

TRANSLATING COMPLIANCE RATIOS INTO AN EFFECT ON THE SERVICING CARRIER FEE

1. **DEFINITIONS.** For the purposes of this Appendix, 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 Performance Standard. When a Performance Standard is missed through no fault of the Servicing Carrier, the carrier will in that instance be treated as complying with that Performance 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 Performance Standard to the Scoring Range for that Performance Standard. All Rating Values shall be one of the following: commendable, satisfactory, marginal or unsatisfactory. Servicing 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 Section 2, below.

2. **SCORING.** In any year in which the audit program is undertaken pursuant to an order of the Commissioner as provided in Section 2 of Appendix D - Determining the Servicing Carrier Fee, each Servicing Carrier’s Compliance Ratio for each Performance Standard tested during the 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 (Table C.5-2), Loss Control & Miscellaneous (Table C.5-3), and Claims (Table C.5-4) 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 Performance Standards in the Financial Reporting audit category (Table C.5-1) shall be divided into quantitatively measured Performance Standards and qualitatively measured Performance Standards.

The quantitative Performance Standards included in the fee calculation shall be:

- accurate reporting of policy information,
- accurate reporting of claim information,

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- accurate premium calculation,
- accurate calculation and reporting of producer fees,
- proper coding and reporting of losses and expenses,
- accurate reporting of outstanding loss information,
- timely reporting of uncollectibles,
- accurate reporting of uncollectibles,
- accurate reporting of recoveries, and
- proper application of producer fee and servicing carrier allowance percentages.

The qualitative Performance Standards included in the fee calculation shall be

- financial reporting systems and procedures,
- claims processing controls, and
- premium processing controls.

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 Performance Standard are calculated by multiplying the respective Weight Factor by the points corresponding to the Rating Value awarded for each Performance Standard.
 - b) The products of the points and the Weight Factors are then added together for each audit category: Financial Reporting (Table C.5-1), Underwriting and Audit (Table C.5-2), Loss Control and Miscellaneous (Table C.5-3), and Claims (Table C.5-4) 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 “Effect of Audit Results on Servicing Carrier Fee” tables in Section 6 of this Appendix.
 - 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.

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- e) Any adjustments for a Servicing Carrier's failure to provide requested files are calculated as provided in Section 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 Administrator or the auditor as required in the third paragraph of the Introduction to Appendix B - Performance Standards for Assigned Carriers, no replacement files will be requested, and the post rating servicing carrier 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. Carrier A is requested to provide 250 claims files for audit, 200 underwriting and audit files and 75 loss control files. Carrier A cannot locate 10 of the requested claims files. Carrier A's post rating servicing carrier fee is 21%. Carrier A's servicing carrier fee, before off-balancing, is 20.6% ($21\% \times 515/525$).

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

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5. AUDIT AGGREGATE RATING TABLES.

AUDIT AGGREGATE RATING TABLE C.5-1 FINANCIAL & DATA REPORTING PERFORMANCE STANDARDS							
			(A)		(B)		(C)
		Associated Standards	Weight Factor	x	Rating Value	=	Rating
1	Accurate Reporting of Policy Information	E.1., E.2., E.3.	4		S = 3		
2	Accurate Reporting of Claim Information	E.1., E.3.	4		M = 2		
3	Financial Reporting Systems and Procedures *	Qualitative -	4		U = 1		
4	Accurate Premium Calculation	A.1.a.	3				
5	Accurate Calculation, Payment, and Reporting of Producer Fees	A.7., E.3.	3				
6	Proper Coding and Reporting of Losses and Expenses	E.3.	3				
7	Timely Reporting of Uncollectibles	E.3.	2				
8	Accurate Reporting of Uncollectibles	E.3.	2				
9	Accurate Reporting of Outstanding Loss Information	E.3.	2				
10	Accurate Reporting of Recoveries	E.3.	2				
11	Claims Processing Controls *	Qualitative -	2				
12	Premium Processing Controls *	Qualitative – A.1.a.	2				
13	Proper Application of Servicing Carrier Allowance Percentages	Appendix D	2				
	Totals		35				

* Qualitative Performance Standards

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AUDIT AGGREGATE RATING TABLE C.5-2 UNDERWRITING & AUDIT PERFORMANCE STANDARDS							
			(A)		(B)		(C)
		Associated Standards	Weight Factor	x	Rating Value	=	Rating
1	Additional Premium Endorsements	A.3.b.	4		C = 4		
2	Compliance with Audit Frequency Requirements	A.10.f.	4		S = 3		
3	Proper Application of Experience Modifications	A.1.a.	4		M = 2		
4	Completion and Billing of Final Audits	A.8.a-b., A.10.c-e., A.10.i-k.	4		U = 1		
5	Compliance with Established Billing and Collection Procedures	A.8., A.9.	3				
6	Issuance of Renewal Quotes	A.1.c.	3				
7	Policy Issuance	A.1.	3				
8	Processing of Requested Endorsements and Processing of Cancellations and Reinstatements	A.3.a., A.4., A.8.d., A.5.	3				
9	Proper Application of Required State Endorsements	A.1.a.	2				
	Totals		30				

AUDIT AGGREGATE RATING TABLE C.5-3 LOSS CONTROL & MISCELLANEOUS PERFORMANCE STANDARDS							
			(A)		(B)		(C)
		Associated Standards	Weight Factor	x	Rating Value	=	Rating
1	Loss Control Consulting Surveys	C.2., C.3.	4		C = 4		
2	Loss Control Recommendations	C.4.	4		S = 3		
3	Accounting/Statistical and Results Reporting	E.1., E.3.	3		M = 2		
4	Customer Service, including issuance of Certificates of Insurance	A.6., D	2		U = 1		
5	Loss Records	D.3.	2				
6	Notification of Loss Control Services	C.1.	2				
	Totals		17				

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AUDIT AGGREGATE RATING TABLE C.5-4 CLAIMS PERFORMANCE STANDARDS							
			(A)		(B)		(C)
		Associated Standards	Weight Factor	x	Rating Value	=	Rating
1	Investigation	B.2.	4		C = 4		
2	Disability Control	B.5.	4		S = 3		
3	Medical Care and Cost Control & Payment Control	B.6., B.8.	4		M = 2		
4	Reserving	B.4.	4		U = 1		
5	Acceptance/Denial	B.3.	3				
6	Hearings	B.7.a	3				
7	Settlements	B.7.b-c	2				
8	Supervision/File Reporting	B.9., B.10.	2				
9	Claim Recording	B.1.	1				
	Totals		27				

6. EFFECT OF AUDIT RESULTS ON SERVICING CARRIER FEES.

TABLE C.6-1	
*Effect on Servicing Carrier Fee	Score on Audit of Financial Reporting Performance Standards
0.0%	96 - 105
-0.5%	93 - 95
-1.0%	82 - 92
-1.5%	70 - 81
-2.0%	35 - 69
Total weight of subcategories is 35.	

TABLE C.6-2	
*Effect on Servicing Carrier Fee	Score on Audit of Underwriting & Audit Performance Standards
0.0%	90 - 120
-0.5%	85 - 89
-1.0%	80 - 84
-1.5%	75 - 79
-2.0%	70 - 74
-2.5%	65 - 69
-3.0%	60 - 64
-3.5%	45 - 59
-4.0%	30 - 44
Total weight of subcategories is 30.	

TABLE C.6-3	
*Effect on Servicing Carrier Fee	Score on Audit of Loss Control & Miscellaneous Performance Standards
1.0%	65 - 68
0.5%	60 - 64
0.0%	51 - 59
-0.5%	48 - 50
-1.0%	44 - 47
-1.5%	41 - 43
-2.0%	37 - 40
-2.5%	34 - 36
-3.0%	17 - 33
Total weight of subcategories is 17.	

TABLE C.6-4	
*Effect on Servicing Carrier Fee	Score on Audit of Claims Performance Standards
1.0%	102 - 108
0.5%	95 - 101
0.0%	81 - 94
-0.5%	77 - 80
-1.0%	73 - 76
-1.5%	69 - 72
-2.0%	66 - 68
-2.5%	62 - 65
-3.0%	58 - 61
-3.5%	54 - 57
-4.0%	45 - 53
-4.5%	36 - 44
-5.0%	27 - 35
Total weight of subcategories is 27.	

* Effects are as a percentage of premium.