

MULTISTATE TARGETED MARKET CONDUCT EXAMINATION

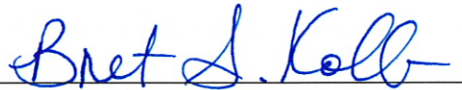
Of

Independent Statistical Service

PARTICIPATING REGULATOR ADOPTION

On behalf of the Alaska Division of Insurance, I, Bret S. Kolb, hereby adopt, agree, and approve the Independent Statistical Service multistate market conduct examination report covering the period January 1, 2010 through September 30, 2012.

Dated: December 4, 2013



Bret S. Kolb
Director
Division of Insurance
Department of Commerce, Community &
Economic Development
State of Alaska

**Independent Statistical Service
8700 West Bryn Mawr Avenue
Suite 1200S
Chicago, IL 60631-3512**

**Report of Examination
As of December 31, 2012**

**Examination Report Prepared by Independent
Contractors With Regard to a Limited Scope Market Conduct
Examination**

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September 9, 2013

Mr. Andrew Boron
Director
Illinois Department of Insurance
122 S. Michigan Ave., 19th Floor
Chicago, IL 60603

Mr. Eric A. Cioppa
Superintendent
Maine Bureau of Insurance
76 Northern Avenue
Gardiner, Maine 04345

Dear Director Boron and Superintendent Cioppa:

Pursuant to your instructions, an examination has been conducted of:

**Independent Statistical Service
8700 West Bryn Mawr Avenue
Suite 1200S
Chicago, IL. 60631-3512**

hereinafter referred to as "ISS or "Organization." The following report of the findings of this examination is herewith respectfully submitted.

Purpose and Scope of Examination

A multi-state market conduct examination (the “Examination”) of the Independent Statistical Service (“ISS or the Organization”) was called for the period of January 1, 2010 through September 30, 2012 (the “Period”). The Examination was conducted under the oversight of the Advisory Organization Examination Oversight (C) Working Group (the “Working Group”) of the National Association of Insurance Commissioners (“NAIC”). Illinois and Maine served as the Lead States for the Examination. The Examination was performed in accordance with the Standards as set forth in the 2012 Market Regulation Handbook (the “Handbook”) Chapter 25, and Appendix F to Chapter 25. Risk & Regulatory Consulting, LLC (“RRC or the Examiners”) was retained to assist in conducting the Examination.

RRC personnel participated in this Examination in their capacity as Examiners. The Examination Team included Information Technology (“IT”) Specialists and Market Conduct Examiners. RRC provides no representations regarding questions of legal interpretation or opinion. Determination of findings, if any, constituting potential violations is the sole responsibility of the Lead States. The failure to identify unacceptable or non-complying practices does not constitute acceptance of these practices.

Organization Profile

ISS is located in Chicago, Illinois and is authorized to do business in all 50 states, the District of Columbia and Puerto Rico to act as a statistical agent and advisory organization. ISS files data, information and reports with state regulators and other industry organizations. ISS was created in 1947 by the National Association of Independent Insurers (“NAII”) as a department within NAII to provide statistical reporting services to property and casualty insurers. In July 2003, ISS was separately incorporated as a wholly owned subsidiary of NAII. In January 2004, NAII merged with the Alliance of American Insurers (“AAI”) to form a new trade association known as the Property Casualty Insurers Association of America (“PCI”) and as a result, ISS became a wholly owned subsidiary of PCI. ISS serves more than 400 companies that underwrite most lines of commercial and personal lines insurance and reporting in excess of \$110 billion in annual written premium.

The Organization's products include:

- Statistical reports:
 - State compilations
 - On demand supplemental reports
 - State specific reports
- Data to satisfy Automobile Insurance Plan Service Office ("AIPSO") and North Carolina Rate Bureau ("NC") reporting requirements

Executive Summary

The scope of the Examination focused on reviewing and testing the Organization's processes and procedures in place during the Period, including but not limited to: operations/management; statistical plans; regulatory licenses or other authorization; data receipt and controls; processing, editing and compilation procedures; error handling and related correspondence with reporting insurers; report submissions to regulators, and other data requests, as well as compliance with Chapter 25 and its Appendix F of the Handbook.

The Examiners prepared an examination workplan using the relevant guidance and standards of the Handbook to confirm that the Organization utilizes consistent procedures and processes for each jurisdiction in which ISS operates. The Examiner's workplan included consideration of the following Scope areas:

- Operations/Management/Governance
- Data Collection and Handling
- Statistical Plans
- Correspondence with Insurers and State Regulators
- Report Systems and Data Requests
- Other Procedures

ISS advised the Examiners that the Organization does modify its procedures and processes to comply with specific state statutes and regulations as appropriate. Throughout the course of the Examination, the Examiners provided updates to the Working Group about the progress and findings of the Examination.

Examiners Methodology

The Examiners conducted interviews with ISS representatives, reviewed documentation provided by the Organization and conducted on-site walkthroughs of the Organizations' operations, which included a high-level review of the Organization's IT infrastructure and controls consistent with Chapter 25 and Appendix F of Chapter 25.

Information Data Requests ("IDRs") were submitted throughout the course of the Examination to request data and related information or in some instances, to request a clarification of the Organizations' initial response. The Examiners conducted regularly scheduled calls with the Organization and Lead States to discuss progress and the overall status of the Examination as well as reported to the Working Group during NAIC meetings. Findings identified during the Examination were communicated to ISS in the form of Concerns. It is noted that the Organization agreed with each Concern submitted by the Examiners.

The Examiners developed a sampling methodology, which was approved by the Lead States, which relied upon Audit Command Language ("ACL") to select samples for review and testing.

For reference, a summary of the Examiner's sampling selection is included under the Appendices Section of this Report of Findings (the "Findings"). Samples were selected for the following Scope areas:

Data Collection and Handling

- The Examiners selected a sample of 13 ISS subscriber's data for one line of business reported during the review period. The sample of 13 was comprised of insurers that report data to at least one of the participating states.

Correspondence with Insurers and State Regulators

- The Examiners requested from ISS a population of untimely reporters and another listing for insurers that reported data with errors for the period under review. The Examiners noted that these two listings are reported by insurer and not by state because the Organization tracks this data by insurer.
- The Examiners selected a judgmental sample of 13 untimely member reporters and an additional sample of 13 insurers that reported data with errors.

Reports, Report Systems, and Other Data Requests

- The Examiners utilized the same sample as discussed above in Data Collection and Handling to perform the testing in this area as discussed as noted in the Examiner's approved Sampling Methodology Memorandum.

Results Of The Examination

I. REVIEW OF EXAMINATION STANDARDS

This aspect of the Examination related to the review and testing, where applicable, of the Standards for each of the identified areas included within the scope of the Examination. These Standards are identified in Chapter 25 of the Handbook and certain additional areas of review as requested by the Working Group and certain Participating States. Additionally, Appendix F pertaining to Chapter 25 of the Handbook was also referenced during the Examination.

The overall results of the Examination did not identify any significant matters concerning ISS's operations.

A. Operations/Management/Governance

Standard 1: *The advisory organization has implemented written policies and procedures to prevent anti-competitive practices in the insurance marketplace, as related to the advisory organization's services and communications to insurers.*

Results: It was determined during the course of the Examination that this Standard was not applicable to ISS since the Organization does not prepare loss costs and is not involved in the ratemaking process.

Standard 12: *The advisory organization has an up-to-date, valid internal or external audit program.*

Results: The Examiners conducted discussions with representatives of ISS and reviewed information regarding the Organization's Internal and External Audit programs, including reviewing the Organization's response to data request IDR-1 concerning ISS system audits. Based on the

review performed, the Examiners concluded that ISS does not have a valid internal or external audit program.

Observations: The Examiners determined that ISS does not have an internal audit function nor do they perform internal audits of its operations, including audits of internal statistical data and information systems. Based on the results of the review, the Examiners issued Concern 1 to the Organization for review and response. ISS agreed with the Concern.

Subsequent Event: Following conclusion of the Examination, the Organization advised the EIC that ISS has undertaken the following remediation efforts as regards the findings for Standard 12 as follows:

“The ISS board, at its July 14, 2013 meeting, implemented an external audit program to include an audit of financials, IT and statistical reporting under the oversight of the Audit Committee. At its July 15, 2013 meeting, the Audit Committee approved the program and the inclusion of ISS as a standing agenda item for each meeting to ensure regular consideration.”

Standard 13: <i>The advisory organization has appropriate controls, safeguards and procedures for protecting the integrity of computer information.</i>
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Results: The Examiners conducted discussions with the Organization and reviewed documentation and related information provided by ISS, which was specific to changes that the Organization undertook during the Period regarding ISS’ Statistical Reporting applications. Based upon the review, the Examiners determined that ISS does not meet the requirements of Standard 13.

Observations: The Examiners confirmed that changes to the statistical reporting applications are tracked in a Lotus Notes database. In addition, an internally developed system, Change Management System, is used for promoting statistical reporting source code and system functionality changes from the environment that is used to test these changes to its production environment. An effective change management process will address requests for system changes, change review and approval, code development, review and migration procedures, and post implementation monitoring. However, there was no evidence that the Organization neither has a process of change testing nor is migration approval maintained. As a result, the Examiners issued Concern 3 to the Organization for review and response. ISS agreed with the Concern.

Subsequent Event: Following conclusion of the Examination, the Organization advised the EIC that ISS has undertaken the following remediation efforts as regards the findings for Standard 13 as follows:

“Change Testing Evidence

ISS has expanded its user acceptance testing process to include the retention of the test results that was the basis for user approval. Test results will vary by the scope and complexity of the project and could include screen, report and/or data samples.

ISS implemented the retention of the test results on July 1, 2013.

Application Migration Approval

ISS has expanded its migration process to include management review of recently completed migrations to ensure that the migration approval has been documented in the Change Management System.

ISS implemented the review on July 1, 2013.”

Standard 14: *The advisory organization has a valid disaster recovery plan.*

Results: The Examiners reviewed documentation provided by ISS and performed a process review and noting that ISS satisfies the requirements of Standard 14.

Observations: A procedural review was performed to address Standard 14, which included a review of ISS’s Disaster Recovery Plan (“DRP”). Further, given the organization relationship with PCI, the Examiners also reviewed PCI’s Incident Management Procedures, and DRP infrastructure and support services provided to ISS by the third party, Latisys Holdings, LLC.

The Examiners’ review of ISS’s DRP determined the following:

- ISS’s data recovery procedures are current and comprehensive with testing that occurs at regular intervals throughout the year.
- ISS has an inventory of critical business applications, databases and files, which is current and the inventory is defined and prioritized for a recovery process.
- Critical business areas have developed manual recovery testing (off-site retrieval through restoration of a fully operational computing environment) on a regular basis.

Standard 15: *The advisory organization is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the advisory organization.*

Results: The Examiners reviewed documentation and related information provided by ISS and performed a process review. The Examiners also took into consideration during their review the limited activities performed by the Organization in regards to this Standard. Based on the Examiner's work, it is noted that ISS satisfies the requirements of Standard 15.

Observations: The Examiners identified that ISS uses the services of the independent audit firm of Ehrardt, Keefe, Steiner, & Hottman, PC to review the infrastructure hosting support services provided by the third-party service provider, Latisys Holdings, LLC. The audit firm prepared a report of their findings, which the Examiner's reviewed during the Examination. Upon review, the Examiners noted that the independent auditor had deemed Latisys Holdings, LLC's controls to be effective during the period of January 1, 2011 through December 31, 2011 and which confirmed that Latisys's controls are operating effectively. Additionally, the Examiners noted that all other business functions are completed internally. As such, no additional review was performed under this Standard.

Standard 16: *Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.*

Results: The Examiners reviewed documentation and related information provided by ISS and performed a process review. The Examiners note that ISS satisfied the requirements of Standard 16.

Observations: A procedural review was performed to address this Standard whereby the Examiners confirmed that ISS does have established Record Retention Procedures which contain state specific retention requirements. The Examiners note that throughout the course of the Examination, ISS provided all requested documentation and related information without exception, and the documentation was orderly managed and legible, and the structure of the files and data was organized. As such, the Examiners concluded that the Organization's ability to provide the requested documentation supports in part that ISS's record retention policies are operating effectively.

Standard 17: *The advisory organization is appropriately licensed.*

Results: The Examiners requested information from ISS to confirm their authority to operate in each jurisdiction in which they conduct business, which includes all 50 states, the District of Columbia and Puerto Rico. The Examiners reviewed documentation and related information provided by ISS, which included the Organization's description of the process for calendar year 2012. The Examiners note that ISS appears to satisfy the requirements of Standard 17; however the following information is noted for consideration.

Observations: The Examiners requested the Organization's licenses and/or registrations for each jurisdiction in which the Organization operates, noting that each jurisdiction establishes the requirements that determine if a license or registration is granted. ISS responded as follows:

- License renewal was sent to all 50 states, Puerto Rico, and the District of Columbia. Many states do not send any type of response. Some states issue an actual license, while others might only send a confirming note.
- Actual licenses were received from 9 states: AR, IL, MN, NE, NH, OK, PR, RI, and UT
- Confirming Notes were received from 5 states: GA, NC, NJ, NY, and PA

In response the Examiner's requested additional information from the Organization requesting their procedures and protocols for ensuring ISS is appropriately licensed in each jurisdiction. The Organization advised the following:

- ISS has no record of any state or territory rejecting ISS as an advisory organization or statistical agent. Where a jurisdiction does not issue a license, ISS relies on two other sources as evidence of the jurisdiction's acceptance of ISS license renewals: (1) the canceled check for those states that impose a licensing fee and (2) acceptance of ISS state compilations.
- For jurisdictions in category (2) above, ISS maintains either a record of electronic acknowledgements of receipt for state compilations submitted to jurisdictions at their prescribed email address or acknowledgements of delivery from the United States Postal Service for jurisdictions that require submission to a physical address.

- ISS provided a spreadsheet, which documented the jurisdictions in category (2). The Examiner's confirmed the spreadsheet identifies the type of delivery required for each state compilation and whether ISS received confirmation in a form described above. It was noted that there are 5 electronic-delivery jurisdictions on the spreadsheet that did not return an electronic (email) acknowledgement and did not impose a licensing fee. ISS did not receive an electronic "delivery failure" notice in any of these 5 jurisdictions in response to the submission of state compilations for Report Year 2012.

Recommendation: The Examiners recommended that ISS undertake a review of their current processes related to being licensed as an advisory organization and institute revisions to those processes to ensure the Organization can confirm and demonstrate they have the appropriate authority in place for each jurisdiction they conduct business. In response, ISS has confirmed the Organization has reviewed its current process and has added a process to contact States that do not acknowledge licensing or confirm receipt of reports.

Standard 18: *The advisory organization cooperates on a timely basis with examiners performing the examination.*

Results: During the course of the Examination, the Examiners requested certain data, documentation and related materials as well as requesting meetings, interviews and walkthroughs with representatives of ISS. Although the Organization was delayed in some instances in providing responses to the Examiner's requests, overall, ISS was cooperative and responsive throughout the course of the Examination. As such, it is noted that ISS satisfied the requirements of Standard 18.

Observations: To assist in evaluating ISS's cooperation throughout the Examination, a request log was maintained that documented the date each request was tendered to the Organization, the date a response was due and the date on which the response was ultimately received. Additionally, regularly scheduled status calls and/or meetings were held, providing a means to discuss outstanding requests, examination progress and immediate needs of the Examination, including the timeliness in responding to the Examiner's requests.

As noted above, in some instances, ISS was delayed in providing timely responses to the Examiners' requests. In these situations, the Examiner-in-Charge (EIC) discussed the delays with the Organization and, where necessary collaborated with the Lead States.

With respect to the Examination in its entirety, the delays on ISS's part did impact both the timeline and cost of the Examination. However, throughout the course of the Examination, the Organization cooperated with the Examiners and readily made their resources available to assist the Examiners, which resulted in an efficient examination process.

Standard 19: *The advisory organization has developed and implemented written policies, standards and procedures for the management of insurance information.*

Results: The Examiners reviewed documentation and related information and performed a process review with ISS representatives. Based on the Examiner's review it is noted that ISS satisfies the requirements of Standard 19.

Observations: The Examiner's reviewed the Organization's formal and documented Information Security Policies, which was provided in response to the Examiner's data request IT #2. The review covered the Organization's security practices, protocols and procedures that included but was not limited to: passwords, access control, wireless communications, encryption, and physical security among others. Based on the Examiner's review it was determined that ISS has adequate written policies and standards in place regarding the management of insurance information.

B. Management and Organizational Controls

As previously noted, the scope of the Examination included a review by the Examiners of certain aspects of Appendix F to Chapter 25. Although Appendix F does not include specific Standards, the Appendix does identify areas to be included in an examination of an Advisory Organization. The Examiner's workplan included the procedural reviews, including process walkthroughs with representatives of ISS familiar with the functional aspects of the relevant areas, as well as performing testing to address the areas of Appendix F as follows:

A. Logical and Physical Security

The purpose of this aspect of the Examination was for the Examiners to review issues associated with the Organization's Physical Security systems, processes, procedures and protocols, which included the following standards:

B2. Are access procedures in place to ensure that only authorized individuals are being permitted to enter the facility? Include necessary documentation/logs to demonstrate access control.

And

B17. The organization has emergency response procedures to follow if a computer security incident occurs.

Results: The Examiners reviewed documentation and related information, conducted a process review and performed testing where appropriate. The Examiners note that ISS satisfies the requirements of Standards B2 and B17.

Observations: A procedural review, including interviews with key representatives of ISS, as well as the review of documentation review was performed to address these requirements. The Examiners noted that the majority of ISS's infrastructure has been migrated to a co-location hosted by a third party, Latisys Holdings, LLC. The Examiners obtained a Statement on Standards for Attestation Engagements (SSAE) No. 16 Service Organization Control (SOC) 3 report for the Latisys Holdings, LLC facility utilized by ISS. This SSAE is an attestation standard put forth by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) that addresses engagements undertaken by a service auditor for reporting on controls at organizations. The SOC 3 audit reports discuss the set of controls and requirements specifically designed around data center service organizations. Based on the Examiners' review, it appears that ISS has established appropriate physical security safeguards.

The Examiners also reviewed the Organization's Security Policy, which outlines physical security of computer hardware requirements and defines procedures for theft detection. Also, the Examiners confirmed through their review and related work that ISS has established formal incident and problem management procedures, which include roles and responsibilities, severity levels, entry and exit criteria, and status reporting. The Examiner's testing included obtaining and reviewing information related to ISS's documented procedures.

B6. Does user department management periodically validate the access capabilities provided to individuals in the department? Please provide evidence of the last user access review performed during the period under review.

And

B14. Are periodic checks carried out to confirm that employees' current application access is commensurate with job responsibilities?

Results: The Examiners discussed with representatives of ISS the Organization's logical security controls. It was noted that ISS utilizes Microsoft Active Directory and the Mainframe to manage user access to the Organization's network and applications.

Observations: The Examiners noted that a periodic review of user access, which would ensure that individual user access remains appropriate, is not formally performed nor documented. Consequently, the Examiners note that the Organization is not compliant with the requirements for B6 and B14 since periodic access reviews are not formally performed. As a result, the Examiners issued Concern 2 to the Organization for review and response. ISS agreed with the Concern.

Subsequent Event: Following conclusion of the Examination, the Organization advised the EIC that ISS has undertaken the following remediation efforts as regards the findings for Standard B6 and B14 of Chapter 25, Appendix F Standard 12 as follows:

"ISS has expanded its security management process for the mainframe environment and the statistical reporting system to address the issues of periodic review and documentation.

Mainframe Environment

For the mainframe environment, ISS is implementing a process for management review of user access across the LPARs (test and production) that will include:

- *Distribution of access rights for each active person, by the security administrator, to the appropriate department manager*
- *Review and signoff of the access rights for each person by department manager*
- *Retention of the signoff in the security repository*

ISS will complete this assessment annually in January, to align with the assignment planning process. This process will be completed during the 2nd half of 2013, with implementation January 1, 2014.

Statistical Reporting Systems

For the statistical reporting system, ISS is revising its security administration application to retain the appropriate documentation of the annual review currently done for active staff. This process will result in the following:

- *Retention of the planned assignments for the new year*
- *Online modification of individual access rights based upon project assignments by the appropriate project manager(s)*
- *Online review and signoff of all access rights for each person by the department manager, based upon the planned assignments for the year*
- *Online access to the history of annual changes and department management signoff*

ISS will complete this assessment annually in January, to align with the assignment planning process. Development and testing of the new online signoff process will be completed during the 2nd half of 2013, with implementation January 1, 2014.”

B19. If wireless technologies are deployed, does the company monitor for rogue access points.

Results: The Examiners discussed with ISS the Organization's use and monitoring of wireless access points for network access. Through the Organization's response to data requests regarding ISS system audits and reviews, it was determined that ISS does not periodically monitor for rogue wireless access points.

Observations: Based on the above finding, the Examiners issued Concern 4 to the Organization for review and response. ISS agreed with the Concern.

Subsequent Event: Following conclusion of the Examination, the Organization advised that they have undertaken the following remediation efforts as regards the findings for Standard B19 of Chapter 25, Appendix F Standard 12 as follows:

“PCI security staff is performing monthly scans of the headquarters facilities to identify any rogue access points that may be attached to the PCI network. This was implemented on 5/6/2013 and added to the IT Security Policy Document.”

B. Application Management

The purpose of this aspect of the Examination is for the Examiners to review issues associated with the Organization's Application Management process, procedures and protocols.

C1. Is there a control that ensures that user needs result in appropriate program change requests and the requests are properly developed?

And

C3. Is appropriate program, system and parallel (when possible) testing performed by the IS staff and QA/User staff to prevent or detect errors in program coding and ensure that the application operates as intended in the production environment and provides accurate data output?

And

C6. Is there a control that ensures that only properly tested, reviewed and approved changes are transferred into the production environment?

Results: The Examiners conducted discussions with the Organization and reviewed information provided by ISS specific to changes to the Organization's Statistical Reporting applications. It was determined that ISS does not meet the requirements of Standards C1, C3 and C6.

Observations: The Examiners confirmed that changes to the statistical reporting applications are tracked in a Lotus Notes database and an internally developed migration tool named Change Management System is utilized. However; there was no evidence of change testing and migration approval is not maintained. The Examiners issued Concern 3 to the Organization for review and response. ISS agreed with the Concern.

Subsequent Event: Following conclusion of the Examination, the Organization advised the EIC that ISS has undertaken the following remediation efforts as regards the findings for Standard 13, Standard C1, C3 and C6. Reference is made to the Organization's details included under Subsequent Event for Standard 13.

C. Disaster Recovery/Contingency Planning

The Examiner's discussed the Organization's DRP procedures under the Operations/Management/Governance section of the Report specific to Standard 14. It was noted that the Examiners performed a procedural review of ISS's Disaster Recovery Plan ("DRP"). Additionally, given the organizational structure between ISS and PCI the Examiners

also reviewed PCI's Incident Management Procedures, and DRP infrastructure. The Examiners' review determined the following:

- ISS's data recovery procedures are current and comprehensive with testing that occurs at regular intervals throughout the year.
- ISS has an inventory of critical business applications, databases and files, which is current and the inventory is defined and prioritized for a recovery process.
- Critical business areas have developed manual recovery testing (off-site retrieval through restoration of a fully operational computing environment) on a regular basis.

D. Operations and Processing Controls

The purpose of this aspect of the Examination is for the Examiners to review issues associated with the Organization's Operations and Processing Controls.

E10. a) Is there a procedure for independent testing and validation of system changes or corrections?

b) Is there a procedure for independent testing and validation of the accuracy and completeness of data used in ratemaking or in statistical reports? Please provide a copy of the procedures and evidence of compliance with the procedures for the last change, correction, ratemaking or statistical report cycle.

Results: The Examiners conducted discussions with the Organization and reviewed information provided by ISS specific to changes to the Organization's Statistical Reporting applications. It was determined that ISS does not meet the requirements of Standards E10 a) and b).

Observations: The Examiners confirmed that changes to the statistical reporting applications are tracked in a Lotus Notes database and an internally developed migration tool named Integration Test is utilized.

However; there was no evidence of change testing and migration approval is not maintained. The Examiners issued Concern 3 to the Organization for review and response. ISS agreed with the Concern.

Subsequent Event: Following conclusion of the Examination, the Organization advised the EIC that ISS has undertaken the following remediation efforts as regards the findings for

E10 a) and b). Reference is made to the Organization's details included under Subsequent Event for Standard 13.

C. Review Of Statistical Plans

The Examiners' review of the Organization's Statistical Plans focused on reviewing ISS's process, protocols and procedures regarding the services the Organization provides related to statistical plans.

Standard 1: *The statistical agent has filed its statistical plans in accordance with applicable statutes, rules and regulations.*

Results: The Examiners conducted interviews with representatives of ISS to discuss statistical plans (Plans). The Examiners note that based on the results of these discussions and through the review of documentation and related information, the Organization satisfies the requirements of Standard 1.

Observations: The Organization informed the Examiners that ISS has Plans in place for all states (except Texas) that were developed in accordance with the applicable statutes, rules and regulations, most notably the NAIC Handbook of Statistical Data available to regulators. The Plans were reviewed and updated in 2001 and filed in states where required. The Examiners confirmed that no changes to the Plans have been made since 2001 because the Plans included expansion variables that would require infrequent changes to the Plans on a going forward basis.

The Examiners noted that ISS has procedures in place regarding the periodic review of the Plans, and where necessary, the process of making changes to the Plans, including communicating the changes to statistical reporting insurers. ISS's Statistical Department ("the Department") is responsible for monitoring insurance department websites, industry periodicals and subscriber inquiries in order to identify new laws that impact the Plans. The Department is responsible for making Statistical Plan filings. Once approved, the Department is responsible for ensuring that ISS

systems are updated to reflect the new Plan specifications, and the new Plan information is communicated to subscribers.

Standard 2: *The statistical plans are reviewed and updated in accordance with applicable statutes, rules and regulations.*

Results: ISS advised the Examiners that during the Period there were no changes to statutes, rules or regulations that required revisions to the Statistical Plans and in fact there have been no changes since 2001. The Examiners did not note any documentation or related information that was in conflict with the information provided by the Organization.

Observations: Based upon the confirmation from ISS that the Organization has not made any changes during the Period, any additional review of this area was not undertaken.

Standard 3: *The statistical agent verifies that companies submit data in accordance with the appropriate statistical plans.*

Results: The Examiners reviewed documentation and related information, met with ISS resources and performed process reviews. The Examiners note that ISS satisfies the requirements of Standard 3.

Observations: The Examiners confirmed that ISS's statistical reporting insurers receive specific directions regarding proper data reporting requirements. This information is received on an annual basis from the Organization through the ISS Annual Call Manual, which is explained in greater detail in the Correspondence with Insurers Section of the Report. Subscriber data is electronically uploaded to the ISS system where edits are applied and the data is subject to additional review by an ISS analyst. This is explained in greater detail in the Data Collection and Handling Section of the Report.

D. DATA COLLECTION AND HANDLING

The data collection and handling aspect of the Examination focused on the Examiners confirming whether ISS adequately tests reported data for validity, completeness and reasonableness. The

areas to be considered in this type of review include data quality, data checking procedures and edit programs.

Standard 1: *The statistical agent's series of edits are sufficient to catch material errors in data submitted by a Company/entity.*

Results: The Examiners performed a procedural review, including documentation review and testing to address Standard 1. The Examiners note that ISS satisfies the requirements of Standard 1.

Observations: The Examiners reviewed ISS's edit-related documentation and selected a sample of 13 subscriber's data in order to determine if ISS has processes in place to meet the requirements of Standard 1.

The Organization's process includes performing two primary types of edits: content and relational edits. The edits are used to support the Organization's compliance with their established requirements related to subscriber data.

- a. **Content Edits** - Performed on a record basis and applicable to all lines of business, focusing on the format of the data reported, such as the proper number of characters in the length of a report field, and the validity of each field.
- b. **Relational Edits** – Performed on a record basis focusing on the relationship of multiple field values. As part of this error analysis, inconsistencies among data fields are reviewed by identifying exposures with no premiums, claims with no losses and losses with no premium.

Standard 2: *All data that is collected pursuant to the statistical plan is run through the editing process.*

Standard 3: *Determine that all databases are updated as needed with all accepted Company data.*

Results: Based on the documentation reviewed and the results of the process review and testing performed, the Examiners note that ISS satisfies the requirements of Standard 2 and Standard 3.

Observations: The Examiners performed a procedural review, including a process walkthrough with representatives of ISS and performed testing to address the scope of Standard 2 and Standard 3. Further, the Examiners reviewed several of the Organization's data quality control processes to ensure the completeness and accuracy of data.

The Examiners noted that quality reviews of the subscriber submissions occurs on either an annual or quarterly basis as the data is received and loaded. Subscriber data is then validated against the rules and valid values defined in the ISS Statistical Plan and included in the Content and Relational Edits as noted under Standard 1 above. The quality reviews that the Organization performs include the following:

1. **Reasonability Checks** - The ISS analysts compare profiles of the subscriber's data with historical data in order to identify shifts and anomalies. Examples of reasonability checks include the following situations:
 - Where an insurer has reported an unusually high percentage of data under a single or limited set of codes, or has not reported data; and
 - When premiums appear to be unusually high or low compared to exposures. ISS informs subscribers of the potential data issue. The subscribers are expected to determine if there is in fact a reporting problem, correct it, or provide an acceptable explanation why the situation is not an error.
2. **Transmittal Balancing** – The submitted data is totaled by state, line of business, call year and call period and compared to transmittal state totals submitted by the company as specified in the ISS data calls. The ISS Statistical Plan contains transmittal error tolerances by company data element and by total state. Content and Relational Edit amounts exceeding the thresholds are reviewed with the subscriber. The Organization requires its Subscribers to determine if there is in fact a reporting problem, correct it, or provide an acceptable explanation why the situation is not an error.
3. **Distributional Analysis** – All monetary data fields are compared from the current year data submission to prior year submissions for reasonableness in order to identify potential reporting errors. Also, as part of this error analysis, inconsistencies among data fields are

reviewed by identifying exposures with no premiums, claims with no losses and losses with no premium.

Following the ISS analysts' quality review procedures, the Subscriber submission is deemed approved or not approved. Subscriber data that is not approved is not submitted to a regulatory agency. Approved subscriber data, as deemed by the ISS analyst, resides in the databases until it is needed for the generation of a state report or data file.

ISS prepares a Company Audit Report for each state that confirms the status of each subscriber anticipated to be included in the submission and assigns each subscriber's submission as being Approved, Not Approved, or Nothing to Report. The report affords the ISS analyst the ability to monitor and confirm the completion status of each subscriber's data in preparation of the submission.

Standard 4: Determine that statistical data is reconciled to the State Page Exhibit of Premium and Losses, Statutory Page 14, of the NAIC Annual Statement on an annual basis.

Results: The Examiners performed a procedural review, including a process walkthrough with representatives of ISS. The Examiners confirmed that the Organization appropriately reconciles the control totals of each individual data submission to assure that each submission balances with respect to applicable record counts, written premiums, paid and unpaid losses. The Examiners also noted that any submission that does not reconcile for any key items is returned for correction or an explanation from the reporting subscriber. Based on the Examiner's review, it is noted that ISS satisfies the requirements of Standard 4.

Observations: The Organization receives the NAIC Annual Statement Data each year. This information is loaded into the ISS system by their Information Technology (IT) resources. The Organization's analysts review this information in order to reconcile the subscriber's data submission to the NAIC's premiums, losses, and statutory data. For each of the 13 subscribers in the sample, the Examiners compared the data submission to the NAIC data and found no exceptions.

Standard 5: Determine that all calculations associated with the database have been accurately applied.

Results: The Examiners reviewed documentation and related information, conducted a process review and performed testing. The Examiners note that ISS satisfies the requirements of Standard 5.

Observations: A procedural review, including a process walkthrough with ISS key employees, was performed to address this standard. As stated under Standard 2 above, ISS performs a transmittal balancing procedure for all data submissions where totals of submitted data by state, line, call year and call period are compared to transmittal state totals submitted by the company as specified in the ISS data calls. The ISS Statistical Plan contains transmittal error tolerances by Company data element and by total state.

Content and Relational Edit amounts exceeding the thresholds are reviewed with the subscriber. Through the review of a sample of 13 subscriber data submissions, the Examiners confirmed that the tolerance levels are appropriately applied by the ISS system and flagged for further review by ISS analysts. The Examiners further note that ISS does not prepare loss costs nor are they involved in the rate making process. As such, no additional review regarding this standard was performed.

Standard 6: Where applicable, the statistical agent employs use of data completeness tests as outlined in the NAIC Statistical Handbook of Data Available to Insurance Regulators.

Results: Based on the documentation reviewed and the results of the process review and testing, the Examiners note that ISS appears to satisfy the requirements of Standard 6.

Observations: The Examiners performed a procedural review, including a process walkthrough with ISS key employees, as well as testing to address the scope of Standard 6. The quality review of the subscriber submissions occurs as the data is received and loaded either on an annual or quarterly basis. Subscriber data is validated against the rules and valid values defined in the ISS Statistical Plan, which is included in the Content and Relational Edits as noted under Standard 1 above.

The Examiners reviewed several of the Organization's data quality control processes to ensure the completeness and accuracy of data.

1. **Reasonability Checks** - The ISS analysts compare profiles of the subscriber's data by data element with historical data in order to identify shifts and anomalies. For example, ISS informs subscribers of potential data issues for situations where an insurer has reported an unusually high percentage of data under a single or limited set of codes, has not reported data or where premiums appear to be unusually high or low compared to exposures. In these instances, subscribers are expected to determine if there is in fact a reporting problem, correct it, or provide an acceptable explanation as to why the situation is not an error.
2. **Transmittal Balancing** – The submitted data are totaled by state, line of business, call year and call period and compared to transmittal state totals submitted by the company as specified in the ISS data calls. The ISS Statistical Plan contains transmittal error tolerances by company data element and by total state. Content and Relational Edit amounts exceeding the thresholds are reviewed with the subscriber. The Organization requires its subscribers to determine if there is in fact a reporting problem, correct it, or provide an acceptable explanation why the situation is not an error.
3. **Distributional Analysis** – All monetary data fields are compared from the current year data submission to prior year submissions for reasonableness in order to identify potential reporting errors.

Following the ISS analyst's completion of the quality reviews noted above, the subscriber submission is deemed as approved or not approved. Data that is not approved is not submitted to a regulatory agency. Approved subscriber data as deemed by the ISS analyst resides in the database until it is needed for the generation of a state report or data file. ISS prepares a Company Audit Report for each state that confirms the status of each subscriber anticipated to be included in the submission and assigns each subscriber's submission as being Approved, Not Approved, or Nothing to Report. The report affords the ISS analyst the ability to monitor and confirm the completion status of each subscriber's data in preparation of the submission.

E. CORRESPONDENCE WITH INSURERS AND STATE REGULATORS

The purpose of this section of the Examination is for the Examiners to review and confirm whether ISS promptly notifies the statistical reporting insurers (and regulators, as requested or required) when a problem or question about the data arises, and follows up with the statistical reporting insurer if the insurer does not respond within the appropriate time frame.

Standard 1: *The statistical agent keeps track of companies that fail to meet deadlines.*

And

Standard 2: *The statistical agent has established procedures for notifying companies (and regulators, as requested or required) of material errors and for correcting those errors.*

And

Standard 3: *The statistical agent maintains a follow-up procedure with companies that have reporting errors or questions.*

Results: The Examiners reviewed documentation and related information, conducted a process review and performed testing. Based on the work performed, the Examiners note that ISS satisfies the requirements for Standard 1, Standard 2 and Standard 3.

Observations: The Examiners reviewed ISS's procedures regarding the tracking and reporting of data submissions for those statistical reporting insurers that fail to meet deadlines, which included the ISS Annual Call Manual (the "Manual") that is sent to statistical reporting insurers, and the ISS Quality Improvement Program ("QIP").

The Manual includes information and guidance for how statistical reporting insurers are to report data and correct reporting errors. Additionally, the Manual explains how statistical reporting insurers are to resubmit data and provides information regarding penalties for reporting with errors and/or untimely submissions. The Examiners note that reporting errors are in reference to data that is not reported in compliance with the ISS Plan. In this regard, the Examiners confirmed that ISS prepares periodic reports that identify any statistical reporting insurers that are delinquent in reporting and/or have reporting errors. ISS tracks and follows up with these statistical reporting insurers until the reporting matter is resolved.

Based on the Examiner's review of these procedures, it was noted that the Organization has controls and procedures for determining its statistical reporting insurers reporting status. In addition, ISS has processes and procedures established to communicate with delinquent statistical reporting insurers. Finally, the Examiners note that the ISS QIP was designed to improve the quality and timeliness of data by assessing fees to subscribers under the following situations: severely delinquent submissions; submissions requiring an excessive number of refiles; and for data corrections applied by ISS.

In addition to the above review, the Examiners used ACL to select and test a sample of 13 statistical reporting insurer delinquencies with at least one partial submission not reported, and 13 from other types of data errors from the combined lines of business for the statistical reporting insurer. The two samples reviewed are identified in Appendix B – Report Issues and Appendix C – Later Reporters of the Report.

Correspondence for each sample was tested with regards to certain attributes including the following:

- The initial due date of the request
- The date of first follow up with Company
- The timeliness of original notification
- Additional follow-up notifications
- Monitoring of the issue(s) through completion (Company corrected errors or submitted past due reports).
- Any required notifications to state insurance departments.
- Assessments of charges in compliance with the ISS Quality Improvement Program

Standard 4: *Review any additional data quality programs maintained by the statistical agent pertaining to data collected pursuant to the statistical plan.*

Results: The Examiners performed a procedural review, including a process walkthrough with ISS representatives and performed testing. Based on the Examiner's review, it is noted that ISS appears to satisfy the requirements of Standard 4.

Observations: The quality review of the subscriber submissions occurs as the data is received and loaded either on an annual or quarterly basis. Subscriber data is validated against the rules and valid values defined in the ISS Statistical Plan, which is included in the Content and Relational Edits as noted under Standard 1 of the Data Collection and Handling Section above.

The Examiners reviewed several of the Organization's data quality control processes to ensure the completeness and accuracy of data.

1. **Reasonability Checks** - The ISS analysts compare profiles of the subscriber's data by data element with historical data in order to identify shifts and anomalies. For example, ISS informs subscribers of potential data issues for situations where an insurer has reported an unusually high percentage of data under a single or limited set of codes, has not reported data or a situation where premiums appear to be unusually high or low compared to exposures. In these instances, subscribers are expected to determine if there is in fact a reporting problem, correct it, or provide an acceptable explanation why the situation is not an error.
2. **Transmittal Balancing** – The submitted data are totaled by state, line of business, call year and call period and compared to transmittal state totals submitted by the company as specified in the ISS data calls. The ISS Statistical Plan contains transmittal error tolerances by company data element and by total state. Content and Relational Edit amounts exceeding the thresholds are reviewed with the subscriber. The Organization requires its subscribers to determine if there is in fact a reporting problem, correct it, or provide an acceptable explanation why the situation is not an error.
3. **Distributional Analysis** – All monetary data fields are compared from the current year data submission to prior year submissions for reasonableness in order to identify potential reporting errors. Also, as part of this error analysis, inconsistencies among data fields are reviewed by identifying exposures with no premiums, claims with no losses and losses with no premium.

Standard 5: With each standard premium and loss report to the states, the advisory organization provides a listing of companies whose data is included in the compilations and a historical report listing insurers whose data for the state was excluded, as set forth in Section 2.4 of the NAIC Statistical Handbook of Data Available to Insurance Regulators.

Results: The Examiners reviewed documentation and related information and performed a process review of information provided by the Organization. The Examiners note that ISS satisfies the requirements of Standard 5.

Observations: Following the ISS analyst's completion of the quality reviews noted above under Standard 4, the subscriber transmittal is deemed as approved or not approved. Data that is not approved is not submitted to a regulatory agency. Approved subscriber data as determined by the ISS analyst resides in the Organization's databases until it is needed for the development of a state report or data file. ISS prepares a Company Audit Report for each state that confirms the status of each subscriber anticipated to be included in the submission and assigns each subscriber's submission as being Approved, Not Approved, or Nothing to Report. The report affords the ISS analyst the ability to monitor and confirm the completion status of each subscriber's data in preparation of the submission.

The Examiners incorporated the review and testing for this Standard within the review of the 13 subscriber submissions as discussed in the Data Collection and Handling Section above. In so doing, the Examiners confirmed that the data submissions made to regulatory agencies included a listing of statistical reporting insurers whose data is included in the compilations and a historical report listing insurers whose data for the state was excluded, as set forth in Section 2.4 of the NAIC Statistical Handbook of Data Available to Insurance Regulators.

F. REPORTS, REPORT SYSTEMS AND OTHER DATA REQUESTS

The Reports, Report Systems and Other Data Requests aspect of the Examination focused on the Examiners review of ISS's reports and other statistical compilations prepared for state regulators, as well as confirming the Organization's internal procedures for preparing reports and responding to data requests, including the timeliness and quality of the response.

Standard 1: *All calculations used to develop the database have been performed accurately.*

Results: The Examiners reviewed documentation and related information, conducted a process review and performed testing. The Examiners note that ISS satisfies the requirements of Standard 1.

Observations: The Examiner's review of the sample of 13 subscriber's data indicated that the ISS calculations used to develop the database include edit processes and a review of accepted tolerance levels. These items are evaluated to determine if further corrective action is necessary. The

Examiners note that ISS does not create loss costs nor are they involved in ratemaking. As such, no additional review was performed under this Standard.

Standard 2: The statistical agent has accurately extracted the appropriate information from the statistical database.

Results: The Examiners reviewed documentation and related information, conducted a process review and performed testing. The Examiners note that ISS satisfies the requirements of Standard 2.

Observations: The Examiners performed a procedural review, including a process walkthrough with representatives of ISS, as well as performing testing to address the requirements of Standard 2. The Examiners review of ISS's data processing completeness and reasonability checks for statistical compilations included the Data Validity and Data Collection and Handling procedures described under Standard 1, in addition to the additional actions, which includes:

- **Review of Unique Company Codes** - Each subscriber has a unique company reporting code. Subscriber data is validated against the rules and valid values defined in the ISS Statistical Plan, which is included in the Content and Relational Edits as noted earlier in the Report.
- **Subscriber Data Reconciled Against the NAIC Annual Statement Data** - Data is submitted to regulatory agencies as requested by the subscriber. The Examiners note that ISS does not create loss costs nor are they involved in ratemaking. As such, no additional review was performed under this Standard.

Standard 3: Any data extracted from the statistical database has been accurately reviewed with any additional data obtained directly from a Company in preparing a response to a data request.

Standard 4: Data collected, in addition to the data collected under the statistical plan, was adequately reviewed for quality and compiled according to applicable statutes, rules and regulations.

Results: The Examiners discussed Standards 3 and 4 with the Organization and it was determined that the Standards were not applicable for the Examination.

Observations: The Examiners confirmed with ISS that there have been no inquiries during the Period. However, the Organization informed the Examiners that procedures are in place to respond

to regulatory inquiries. Regulatory requests regarding ISS data are reviewed by the line of business with a focus on: (1) the validity of the issues, and (2) the expected time frame to respond to the request. ISS reviews subscriber correspondence created during ISS's internal analysis regarding report production. If ISS does not have correspondence regarding the issue, ISS will contact the subscribers contributing to the data in question and discuss the matter further. ISS will inform the regulator of their proposed resolution to the data issue and the expected completion timeframe.

Lead State Request: The National Association of Insurance Commissioners ("NAIC") requested that the Lead States review ISS data reporting issues in reference to a potential issue involving data reported by a subscriber related to auto medical payment premium information for Kansas and Pennsylvania.

Results: The Examiners discussed these issues with the Organization and reviewed documentation that addressed the matter. The Examiners also reviewed the Organization's remediation procedures that were designed to prevent such errors from occurring in the future.

Observations: The Organization informed the Examiners that they were made aware by the NAIC of a Pennsylvania reporting issue regarding auto medical payments. They indicated they were unaware of an issue involving Kansas' reporting of auto medical losses where no premiums were reported for such coverage. The Organization provided the Examiners with documentation that supported the manner in which this matter was researched and corrected as follows:

- ISS reviewed the Pennsylvania data submission and identified the subscriber that was associated with the data issue.
- ISS contacted the subscriber in order to obtain an explanation. The subscriber informed ISS that the coding of the premium associated with medical payments was a different coverage code than the code used for losses.
- In order to correct the reporting error in a timely manner, the NAIC and ISS agreed to provide an update of the medical payments premium amount in the NAIC spreadsheet as opposed to the subscriber re-filing corrected data, which would have been a time consuming process.

- In response to the NAIC inquiry, ISS implemented error analysis tools in 2012 to limit the possibility of future data issues. The error analysis tools include a distributional analysis of each monetary field from year to year and a review for inconsistent reporting across data fields such as exposures with no premiums claims with no losses and losses with no premium.

Examination Report Submission

The courtesy and cooperation of the officers and employees of the Organization during the examination are acknowledged.

All phases of the examination were conducted by Risk & Regulatory Consulting, LLC.

Respectfully submitted,

A handwritten signature in black ink that reads "Barry Wells". The signature is written in a cursive style with a large initial "B".

**Barry L. Wells, CCLA, MCM
Risk and Regulatory Consulting, LLC
Examiner-in-Charge**

Appendix A – Data Reporting Sample

The Examiner’s sampling methodology was discussed earlier in the report under Examiner Methodology, which made reference to the summary of the sample selection. Appendix A and B identifies the samples, which were selected for testing as follows:

State	Company ID	Line of Business	Effective Date	Expiration Date	Period Type
ALABAMA	520	INLAND MARINE	01/01/2001	12/31/9999	Annual
CALIFORNIA	471	ANNUAL AUTOMOBILE	01/01/1980	01/01/2017	Annual
COLORADO	877	INLAND MARINE	01/01/2005	12/31/9999	Annual
GEORGIA	190	BURGLARY	01/01/2011	12/31/9999	Annual
IDAHO	878	PERSONAL LINES	01/01/2007	12/31/9999	Annual
ILLINOIS	784	GENERAL LIABILITY – ANNUAL	01/01/2010	01/01/2013	Annual
LOUISIANA	662	FARMOWNERS	01/01/1980	12/31/9999	Annual
MISSOURI	497	FIDELITY & SURETY	01/01/2005	12/31/9999	Annual
MONTANA	33	FIRE	01/01/1980	12/31/9999	Annual
NEVADA	31	INLAND MARINE	01/01/1980	12/31/9999	Annual
NEW JERSEY	220	QUARTERLY AUTOMOBILE	01/01/2006	12/31/9999	Quarterly
OKLAHOMA	11	BURGLARY	01/01/2001	12/31/9999	Annual
WASHINGTON	206	ANNUAL AUTOMOBILE	01/01/1980	12/31/9999	Annual

Appendix B – Report Issues Sample

Sample Number	Company ID	Reports with Issues LOB
001	89	Automobile - 2011 quarterly
002	294	Automobile - 2010 Annual
003	379	Automobile - 2012 Annual
004	454	Automobile - 2010, 2011, and 2012 Annual
005	546	Automobile - 2010 Annual
006	602	Automobile - 2012 Annual
006	717	Automobile - 2012 Annual
008	806	Automobile - 2010 Annual
009	904	Fire and Allied - 2010, 2011, and 2012 Annual
010	914	Automobile - 2010, 2011, and 2012 Annual
011	935	Automobile - 2010, 2011, and 2012 Annual
012	156	Businessowners - 2010 and 2012 Annual
013	221	Automobile - 2012 Annual

Appendix C – Late Reporters Sample

Sample Number	Company ID	Late Reporters LOB
001	20	Fidelity & Surety and General Liability - 2011 Annual Call
002	35	Automobile - 2009 Annual Call
003	173	Automobile - 2012 Quarterly Call
004	205	General Liability - 2011 Annual Call
005	533	Automobile, Inland Marine, and Boiler & Machinery - 2009 Annual Call
006	650	Personal Lines - 2010 Annual Call
006	680	Automobile - 2012 Annual Call
008	778	Automobile - 2010 Annual and Quarterly Calls
009	836	Automobile - 2010 Annual Call
010	966	Automobile - 2012 Annual Call
011	2310	Automobile - 2012 Annual Call
012	2345	Professional Liability and General Liability - 2012 Annual Call
013	2398	Automobile - 2012 Annual Call