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**MASSACHUSETTS WORKERS' COMPENSATION
ASSIGNED RISK POOL**

SPECIAL BULLETIN NO. 5-94

**SERVICING CARRIER
PERFORMANCE STANDARDS PROGRAM**

Effective with Policy Year 1994, as described in the new *Pool Plan of Operation* Appendix there will be a new servicing performance standards program. Attached for your convenience are Pages 41-46 of that new *Pool Plan of Operation*.

There are four main features:

1. The Standards for Servicing Carriers.
2. The audits based on the standards.
3. The resulting ratings.
4. The affect of those ratings on servicing carrier fees.

The Standards for Servicing Carriers, shown on Pages 23 to 40 of the *Pool Plan of Operation* Appendix, reflect the joint input of both the WCRB and SRB. The WCRB supported the adoption of these standards.¹

As stated on Page 45 of the *Pool Plan of Operation* Appendix, there will be annual on-site audits of all servicing entities by a firm designated by the Division of Insurance.²

The Division has yet to designate an audit firm. The manner in which audits are conducted will determine the success of the program.

After being audited, each Servicing Carrier will be rated in many areas. As shown on Pages 41-44 of the new *Pool Plan of Operation* Appendix, rating values of Commendable,

¹See Special Bulletin 24-93.

²As stated in Special Bulletin 24-93, the WCRB believes it should have been the one to arrange for the audits.

Satisfactory, Marginal, and Unsatisfactory in each area will be converted to a numerical score.³ There are four broad categories: Underwriting and audit, claims, loss control, and financial reporting.

Finally, as shown on Page 46 of the new *Pool Plan of Operation* Appendix, these numerical scores in each of the four broad categories are converted into an Effect of Performance Standards on Servicing Carrier Fees.

The total possible swing from performance standards is +2% to -14%. For each servicing carrier, the effects of the performance standards will be added to the effects of the loss ratio incentive program.⁴ Then the resulting servicing carrier fees subject to an overall minimum and maximum⁵ will be balanced to the average fee set by the Commissioner.⁶ Thus the performance standards program will shift fees between servicing carriers without altering the overall average. Those servicing carriers who score better than average on the audits will receive more, while those that score lower will receive less.

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Vice President and Actuary

HCM/pw/21

³This portion of the program is similar to both what the WCRB proposed and what the NCCI does in other states.

⁴The paid loss ratio incentive program applies in 1993 and later years, while the performance standards program starts in 1994.

⁵For 1994 the minimum is 15% and the maximum is 35%.

⁶For 1994, 24% minus the ratio of reimbursements received by all servicing carriers for expenses. (At present there are no such reimbursements.)

ON-SITE AUDIT AGGREGATE RATING TABLE

FINANCIAL REPORTING

	<u>Weight</u> <u>Factor</u>	(A) X (B) = (C) <u>Rating</u> <u>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 & AUDIT PERFORMANCE STANDARDS

-	(A) Weight Factor	X	(B) Rating Value	=	(C) Rating
Additional Premium Endorsements	4		C = 4		
Compliance with Audit Frequency Requirements	4		S = 3		
			M = 2		
Proper Application of Experience Modifications	4		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				

Massachusetts Assigned Risk Pool Plan of Operation

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	

ON-SITE AUDIT RATING

Formula

A = Weight Factor

B = Rating Value

A x B = Individual points earned per area

C = A x B = Aggregate Rating

Rating Value Definition

C = 4 = Commendable

S = 3 = Satisfactory

M = 2 = Marginal

U = 1 = Unsatisfactory

Determining the Servicing Carrier Fee

1. For policy year 1993, the starting servicing carrier fee will be 30%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 27% minus the ratio of reimbursements received by all servicing carriers for expenses (e.g. medical cost containment, allocated loss adjustment expenses, etc.) to the total pool premium. This off-balance procedure will be implemented at each adjustment to the servicing carrier fee.

2. For policy year 1994, the initial servicing carrier fee will be 24%. An off-balance factor must be applied to obtain an overall premium weighted servicing carrier fee equal to 24% minus the ratio of reimbursements received by all servicing carriers for expenses (e.g. medical cost containment, allocated loss adjustment expenses, etc.) to the total pool premium.

3. The paid loss ratio incentive program will provide a $\pm 9\%$ swing. Servicing carriers' minimum and maximum relativity factors under the paid loss ratio incentive program are as follows:

<u>Premium Size Group</u>	<u>Minimum Relativity Factor</u>	<u>Maximum Relativity Factor</u>
Less than \$2.5 mil.	None	None
\$2.5 mil. - \$10 mil.	.900	1.100
> \$10 mil. - \$30 mil.	.925	1.075
> \$30 mil. - \$50 mil.	.950	1.050
Over \$50 mil.	.975	1.025

4. The performance standards program has been devised to provide a swing on each of the four on-site audit aggregate rating categories: underwriting and audit, loss control performance standards, claim performance standards, and financial reporting. The total swing from performance standards would be +2% to -14%.

5. For policy years 1993 and 1994, the servicing carrier fee is subject to an overall minimum of 15% and an overall maximum of 35%.

6. There will be annual on-site audits of all servicing entities by a firm designated by the Division of Insurance.

7. The performance based servicing carrier fee in its entirety is effective as of 1/1/94. In calendar year 1994 the auditing process will be implemented. When the auditing process is completed for all servicing carriers, servicing carrier fees will be adjusted based on the results of the performance evaluations subject to items 1 and 2 above. Subsequent adjustments will be made based on the results of the paid loss incentive program. For policy year 1993 the servicing carrier fee is subject only to the Paid Loss Incentive Program and the overall balancing and capping constraints discussed above.

8. For the purpose of determining the service carrier fees under this program, percentages are of standard premium, i.e., not including ARAP surcharges or MARRP adjustments.

Massachusetts Assigned Risk Pool Plan of Operation

Effect of Performance Standards on Servicing Carrier Fee

Effect on Servicing Carrier Fee	Score on Audit of Underwriting and Audit Performance Standards		Effect on Servicing Carrier Fee	Score on Audit of Financial Reporting Performance Standards	
0.0%	90	- 120	0.0%	96	- 105
-0.5%	85	- 89	-0.5%	93	- 95
-1.0%	80	- 84	-1.0%	82	- 92
-1.5%	75	- 79	-1.5%	70	- 81
-2.0%	70	- 74	-2.0%	35	- 69
-2.5%	65	- 69			
-3.0%	60	- 64			
-3.5%	45	- 59			
-4.0%	30	- 44			

Total weight of subcategories is 30.

Total weight of subcategories is 35.

Effect on Servicing Carrier Fee	Score on Audit of Claims Performance Standards		Effect on Servicing Carrier Fee	Score on Audit of Loss Control Performance Standards	
1.0%	102	- 108	1.0%	65	- 68
0.5%	95	- 101	0.5%	60	- 64
0.0%	81	- 94	0.0%	51	- 59
-0.5%	77	- 80	-0.5%	48	- 50
-1.0%	73	- 76	-1.0%	44	- 47
-1.5%	69	- 72	-1.5%	41	- 43
-2.0%	66	- 68	-2.0%	37	- 40
-2.5%	62	- 65	-2.5%	34	- 36
-3.0%	58	- 61	-3.0%	17	- 33
-3.5%	54	- 57			
-4.0%	45	- 53			
-4.5%	36	- 44			
-5.0%	27	- 35			

Total weight of subcategories is 27.

Total weight of subcategories is 17.