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PRESIDENT

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**ADDITIONAL INFORMATION**

**TO MEMBERS OF THE COMPLIANCE AND OPERATIONS COMMITTEE**

**FOR THE MEETING OF:**

**Wednesday, March 28, 2018 at 10:00 a.m.**

**COPC**

**18.08 Special Investigations Unit System Development**

Attached for discussion by the Committee is a memorandum regarding the Special Investigations Unit (SIU) Audit System that is currently in development. (Docket #COPC18.08, Exhibit #1).

MARK ALVES  
Director – Compliance Audit

Attachment

Boston, Massachusetts  
March 23, 2018



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## COMMONWEALTH AUTOMOBILE REINSURERS

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### MEMORANDUM

To: Members of the Compliance and Operations Committee  
From: Mark Alves  
Date: March 23, 2018  
Re: System Development – Special Investigations Unit (SIU) Audit System

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#### Background:

CAR is in the process of developing a new system for all components pertaining to the auditing of private passenger and commercial SIU programs. Currently, CAR's process for collection of SIU Quarterly Activity Logs provided by the industry, developing samples, controlling results and drafting of reports is entirely manual.

#### Explanation of SIU Requirements:

CAR's role in monitoring the industry's efforts to actively control fraud is referenced by statute in G.L.c.175, §113H, as well the Plan of Operation and Performance Standards. In accordance with Article IV of the Plan of Operation, all Servicing Carriers and ARCs are required to maintain a SIU to investigate suspicious claims for the purpose of eliminating fraud. CAR is required to monitor the effectiveness of the company's SIU fraud control efforts as referenced in Article III of the Plan of Operation. Additionally, Performance Standards approved by the Division of Insurance (DOI) that pertain to each SIU were developed to avoid the payment of fraudulent claims, to establish fraud deterrents, and to reduce losses. Appendix A of these Standards also includes the requirement that all Servicing Carriers and ARCs maintain a SIU Quarterly Activity Log of cases referred to the SIU and provide this log to CAR.

#### General System Information:

The new SIU system is a graphical user interface (GUI) based web application that generates audit samples, controls auditor work papers and notes, and develops result tables for use in the audit reports for both private passenger and commercial auditing. This process will also populate the SIU Quarterly Activity Log with the same basic data fields required in the Performance Standards, and allow for more effective measurement of SIU savings through enhanced data quality, more efficient industry SIU controls, and normalized data.

Each company will be required to upload a comma separated value (CSV) file of SIU Quarterly Activity Log data directly into the application. Currently, companies provide the log either electronically or as an Excel file with different variations of the template distributed in 2011. The CSV template file will be available from CAR's website and require a specific order and format for the data to be uploaded correctly. This data collection process is similar to CAR's process for obtaining youthful driver data records pertaining to the Rule 29 Credit Edit System or for Newly Writing Companies to provide interim summary data for Quota Share purposes. Reported fields include Company Number, Policy Number, Policy Effective Year, Claim Number, Date of Loss, potential Savings, and Disposition.

All companies will be required to report log data that is consistent with the statistically reported data. The log data will then be matched to statistical file data so that all associated claims can be included in the SIU audit sample. The system will reject unmatched records and immediately notify the company for correction.

#### System Benefits:

Many benefits exist through replacing the manual SIU process with an automated system. Examples include:

- Development of a standardized SIU Quarterly Activity Log that eliminates data inconsistencies from company to company.
- Automation of sampling in conjunction with Hybrid, Focus or commercial auditing.
- Automation of auditor work paper controls for documentation of findings and communication of findings with the audited company.
- Automation of report result tables in accordance with the Measurements & Penalties section of the Performance Standards.
- Utilization of the Industry data included in the SIU Quarterly Activity Logs to enhance controls to monitor SIU activity:
  - Ensuring that all ARCs and Servicing Carriers provide the required SIU logs timely, accurately and consistently.
  - Automatically notifying the company if not provided timely.
  - Developing industry reports that identify the number of referrals, estimated savings, and percentage of the various types of outcomes (denied, full payment, or reduced payment, etc.) using a standardized log process.
  - Utilizing submitted log data to identify fraud trends at an industry level.

#### Timeframe:

CAR plans to transition to the new SIU system over a period of 4 quarters beginning with the industry reporting of the June 2018 SIU Quarterly Activity Logs. In preparation for the requirement that companies upload log data that is consistent with statistically reported data, Staff has compared prior log data to reported statistical data for all companies to identify any inconsistencies. Several companies were notified that reported log data was inconsistent with the statistical data. Each company was contacted by Staff and provided examples of fields that contained discrepancies. Staff will continue to communicate with these companies over the course of the year to normalize the data included on the uploaded log so that the match to statistical data successfully occurs. Staff's goal is to achieve 100% compliance by June 2019.

Staff will provide the Compliance and Operations Committee draft language changes to the ARC Manual of Administrative Procedures and the Manual of Administrative Procedures at the June 2018 committee meeting.