensure consistent calculation of premiums within the residual market.

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

*Controls Assessment* – Each legislative session, the Bureau receives copies and summaries of all filed workers' compensation legislation from the Massachusetts Workers' Compensation Advisory Council ("WCAC") which are reviewed by WCRIBMA staff, and then are discussed with the Governing Committee to determine what action, if any, needs to be taken by the Bureau. Outside counsel represents the Bureau at rate hearings, and outside counsel or in-house counsel represents the Bureau at other regulatory proceedings where necessary. The Bureau's General Counsel attends WCAC's monthly meetings and is otherwise available to participate in various subcommittees appointed by WCAC to address certain legislative and regulatory matters.

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

*Controls Assessment* – WCRIBMA does not maintain an internal audit department. There is an Audit Committee which reports to the Governing Committee and has oversight of: (i) accounting and financial statements and processes and systems, including the effectiveness of the Bureau's internal controls; (ii) integrity of the financial statements; (iii) the annual independent audit; and (iv) policies, practices, and compliance regarding third party transactions and conflicts of interests. The Bureau and the Pool each are audited annually and separately by an independent certified accounting firm. In 2017, WCRIBMA also had systems security evaluation performed by an outside firm of computer testing specialists. Further, the Bureau performs its own quarterly review of unaudited financial statements and reports of the Pool provided by NCCI. The residual market staff of the Bureau receive daily Assigned Risk Application Status Timeliness Reports that alert them of any workers' compensation coverage applications which have been open for more than two days. Periodically, signature audits are conducted on a number of Online Assigned Risk Applications; during these audits, applications are reviewed to ensure that the proper

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

employer and signatures are being obtained and maintained. WCRIBMA has developed a series of reports issued through the operating system of its unit statistical database, Spectrum, to ensure that processes are flowing timely and accurately.

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

*Controls Assessment* – WCRIBMA has a comprehensive IT Security Policies and Procedures Manual to cover security risks related to information technology within the Bureau's operations. It also engaged a firm of computer systems specialists to perform network security tests and assessments geared at detecting and identifying vulnerabilities which might be present in internal and external networks and in the Bureau's numerous web applications.

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

*Controls Assessment* – The Bureau has both an up-to-date Disaster Recovery Plan and a Business Continuity Plan to address its disaster recovery preparedness and restoration of all critical applications within 72 hours.

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

*Controls Assessment* – In its role as Pool Administrator, WCRIBMA has contracted with NCCI to perform services for the Pool since its creation in 1991. Among the services provided are accounting and administrative services, actuarial services, collection services, and residual market information services. Bureau staff participate in the quarterly meetings of the Massachusetts Workers' Compensation Assigned Risk Pool Reserving Committee ("Reserving Committee"), which are held by NCCI to determine the policy year reserves required for the Pool. The Bureau's residual market staff receive several reports and financial statements from NCCI on a quarterly basis; these regular statements and reports are reviewed according to WCRIBMA's documented procedures.

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

*Controls Assessment* – Functioning as both the Workers' Compensation Statistical Agent and the Administrator of the Pool, WCRIBMA maintains numerous records, reports, data, and documents in an orderly, consistent, and accessible fashion. It maintains a written Record Retention and Destruction Policy last updated November 2014. The policy is reviewed regularly and applies to all hard copy records and electronic documents generated in the course of the Bureau's operations.

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

Standard 17 – The advisory organization is appropriately licensed.

*Controls Assessment* – The Bureau operates only in Massachusetts and its license was renewed in accordance with Section 52C of MGL 152. The current license is in effect for the three year period of November 2016 to November 2019.

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

*Controls Assessment* – Throughout the course of the examination, the officers and staff of the Bureau consistently were very cooperative in providing prompt and precise response to examiner's requests and inquiries.

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

*Controls Assessment* – WCRIBMA has a Written Information Security Program ("WISP") which was developed to comply with the requirements of 201 CMR 17.00 Standards for the Protection of Personal Information of Residents of the Commonwealth, a regulation which implements the provisions of MGL Chapter 93H. The WISP outlines the procedures the Bureau has in place with regard to the collection, use, and disclosure of the information collected. It states that WCRIBMA does not request, maintain, or process any personal information related to insurance transactions other than checks submitted with hard copy applications to obtain workers' compensation coverage through the Pool or personal checks submitted for other reasons. The Bureau also has a Privacy and Security Statement which discloses the privacy and security practices for its Members Area Website Accounts.

### **Section II – Statistical Plans**

Standard 1 – The statistical agent has filed its statistical plans in accordance with applicable statutes, rules, and regulations.

*Controls Assessment* – The Bureau operates only in Massachusetts and the Massachusetts Workers' Compensation Statistical Plan ("Statistical Plan") originally was issued in 1929. With an amendment in 2005, the Statistical Plan includes three types of data reconciliations that WCRIBMA is required to perform annually; each reconciliation calls for carrier group data to be compared within an approved set of tolerances and reports are provided to the Division for those carriers falling outside of acceptable tolerances. The Bureau has filed with and received approval from the Division for the current version of the Statistical Plan effective July 1, 2017; the current version as well as archived versions are available on the Bureau's website.

Standard 2 – The statistical plans are reviewed and updated in accordance with applicable statutes, rules, and regulations.

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

*Controls Assessment* – The Bureau makes periodic reviews and updates to the Statistical Plan in accordance with WCRIBMA's procedures. Filings are submitted to the Division for approval and members are notified of an approval via circular letter; the updated copy of the Statistical Plan is posted to the Bureau's website. A filing in regard to elimination of anniversary date rating was made in October 2016 and approved in January 2017; the approval was announced in Circular Letter 2306, which was distributed to all members and subscribers of the Bureau. In calendar year 2017, WCRIBMA did not make any Statistical Plan filings.

Standard 3 – The statistical agent verifies that companies submit data in accordance with the appropriate statistical plan.

*Controls Assessment* – All data collected pursuant to the Statistical Plan is subjected to an extensive editing process by WCRIBMA. All unit statistical data, reported in accordance with Part I of the Statistical Plan – Unit Statistical Reporting, is edited upon receipt by an internal edit engine and also by Spectrum, the operating system for the Bureau's statistical database. All financial data, reported in accordance with Part II of the Statistical Plan – Aggregate Financial Reporting, is edited upon receipt into Massachusetts Financial Data Reporting Application ("MAFDRA"), the database and application system used for financial reporting. The Statistical Plan contains an explanation of Carrier Examinations and Reconciliations to be conducted by the Bureau. Three types of data reconciliations are required to be performed annually and each reconciliation calls for carrier group data to be compared to an approved set of tolerances; reports are provided to the Division on those carriers falling outside of tolerance. Further, any carrier group with at least 1% market share in any of the three calendar years immediately preceding the latest calendar year will be required to engage an independent auditing firm to perform on-site triennial audits and/or targeted audits using agreed upon procedures established by the Bureau and the Division. During calendar year 2017, four such triennial examinations were conducted but no targeted examinations were made.

### **Section III – Data Collection and Handling**

Standard 1 – The statistical agent's series of edits are sufficient to catch material errors in data submitted by a company.

*Controls Assessment* – The Bureau has procedures for processing and editing of unit statistical data collected in accordance with Part I of the Statistical Plan. Some of the unit statistical report edits which detect and sort various types of errors by severity code to either accept or reject submitted data include auto reject edits, accepted with errors edits, policy-related edits, failed edits, and warning error edits. WCRIBMA also has procedures for processing and editing of financial aggregate data collected in accordance with Part II of the Statistical Plan; these edits have their own hierarchy to evaluate the nature and severity of detected errors in calls and to assign identifying codes to errors for acceptance, correction, or rejection.

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

*Controls Assessment* – All unit statistical data must be transmitted electronically via the American Cooperative Council on Compensation Technology (“ACCCT”) Compensation Data Exchange (“CDX”). ACCCT’s CDX product is a secure internet application with the goal of providing the ability to exchange data electronically and is primarily used for the purpose of sending, receiving, and managing electronic transactions. The data transmitted through CDX uses the specification standards found in the WCIO Workers’ Compensation Data Specifications Manual for policy reporting (“WCPOLS”) and for statistical reporting (“WCSTAT”); these specification standards, collectively referred to as the WCIO Manual, are maintained by Workers’ Compensation Insurance Organizations (“WCIO”), a voluntary association of statutorily authorized or licensed rating, advisory, or data service organizations that collect workers’ compensation insurance information in one or more states. The Bureau is a member of WCIO. The electronic files transmitted through CDX using the WCIO standards can be created by means of the Bureau Entry and Edit Package (“BEEP”) or through a carrier system process. As noted above, all financial aggregate statistical data must be transmitted electronically via MAFDRA and automatically is edited upon receipt. All data, during each step of the transmission process, is subjected to an extensive editing process.

Standard 3 – Determine that all databases are updated as needed with all accepted company data.

*Controls Assessment* – As set forth above, all unit statistical data is reported electronically through ACCCT’s CDX to the Bureau. Several e-mail notifications are sent to the submitting insurance company to track the progress of data processing: (i) after data has been processed by CDX to indicate its acceptance or non-acceptance, (ii) after data has been transmitted to the Bureau to indicate its acceptance or rejection by WCRIBMA, and (iii) after data has been accepted and processed into the Bureau’s statistical database. When the transmitted unit statistical data is accepted and processed by WCRIBMA, the data is stored in the single database used by Spectrum for the compilation of unit statistical data. All financial aggregate statistical data is submitted electronically by a carrier through MAFDRA; it is subjected to the editing process prior to acceptance into the financial database and then automatically is entered into the financial database.

Standard 4 – Determine that statistical data is reconciled to the State Page Exhibit of Premiums and Losses, Statutory Page 14, of the NAIC annual statement on an annual basis.

*Controls Assessment* – To produce the reconciliation report required by Statistical Plan – Part II – Section IV – Call #4, the Bureau annually compares the net earned premium and incurred losses reported on the policy year and accident year calls to the Exhibit of Premium and Losses reported on the statutory Annual Statement Page 14.

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

## The Workers' Compensation Rating and Inspection Bureau of Massachusetts

*Controls Assessment* – Within the unit statistical database, the Bureau performs several premium and loss calculations using the statistical data reported by the carriers and then uses those calculated values to edit the reported data. If there are any edit failures, the carriers are notified and the Bureau in turn would receive notification from the carriers if any of the calculations underlying WCRIBMA's edits were incorrect. The reported statistical data is also utilized to calculate several factors which WCRIBMA issues to its member insurance companies. WCRIBMA performs calculations during the issuance of experience rating modification factors, surcharges of the All Risk Adjustment Program ("ARAP"), merit rating factors – all of which are issued in accordance with NCCI's Experience Rating Plan Manual and any Massachusetts exceptions – and factors/credits under the Massachusetts Construction Classification Premium Adjustment Program ("MCCPAP"). Similarly, within the financial aggregate statistical database, the Bureau performs several calculations and uses those calculated values to edit the reported data; carriers are notified of any edit failures and they in response would notify WCRIBMA if any of the calculations underlying the Bureau's edits were incorrect.

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

*Controls Assessment* – The completeness tests contained in the NAIC's *Handbook* do not seem to apply to workers' compensation insurance; however, WCRIBMA does undertake substantial data quality checking activities and uses several data completeness tests.

In accordance with Section 63 of MGL Chapter 152, insurance carriers are required to submit to the Bureau in its role as the coverage verification entity for the Commonwealth a copy of every policy which provides Massachusetts workers' compensation insurance coverage. The policies are written and reported in accordance with the Mass Manual. The receipt of a coverage record creates an expectation for a unit statistical report. Each of the annual calls described in the Statistical Plan has a defined due date. To ensure that a unit statistical report is received for every policy reported to the Bureau, and to ensure that subsequent unit statistical reports are submitted on a timely basis, the Data Quality Incentive Program in Section XI of the Statistical Plan – Part One states that carriers will be fined for delinquent unit statistical reports until such unit statistical reports are submitted successfully. For each carrier for which a policy or unit statistical report has been received for a given year, and for all carriers licensed to write workers' compensation insurance by the Division, the Bureau verifies receipt of an NAIC Annual Statement and aggregate financial statistical data. Each annual call described in Section IV of the Statistical Plan – Part Two has a defined due date; insurance companies who submit their annual calls late are fined in accordance with the Data Quality Compliance Program of Section V of the Statistical Plan – Part Two.

As an additional step to ensure the completeness of the aggregate financial statistical data, WCRIBMA purchases NAIC Annual Statement data through A.M. Best and compares that

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NAIC data to the data reported directly to the Bureau. Carriers who have reported financial data to NAIC but not to WCRIBMA are identified through this procedure.

### **Section IV – Correspondence with Insurers and States**

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

*Controls Assessment* – WCRIBMA processes the reporting of all unit statistical data and keeps track of insurance companies that fail to meet the reporting deadlines. In accordance with the Data Quality Incentive Program of the Statistical Plan, the Bureau keeps track of the timeliness of reporting. Unit statistical reports are due between 18 to 20 months past the end of the month in which the corresponding policy became effective. WCRIBMA tracks unit reports that are delinquent and subject to fine, correction reports that are rejected and subject to fine, and data that is missing, rejected, or filtered from the annual summary.

Similarly, the Bureau processes the reporting of all financial aggregate statistical data and keeps track of insurance companies that fail to meet the reporting deadlines of call dates as specified in the Statistical Plan on the Bureau's website. WCRIBMA keeps track of the companies' timeliness of reporting of annual call submissions, basic edit failures, and actuarial edit failures.

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

*Controls Assessment* – The Bureau processes the reporting of unit statistical data and, in accordance with the Unit Statistical Data Quality Incentive Program of the Statistical Plan, it has procedures for notifying insurance companies of material errors as well as procedures for correcting those errors. Member companies submit their unit statistical data to the Bureau through Manage USR, a web-based application created by WCRIBMA, which provides member companies with the ability to view and to correct unit statistical data. The product links to Error Reports where member companies can view errors as they appear in the Bureau's statistical database.

WCRIBMA processes the reporting of financial aggregate statistical data and, in accordance with the Aggregate Financial Data Quality Incentive Program of the Statistical Plan, it has established procedures for notifying insurance companies of errors and for correcting errors. Member companies submit their financial aggregate statistical data through MAFDRA, an on-line reporting application designed by the Bureau to provide its members the ability to create, edit, and submit financial data calls required by the Statistical Plan. When financial calls have been input into MAFDRA, the submitting company can choose an option to run the data through the applicable edits and the system provides the company with a Failed Edit Listing whereby the company is provided with the opportunity to correct incorrectly reported data and/or provide explanations to WCRIBMA for the failed edits prior to actually submitting the calls. Through MAFDRA, companies are notified by e-mail of WCRIBMA criticisms for submitted calls with unresolved edit



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failures and such criticisms are also easily accessible by the companies within MAFDRA. Once the financial aggregate statistical data has been submitted to the Bureau, a criticism screen is displayed which provides the company with a list of calls having a criticism status, a list, and specific description of all failed edits, as well as a requested resolve date for each criticism.

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

*Controls Assessment* – Subsequent to the identification of edit failures or delinquencies in submitted unit statistical data or financial aggregate statistical data, WCRIBMA notifies the insurance company of the errors and, if the company fails to correct the errors within an acceptable period of time, the Bureau levies fines against the subject insurance company as a means of following up with the company in accordance with the Data Quality Incentive Program of the Statistical Plan.

Standard 4 – Review any additional data quality programs maintained by the statistical agent pertaining to data collected pursuant to the Statistical Plan.

*Controls Assessment* – WCRIBMA annually performs examinations and reconciliations as mandated by the Commissioner and set forth in the Statistical Plan. Findings reports related to either an on-site triennial examination or a targeted examination that are submitted after the due date will accrue fines. As an added measure of data quality assurance, each year the Bureau provides the Division with a listing of all timeliness and data quality fines and all disciplinary fines levied during the year.

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

*Controls Assessment* – WCRIBMA is not specifically required by statute to provide standard premium and loss reports; however, the Bureau does provide the Division with access to the financial aggregate statistical data on an annual basis. It also provides the Division with reported data of all carrier groups on a monthly basis from June 30 through November 30.

### **Section V – Reports, Report Systems, and Other Data Requests**

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

*Controls Assessment* – The database the Bureau uses to make reports to the Commissioner is called Schedule Z, which is a snapshot of the unit statistical database and is the primary dataset used in the rate filing for classification ratemaking and trending. A summary report is generated from the Schedule Z database that displays payroll, premium, loss, and claim

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count data by injury kind for a specific classification or by industry group for all policies either including or excluding large deductible experience. WCRIBMA calculates the manual and standard premium totals for each policy from the individual classification and exposure records reported on the policy's unit statistical reports. In addition, for editing purposes, the Bureau calculates the total incurred loss total and claim count for each policy from the individual claim records on the policy's unit statistical reports.

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

*Controls Assessment* – To ensure that the Bureau has accurately extracted the appropriate information from the unit statistical database in creating the Schedule Z dataset, the following comparisons are made:

- Several samples of data extracted from the unit statistical database are compared to the original data in the unit statistical database.
- Exposure, premium and loss totals by classification and policy year, as extracted from the unit statistical database, are compared to prior extracts as a means of reasonableness testing.
- As mandated in the Statistical Plan, premium and loss data by carrier group and policy year, as extracted from the unit statistical database, are compared to the aggregate financial data reported on policy year calls.

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

*Controls Assessment* – Unit statistical data and financial aggregate statistical data collected in accordance with the Statistical Plan are reviewed with policy data collected from the insurance companies to verify the completeness of the data prior to preparing a response to a data request. The Bureau reviews and reconciles the unit statistical data and the financial aggregate statistical data with the policy data collected from the companies as described in the standards within Section III and Section IV of this report.

Standard 4 – Data collected, in addition to the data collected under the Statistical Plan, was adequately reviewed for quality and compiled according to applicable statutes, rules, and regulations.

*Controls Assessment* – The Bureau reviews and edits all collected data, including unit statistical data and financial aggregate statistical data collected in accordance with the Statistical Plan, for quality and compiles and edits the unit statistical data and the financial aggregate statistical data collected in accordance with the Statistical Plan as described in the standards within Section III and Section IV of this report.

## **Section VI – Ratemaking Functions**

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

*Controls Assessment* – Pursuant to Section 52C of MGL Chapter 152, the Bureau has been designated a licensed workers' compensation rating organization for Massachusetts. Accordingly, a major function of the Bureau is the preparation of and procurement of workers' compensation rates for Massachusetts insurers. To a large extent, the rate filing process is governed by Section 53A of MGL Chapter 152, which provides, in pertinent part, that any insurance company authorized to transact business if it is a member of or subscriber to a rating organization, may authorize such rating organization to file with the Commissioner on its behalf, its classification of risks and premiums relating thereto and subsequent proposed classifications of premiums. Such classifications of risks and premiums shall be filed at least every two years and on any additional date that the Commissioner may designate. Within sixty days after any filing, the Commissioner shall conduct a hearing to determine whether the classifications and rates are not excessive, inadequate, or unfairly discriminatory for the risks to which they respectively apply and that they fall within a range of reasonableness. The Bureau made timely rate filings in December 2015 for rates to become effective July 2016 and in December 2017 for rates to become effective July 2018.

## **Section VII – Classification and Appeal Handling**

Standard 1 – The advisory organization takes adequate steps to finalize and dispose of the classification appeal in accordance with applicable statutes, rules and regulations, and written manuals and procedures.

*Controls Assessment* – Section 52D of MGL Chapter 152 provides for appeals of persons aggrieved by the application of the Bureau's rating system. The Massachusetts Notice to Policyholders' Endorsement is attached mandatorily to all voluntary and assigned risk policies on which Massachusetts is listed in Item 3A of the policy's Information Page. The Policyholders' Endorsement contains a provision instructing the policyholder to submit a written request for a review of the method by which the policyholders' classification, rates, premiums or audit results were determined. If the Bureau fails to grant or rejects a policyholders' request within thirty days after it is made, or if the policyholder is not satisfied with the results of the Bureau's review, the policyholder may appeal to the Commissioner. As allowed by WCRIBMA's Constitution, in May 2017 the Governing Committee appointed an Appeals Subcommittee consisting of four carrier representatives, one labor representative, one employer representative, and one agent/producer representative. The Appeals Subcommittee met once in 2017 to further review an appeal filed in 2016 relative to a classification ruling. There were no new classification appeals filed with the Bureau in 2017.

## **Section VIII – Form Development**

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

*Controls Assessment* – NCCI notifies WCRIBMA of all form filings made at a national level. If the national forms are applicable in Massachusetts or if WCRIBMA's counsel determines that a change in state law or case law has necessitated a change to advisory forms, rules, or rates, then a filing is prepared and circulated internally within the Bureau. After the Bureau's internal review with staff and subsequent approval by the Governing Committee, a filing is made with the Commissioner. If the Commissioner approves the filing, the final version of the filing is distributed to the membership by Circular Letter, Special Bulletin, or Notice to Pool Carriers by posting to the Bureau's website. To notify all Bureau Members and Subscribers of the website posting of a new Circular Letter, Special Bulletin, or Notice to Pool Carriers, an e-mail is sent to all parties on WCRIBMA's e-mail distribution list; e-mail distribution lists for each type of notice are maintained by WCRIBMA administrative staff. Circular Letters and Special Bulletins are sent on the same distribution list that is composed of all WCRIBMA members and subscribers, all Pool members, the Division's State Rating Bureau ("SRB"), DIA, the Governing Committee, and, upon their request, insurance agencies and other states' rating organizations. Notices to Pool Carriers are sent to all Servicing Carriers and VDACs as well as to SRB.

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

*Controls Assessment* – All sections of the Bureau's rate filings are reviewed by multiple actuarial staff, including at least one actuary carrying the professional designation of either Associate or Fellow. WCRIBMA also engages a consulting firm to perform a technical review of the spreadsheets underlying the rate filing. Specific to the calculation of the profit provision in a rate filing, the Bureau engages an economist to review the model and the resulting estimated profit provision.

Forms and manual rules often are developed through WCRIBMA's subcommittees consisting of insurance companies, producer, and employer representatives, and staff of the Bureau. Additionally, WCRIBMA staff frequently meet with representatives from the SRB while in the development stages of forms, rules, and programs to incorporate suggestions of the SRB early in the process. Prior to filing any form, manual rule, or other submission for approval with the Commissioner, the proposed filing is circulated internally for comment to all vice presidents and managers of WCRIBMA. After the filing is made through SERFF, the SRB also has the opportunity to extensively review and comment on all filings.

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### **Section IX – Inspection Services**

Standard 1 – The advisory organization conducts inspection services in accordance with applicable statutes, rules and regulations, and written procedures.

*Controls Assessment* – There are no specific statutes, rules, or regulations, issued by the Division that concern the manner in which the Bureau conducts its inspection services. Section 65J of MGL Chapter 152 is applicable only to inspections conducted by assigned risk insurers. Appendix A of the Mass Manual gives WCRIBMA the right to inspect risks to determine the proper classifications in accordance with rules of the Mass Manual and promulgate such classifications to the carrier of record. Staff of the Bureau review all workers' compensation assigned risk applications received on a daily basis and regularly respond to classification related correspondence. When it is determined that an on-site classification inspection is necessary in a particular instance, inspectors from the Bureau's staff conduct on-site classification inspections and they are responsible for adhering to standards of the Mass Manual.

### **Section X – Residual Market Functions – Plan Administration**

Standard 1 – The advisory organization uses objective and established procedures when administering assigned risk plans.

*Controls Assessment* – The residual market mechanism for workers' compensation coverage in Massachusetts is the Pool which was created by statute to provide a means for Massachusetts employers who could not obtain coverage in the voluntary market to satisfy their obligations under MGL Chapter 152; consequently, the Pool must provide coverage to any employer who is entitled in good faith to workers' compensation insurance. Pursuant to Section 65C of MGL Chapter 152, the Commissioner has designated the Bureau, a licensed rating organization in Massachusetts, to administer the Pool in accordance with the Plan of Operation. The Plan of Operation defines the Pool's purpose and limitations, membership, assignment of risks, designation of servicing carriers and voluntary direct assignment carriers, fiscal matters, and obligations of members. It also includes the Paid Loss Ratio Incentive Program, performance standards for assigned carriers, and determination of servicing carrier fees. Among its many practices and procedures to administer the Plan of Operation, the Bureau established and maintains the Mass Manual, data quality incentive programs, the VDAC Program, and a complete set of financial procedures for the Pool which includes but is not limited to calculation of rates and premiums, Pool participation ratios, assessments, take-out credits, risk assignment quotas, VDAC reapportionments, and the Paid Loss Ratio Incentive Program.

### **Section XI – Residual Market Functions – Reinsurance Administration**

Standard 1 – The advisory organization uses established procedures when administering residual market pool assessments or reinsurance pooling mechanisms.

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*Controls Assessment* – The Bureau administers the Pool in accordance with the Pool's Plan of Operation, including the VDAC Program and the Paid Loss Ratio Incentive Program. It follows documented procedures for the calculation of the Pool's participation ratios used to assess members of the Pool, VDAC reapportionments, and specific procedures for take-out credits used in such calculations. The Massachusetts Take-Out Credit Program is designed to encourage depopulation of the residual market; 1,975 policies for policy year 2017 were removed from the residual market and were identified as being eligible for this credit.

WCRIBMA also has contracted with NCCI to provide certain accounting, administrative, actuarial, collection, financial, and residual market information services. Massachusetts servicing carriers report their servicing carrier premium, loss, expenses, and financial data to NCCI in accordance with the NCCI Servicing Carrier Reference Guide. Residual market staff of the Bureau receive several reports on residual market results and financial statements from NCCI on a quarterly basis which are reviewed according to WCRIBMA's internal procedures. The Bureau's Actuarial staff participate in quarterly meetings of the Reserving Committee which are held by NCCI to determine the policy year reserves for the Pool. WCRIBMA prepares and issues an Annual Report on the Pool to provide an overview of Pool activities and performance. Distinct from the audit and report on the financial statements of the Bureau, an independent auditing firm conducts an audit of the Pool and issues a separate report on the audited financial statements of the Pool.

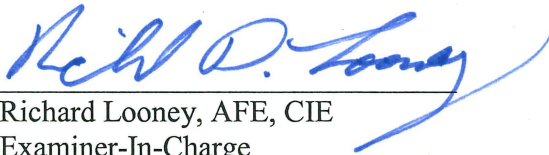
### **SUMMARY OF RECOMMENDATIONS**

The examination is making no recommendations as part of this report.

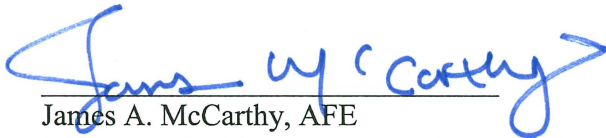
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**SIGNATURE PAGE**

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Bureau to the examiner in the course of the examination.

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Richard Looney, AFE, CIE  
Examiner-In-Charge  
Division of Insurance  
Commonwealth of Massachusetts

A handwritten signature in blue ink, reading "James A. McCarthy". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James A. McCarthy, AFE  
Director and Chief Examiner of Financial Examinations  
Division of Insurance  
Commonwealth of Massachusetts