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## NOTICE OF MEETING

### CLAIMS SUBCOMMITTEE

A meeting of the Claims Subcommittee will be held virtually via Zoom video conferencing software, on

**WEDNESDAY, JANUARY 26, 2022, AT 10:00 A.M.**

If you plan to attend this meeting and are not a member of this Subcommittee, please RSVP by completing the Visitor Security Form located in the Contact Us/Visitor Information section of CAR's website. CAR will then forward to you, via email, meeting access information. Please do not share access information provided by CAR but refer others wishing to attend the meeting to CAR's Visitor Security Form.

### MEMBERS OF THE SUBCOMMITTEE

Mr. David DeLuca – Chair  
Vermont Mutual Insurance Company

Mr. Daniel Clough  
Ms. Ida Denard Jones  
Mr. Gregory Favreau  
Mr. Paul Narciso  
Ms. Mary Singas  
Ms. Amy Smith  
Mr. Aaron Wheaton

Arbella Insurance Group  
Denard Insurance Agency, Inc.  
Electric Insurance Company  
Safety Insurance Company  
MAPFRE U.S.A. Corporation  
Amica Mutual Insurance Company  
Plymouth Rock Assurance Corporation

### AGENDA

#### CLMS

##### 20.01 Records of Previous Meeting

The Records of the Claims Subcommittee meeting of August 19, 2020 should be read and approved.

#### CLMS

##### 22.03 CAR Conflict of Interest Policy

The Chair will read a statement relative to CAR's Conflict of Interest Policy.

**CLMS**

**22.04 Claims Documentation Standards**

The Compliance and Operations Committee has requested that the Subcommittee evaluate an issue arising in recent audits pertaining to a lack of documentation provided by audited companies to support certain reported losses. In these instances, the audited company utilizes a third-party national vendor that establishes an agreed upon uniform price for towing services. The Statistical Plan requires that expenses such as towing services be reported at the claim level. However, the audited company provided either limited or no documentation to support the statistically reported tow payments resulting in an inability to validate claim payments. The Subcommittee should be prepared to provide direction and/or a recommendation to the Compliance and Operations Committee with respect to appropriate documentation to support such contractual arrangements. Attached is a further description of the audit circumstances underlying this issue. (Docket #CLMS22.04, Exhibit #1)

**Other Business**

To transact any other business that may properly come before this Subcommittee.

**Executive Session**

The Claims Subcommittee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

MARK ALVES  
Director – Compliance Audit

Attachment

Boston, Massachusetts  
January 13, 2022

Claims Subcommittee  
Audit Documentation Discussion – Contract Towing Arrangements

Overview

CAR's Compliance Audit responsibilities are derived from G.L. c. 175 § 113H and its roles as the Residual Market Administrator and the designated Statistical Agent in the Commonwealth of Massachusetts. CAR's overall audit program, approved by the Governing Committee, closely examines data used for rate making and quota share, ensures compliance with statutory and regulatory requirements, and provides a reference for the Market Conduct Reviews performed by the Division of Insurance (DOI). As such, CAR provides all completed audit reports to the DOI as a component of its overall monitoring of the insurance industry.

To audit the accuracy of private passenger statistically reported data and measure its impact to quota share and rate making, staff uses the defined reporting requirements detailed in the Private Passenger Statistical Plan. All Member Companies are required to report premium and claim data in accordance with the Statistical Plan.

A basic principle of claim statistical auditing is to rely on source documentation to verify the reported fields on a loss record. For example, the vehicle appraisal should agree to the collision payment and document the application of a deductible for an at-fault accident, or vice versa. The appraisal and the accident description located on an ACORD form or a police report are source documents used by the auditor to verify the reported type of loss, paid loss amount, partial or total loss indicator, accident town, and VIN. All statistically reported fields, whether claim or premium, are validated back to source documents, usually provided via remote system access, or RMV data during Hybrid Audits. Staff repeats the same steps to verify the reported codes in each audit whether premium or claim records, or voluntary or MAIP business.

Compliance and Operations Committee Meeting

At the November 4, 2021 Compliance and Operations Committee (COPC) meeting, staff discussed a current and newly recurring finding of recent audits that centers on the concept of source document auditing. In the example discussed at the committee meeting, the audited company utilized a third-party national vendor that established an agreed upon uniform price for towing and other roadside services. Focusing on the towing payments, the Statistical Plan requires that these losses be reported at the claim level and reported transactionally. However, the company did not provide sufficient documentation to support the reported claims payments. Other concurrent audits have similar documentation issues also pertaining to towing but with differing types of supports provided.

Documentation Issue

The Compliance Auditor will typically locate the tow payment issued in the claims payment screens commonly included with remote system access. These screens will include detailed claim information pertaining to statistically reported fields including the policy number, claim number, accident date, payment amount, and the payee (tow company name). Also, the auditor will locate the actual tow bill contained in the supporting claims documentation. The tow bill typically provides information that identifies the insured vehicle including the VIN, year, make and model. It also contains details about the tow including the location that the vehicle was towed from and to, the type of tow, the amount of miles the vehicle was towed, and the amount charged for the tow. The auditor can confirm tow coverage and

coverage limits using the online Declaration of Coverages screens also provided through remote system access. Through supports and remote system access, the auditor can validate the accuracy of all the statistical fields reported on the tow payment record. Companies provide this level of documentation to support each transactional payment statistically reported to CAR. If discrepancies exist between the coding and the supports, an exception is identified on the relevant field in the audit system.

The audited company discussed at the COPC meeting was audited on three separate occasions since 2017. The documentation supplied diminished in quality from the first to the final audit, and in all cases was considered incomplete for statistical auditing. For the first audit, the company provided a schedule from a contract between the insurer and the vendor that was dated three years prior to the date of loss. The schedule contained a description of various roadside services including towing necessitated by incapacitation and confirmed the agreed upon fee for each tow. The company also supplied screen prints from the claims system that summarized some elements of the provided service that included the requested and approved amount of the tow, but neither amount agreed with the contracted amount statistically reported to CAR. This circumstance, therefore, was noted in the audit as an exception.

Supporting documentation provided for the second audit included the updated contract schedule, but none of the internal screen prints. Additionally, for the final audit, the company provided neither the contract schedule nor the screen prints. Staff specifically requested in writing additional supporting documentation for all three audits, including the itemized bills or invoices. However, the company indicated the detail was not available.

The three audit reports included similar language of the finding description, noting that CAR does not question appropriateness of the company's use of the standard fee approach. However, the Statistical Plan requires transactional reporting of all losses and allocated loss adjustment expenses (ALAE). Without supporting documentation to verify the statistically reported towing charges, each loss cannot be verified, and therefore the quality of the ratemaking data cannot be verified. Also, it was noted that CAR does not have the ability to verify that the agreed upon charge does not include fees or other unallocated loss adjustment expenses (ULAE) that could be incorrectly included in the overall industry ratemaking data.

### Conclusion

The COPC agreed that source documentation is essential to the statistical audit process and directed that the issue be referred to the Claims Subcommittee for consideration of appropriate documentation.