

Appendix K – CAR Claim Department File Review Process

Section 1. Private Passenger Policies

This section incorporates the selection of the sample, review procedures, and criteria to conduct these examinations following the guidelines in the NAIC Market Conduct Examiners Handbook Chapter VIII G. Claims. As directed by The Commissioner of Insurance in the December 16, 2006 and September 12, 2005 Decision on the proposed Performance Standards CAR audit procedures and sampling techniques have been revised.

Introduction

Rule 10 of the CAR Rules of Operation requires CAR to conduct periodic audits of Servicing Carriers' claims including policies reinsured in the Plan and voluntarily written as specified in G.L. c.175 §113H. To satisfy this rule CAR conducts claim examinations to evaluate the effectiveness of their claim handling in meeting industry best practices as well as their compliance with the Performance Standards and NAIC Standards. Procedures for the examination are based on the NAIC Market Conduct Examiners Handbook Chapter VIII – Claims and are further defined in the Manual of Administrative Procedures (MAP) Chapter IV - Claims. The Servicing Carrier Questionnaire and internal documentation including, but not limited to, claim manuals, reserving and claim settlement procedures, and internal audits will be reviewed at the onset of the examination. The reviews are conducted using a systems application that has been built specifically for the purpose of evaluating claim handling practices and compliance with the Performance Standards.

The **CAR Claims Review System** is accessed through the CAR Intranet. After establishing the criteria for the types of claims to be reviewed, the System **downloads** selected claims from the CAR mainframe. The mainframe contains all loss records reported by the Servicing Carriers to CAR.

Once the downloaded loss information has been received into the Claim System, the sample is selected following the guidelines of the NAIC Market Conduct Examiners Handbook - Chapter V Sampling. The size of the sample is dependent on the volume of loss records reported by the Servicing Carrier. Ceded and Voluntary claims will be selected randomly in proportion to the total claim population for the examination period.

A random sample of claims will be selected and statistical testing will be performed to determine if there is any statistically significant difference in the handling of voluntary and ceded claims by the Servicing Carrier.

File request letters are generated by the Claims System to the selected Servicing Carriers complete with a list of files that are required for review. Once the designated files are received they are **logged into** the Claims System and statistical information residing in CAR's Loss Files relevant to the claims selected is imported to an application called **Claim Review**. This information tells the examiner if the claims are ceded or voluntary, if the claims are from a personal policy or a commercial policy, the policy number, and the claim number. This information appears on every Claim Form thus eliminating the need for data entry by the examiners.

Appendix K – CAR Claim Department PP File Review Process

In the **Claim Review** a Claims Examiner selects a loss, locates the associated physical claim file, and completes an on-line worksheet titled **Claim Review Form**.

After all of the files have been reviewed and the information has been entered, the Claims System generates three reports titled **Summary of Review**, **Salvage Report**, and **ICPIP Report**.

Each **Summary of Review** contains information imported from the examiners' worksheets on compliance rates, average reporting time, average storage costs, and type of loss breakdowns. Also provided is text to assist the examiners in summarizing these findings. The reviews also contain extensive commentary related to claim handling practices.

At the conclusion of the Summary of Review an aggregate score for the 90% and 93% standards will be calculated for Section I – Auto Physical Damage & Property Damage Liability, Section II – Bodily Injury & Uninsured/Underinsured Motorist, Section III – No Fault Personal Injury Protection Benefits, and Section V - Expenses. One penalty will be assessed for each section in which there is non-compliance with either the Procedures or Resolution standards or both. The Measurements that will be used to derive these aggregate scores are shown on page 4 and 5 of this Appendix.

For Section IV – Voluntary/Ceded Claims Handling Differential an aggregate score for all the Resolution standards in Section I, II, and III will be calculated for the Ceded and Voluntary sample and statistical testing using a chi-square test will be performed. If the difference is found to be statistically significant, following a review of the reasons for the difference with the Carrier, CAR will determine if a penalty should be assessed. A chart is included on page 6 of this appendix showing how the aggregate scores will be calculated.

The **Salvage Report** is on a spreadsheet and provides data on costs associated with total losses as well as averages for length of storage, cost of storage, and towing costs. All of the data on this worksheet is downloaded from the Claim Form prepared by the examiners. This avoids duplicate entry of information by the examiners.

The **ICPIP Report** (Insurance Claim Payment Intercept Program) is a spreadsheet that contains data downloaded from the Claim Form. This report lists all liability claims that are eligible to have been reported by the Servicing Carriers to the Department of Revenue. Massachusetts General Law Chapter 175, section 24D requires that all third party settlements exceeding \$500 must be reported to the Department of Revenue for the purpose of resolving child support liens. This report indicates whether or not the necessary inquiries were made and the overall compliance rate of the Servicing Carrier with this law. The results are submitted to the Department of Revenue by the CAR Claim Department after a review of the report by the Servicing Carrier. As was the case in the Summary of Review and Salvage Report the download of information eliminates duplicate entry.

As mentioned previously, once all of the data is assembled in each of the reports the examiners add their comments to the Summary of Review. These comments are on areas that require some degree of subjectivity such as the overall quality of claim handling and specific areas that may be in need of attention.

The Summary of Review, Total Loss Report, ICPIP Report and the examiners' worksheets, all of which are produced by the Claims Review System, are posted on CAR's website on the Reports page and an email sent to the Servicing Carrier notifying them that the

Appendix K – CAR Claim Department PP File Review Process

report is available for viewing. This is a secure application requiring a sign-on and password. A cover letter accompanies these reports summarizing the results and identifying areas of non-compliance or substandard claim handling. In all cases a written response from the Servicing Carrier is requested.

At the conclusion of the calendar year an Annual Report of Compliance is compiled and submitted the Commissioner of Insurance. This report is a requirement of Massachusetts General Law Chapter 273, Section 41 which states, “The plan shall collect and maintain data on compliance with the Performance Standards by the Servicing Carriers. Such information shall be reported annually to the Commissioner of Insurance and may be the basis for adjustments to premiums.” In order to compare individual Carrier results and to evaluate the quality of claims handling among companies a matrix will be included in the Annual Report of Compliance with the Performance Standards beginning with the 2006 report that shows all the aggregate scores for the Procedure and Resolution performance standards in each section of the Standards for each Carrier and the Industry. Any penalties assessed will be included. The Annual Report is published on CAR's website.

Appendix K – CAR Claim Department PP File Review Process

I. Physical Damage/Property Damage Liability

I. a. Physical Damage

Procedures – 90%	# Claims	# Compliant	Resolution – 93%	# Claims	# Compliant
Assignment/Contact			Coverage		
Appraisal Assignment			Appraisal Quality		
Appraisal Transmittal			Screening/Investigation		
Reserving			Settlement/Payment		
			Subrogation		
			Litigation Management		
Phy Dam Sub-Total			Phy Dam Sub-Total		

I b. Property Damage Liability

Procedures – 90%	# Claims	# Compliant	Resolution – 93%	# Claims	# Compliant
Reserving			Coverage		
			Comparative Negligence		
			Loss Management/Special Inv		
			Settlement		
			Recovery		
			Litigation Management		
PD Sub-Total			PD Sub-Total		
Total			Total		
% PHY DAM/PD Procedure Score	< 90% = Penalty		% PHY DAM/PD Resolution Score	< 93% = Penalty	

Appendix K – CAR Claim Department PP File Review Process

II. Bodily Injury

Procedures – 90%	# Claims	# Compliant	Resolution – 93%	# Claims	# Compliant
			Coverage		
Injured Party Contact			Loss Management		
			Special Investigation		
Uninjured Contact			Litigation Management		
Reserving			Settlement		
			Recovery		
Total					
% BI Procedure Score	< 90% = Penalty		% BI Resolution Score	< 93% = Penalty	

III. No Fault Personal Protection

Procedures – 90%	# Claims	# Compliant	Resolution – 93%	# Claims	# Compliant
			Coverage		
Injured Party Contact			Medical Management		
Uninjured Contact			Special Investigation		
PIP Mailing			Subrogation		
Reserving					
Total					
% PIP Procedure Score	< 90% = Penalty		% PIP Resolution Score	< 93% = Penalty	

V. Expenses

Procedures – 90%	# Claims	# Compliant
Allocated Expenses		
Total		
% Expenses Procedure Score	< 90% = Penalty	

Appendix K – CAR Claim Department PP File Review Process

Section IV. Voluntary/Ceded Claims Differential

Physical Damage – 93%	# Ceded	# Compliant	# Voluntary	# Compliant
Coverage				
Appraisal				
Screening & Investigation				
Settlement				
Subrogation				
Litigation Management				
PHY DAM Sub-Total				

Property Damage – 93%	# Ceded	# Compliant	# Voluntary	# Compliant
Coverage				
Comparative Negligence				
Loss Management/Special Inv				
Settlement				
Recovery				
Litigation Management				
PD Sub-Total				
PHY DAM/PD Aggregate Total				
Chi Square Test				

Bodily Injury – 93%	# Ceded	# Compliant	# Voluntary	# Compliant
Coverage				
Loss Management				
Special Investigation				
Litigation Management				
Settlement				
Recovery				
Aggregate Total				
Chi Square Test				

No Fault PIP – 93%	# Ceded	# Compliant	# Voluntary	# Compliant
Coverage				
Medical Management				
Special Investigation				
Subrogation				
Aggregate Total				
Chi Square Test				

Appendix K – CAR Claim Department PP File Review Process

Definitions

Contact: Under the PIP and BI Standards Contact must be either in person or by telephone call. If the injured party cannot be reached on this initial contact a letter or email may be sent as a follow-up.

IME (Independent Medical Examination): A physical examination of the injured party to document the injury and provide an opinion on whether the treatment is reasonable, necessary, and appropriate for the injury sustained. Cut off dates may be established.

Medical Audit: Peer reviews of some or all of a claimant's medical bills and/or records by doctors, nurses, or other medical professionals.

MBR (Medical Bill Review): A review of medical bills using a computerized/expert system, PPO, or provider of the same medical discipline as the provider bills being reviewed. Bills are checked for reasonableness of cost and modality. Duplication of treatments or unnecessary modalities are eliminated and not paid.

SIU: Special Investigations may be performed by SIU personnel or other personnel trained to handle suspicious claims using activity checks, surveillance, accident reconstruction, statements or examinations under oath. Special investigations also include third party expert analysis of documents associated with suspicious claims. Liability investigations are not considered to be special investigations.

Worksheets:

There are four worksheets used in the CAR Claim Review Process. They are:

- Physical Damage Claim Review
- Property Damage Claim Review
- Bodily Injury Claim Review
- PIP Claim Review

Following the final approval of the modifications to the Performance Standards by the Commissioner of Insurance Decision on February 16, 2006 the claims system is being updated to reflect the additional standards and compliance rates. New worksheets are being developed and will be included in Appendix K and posted on CAR's website.