



**THE WORKERS' COMPENSATION  
RATING AND INSPECTION BUREAU**

**July 30, 2007**

**CIRCULAR LETTER NO. 2064**

**To All Members and Subscribers of the Bureau:**

**Revisions to the Massachusetts Workers' Compensation Statistical Plan  
Part II – Section V, Data Quality Incentive Program**

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The Massachusetts Division of Insurance recently approved revisions made to Part II, Section V, Data Quality Incentive Program ("DQIP") of the Massachusetts Workers' Compensation Statistical Plan.

Attached is a copy of the cover letter that summarizes the changes that were made to the DQIP and the approval letter from the Division of Insurance. The revised Section V pages that take effect on December 31, 2007 are also attached.

Please note that the title of Section V has changed from *Data Quality Incentive Program* to ***Data Quality Compliance Programs*** to reflect the expanded content within the section.

Should you have any questions, please contact Rob McCarthy at 617-646-7536 or [rmccarthy@wcribma.org](mailto:rmccarthy@wcribma.org).

Rob McCarthy  
Vice President & Actuary



**THE WORKERS' COMPENSATION  
RATING AND INSPECTION BUREAU**

July 18, 2007

The Honorable Nonnie S. Burnes  
Commissioner of Insurance  
Division of Insurance  
One South Station  
Boston, MA 02210-2208

**RE: Revisions to the Massachusetts Workers' Compensation Statistical Plan Part II – Section V, Data Quality Incentive Program**

Dear Commissioner Burnes:

Enclosed for your review and approval are the proposed changes to the *Massachusetts Workers' Compensation Statistical Plan - Part II – Section V, Data Quality Incentive Program* ("DQIP"). The WCRIB proposes the following changes to the DQIP effective December 31, 2007:

- Fines are added for the new ***Aggregate Financial Call Acknowledgment Process***. Tardiness Fines are \$250 per business day for the first 30 business days overdue, \$1,000 per day for the next 30 business days and then \$2,500 per business day until such form has been submitted. Inappropriate Signatory Fines are \$1,000 for a form submitted without an appropriate signature. Fines then accrue at \$250 per business day for the first 30 business days, \$1,000 per day for the next 30 business days and then \$2,500 per business day until such form has been submitted with the appropriate signature.
- Per day fines associated with overdue call submissions that were \$125 per day will now begin at \$250 per business day and increase over time to \$1,000 per business day and then to \$2,500 per business day.
- Per day fines have been added for untimely responses to basic edit failures. These fines increase over time from \$250 per business day to \$1,000 per business day and then to \$2,500 per business day.
- Decrease the number of days to respond to actuarial edit failures from 20 business days to 10 business days. This is being proposed to help expedite the resolution of actuarial edits so as to reduce the potential impact of unresolved actuarial edit failures on the triennial reporting requirement and the mandated reconciliations. Most carriers currently


provide explanations to the actuarial edits at the time a call is submitted or within the 10 business days proposed.

- Per day fines associated with untimely responses to actuarial edit failures that were \$250 per day will now begin at \$250 per business day and increase over time to \$1,000 per business day and then to \$2,500 per business day.
- Per call fine caps have been eliminated.
- The applicable maximum fine for all calls has been increased from the greater of \$5,000 or .005 (.5%) to the greater of \$15,000 or .5% of earned premium at the designated statistical reporting level.
- Fines are added for the new **Examinations and Reconciliations** process. Findings Reports submitted after the due date will accrue at \$250 per business day and increase over time to \$1,000 per business day and then to \$2,500 per business day.
- Disciplinary fines have been increased from the greater of \$5000 or .05% to the greater of \$25,000 or 2.0% of earned premium at the designated statistical reporting level.
- Appeals of fines will be directed to the Commissioner of Insurance instead of the Bureau's Appeals Subcommittee to avoid the potential for discussions about a given carrier's data with representatives from other carriers that participate on the Appeals Subcommittee.

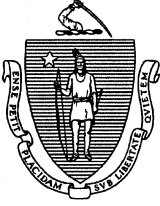
Please also note that the WCRIB proposes a new title for this section, **Data Quality Compliance Programs**, to reflect the expanded content within the section. The WCRIB's proposed new section V is attached for your review and approval.

Please contact me if you require additional information.

Sincerely,

  
Robert McCarthy  
Vice-President and Actuary

cc: Mr. Kevin Beagan, Director, SRB  
Mr. Walter Horn, PhD, SRB  
Mr. Caleb Huntington, SRB  
Mr. Paul Meagher, President, WCRIB  
Ms. Ellen Keefe, Bureau Counsel, WCRIB  
Ms. Claudia Cunniff, Actuary, WCRIB  
Ms. Christina Vazakas, Actuarial Analyst, WCRIB



# COMMONWEALTH OF MASSACHUSETTS

## Office of Consumer Affairs and Business Regulation

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July 23, 2007

Robert McCarthy, FCAS  
Vice President and Actuary  
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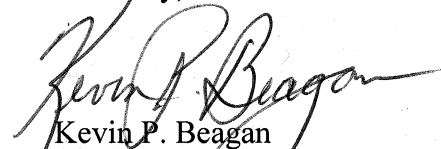
**RE: REVISIONS TO THE MASSACHUSETTS WORKERS'  
COMPENSATION STATISTICAL PLAN PART II – SECTION V, DATA  
QUALITY INCENTIVE PROGRAM**

Dear Mr. McCarthy:

I am writing to inform you of the Division's approval of your filing, dated June 29, 2007, to revise the penalties associated with the incomplete or inaccurate submission of workers' compensation data to the WCRIB. As outlined in your revised cover letter of July 18, 2007, these changes include increasing the per-day fines for overdue call submissions and for untimely responses to both basic edit failures and actuarial edit failures. The revised rules also increase the maximum possible fine for all calls, create an increasing penalty system for failures to complete required examinations, and increase the penalty cap for disciplinary fines. In addition, to address Bureau concerns regarding conflicts of interest, the Division will now hear any appeals regarding the assessments of data quality penalties directly from aggrieved companies.

These changes to the Statistical Plan will take effect on December 31, 2007. Thank you for your submission.

Sincerely,

  
Kevin P. Beagan  
Deputy Commissioner and  
Director, State Rating Bureau

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SECTION V - DATA QUALITY COMPLIANCE PROGRAMS

A. Overview

*The timely collection of Aggregate Financial Call data is critical for providing the source data that is used in the development of workers' compensation rates. To ensure the inclusion of your data in the rate filing, it is necessary that the Bureau receives accurate data on or before the applicable due dates.*

*Three data quality programs apply to Aggregate Financial Call data. These are:*

- *Aggregate Financial Call Acknowledgment Process*
- *Aggregate Financial Data Quality Incentive Program (AFDQIP)*
- *Examinations and Reconciliations*

B. Aggregate Financial Call Acknowledgment Process

*The Aggregate Financial Call Acknowledgment Process was established to emphasize the importance of timely and accurate data. The Aggregate Financial Call Acknowledgment Process requires the completion of the Aggregate Financial Call Acknowledgment Form by a company officer or a company actuary who is a member of the Casualty Actuarial Society and/or a member in good standing of the American Academy of Actuaries. This serves to confirm that the Aggregate Financial Call data that relates to ratemaking has been prepared to the best of your organization's professional abilities and are accurately represented.*

*More details, including a copy of the form, can be found in the General Instructions section of Part II of the Statistical Plan.*

*Fines for Tardiness - Forms that are submitted after the due date will accrue fines at a rate of \$250 per business day for the first 30 business days overdue. Fines will accrue at the rate of \$1,000 per business day for the next 30 business days after which fines will accrue at the rate of \$2,500 per business day until such time as the form has been submitted.*

*Fines for Inappropriate Signatory - Forms that are submitted without the signature of a company officer or a company actuary who is a member of the Casualty Actuarial Society and/or a member in good standing of the American Academy of Actuaries will incur a fine of \$1,000. If a carrier does not submit a corrected form to the Bureau within 5 business days of the Bureau's notification to the carrier, additional fines will begin to accrue at the rate of \$250 per business day for the first 30 business days. Fines will accrue at the rate of \$1,000 per business day for the next 30 business days after which fines will accrue at the rate of \$2,500 per business day until such time that the form is submitted with the appropriate signatory in accordance with the Statistical Plan.*

C. Aggregate Financial Data Quality Incentive Program (AFDQIP)

*AFDQIP provides carriers with an incentive to submit aggregate financial data in a timely and accurate manner. Late and/or inaccurate reporting of data will subject carriers to timeliness and/or data quality fines. The fines under the AFDQIP will be assessed on either a carrier*

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*group basis or an individual carrier basis, consistent with the manner in which the data is reported.*

*Please note that a separate Data Quality Incentive Program applies to unit statistical reporting, Part I, Section XI of this Plan.*

**1. Timeliness Fines**

*Carriers will be notified via email five business days before the call deadline for pending call submissions. Notification will be sent to the person designated as the primary contact for all calls and the person designated as the contact for a given call (if different than the primary contact).*

*A request to submit overdue calls will be emailed to delinquent data reporters five business days after the call due date. This request will be sent to the person designated as the primary contact for all calls and the person designated as the contact for a given call (if different than the primary contact). Daily fines will begin to accrue at a rate of \$250 per business day per call for the first 30 business days beyond the date of the second email. Beyond 30 business days, fines will accrue at the rate of \$1,000 per business day per call for the next 30 business days after which fines will accrue at the rate of \$2,500 per business day per call.*

*Timeliness fines will continue to accrue until a complete call is submitted.*

**2. Data Quality Fines**

*All submitted data is subjected to a number of edits designed to help the Bureau identify data anomalies. Some data anomalies may be the result of errors in data submission while other data anomalies reflect accurately reported data resulting from atypical circumstances. The edits used by the Bureau are categorized into two groups, Basic Edits and Actuarial Edits.*

**i. Basic Edits**

*Basic Edits are intended to identify incorrect data. For example, reported policy year standard premiums should always be non-negative values. A carrier submitting a negative value for policy year standard premium has made a mistake. In addition to sign conventions, Basic Edits also check to see that premiums have been reported for any policy year for which losses have been reported.*

*Basic Edit failures result in per occurrence fines. Additionally, Basic Edit failures will result in timeliness fines if not corrected within 10 business days. There are no acceptable explanations for Basic Edits failures. All Basic Edit failures must be corrected.*

*Per Occurrence Fines - Each finable Basic Edit failure results in a fine of \$250. Note that a single error condition can generate multiple errors within and across calls, with the generated errors resulting in fines of \$250 each. For example, assume that a*

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*carrier submits a policy year call where the standard premium at designated statistical rate is reported as a negative value for six separate policy years. This would result in a fine of \$1,500 (6 x \$250).*

*Timeliness Fines – Carriers will have 10 business days to correct Basic Edit failures. Beyond the 10 business day grace period, fines will accrue at the rate of \$250 per business day per call for the first 30 business days. Fines will accrue at the rate of \$1,000 per business day per call for the next 30 business days after which fines will accrue at the rate of \$2,500 per business day per call.*

*Basic Edit Testing - Before submitting data to the Bureau, member carriers may utilize Bureau provided tools to test data against Basic Edits. These tools may be used repeatedly before making any initial call submission or any correction submission.*

*For example, assume that a carrier is working on their reporting of the Policy Year call. The Policy Year call data may be uploaded to the Bureau's website. At this point the data is termed "saved" and not "submitted." The "saved" data may then be tested by running the Basic Edits against the data. Based on the results of the Basic Edit testing, the carrier may make any necessary corrections.*

- Assuming no changes are warranted, the carrier can proceed to "submit" the data. The Bureau will review the Basic Edits report for the submitted call.*
- Assuming, for example, the Basic Edits flag a number of records because negative policy year premium amounts were reported, the "saved" data may be corrected and subsequently retested. This process may be repeated as often as necessary. Once the carrier has resolved all data issues flagged by the Basic Edits, the carrier can proceed to "submit" the data. The Bureau will review the Basic Edits report for the submitted call.*

*Note that only "submitted" data that fails Basic Edits will be subject to fines. Also, once a call is submitted it is subject to fines. Data quality fines apply if a correction is required for a submitted call, even if corrected prior to the call due date.*

ii. *Actuarial Edits*

*Actuarial Edits are intended to ensure:*

- consistency of Aggregate Financial data within a call*
- consistency of Aggregate Financial data between Aggregate Financial calls*
- consistency of Aggregate Financial data with Unit Statistical Reports*
- reasonableness of changes between valuations*

*Data flagged as a result of the Actuarial Edit process is atypical but not necessarily incorrect data. Consequently, to resolve issues with data flagged by Actuarial Edits carriers must supply an acceptable explanation for the data anomaly or the data must be corrected.*

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*Acceptable explanations must describe, to the satisfaction of the Bureau's actuarial staff, the circumstances that caused the anomaly.*

*The following would be deemed unacceptable explanations by the Bureau:*

- *explanations that simply identify the source of the error*
- *explanations that simply state that the reported data is correct as filed without sufficient documentation to allow for the Bureau's evaluation*

*For each Actuarial Edit that flags a data anomaly, carriers must provide the Bureau either an acceptable explanation or corrected data within 10 business days of being notified of the data anomaly. Please note that each response must be reviewed and accepted by the Bureau's actuarial staff within the allotted 10 business day time frame. Therefore, data reporters should reply in a timely manner to allow sufficient time for the Bureau to request further clarifying information. Business days will not be counted during the time that the Bureau's actuarial staff is reviewing an explanation or a correction.*

*For example, assume that a carrier submits a call which results in an actuarial edit. The carrier will be notified via email of any flagged actuarial edits that have not been resolved. The carrier reviews the data and sends an explanation or a correction after 3 business days. Bureau's actuarial staff will review carrier's response. The time that the actuarial staff reviews the response is not counted in the time frame of 10 business days. If the Bureau requests further clarifying information the carrier has 7 business days remaining to provide an acceptable explanation or corrected data.*

*Acceptable responses not received within 10 business days are deemed late and will result in fines. For each applicable Actuarial Edit, fines will accrue at a rate of \$250 per business day for the first 30 business days overdue. Beyond 30 business days, fines will accrue at the rate of \$1,000 per business day for the next 30 business days after which fines will accrue at the rate of \$2,500 per business day until an acceptable explanation has been submitted.*

*In addition, revisions to data may generate further errors and result in additional fines. Data Reporters should take this into consideration because revisions that trigger other edit failures do not warrant an additional 10 business days to resolve. Fines will be levied for each business day until an acceptable explanation or correction is submitted.*

3. *Caps Applicable to Fines Relating to Timeliness and Data Quality*

*Fines associated with Timeliness and Data Quality Edits are subject to a cap which is a function of calendar year earned premium. The calendar year earned premium used to calculate the caps is derived by taking the difference of policy year standard earned premiums at the designated statistical reporting level for successive valuation dates. The applicable policy year premiums are the totals for all policy years taken from the following calls:*

- *CALL # 2 : POLICY YEAR CALL*



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- CALL #2C: POLICY YEAR LARGE DEDUCTIBLE CALL
- CALL #2D: POLICY YEAR "F" CLASSIFICATION CALL
- CALL #2E: POLICY YEAR MARITIME CLASSIFICATION CALL

*For calls due in a year XXXX the calendar year earned premium applied in capping will be for year XXXX – 2. For example, calls due to be submitted in 2007 will be subject to a cap based on calendar year 2005 earned premiums at the designated statistical reporting level.*

*The maximum total fine for all calls due in a given year is limited to the greater of \$15,000 or 0.5% of the applicable earned premium at the designated statistical reporting level.*

D. Examinations and Reconciliations

*The Bureau will annually perform certain reconciliations as mandated by the Massachusetts Commissioner of Insurance. If the mandated reconciliations identify unexplained data anomalies which are not resolved in accordance with the established timeline, the insurance group to which the carrier belongs is subject to an on-site targeted examination by an auditing firm charged with preparing a Findings Report relative to the data in question. See Section VI for complete details.*

*Additionally, insurance groups with market shares exceeding a given threshold are subject to a triennial examination requirement. See Section VI for complete details.*

*Findings Reports related to either an on-site targeted examination or a triennial examination that are submitted after the due date will accrue fines at a rate of \$250 per business day for the first 30 business days. Fines will accrue at the rate of \$1,000 per business day for the next 30 business days after which fines will accrue at the rate of \$2,500 per business day until such time as the Findings Report has been submitted.*

E. Disciplinary Fine

*In addition to the fines described above, the Bureau may impose a Disciplinary Fine for any of the following reasons:*

1. *If, in any filing the Bureau makes with the Division of Insurance, it becomes necessary for the Bureau to adjust, correct, or make allowances for inaccuracies in the data supplied by a carrier or carrier group.*
2. *If the Bureau deems the data unsuitable for use in any Bureau filing.*
3. *A carrier or carrier group is not responsive to the Bureau's request to submit overdue calls.*
4. *A carrier or carrier group is not responsive or does not satisfactorily respond to the Bureau's attempts to resolve data anomalies.*

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5. *If the Bureau, in its sole discretion, determines that a carrier group is uncooperative with the Bureau and/or the auditing firm designated to prepare the findings report in accordance with Part II Section VI.*
6. *A carrier group does not comply with the triennial examination requirement as outlined in Part II Section VI.*

*The Disciplinary Fine is designed so that it is a function of calendar year earned premium. The calendar year earned premium used to calculate the Disciplinary Fine is derived by taking the difference of policy year standard earned premiums at the designated statistical reporting level for successive valuation dates. For calls due in a year XXXX the calendar year earned premium applied in capping will be for year XXXX – 2. For example, calls due to be submitted in 2007 will be subject to a cap based on calendar year 2005 earned premiums at the designated statistical reporting level. The Disciplinary Fine shall be the greater of \$25,000 or 2.0% of the applicable earned premium at the designated statistical reporting level.*

*For reasons one, two, three and four listed above, the premium used in the calculation will correspond to the basis at which the data in question was reported. If the data in question was reported on a grouped basis, the premiums used in the calculation will be for the carriers that were included in the grouping. Conversely, if the data in question was reported on an individual company basis, the premiums used in the calculation will be those of the individual company.*

*For reasons five and six above, the premium used in the calculation will be the total premium for all carriers within the NAIC insurance group.*

*The Bureau will send a written warning letter via email at least 10 business days prior to levying a Disciplinary Fine for any of the above listed reasons. On the same date, the Bureau will also send a hard copy of the written warning letter via certified mail return receipt. In addition to any authority the Commissioner of Insurance already has, the Commissioner may, at his or her discretion, require the Workers Compensation Rating and Inspection Bureau of Massachusetts to impose a fine upon a reporting carrier or carrier group in the amount set forth above if, after written notice and a hearing, the Commissioner finds that any reporting entity's aggregate financial data is unreliable, incomplete, untimely or otherwise defective and that such defect has materially impacted a filing submitted to the Commissioner. Such fine will be calculated in the same manner as Disciplinary Fines stemming from reasons one, two, three, or four listed above and such fines will not require a written warning letter.*

**F. Reporting of Fines to the Massachusetts Division of Insurance**

*By September 15<sup>th</sup> of each year, the Bureau shall provide the Massachusetts Division of Insurance a listing by carrier or carrier group of all Timeliness Fines and Data Quality Fines levied during the course of the year as a result of the Aggregate Financial Data Quality Incentive Program. If additional Timeliness Fines or Data Quality Fines are levied during the balance of the year, the Bureau shall provide an updated report.*

*Additionally, all Disciplinary Fines will be reported to the Division of Insurance by November 15<sup>th</sup> of each year. If additional Disciplinary Fines are levied during the balance of the year, the Bureau shall provide an updated report.*

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G. Appeal of Penalties Levied under the Data Quality Program

*If the carrier or carrier group ("carrier") is subject to a fine, which in the opinion of the carrier is inappropriate, the carrier may submit a written appeal to the Financial Data Services Department at the following address:*

*Financial Data Services Department  
WCRIBMA  
101 Arch Street, 5th Floor  
Boston, MA 02110*

*The written appeal must be submitted by an officer or senior manager of the carrier within twenty (20) business days of the Invoice Date on the invoice for the particular fine(s) at issue. The appeal should include copies of the relevant invoice(s), all pertinent written communications and detailed statements that describe why the carrier thinks the fine(s) is inappropriate. The Bureau will provide the carrier with its written decision on the carrier's appeal within twenty (20) business days of its receipt of the appeal.*

*If the carrier is not satisfied with the Bureau's decision, it may appeal to the Commissioner of Insurance. Such an appeal shall be filed within thirty (30) days of the carrier's receipt of the Bureau's written decision. The carrier should provide the Bureau with a copy of any appeal submitted to the Commissioner of Insurance.*