



NCCI Holdings, Inc.

Stephen J. Klingel
President and
Chief Executive Officer

April 27, 2007

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N.H. INSURANCE DEPARTMENT

G. Kent Dover, Jr., CPCU, CIE
Chief Market Oversight Examiner
New Hampshire Insurance Department
21 S. Fruit Street
Suite 14
Concord, NH 03301

Re: Targeted Market Conduct Examination of NCCI, Inc.

Dear Mr. Dover:

I am pleased to document NCCI's final and official response to the Targeted Market Conduct Examination Report of the New Hampshire Insurance Department. This documentation includes our initial response and comments to the December 7, 2005 examination report which were submitted under date of January 10, 2006. In addition, we have provided detailed work papers and expanded response materials which explain the mechanics of the systems and process improvements NCCI has made in response to the recommendations. These materials were provided to you in an email dated April 26, 2007. As you know, NCCI has identified these work papers as privileged and confidential under RSA 400-A: 37, IV-a. Finally, I am attaching a summary of our responses to each of the exam recommendations.

As you know, NCCI has taken numerous steps to enhance our data management systems and processes and has expanded our audit functions to increase our focus on quality and excellence. All of these actions have been taken with the full support of NCCI's senior management and our Board of Directors.

Thank you for your willingness to discuss these actions with NCCI staff and our responses to the exam recommendations.

Sincerely,

Stephen J. Klingel

Attachment

CC: Roger A. Seigny, Commissioner
Terry Delehanty, General Counsel and Chief Legal Officer, NCCI
Helen Westervelt, President, Regulatory Services, NCCI
Harold C. Pachios, Esq., Preti, Flaherty, Beliveau and Pachios

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc. Submitted 04/27/07

This report addresses all 42 New Hampshire Market Conduct Exam recommendations. Included are the examination recommendations and the NCCI responses to each recommendation.

Of the 42 exam recommendations, 35 have been moved to a Closed status by the New Hampshire Insurance Department—achieved by acceptance of NCCI's exam responses in this report and the supplemental information provided. The remaining 7 exam recommendations remain in a Closed-Ongoing status. NCCI appreciates the opportunity it has been given by the examiners to discuss and resolve each of the recommendations.

Recommendation #1 from the Examination Report

NCCI estimated that approximately 25% of the carriers with multiple exposure issues had not been contacted at the time of the examination; the 11 largest representing approx. 75% of the total volume of omitted multiple exposures had been contacted in May-August 2002 although one New Hampshire carrier, Legion, was not contacted until November 2003. Per NCCI, corrections to the data were made in the first six months of 2004, with the delay in doing so attributable to several reasons, with carrier contracting issues being one of them. While NCCI knew of data quality issues related to the IDB conversion since at least late 2001 and identified the pervasiveness of it in May 2002, states were not made aware of the issue until October 2004 when New Hampshire raised questions about unusual variations in their data. In the future, NCCI should apprise states of data quality issues as soon as they become known to NCCI. We understand that all NCCI states have now been contacted. However, if that is not the case, the carriers and states who have not been contacted about the data quality issues raised in this examination should be contacted to arrange similar fixes or at least be notified of the issue. See further comments in Finding No. 12.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall develop written standards and procedures that provide for immediate reporting to the Commissioner of data quality issues as soon as they become known to NCCI. The standards shall provide for preliminary definition and documentation of the issue with a good description of the concerns. The standards shall incorporate a method for reporting a preliminary evaluation of the potential significance of each identified issue. Each issue shall be coded using a preliminary potential severity indicator. All such instances as coded shall be immediately reported in writing to both a senior level officer within the organization and the state regulator. The senior level officer shall date and acknowledge each report with his/her signature. A copy of the acknowledgement shall accompany the report to the state regulator. A copy of the standards shall be furnished to the state regulator within 30 days. NCCI shall maintain records of all documentation associated with any data quality issues in a manner that is fully compliant with the provisions of RSA 405-B.

NCCI Responses

NCCI agrees with the recommendation to notify states of significant data quality issues as determined in conjunction with individual state regulators.

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc. Submitted 04/27/07

NCCI has contacted all NCCI state regulators and has resolved all of the necessary fixes. Based on discussions between the Department of Insurance and NCCI staff, the Department asked whether NCCI would agree to have further dialogue and discussions with the NAIC in order to develop global responses to this issue (and to the related Recommendation #2). NCCI management has considered this suggestion and agrees that the NAIC Workers' Compensation C Task Force is the best forum within which to resolve these issues in a global fashion, just as that group resolved issues relating to the previous multi-state examination of NCCI. NCCI believes that this group offers the appropriate level of expertise to discuss and resolve the global issues and that the Executive Session portion of this Task Force's meetings, which allows full participation by all interested regulators and NCCI staff, is the most efficient approach for resolving these matters.

Recommendation #2 from the Examination Report

NCCI has indicated that no detailed quantitative impact analysis was performed by state in 2002. NCCI should have completed this analysis at the time the problems were identified. In the future, NCCI should ensure that a more thorough and robust analysis process be applied when pervasive data quality issues are identified.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall develop written standards and procedures that require immediate analysis of identified data quality issues. The standards and procedures shall require a thorough and robust analysis process and an investigation of the full impact of the issue on rates, rating factors and premiums, with a full written report of the results of the analysis. The analysis shall include inquiry from a consumer protection perspective in all cases, whether or not NCCI deems the impact on consumers to be significant. The report shall include a premium and rate impact statement, shall be dated and acknowledged with signature by a senior level officer and a copy of all shall be immediately submitted to the state regulator. A copy of the standards and procedures shall be furnished to the Commissioner within 30 days. NCCI shall maintain records of all documentation associated with analysis of any data quality issues in a manner that is fully compliant with the provisions of RSA 405-B.

NCCI Response

NCCI agrees and the detailed quantitative analysis has now been completed.

Recommendation #3 from the Examination Report

NCCI has indicated that no detailed quantitative impact analysis was performed by policyholder in 2002 until recently completed at the Department's request. NCCI should have performed a more formal and thorough review of the impact on class loss costs and policyholders in 2002. In the future, NCCI should ensure that a more thorough and robust analysis process be applied when pervasive data quality issues are identified.

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc. Submitted 04/27/07

NCCI Response

NCCI has established a more thorough and robust analysis process, and is in the process of establishing appropriate materiality guidelines with individual state regulators.

Recommendation #4 from the Examination Report

Additional edits and diagnostics should be added to the class ratemaking systems and process in order to identify and prevent multiple exposure issues from recurring. Appropriate supervisory signoff of the completeness of the process should be obtained. Such controls as reconciling unit data per the IDB to the unit data extracted should be a standard control. This procedure was not done in New Hampshire's 2005 ratemaking extract and it was not detected that certain carrier's exposure data was excluded from the extract.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall furnish to the Commissioner within 30 days a full written description of the edits and diagnostics added to the class ratemaking systems and process, with a full written explanation of how those measures will preclude the future re-occurrence of all the types of "multiple exposures" issues. The Commissioner shall evaluate the information and determine the adequacy of the measures. If those measures are deemed deficient in any respect, NCCI shall immediately address and correct the deficiencies.

NCCI Response

NCCI implemented a new standard ratemaking data validation process in 2005 that includes reconciliation of exposures between the data extracted for ratemaking and the source IDB data. After management sign-off, the ongoing program was implemented for used in the 2006 validation cycle.

NCCI provided details on the procedures in place to preclude the future occurrence of "multiple exposure" issues, including:

- Edits
- Net Fix
- Reconciliation Test
- Ongoing Monitoring

The reconciliation system was implemented in April 2005 at the direction of management. This system was further enhanced with new diagnostic reports for ease of use by data analysts, which was implemented on 02/15/06. Additionally, the four preventative measures of edits, net fix process, reconciliation tests and on-going monitoring are working effectively to prevent the reoccurrence of the multiple exposure issue.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #5 from the Examination Report

An independent review should be conducted of the “Curr” table (Current View Table) coding upon the completion of program corrections.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall furnish the Commissioner and the NAIC Advisory Organizations Protocols Working Group with a full written copy of the results of the independent code review conducted after migration in 2005, along with sufficient documentation that explains in layman’s terms the significance of the results.

NCCI Response

The processes and code used to build the “Curr” table were subjected to an independent code review, tested, migrated and spot checked after migration in 2005. The new reconciliation process (referred to in our response to Recommendation #4 above) will serve as an on-going check of the “Curr” table. NCCI provided additional information on the process for implementing Curr Table changes, and also the two independent monitoring processes have been implemented to ensure the Curr Table is reflecting the appropriate exposure values.

Recommendation #6 from the Examination Report

Independent testing should be performed to validate that no multiple lines or duplicates are in fact included in the IDB database for data entered subsequent to April 30, 2001. The IDB system is reported to preclude this from occurring.

NCCI Response

The new reconciliation process will be an on-going check for multiple exposures. Should any discrepancies arise, they will be promptly and fully addressed.

Recommendation #7 from the Examination Report

Independent testing should be performed of a sample of corrected “A” sheets to ensure correct data is used and all errors have been corrected.

NCCI Response

The dataset used for the creation of A Sheets utilizes a new validation process, which includes a final check of the ratemaking dataset to ensure that all corrections have been accurately applied.

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc. Submitted 04/27/07

Recommendation #8 from the Examination Report

A sample of original source Unit Reports should be independently tested (both pre- and post-conversion submissions) to validate proper inclusion in the database.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall furnish to the Commissioner the business requirements for internal audit's independent review of original source unit reports in all formats, including projected times for completion, and a copy of its report on the results of its review. The report shall be furnished to the Commissioner immediately upon its completion.

NCCI Response

NCCI agrees that NCCI's Internal Audit department will conduct an independent review and is currently expanding the scope of their data collection audit to include testing of a sample of unit report submissions in all formats. The review will focus on submissions into the staging database, evaluation of the edit process and the ultimate submissions into the production IDB.

The scope of the audit entails the following:

- Data receipt in all formats
- Preload validation
- Evaluation of select edits (different edits will be reviewed during various annual audits)
- Data reporting error resolution process
- Loading to the production IDB

NCCI responded that NCCI's Internal Audit Department commenced its audit work in the 4th Quarter of 2006, and that it will continue into 2007.

Recommendation #9 from the Examination Report

The NCCI Impact Analysis upon which states are relying for making decisions as to whether a class should be re-filed should be independently reviewed and tested to validate completeness and accuracy.

NCCI Response

The impact analysis for New Hampshire was performed by cross checking two independent analyses. One was performed manually and its results were independently validated using an automated process. Subsequent to the cross checking of New Hampshire results, the automated process was then used for the other states' impact analyses.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #10 from the Examination Report

Programming should be independently reviewed and tested where appropriate in each of the following areas to validate the recent systems corrections made by NCCI:

- Net Fix Program – implemented in 2002 to correct the self-insured problem noted.
- Duplicate record program (automatic duplicate check process)
- Old “Curr” Table – validate logic used to create the table
- New “Curr” Table – validate logic used to create the table and corrections implemented
- “Curr” Audit Program – validate audit program currently being used by NCCI to validate the accuracy of data.

NCCI Response

This work has already been completed, as follows:

- The Net Fix program, which was designed to address the duplicate record problem for all data providers, was enhanced in April 2005 to run automatically with every state extract. The code is continuously cross-checked via the reconciliation process.
- In addition to code review and testing prior to implementation, NCCI is continuously retesting the “Curr” tables using full database scans and the new reconciliation process which incorporates a full detailed reconciliation of the IDB to the ratemaking extract.
- The new exposure reconciliation process, implemented in April 2005, is an independent check of the data extracted for ratemaking. In this manner any uncorrected instances of multiple records or sequencing problems would be surfaced for review and rectification.

Recommendation #11 from the Examination Report

NCCI should further assess the impact on filings. An initial program was developed to identify all impacted lines of data for review to finalize ratemaking data sets (10/2004).

NCCI Response

NCCI has completed an impact analysis for all states. The results of these analyses have been provided to all NCCI state insurance departments.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #12 from the Examination Report

NCCI should re-evaluate the thresholds for Payroll Stability validation tests. The thresholds are not state specific and the triggering thresholds should be decreased.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall furnish a complete description of its New Hampshire Payroll Stability validation test including all thresholds and its rationale for using selected thresholds. The description must include discussion that supports the selection of the \$500,000 thresholds for all New Hampshire classifications.

NCCI Response

The thresholds have been examined by NCCI's Actuarial Division and revised thresholds for payroll stability tests have been established based on individual states' premium volume. The indicated threshold for New Hampshire is \$500,000.

Recommendation #13 from the Examination Report

NCCI should develop a system to record/log, monitor and fully address written and verbal concerns submitted by carriers or other users of the data to ensure that all complaints, concerns or requests are fully considered, trended and analyzed. In addition, the monitoring process should include an escalation process within NCCI management to ensure that all items in the log are adequately resolved with senior management's involvement and oversight.

NCCI Response

NCCI currently uses a customer call tracking system as well as an escalation process to ensure resolution of issues with appropriate management review.

Recommendation #14 from the Examination Report

Should the situation arise in the future when data is back-loaded into IDB, NCCI should apply all new or applicable edits to the back-loaded data.

NCCI Response

NCCI agrees and the current process applicable to back-loaded data applies core edits needed for database integrity.

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07

Recommendation #15 from the Examination Report

NCCI should develop specific written procedures and protocol to backload information, which would include running the full library of edits, and ensuring the data is re-sorted upon completion of the upload to ensure it was not uploaded out of sequence.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall within 30 days develop specific written procedures and protocol to back load information that includes running the full library of edits and re-sorting the data upon completion of the upload, should it be uploaded out of sequence. A copy of the procedures and protocol shall be furnished to the Commissioner upon completion. NCCI shall immediately address and correct any inadequacies in those procedures and protocols that may be noted by the Commissioner.

NCCI Response

NCCI agrees, and has developed a process to review any large data loads that involve the population of a new database and/or new summary total information impacting NCCI's Ratemaking and Experience Rating functions. Rules will be developed for each situation depending on the nature of the data, how it was stored and used prior to and post any data migration. Large system migrations will be reviewed by our Internal Audit department. The scope of the internal audit reviews will include the review of procedures for the backload, testing and balancing processes. This review will be performed prior to moving the new system as the official production system of record.

Recommendation #16 from the Examination Report

When unit report data purges are performed, all data associated with the purged submission should be deleted. Written verification procedures should be developed and implemented to ensure the purge was complete.

NCCI Response

NCCI agrees and has established and provided written procedures associated with purges to the Department of Insurance. The procedures include monitoring by management.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #17 from the Examination Report

NCCI should develop specific written procedures and protocols for purge and re-load procedures, which would include running the full library of edits, checking for proper sequence and obtaining appropriate supervisory signoffs on the completeness of the process.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall furnish to the Commissioner within 30 days a copy of its written procedures for purge and re-load activities that include running the full library of edits, checking for proper sequence and obtaining appropriate supervisory signoffs on the completeness of the process.

NCCI Response

NCCI agrees and has provided written procedures to the Department of Insurance which includes edits and monitoring by management to insure the completeness of the process.

Recommendation #18 from the Examination Report

NCCI should consider requiring the carrier to re-load data as opposed to NCCI when circumstances dictate it.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall develop guidelines that define under what circumstances it would require the carrier to re-load purged data and furnish a copy of those guidelines to the Commissioner within 30 days of the date of this Order.

NCCI Response

NCCI has established and provided the unit statistical data purge process to the Department of Insurance. The current practice requires the carrier to re-load the data. Exceptions to this process require senior management approval.

Recommendation #19 from the Examination Report

Purges of data at carrier request should be rare and performed only on an exception basis with senior management approval.

NCCI Response

NCCI agrees. Purges of carrier unit data are rare, and when such purges are necessary, appropriate senior management approval will be required for any exceptions in NCCI states—as outlined in the unit statistical purge process documentation.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #20 from the Examination Report

In connection with transaction sort order exposure data issues, perform testing of data as noted above to identify any further anomalies.

NCCI Response

NCCI agrees. Ongoing testing of data incorporating full database scans has been implemented.

Recommendation #21 from the Examination Report

With respect to transaction sort order exposure data issues, validate "Curr" (Current View) audit program to verify accuracy and completeness.

NCCI Response

The sort logic program was corrected in April 2005 to prevent future occurrences of sequencing issues. The new data validation reconciliation process provides additional checks for the accuracy and completeness of data.

Recommendation #22 from the Examination Report

In connection with transaction sort order loss data issues, perform testing of data as noted above to identify any further anomalies.

NCCI Response

NCCI agrees. Ongoing testing of data incorporating full database scans has been implemented.

Recommendation #23 from the Examination Report

With respect to transaction sort order loss data issues, validate "Curr" (Current View) audit program to verify accuracy and completeness

NCCI Response

The sort logic program was corrected in April 2005 to prevent this sequencing issue from recurring. NCCI has also implemented a query process to audit the database that provides additional checks for the accuracy and completeness of data.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #24 from the Examination Report

Old and new “Current View” table programming should be reviewed for logic errors. Testing should be performed to ensure logic is complete and accurate.

NCCI Response

A continuous monitoring process has been implemented that checks the logic for building the “Curr” view table. This ensures that the logic is complete and accurate.

Recommendation #25 from the Examination Report

The Class Ratemaking extract program should be coded to allow for a secondary sort order and even a third sort if feasible to ensure that the most current data is properly extracted.

NCCI Response

NCCI demonstrated that the new validation reconciliation process developed in April, 2005 performs an independent sequencing/sorting of IDB exposure data to determine the correct rows for ratemaking. As discussed with the Department of Insurance, it was determined that the current reconciliation process was sufficient without the use of a secondary or third sort.

Recommendation #26 from the Examination Report

NCCI should perform a formal “post-mortem” on its systems development and testing methodology for the IDB system and implement revisions and needed improvements.

NCCI Response

NCCI agrees. NCCI systems development and testing methodologies have been enhanced significantly since 2001 under the direction of our Project Management Office. The current practice is to conduct formal post mortem sessions following the close of systems development projects as a basis for continuous improvements in system development and testing methodologies.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #27 from the Examination Report

Systems development and installation acceptance plans should be prepared in a formal, well-documented, complete and thorough manner in order to address and document issues such as those identified in this report. In each case, it appears that the scenarios that led to the data errors could have been detected with the appropriate level and depth of testing. The disposition of test cases that fail should be clearly and adequately documented.

NCCI Response

NCCI agrees. NCCI systems development and testing methodologies have been enhanced significantly since 2001. The current testing process includes an independent quality assurance review of full test scripts, including the disposition of test cases as required by our Project Management Office. Test case documentation was provided to the Department of Insurance.

Recommendation #28 from the Examination Report

A better understanding of the data and relationships should be developed and documented to ensure no further anomalies exist.

NCCI Response

NCCI has further enhanced the exposure matching requirements in the Unit Statistical Reporting Guidebook which is the users' guide that complements the Unit Statistical Plan. In addition, these exposure matching requirements are included in NCCI's unit statistical report training, which is part of NCCI's annual Data Reporting Workshop.

Recommendation #29 from the Examination Report

Internal Audit should be formally involved in the systems development and implementation process, including review of the construction and validation of test plans and review of successful test results.

NCCI Response

NCCI's Internal Audit provides for an independent review of systems and procedures, and is fully engaged in the auditing of NCCI's system development, testing and implementation methodologies. In these respects, Internal Audit's roles are to evaluate that the processes are effective and are being adhered to and to review project documentation.

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07

Recommendation #30 from the Examination Report

Validation thresholds should be re-examined and lowered in order to be sufficiently sensitive to identify potential errors in the ratemaking process for small states/classes.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall develop and use enhanced or additional validation checks consisting of:

1. Most recent date processed (last one per Unit Report No.).
2. Report and/or Admin No.
3. Secondary and third sort programs.
4. New Hampshire state specific class code swing limits.
5. More sensitive industry group change parameters.

NCCI Response

The thresholds have been examined by NCCI's Actuarial Division and revised thresholds for payroll stability tests have been established based upon individual state's premium volume. The indicated threshold for New Hampshire is \$500,000.

With regard to sub-parts 1 through 3 of this recommendation, the Department has agreed that no further action is required.

With regard to sub-parts 4 and 5 of this recommendation, NCCI provided clarification that the issues to be addressed are not ratemaking parameters but the process by which fluctuations in classification pure premium data are investigated and resolved. The A-Sheet Fluctuation Tests, which were provided to the Department of Insurance, describe an enhanced process for identifying pure premium fluctuations and their causes which is sensitive to class volumes and credibility.

Recommendation #31 from the Examination Report

The types of validation checks should be increased/enhanced to include, as examples, the following:

- Most recent date processed (last one per Unit Report No.)
- Report and/or Admin No.
- Secondary (planned) and third sort programs
- Change thresholds to profile by state and class code
- Class codes have swing limits but they are not state specific and should be
- Looks at industry group change parameters which appear to be high at +/- 10%

New Hampshire—Targeted Market Conduct Exam of NCCI, Inc. Submitted 04/27/07

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

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1. Most recent date processed (last one per Unit Report No.).
2. Report and/or Admin No.
3. Secondary and third sort programs.
4. New Hampshire state specific class code swing limits.
5. More sensitive industry group change parameters

NCCI Responses

The thresholds have been examined by NCCI's Actuarial Division and revised thresholds for payroll stability tests have been established based upon individual state's premium volume. The indicated threshold for New Hampshire is \$500,000.

With regard to sub-parts 1 through 3 of this recommendation, the Department has agreed that no further action is required.

With regard to sub-parts 4 and 5 of this recommendation, NCCI provided clarification that the issues to be addressed are not ratemaking parameters but the process by which fluctuations in classification pure premium data are investigated and resolved. The A-Sheet Fluctuation Tests, which were provided to the Department of Insurance, describe an enhanced process for identifying pure premium fluctuations and their causes which is sensitive to class volumes and credibility.

Recommendation #32 from the Examination Report

The IDB Database should be independently tested and evaluated for completeness and accuracy of pre- and post-May 1, 2001 unit report submissions by IT auditors/consultants. After correction of system programs, the IDB programs and Class Ratemaking extract programs source code should be reviewed and tested to ensure the programs are performing as revised and expected.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall engage an independent IT auditor/consultant to:

1. test the IDB database for the completeness and accuracy of pre- and post- May 1, 2001 unit report submissions; and
2. review and test to ensure the programs are performing as revised and expected, after correction of system programs, the IDB programs and Class Ratemaking extract programs.

The independent IT auditor/consultant shall report results of the test and review described in 12, above, to the Commissioner and NCCI.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

NCCI Response

NCCI agrees. Independent testing of the IDB and Class Ratemaking systems has been included as part of Internal Audit's on-going reviews to ensure business rules and system changes are operating as intended. This would include testing the IDB via parallel testing of selected edit logic.

Recommendation #33 from the Examination Report

Consideration should be given to requiring an annual SAS 70 report on internal controls relating to these systems.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall share with the Commissioner the results of its review of the appropriateness of SAS 70 report on internal controls and furnish support for any conclusions drawn as a result of its review.

NCCI Response

NCCI would not normally fit the profile for the SAS 70 auditing standard to validate assurance of our internal control procedures.

NCCI believes that the new Data Quality Initiatives and Internal Audit's increased oversight of these activities meets the underlying intent, spirit and rigor of the SAS 70 standard.

Recommendation #34 from the Examination Report

NCCI should quantify the impact of the shortfall in the balancing of the overall aggregate rate for the years in question. Discussions should be held by states and the NCCI to determine whether an equitable solution to all parties involved can be developed if feasible, and how such situations should be handled in the future.

NCCI Response

This issue has been part of discussions with NCCI state's insurance regulators as part of the determination of an equitable resolution of the issues, and decisions have been reached by regulators on resolution of the issue in all states.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #35 from the Examination Report

NCCI should implement a process whereby a carrier seeking to modify their data must indicate the nature or reason using a series of reason codes which then could be produced into a management reporting tool and investigated fully at a sufficiently high level of management to ensure that problems, such as the data quality issues identified during the examination, are not going unnoticed and unaddressed.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall enhance existing systems and process, or create new ones, to incorporate the use of “reason” codes to be used by carriers who seek to modify their statistical data. Such systems and process shall also provide for the high level use of a periodic, management-reporting tool that facilitates review of the type and frequency of the “reason” codes used. The purpose of these enhancements is to assure that data quality problems do not go undetected.

NCCI Responses

All correction reports are processed in accordance with Unit Statistical Plan rules, and in accordance with industry standards. After further discussions, the Department of Insurance has agreed to close this recommendation with no further action required by NCCI.

Recommendation #36 from the Examination Report

Discussions should be held among states to determine reporting requirements, performance standards and other measurements of accountability between NCCI and the constituents/stakeholders that rely upon its services. When data quality issues become known, there should be reporting criteria and guidelines established for prompt reporting to the states. Additionally, the root cause of the data quality issue should be promptly established. We recommend that the states consider an examination cost allocation program such that if internal NCCI operations or processes are the root cause, some or all of the examination costs are borne (and retained) by NCCI. If all exam costs are allocated to carriers, such costs should be prohibited from being passed on to policyholders.

NCCI Response

NCCI supports the identification of criteria and guidelines for early notification to regulators, including the escalation process. These procedures have been developed with the active participation of state regulators. The cost of examinations of NCCI are borne by its affiliates. Individual states determine the appropriate impact of examination costs on policyholders.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #37 from the Examination Report

NCCI should be subject to routine and periodic collaborative examination by the states that rely upon its services. States should consider an appropriate cost sharing program to be used for such examinations.

NCCI Response

NCCI supports the creation of the NAIC Property and Casualty Insurance(C) Committee-Advisory Organization Examination Protocol Working Group to develop consistent protocols and standards for the examination of Advisory Organizations.

Recommendation #38 from the Examination Report

We recommend that the governance structure of NCCI be reviewed and consideration be given to the inclusion of at least two regulators (even if nonvoting members) on NCCI's Board of Directors as well as consideration as to whether the not-for-profit structure is the best corporate structure for NCCI.

NCCI Response

NCCI disagreed with these recommendations. This item was referred to the NAIC Oversight Group for further discussion, and the Oversight Group determined that no further action was necessary. The regulators agreed that the current NCCI governance structure and not-for-profit status was appropriate and accepted NCCI's response.

Recommendation #39 from the Examination Report

NCCI should conduct a study of the impact of the data quality issues discussed above on the D-Ratios and ELRs that were produced subsequent to the 2001 conversion and report their findings to the states. An independent review of the study's findings and supporting documentation should be conducted.

NCCI Response

The calculation of experience rating values (ELR's and D Ratios) is performed as part of the class ratemaking process and these rating values are simply derivatives of the advisory loss cost calculations. NCCI has provided the New Hampshire Insurance Department with an analysis of the exposure changes, along with the recalculated loss cost and ELR and D Ratio impacts.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #40 from the Examination Report

An independent review should be conducted to validate whether the Experience Rating data extracts created during the period subsequent to the 2001 IDB systems conversion were complete and accurate.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall engage an independent IT auditor/consultant to validate whether the Experience Rating data extracts created during the period subsequent to the 2001 IDB systems conversion were complete and accurate. The independent IT auditor/consultant shall report results to the Commissioner and NCCI.

NCCI Response

NCCI completed reviews of Experience Rating issues and delivered the results to individual states. Corrective action was taken at the direction of the state regulators. Furthermore, NCCI's Internal Audit Department has expanded the scope of their Experience Rating audits to review the data extraction process and underlying business rules.

Recommendation #41 from the Examination Report

NCCI states should evaluate whether uncorrected experience ratings should be corrected given the root cause (NCCI error) of the issue. The states should review the application of the rules in the Experience Rating Plan Manual referred to by NCCI in determining the proper application of the rules and if proper, consider whether a waiver or exception should be granted.

NCCI Response

NCCI agrees with this recommendation and NCCI's State Relations Executives have reviewed these matters with the individual state regulatory authorities. States have provided their individual directives, and NCCI has taken the required corrective action regarding the production and distribution of revised experience ratings.

**New Hampshire—Targeted Market Conduct Exam of NCCI, Inc.
Submitted 04/27/07**

Recommendation #42 from the Examination Report

Statute RSA 400—B: 3.I., effective 9/3/2005, requires that records be maintained for market conduct examination purposes. NCCI should develop record retention and audit trail policies and procedures which require the documentation and retention of data quality related information, support, correspondence, systems development documentation and testing as well as other data which may be pertinent in a regulatory examination of NCCI. The guidance should specify what types of data should be retained, the period of retention and manner and place in which it should be archived.

Associated Action Recommended By The New Hampshire Insurance Department (March 1, 2006 Work Paper)

NCCI shall furnish to the Commissioner a written description of its record retention and audit trail policies and procedures. Such policies and procedures shall include provisions for the retention of all data testing documentation and test results, and shall specify what types of data should be retained, the period of retention and manner and place in which it should be archived.

NCCI Responses

NCCI agrees and currently has a comprehensive document retention program in place, which was provided to the Department of Insurance.