



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

**REPORT OF EXAMINATION OF THE**

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

**Boston, Massachusetts**

**As of December 31, 2009**

**EMPLOYERS ID NO. 04-1591010**

**For Informational Purposes Only**

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

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**COMMONWEALTH OF MASSACHUSETTS**  
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**DIVISION OF INSURANCE**

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December 16, 2010

Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street  
Boston, Massachusetts 02118

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 152, Section 52c, an examination has been made of:

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

**Boston, Massachusetts**

and its home office located at:

101 Arch Street  
Boston, Massachusetts 02110

The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Workers' Compensation Rating and Inspection Bureau of Massachusetts (hereinafter referred to as "WCRIB" or the "Bureau") was examined as of December 31, 2009 by the Massachusetts Division of Insurance. The examination was conducted by the Massachusetts Division of Insurance ("Division") and covers the period from January 1, 2009 through December 31, 2009 including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this 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* ("Handbook") Chapter 5 *Conducting the Advisory Organization Examination*, the market conduct examination standards of the Division, the Commonwealth of Massachusetts' ("Commonwealth") insurance laws, regulations and bulletins. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed under 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

## HISTORY

### General

WCRIB was formed in Massachusetts in 1915 and is a private non-profit unincorporated association of insurers that is licensed by the Massachusetts Division of Insurance 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. The Bureau files rates, classifications and rating plans on behalf of its member insurers. The Bureau acts as the workers' compensation statistical agent and Assigned Risk Pool Administrator for the Division, and coverage verification entity for the Department of Industrial Accidents. The organization also issues experience modifications and classification rulings for the employers in Massachusetts.

The Bureau administers the Massachusetts Assigned Risk Pool ("Pool"), which is comprised of all insurers writing workers' compensation insurance in Massachusetts. The Pool is administered by the Bureau in accordance with the Plan of Operation as approved by the

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

Commissioner with accounting, actuarial and financial services provided by the National Council on Compensation Insurance, Inc. ("NCCI"). The Pool commenced operation on January 1, 1991, and is responsible for reinsuring all risks assigned to it under Massachusetts law.

### Management

The operations of the Bureau are governed by its Constitution. Every insurer authorized by the Commonwealth of Massachusetts to issue policies affording workers' compensation insurance and employers' liability, may become a member of the Bureau. Any insurer so authorized, but not a member, may subscribe to the services of the Bureau subject to rules and regulations to be made by the Governing Committee, approved by the Commissioner as reasonable. As of December 31, 2009 there were 353 members of the WCRI.

All Committees of the Bureau shall consist of members of the Bureau, unless the Governing Committee of the Bureau otherwise directs. The Governing Committee shall be composed of not more than twelve (12) members. At each annual meeting, the members of the Bureau shall elect nine (9) members of the Bureau 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 three (3) non-member representatives to serve on the Governing Committee until the next annual meeting. The three (3) nonmember representatives shall consist of one labor representative, one employer representative, and one agent/producer representative.

The Governing Committee shall have charge of the administration of the Bureau, 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.

### 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 members of the Governing Committee on December 31, 2009 were as follows:

- |  |   |
|--|---|
| AIM Mutual Insurance Co.                 | Magna Carta Companies                   |
| * Associated Industries of Massachusetts | * Massachusetts AFL / CIO               |
| Chartis Insurance Group                  | * Mass. Association of Insurance Agents |
| Atlantic Charter Insurance Co.           | Meadowbrook Insurance Group             |
| Hartford Accident & Indemnity Co.        | Travelers                               |
| Liberty Mutual Insurance Company         | Zurich American Insurance Companies     |
| * Denotes non member representative      |   |

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

### *Committees*

In addition to the Governing Committee, the Bureau's Constitution specifies the members of the Governing Committee shall appoint the members of a Residual Market Committee which is to be composed of not more than ten members. The Residual Market Committee is appointed at each annual meeting and such committee serves until the next annual meeting. The Residual Market Committee, unless the Governing Committee otherwise directs, shall monitor and administer The Massachusetts Workers' Compensation Assigned Risk Pool.

The Safety Inspection Committee is composed of six members which shall be appointed by the Governing Committee. The Safety Inspection Committee shall advise the 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 elsewhere in the Constitution or conferred upon it by the Governing Committee.

The Actuarial Committee is to be composed of not more than twelve members and is appointed by the Governing Committee. The Actuarial Committee formulates a statistical plan and necessary amendments thereto for recommendation to the Governing Committee, advises and make recommendations to the other Committees of the Bureau on actuarial and statistical matters, and has such other powers and duties as may be prescribed elsewhere in the Constitution or conferred upon it by the Governing Committee.

### **EXAMINATION STANDARDS**

The following sections discuss the operational areas of the Bureau that were examined by the Division. The standards were reviewed in accordance with the guidance and standards of the *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 anticompetitive 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 WCRIB staff that was published in 2007 and rewritten in 2010. An Anti-Trust Statement is read at the start of all WCRIB committee meetings. In addition the Bureau/Producer Advisory group utilizes their own Antitrust Statement.

Standard 2 - The advisory organization prepares, submits filings as necessary, adheres to applicable state filing and/or approval requirements and written procedures prior to distribution of prospective loss costs, policy forms, endorsements, factors, classifications or rating rule manuals.

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

*Controls Assessment* – The Bureau submits all filings to the Division using the NAIC's System for Electronic Rate and Form Filing ("SERFF") effective January 1, 2009 in accordance with the Division's Bulletin 2008 – 19, "Guidelines for the Submission of Fees Associated with Form, Rate and Rule Materials Filed with the Massachusetts Division of Insurance."

Standard 3 - Experience rating factors are developed in a correct and timely manner.

*Controls Assessment* – The Bureau posts the experience rating factors on the members area of their website. During 2009 95% of experience ratings were sent out prior to the rating effective date.

Standard 4 - 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 the WCRIB rarely needs to conduct on-site inspections. When the WCRIB 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 classification review. The WCRIB maintains a Classification Unit of three individuals who 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, the Classification Unit will perform an inspection.

Standard 5 - The advisory organization develops sound, understandable and appropriate risk classifications.

*Controls Assessment* – The Bureau has prepared and maintains the Massachusetts Master Alphabetical Classification Index ("MACI"), which complements the Massachusetts Workers' Compensation and Employers Liability Insurance Manual. The MACI has been developed as a reference guide for the application of the appropriate workers compensation classifications to businesses in Massachusetts.

Standard 6 - The advisory organization conducts ongoing research and review of state insurance laws and insurance-related case law in order to be responsive to necessary changes in prospective loss costs, policy forms, endorsements, factors, classifications or manuals, as applicable.

*Controls Assessment* – Outside WCRIB regulatory counsel monitor state workers' compensation legislative and regulatory activity to notify the WCRIB of legislative proposals, regulations and other government activities for the Bureau to evaluate, take action on, or otherwise be aware of. Additionally, the Bureau's general counsel regularly



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

monitors statutes and case law in order to be responsive to necessary changes in rates, policy forms, endorsements, factor calculations, and classifications or manuals.

Standard 7 - The advisory organization uses objective and established procedures when administering residual market or pool assessments.

*Controls Assessment* – WCRIB administers the Massachusetts Workers' Compensation Assigned Risk Pool in accordance with the Pool's Plan of Operation.

Standard 8 - The advisory organization uses objective and established procedures when administering assigned risks.

*Controls Assessment* – The Bureau administers the Massachusetts Workers' Compensation Assigned Risk Pool in accordance with the Plan of Operation. In addition the Bureau has documented procedures for calculating the assignment quotas for service and voluntary direct assignment carriers, procedures for new applications, procedures for existing policies and procedures for online applications.

Standard 9 - When performing analysis and impact studies on 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 which is then distributed to the Governing Committee, reviewed by WCRIB staff, and then 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 the Massachusetts Workers' Compensation Advisory Council meetings and participates in various subcommittees appointed by the Council to address certain legislative and regulatory matters.

Standard 10 - The advisory organization has an up-to-date, valid internal or external audit program.

*Controls Assessment* – The Bureau is audited annually by an independent certified public accounting firm. In addition the Massachusetts Workers' Compensation Assigned Risk Pool has its own independent audit performed on an annual basis. The Residual Market staff receives daily Assigned Risk Application Status Timeliness Reports that alert them of any workers' compensation coverage applications that 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 employer and signatures are being obtained and maintained. WCRIB staff carefully reviews the Massachusetts ARAP Surcharges that NCCI calculates and publishes on its Interstate Rating worksheets. The Bureau has developed a series of reports issued through



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

the operating system of the unit statistical database, Spectrum, to ensure that processes are flowing timely and accurately.

Standard 11 - The advisory organization has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

*Controls Assessment* – The Bureau has a comprehensive IT Security Policies and Procedures manual to cover IT security risks within WCRIB's operations. The Bureau has obtained a PLYNT Secure Application Certificate that certifies the Bureau's web application has adequate measures to guard against remote adversaries and protects against a wide range of threats.

Standard 12 - The statistical agent has a valid disaster recovery plan.

*Controls Assessment* – The Bureau has a Business Continuity Plan to address their disaster recovery preparedness. The Business Continuity Plan plans for the complete restoration and application of all critical applications within the 72 hours. The Bureau conducted three critical tests of the Business Continuity Plan in 2009 with adequate testing results.

Standard 13 - The advisory organization is adequately monitoring the activities of any entity that contractually assumes a business function and is acting on behalf of the advisory organization.

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

Standard 14 - Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

*Controls Assessment* – The Bureau issued an updated "Record Retention and Destruction Policy" to all employees in September 2009. The policy applies to all hard copy records and electronic documents generated in the course of WCRIB's operations.

Standard 15 - The advisory organization is appropriately licensed.

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

*Controls Assessment* – The Bureau operates only in Massachusetts and their license was renewed in accordance with MGL 152 section 52C, with the current license in effect for the three year period of November 2007 to November 2010.

Standard 16 - The advisory organization has developed and implemented written policies, standards and procedures for the management of insurance information.

*Controls Assessment* – It is the understanding of the Bureau that this standard concerns compliance with Massachusetts General Law, Chapter 175I. It is WCRIB's position that Chapter 175I is not applicable to its operations because Chapter 175I relates to life, health and disability insurance, and not to workers' compensation insurance.

### 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 only operates in Massachusetts and the Massachusetts Workers' Compensation Statistical Plan ("Statistical Plan") was originally issued in 1929. With an amendment in 2005, the Statistical Plan now includes three types of data reconciliations that the Bureau is now required to perform annually. Each reconciliation calls for carrier group data to be compared to an approved set of tolerances. Reports are provided to the Division for those carriers falling outside of acceptable tolerances.

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

*Controls Assessment* – The Statistical Plan is updated in accordance with WCRIB's procedures. The Statistical Plan filing is submitted to the Division for approval and members are notified of the approval via Circular Letter. The updated copy of the Statistical Plan is posted to the Bureau's website.

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

*Controls Assessment* – The Statistical Plan has provisions for three types of data reconciliations the Bureau is required to perform annually. Each reconciliation calls for carrier group data to be compared to an approved set of tolerances. Reports will be provided to the Division for those carriers falling outside of tolerance. Any carrier group with at least a one percent (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 an on-site Agree Upon Procedures Engagement.

### **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 WCRIB publishes unit statistical data edits, which include auto reject edits, accepted with errors edits, policy related edits, and warning error edits. These are examples of some of the edits performed on the unit statistical data submitted.

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's (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 WCIO standards such as WCPOLS and WCSTAT, which are found in the WCIO Workers' Compensation Data Specifications Manual. WCIO, or Workers' Compensation Insurance Organizations, is 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 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. 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* – When the Bureau accepts and processes a carrier's unit statistical data the data is stored in a single database for the compilation of unit statistical data. All financial aggregate statistical data is submitted electronically through the Massachusetts Financial Data Reporting Application (MAFDRA). All data is subjected to an extensive editing process prior to submission and acceptance into the financial database. When financial data is submitted by a carrier, it is automatically 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* – The Statistical Plan's call #4 –Reconciliation Report, 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* – The Bureau performs several premium and loss calculations using the statistical data reported by the carriers and uses those calculated values to edit the reported data. If there are any edit failures the carriers are notified. The carriers would notify the Bureau if any of the calculations underlying the edits were incorrect. The reported statistical data is also utilized to calculate several factors, which WCRIB issues to its member insurance companies. WCRIB performs calculations during the issuance of experience rating modification factors, All Risk Adjustment Program (ARAP) surcharges, merit rating factors, and Massachusetts Construction Classification Premium Adjustment Program (MCCPAP) Factors.

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 apply to workers' compensation insurance however, WCRIB does undertake substantial data quality checking activities and employs the use of several data completeness tests.

Insurance carriers are required to submit a copy of every policy which provides Massachusetts workers' compensation insurance coverage to the Bureau. The policies are written and reported in accordance with the Massachusetts Workers' Compensation and Employers' Liability Insurance Manual. The receipt of a coverage record creates an expectation for a unit statistical report. Part of the annual calls described in the Statistical Plan, has a defined due date. 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 Financial Services Department verifies receipt of an NAIC Annual Statement and aggregate financial statistical data.

As an additional step to ensure the completeness of the aggregate financial statistical data, the WCRIB purchases the NAIC Annual Statement data through A.M. Best and compares that NAIC data to the data reported directly to the Bureau. Carriers who have reported financial data to NAIC but not to the WCRIB are identified through this procedure.

### Section 1 – Correspondence with Insurers and States

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

*Controls Assessment* – WCRIB keeps track of all Unit Statistical Data which is due between 18 to 20 months past the end of the month in which the corresponding policy became effective. WCRIB tracks delinquent and subject to fine unit reports, correction reports and data that is missing or rejected. All Financial Aggregate Statistical Data is required to be submitted in accordance with the call dates as specified in the Statistical Plan located on the Bureau's website. A request to submit overdue calls will be emailed to delinquent carriers five business days after the call due date.

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

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* – Member companies submit their Unit Statistical Data to the Bureau through Manage USR, a web-based application created by WCRIB. The Manage USR provides its member companies with the ability to view and correct Unit Statistical Data. In addition, WCRIB emails listings of a company's failed edits out to that company. Member companies submit their financial aggregate statistical data through the Massachusetts Financial Data Reporting Application (MAFDRA) designed by WCRIB. After submitting data into MAFDRA the user runs the data through applicable edits and MAFDRA provides the user with a Failed Edit Listing.

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

*Controls Assessment* – Subsequent to unit or financial aggregate statistical data edit failures or delinquencies being identified, the insurance company is notified, and if the insurance company has failed to correct the errors within an acceptable period of time, the WCRIB levies fines against the insurance company as a means of following up with the company in accordance with the Statistical Plan's Data Quality Incentive Program.

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

*Controls Assessment* – The WCRIB 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 targeted examination or a triennial 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 course of 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* – The Bureau is not specifically required by statute to provide standard premium and loss reports however, WCRIB does provide the Division with access to the financial aggregate statistical data on an annual basis. The WCRIB provides the Division with all carrier groups' reported data 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.



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

*Controls Assessment* – The database the Bureau utilizes 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 Schedule Z Summary Report is generated from the Schedule Z database that displays payroll, premium, loss, and claim count data by injury kind for a specific classification or by industry group for all policies either including or excluding large deductible experience. The Bureau 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. No calculations are performed on the financial aggregate data. Each month, from June 30 through November 30, the WCRIB sends data to the Division directly from the financial aggregate statistical database (MAFDRA) for each of the rates specified in the Statistical Plan.

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* – The unit statistical data and financial aggregate statistical data collected in accordance with the Statistical Plan are the only data obtained directly from the insurance companies. The WCRIB reviews and reconciles the unit statistical data and the financial aggregate statistical data as described in the standards within Sections III and 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.

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

*Controls Assessment* – The unit statistical data and financial aggregate statistical data collected in accordance with the Statistical Plan are the only data obtained directly from the insurance companies. The WCRIB reviews for quality and compiles the unit statistical data and the financial aggregate statistical data as described in the standards within Sections III and 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* – One of the major functions of the Bureau is the preparation of and procurement of the Workers' Compensation rates for Massachusetts insurers. To a large extent, the rate filing process is governed by MGL Ch. 152 Section 53A, which provides, in part that any insurance company authorized to transact business if it is a member or subscriber to a rating organization, 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 did not make any rate filings in 2009, but filings were made timely in 2008 and 2010.

### **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* – Massachusetts General Law, Chapter 152, section 52D provides for appeals of persons aggrieved by the application of the WCRIB's rating system. The Massachusetts Notice to Policyholders' Endorsement, is mandatorily attached 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 of Insurance. The Bureau has an Appeals Subcommittee, consisting of six carrier representatives, one employer representative, and one producer representative. There were no requests for appeals in 2009, therefore the Appeals Subcommittee did not meet.



## **Section VIII - Form Development**

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

*Controls Assessment* – The NCCI notifies the WCRIB of all form filings made at a national level. If the national forms are applicable in Massachusetts or if the outside WCRIB regulatory counsel or inside WCRIB's counsel determines that a change in state law or case law has necessitated change to advisory forms, rules or rates, then a filing is prepared and circulated internally. After the internal review, the filing is made with the Commissioner. In the Commissioner approves the filing, the final version of the Circular Letter, Special Bulletin or Notice to Pool Carriers is then posted to the WCRIB's website. To notify all WCRIB Members and Subscribers of the website posting of a new Circular Letter, Special Bulletin or Notice to Pool Carriers, an email is sent to all parties on the WCRIB's email distribution list. The email distribution lists for each type of notice are maintained by WCRIB administrative staff. Circular Letters and Special Bulletins are sent to the same distribution list, which is comprised of all WCRIB members and subscribers, all Pool members, the State Rating Bureau of the Division, the Department of Industrial Accidents, the members of 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 Voluntary Direct Assignment Carriers as well as to the State Rating Bureau of the Division.

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 licensed actuary (either an Associate or Fellow). The Bureau 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 the rate filing, the WCRIB engages an economist to review the model and the resulting estimated profit provision.

Forms and manual rules are often developed through the WCRIB's subcommittees, consisting of insurance companies, producer and employer representatives, and WCRIB staff. Additionally, the WCRIB staff frequently meets with representatives from the State Rating Bureau of the Division while in the development stages of forms, rules and programs to incorporate the SRB's suggestions 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 the Bureau. After the filing is made through SERFF, the State Rating Bureau of the Division also has the opportunity to extensively review and comment on all filings.

The Workers' Compensation Rating and Inspection Bureau of Massachusetts

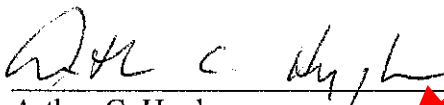
**Section IX - Inspection Services**


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 either the Division or the Department of Industrial Accidents, that concern the manner in which the WCRIB conducts its inspection services. MGL, Chapter 152, section 65J, is applicable only to inspections conducted by assigned risk insurers. When the inspectors of the Bureau's Classification Unit conduct on-site classification inspections, they are responsible for adhering to standards in accordance with the Massachusetts Workers' Compensation and Employers Liability Insurance Manual.

**ACKNOWLEDGMENT**

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Bureau to all the examiners during the course of the examination.

  
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Division of Insurance

  
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