

## **Appendix J**

### **CAR Compliance Audit Claim Review Process Section 1 - MAIP Policies**

Effective April 2010 the Performance Standards Claims and SIU Reviews have been incorporated into the Hybrid Audit Plan approved by the Governing Committee in February 2010 and forwarded to the Division of Insurance. The Hybrid Audit Plan includes the Premium and Claims Statistical audits, Claims Performance Standards reviews, and SIU reviews.

The following procedures replace the Claims Review process contained in Appendix K effective November 13, 2009.

One of the four primary objectives of the audit is to verify adherence to statutory requirements. The review will evaluate the company's compliance with the key statutory requirements of MGL, c. 175, § 113 H:

- That claims handling is consistent for voluntary and involuntary claims and
- That the ARC maintains a Special Investigative Unit which provides effective fraud control procedures.

#### **Performance Standards**

The Performance Standards approved by the Commissioner of Insurance on November 13, 2009 will remain in effect. Completion of the Questionnaire by the ARC will certify that its claims handling programs comply at a minimum with the Performance Standards.

#### **Cycle and Sample**

For all private passenger business, the current claim audits have transitioned to a three year cycle. In this new cycle, every actively reporting Member and ARC will be audited. The cycle will be continually evaluated as new Members enter the Massachusetts private passenger automobile insurance market. The ARC 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.

Under the Hybrid Audit Plan all of an individual Member or ARC compliance audits will be conducted concurrently using a consistent sample selection. The sample size will be 270 policies with at least one claim. Data for the Audit is verified at a 90% confidence level with a standard error rate of + 5% through stratified random sample audits for all functions.

#### **Measurements & Penalties**

Rather than measuring the individual Performance Standards on the benchmark of 90% for claim procedures Voluntary and MAIP claims will be reviewed for compliance with policy provisions and applicable statutes, rules, and regulations for the following Best Practices:

- Coverage
- Investigation
- Special Investigation
- Medical Management
- Litigation Management
- Evaluation & Settlement

The benchmark for compliance with these Best Practices is 93% in accordance with the NAIC error tolerance of 7% for standards involving claim resolution.

## **PP Claims Performance Standards**

### **Appendix J – MAIP Compliance Audit Claims Process**

Compliance will be measured as YES, NO, or NA. If NO, a COMMENT will be entered into the worksheet with an explanation. Chi square testing will be conducted on each Best Practice Voluntary and MAIP score to determine if there is any statistical difference in handling. If the aggregate score is less than 93% or the difference is statistically significant the Member or ARC will be required to address the reasons in their response and submit a remedial action plan. The Governing Committee will determine if a penalty should be assessed based on the recommendation of the Compliance Audit Committee.

#### **Private Passenger Ceded Pool Run-off**

As the volume of claims in the Private Passenger Ceded Pool diminishes the remaining ceded claims will be reviewed with a twofold approach:

##### **Ad Hoc Reviews - Large Loss/Indemnity/Reserve Review**

As part of the current Large Loss review procedures ceded claims will be selected quarterly from the Loss Limitations Report. Criteria for selection include large reserve and indemnity payments, litigation files, payments over a certain threshold, and allocated expenses. CAR will request a summary of the claim file which should include large loss reports, settlement reports, and/or adjuster notes. CAR will reserve the right to review the entire file if necessary but on the majority of the cases the summary information would be sufficient.

##### **Bodily Injury Claim Reviews**

A random sample of ceded bodily injury claims will be reviewed during the course of the triennial audit. Files selected will have claim activity including indemnity and/or expense payments and reserves within the rolling 12 month audit period. The sample would be on approximately 5 to 10 percent of the claims having activity. Results of this review will be included in the Audit Summary Report. The Compliance Audit Committee will review the volume of ceded claims and these run-off review procedures annually.

#### **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.