The Hybrid Audit Plan includes the Premium and Claims Statistical audits, Claims Performance Standards reviews, and SIU reviews. One of the primary objectives of the Hybrid Audit Plan is to verify adherence to statutory requirements. With the inclusion of the Claims Performance Standards and the SIU review in the Plan, an ARC's compliance with the key statutory requirements of G.L. c.175, §113H are evaluated:

- Claims handling is consistent for voluntary and residual market claims, and
- The ARC maintains a SIU which provides effective fraud control procedures.

A. Performance Standards

1. Cycle and Sample

Every actively reporting Member and ARC will be audited on a three-year cycle. The cycle will be continually evaluated as new Members enter the Massachusetts private passenger motor vehicle insurance market. The ARC Compliance Audit Claim Questionnaire (Appendix K) 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's or ARC's 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.

2. Measurements and Penalties

Voluntary and residual market 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 and 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. Compliance will be measured as yes, no or not applicable. 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 its 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 and Operations Committee.

B. 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 described below.

1. 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 including large loss reports, settlement reports, and adjuster notes. CAR will reserve the right to review the entire file if necessary. Additionally, a number of files requested by the Loss Reserving Committee are reviewed each quarter.

2. 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 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 and Operations Committee will review the volume of ceded claims and these run-off review procedures annually.

C. Definitions

1. Contact

   Under the PIP and BI Standards, Contact must be either in person or by phone. If the injured party cannot be reached on this initial contact a letter or email may be sent as a follow-up.

2. 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.

3. Medical Audit

   Peer reviews of some or all of a claimant's medical bills and/or records by doctors, nurses, or other medical professionals.

4. 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.