

TRANSLATING COMPLIANCE RATIOS INTO AN EFFECT ON THE SERVICING CARRIER FEE

1. **DEFINITIONS.** For the purposes of this section the following terms are defined below.
 - a) "Aggregate Rating" means the servicing carrier's total score for each audit category.
 - b) "Compliance Ratio" means a value, expressed as a percentage, reflecting the servicing carrier's performance with respect to a Standard. When a standard is missed through no fault of the servicing carrier, the carrier will in that instance be treated as complying with that Standard and no deduction will be taken from the servicing carrier's score.
 - c) "Rating Value" means the result of comparing the Compliance Ratio for any Standard to the Scoring Range for that Standard. All Rating Values shall be one of the following: commendable, satisfactory, marginal or unsatisfactory. Carriers will receive from four points to one point, respectively, for each commendable, satisfactory, marginal and unsatisfactory Rating Value.
 - d) "Scoring Range" or "Scoring Ranges" shall refer to the ranges set forth in the second and fourth paragraphs of no. 2, below.
 - e) "Standard" or "Standards" refers to any of the Performance Standards set forth in the section entitled, "Performance Standards for Servicing Carriers," within the audit categories.
 - f) "Weight Factor" means any of the factors assigned in the Aggregate Rating Tables that follow this section.

2. **SCORING.** In any year in which the on-site audit program is undertaken pursuant to an order of the Commissioner as provided in the Appendix, "Determining the Servicing Carrier Fee," no. 6, each servicing carrier's Compliance Ratio for each Standard tested during the on-site audit will be compared to the Scoring Ranges. In any such audit, the Compliance Ratios will be determined using samples of at least 125 claims files, 100 underwriting files and 40 loss control files.

For the categories of Underwriting and Audit, Claims Handling and Loss Control, the servicing carrier shall receive a commendable Rating Value for any Compliance Ratio between 99% and 100%, inclusive. The servicing carrier shall receive a satisfactory Rating Value for any Compliance Ratio of at least 95% but less than 99%. The servicing carrier shall receive a marginal Rating Value for any Compliance Ratio of at least 80% but less than 95%. The servicing carrier shall receive an unsatisfactory Rating Value for any Compliance Ratio lower than 80%.

The Standards in the Financial Reporting audit category shall be divided into quantitatively measured Standards and qualitatively measured Standards.

The quantitative Standards included in the fee calculation shall be:

- accurate reporting of policy information,
- accurate reporting of claim information,
- accurate premium calculation,
- accurate calculation and reporting of producer fees,
- proper coding and reporting of losses and expenses, and
- accurate reporting of outstanding loss information.

The qualitative Standards included in the fee calculation shall be

- financial reporting systems and procedures,
- timely reporting of uncollectibles,
- accurate reporting of uncollectibles,
- accurate reporting of recoveries,
- claims processing controls,
- premium processing controls, and
- proper application of producer fee and servicing carrier allowance percentages.

For the quantitative performance Standards in the Financial Reporting category, the servicing carrier shall receive a satisfactory Rating Value for any Compliance Ratio between 95% and 100%, inclusive. The servicing carrier shall receive a marginal Rating Value for any Compliance Ratio of at least 80% but less than 95%. The servicing carrier shall receive an unsatisfactory Rating Value for any Compliance Ratio lower than 80%.

The auditors will directly assign Rating Values for the qualitative Performance Standards in the Financial Reporting category, rather than use any Scoring Ranges.

- 3. EFFECT ON THE SERVICING CARRIER FEE.** The auditors shall determine Aggregate Ratings, and a corresponding effect on the servicing carrier fee, for each servicing carrier audit as follows:
- a) Points for each Standard are calculated by multiplying the respective Weight Factor by the points corresponding to the Rating Value awarded for each Standard.
 - b) The products of the points and the Weight Factors are then added together for each audit category (Underwriting and Audit, Claims Handling, Loss Control and Financial Reporting) to determine the Aggregate Rating for each category.
 - c) Each Aggregate Rating is then converted into an effect on the servicing carrier fee using the table, "Effect of Performance Standards on Servicing Carrier Fee," that follows the "Determining the Servicing Carrier Fee" section.
 - d) The effects on the servicing carrier fee for each of the four audit categories are added together yielding the post rating servicing carrier fee.
 - e) Any adjustments for a servicing carrier's failure to provide requested files are calculated as provided in no. 4, below.
 - f) The off-balance factors are calculated and applied.

4. **ADJUSTMENT FOR MISSING FILES.** If a servicing carrier fails to provide one or more files requested by the Pool or the on-site auditor as required in the third paragraph of the “Performance Standards for Servicing Carriers” section, no replacement files will be requested, and the servicing carrier’s post rating fee will be multiplied by the ratio of total provided files for all categories to total requested files for all categories to calculate the servicing carrier fee, before application of off-balance factors.

Example 1. Servicing carrier A is requested to provide 250 claims files for audit, 200 underwriting and audit files and 75 loss control files. A cannot locate 10 of the requested claims files. A’s post rating servicing carrier fee is 21%. A’s servicing carrier fee, before off-balancing, is 20.6% ($21\% * 515/525$).

Example 2. Servicing carrier B is requested to provided 250 claims files for audit, 200 underwriting and audit files and 75 loss control files for audit. B cannot locate 5 of the requested loss control files. B’s post rating servicing carrier fee is 21%. B’s servicing carrier fee, before off-balancing, is 20.8% ($21\% * 520/525$).

**ON-SITE AUDIT AGGREGATE RATING TABLE
FINANCIAL REPORTING**

	(A)	x	(B)	=	(C)
	<u>Weight Factor</u>		<u>Rating Value</u>		<u>Rating</u>
Accurate Reporting of Policy Information	4		S = 3		
			M = 2		
Accurate Reporting of Claim Information	4		U = 1		
Financial Reporting Systems and Procedures	4				
Accurate Premium Calculation	3				
Accurate Calculation and Reporting of Producer Fees	3				
Proper Coding and Reporting of Losses and Expenses	3				
Timely Reporting of Uncollectibles	2				
Accurate Reporting of Uncollectibles	2				
Accurate Reporting of Outstanding Loss Information	2				
Accurate Reporting of Recoveries	2				
Claims Processing Controls	2				
Premium Processing Controls	2				
Proper Application of Producer Fee and Servicing Carrier Allowance Percentages	2				
Totals	35				

**ON-SITE AUDIT AGGREGATE RATING TABLE
UNDERWRITING AND AUDIT PERFORMANCE STANDARDS**

	(A)	x	(B)	=	(C)
	<u>Weight Factor</u>		<u>Rating Value</u>		<u>Rating</u>
Additional Premium Endorsements	4		C = 4		
Compliance with Audit Frequency Requirements	4		S = 3		
Proper Application of Experience Modifications	4		M = 2 U = 1		
Completion and Billing of Final Audits	4				
Compliance with Established Collection Procedures	3				
Issuance of Renewal Quotes	3				
Policy Issuance	3				
Processing of Requested Endorsements and Processing of Cancellations	3				
Proper Application of Required State Endorsements	2				
Totals	30				

**ON-SITE AUDIT AGGREGATE RATING TABLE
LOSS CONTROL PERFORMANCE STANDARDS**

	<u>Weight Factor</u>	<u>Rating Value</u>
Loss Control Consulting Surveys	4	C = 4
Loss Control Services and Recommendations	4	S = 3
Accounting/Statistical and Results Reporting	3	M = 2
Customer Service	2	U = 1
Loss Records	2	
Notification of Loss Control Services	2	
Total	17	

**ON-SITE AUDIT AGGREGATE RATING TABLE
CLAIM PERFORMANCE STANDARDS**

	<u>Weight Factor</u>	<u>Rating Value</u>
Investigation	4	C = 4
Disability Control	4	S = 3
Medical Costs Control	4	M = 2
Reserving	4	U = 1
Acceptance/Denial	3	
Hearings	3	
Settlements	2	
Supervision/File Reporting	2	
Claim Recording	1	
Total	27	