

AIPSO EXAM CERTIFICATION

The Missouri Department of Commerce and Insurance, pursuant to its authority under § 374.205 RSMo. and 20 CSR 100-8.014 coordinated with The Rhode Island Department of Business Regulation, Insurance Division to conduct an evaluation of AIPSO for market regulation purposes in November 2022.

The evaluation consisted of: a review of the Organization's processes and procedures in place during the period of the Examination, including but not limited to, the preparation of loss cost filings; rules, forms; 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, as well as compliance with Chapter 29 and its Appendices F and G, and selected sections of Chapter 20 of the NAIC Market Regulation Handbook ("the Handbook").

Based on the results of the procedures performed, as documented in Chapter 29 of the NAIC's Market Regulation Handbook, and the knowledge and experience of its staff, the Rhode Island Department of Business Regulation, Insurance Division has found no actionable items for AIPSO to address. The Missouri Department of Commerce and Insurance reserves the right to revisit these conclusions and perform additional review considering new information.

I hereby certify the above information is accurate and that I am authorized to execute this document on behalf of Missouri Department of Commerce and Insurance.

  
Signature

Chlora Lindley-Myers  
Print Name

Director  
Title

February 6, 2023  
Date

AIPSO EXAM CERTIFICATION

The Rhode Island Department of Business Regulation, Insurance Division, pursuant to its authority under R.I. Gen. Laws § 27-6-39, conducted an evaluation of AIPSO for market regulation purposes in November 2022.

The evaluation consisted of: a review of the Organization's processes and procedures in place during the period of the Examination, including but not limited to, the preparation of loss cost filings; rules, forms; 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, as well as compliance with Chapter 29 and its Appendices F and G, and selected sections of Chapter 20 of the NAIC Market Regulation Handbook ("the Handbook").

Based on the results of the procedures performed, as documented in Chapter 29 of the NAIC's Market Regulation Handbook, and the knowledge and experience of its staff, The Rhode Island Department of Business Regulation, Insurance Division has found no actionable items for AIPSO to address. The Rhode Island Department of Business Regulation, Insurance Division reserves the right to revisit these conclusions and perform additional review considering new information.

I hereby certify the above information is accurate and that I am authorized to execute this document on behalf of The Rhode Island Department of Business Regulation, Insurance Division.



\_\_\_\_\_  
Signature

Matthew Gendron

\_\_\_\_\_  
Print Name

General Counsel and Chief of Regulatory Compliance

\_\_\_\_\_  
Title

December 6, 2022

\_\_\_\_\_  
Date

**Report On**  
**The Market Conduct Examination**  
**of**  
**AIPSO**

**NAIC Market Action Tracking System No. RI-RI112-2**

**as of**  
**December 31, 2019**



**State of Rhode Island**  
**Department of Business Regulation**  
**Insurance Division**



State of Rhode Island  
DEPARTMENT OF BUSINESS REGULATION  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920

**Insurance Division**

**ADOPTION ORDER**

The attached Report on The Targeted Market Conduct Examination as of December 31, 2019, of AIPSO, was recently completed by duly qualified examiners pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of AIPSO and its affairs, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed (with the Companies' formal written response included) and made an official record of this Department as of this date.

DEPARTMENT OF BUSINESS REGULATION

---

Elizabeth Kelleher Dwyer  
Superintendent of Insurance

Dated November 22, 2022

CAROL M. BERTHOLD  
Chairperson

CHARLES P. KWOLEK, JR.  
President/CEO



November 1, 2022

Matthew Gendron, Esq.  
General Counsel & Chief of Regulatory Compliance  
Rhode Island Division of Insurance  
1511 Pontiac Avenue  
Cranston, RI 02920  
[Matthew.Gendron@dbr.ri.gov](mailto:Matthew.Gendron@dbr.ri.gov)

Via E-mail

Dear Mr. Gendron,

This letter is being provided in response to your October 18, 2022, correspondence in which you provided a copy of the Final Examination Report on the Market Conduct Examination of AIPSO (the "Company") as of December 31, 2019. The Company has completed its review of the Final Examination Report and has no formal written responses to provide in response to the Final Examination Report. The Company accepts the Final Examination Report as written.

Should you have any questions, please contact me via email at [Kerry.Hanson@aipso.com](mailto:Kerry.Hanson@aipso.com) or via telephone at (401) 500-1778.

Sincerely,

A handwritten signature in black ink that reads "Kerry L. Hanson". The signature is written in a cursive style.

Kerry L. Hanson  
Compliance Manager & Associate Counsel

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October 18, 2022

Ms. Elizabeth Kelleher Dwyer  
Superintendent of Insurance  
State of Rhode Island  
Department of Business Regulation  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions, and pursuant to the statutes of the State of Rhode Island, a Targeted Market Conduct Examination ("Examination") has been conducted of:

**AIPSO**

The examination of AIPSO (the "Company") was performed as of December 31, 2019. The Company is headquartered in Johnston, Rhode Island.

The examination consisted of one off-site phase, which was performed at the offices of the Rhode Island Department of Business Regulation, Insurance Division ("the Department" or "RIDBR"), located at 1511 Pontiac Avenue in Cranston, Rhode Island, or other suitable locations.

The report of examination herein is respectfully submitted.

## I. PURPOSE AND SCOPE

On February 10, 2021, this Market Conduct Examination was ordered by the Department's Superintendent of Insurance, Elizabeth Kelleher Dwyer.

Authority for this examination is provided by R.I. Gen. Laws § 27-13.1-1 et seq. and R.I. Gen. Laws § 27-71-1 et seq. This examination covered the period of July 1, 2014, through December 31, 2019. The purpose of the examination was to determine Company compliance with Rhode Island insurance laws, regulations, and rules pertaining to advisory organizations.

Further, pursuant to R.I. Gen. Laws § 27-6-39,

*the Commissioner shall, at least once in five (5) years, make or cause to be made an examination of each rating organization licensed in the state as provided in § 27-6-23 and the Commissioner may, as often as he or she may deem it expedient, make or cause to be made an examination of each advisory organization referred to in § 27-6-33 and of each group, association, or other organization referred to in § 27-6-37.*

The Examination was conducted at the direction and overall management and control of the RIDBR, which served as the Lead State for the Examination. The following states participated as co-leads: Missouri, South Dakota and Virginia. In addition, 26 states and the District of Columbia are listed as participants at this time: Arkansas, California, Colorado, Connecticut, Delaware, Georgia, Iowa, Idaho, Illinois, Kansas, Kentucky, Louisiana, Mississippi, North Dakota, Nebraska, New Hampshire, New Jersey, New York, Oklahoma, Pennsylvania, South Carolina, Tennessee, Vermont, Washington, Wisconsin, and West Virginia.

The scope of the examination included, but was not limited to, validation that the Organization is performing its permitted regulated functions in a manner consistent with state laws and regulations. The scope of the examination includes, but is not limited to, the following:

- I. Preparation of rate indications filings
- II. Rules
- III. Forms
- IV. Operations/Management
- V. Statistical plans
- VI. Regulatory licenses or other authorization
- VII. Data receipt and controls Processing
- VIII. Editing and compilation procedures
- IX. Error handling and related correspondence with reporting statistical agents

- X. Report submissions to regulators
- XI. Compliance with Chapter 29 and its Appendix F of the 2019 NAIC Market Regulation Handbook (“Handbook”).

The following Chapter 29 Standards were determined to be outside of the Company’s permitted regulated functions, and therefore were not subject to testing during the examination:

- Operations, Management, and Governance Standards 1,4,5,6 and 7.
- Statistical Plans Standards 1,2 and 3.
- Inspection Services Standard 1.
- Residual Market Functions – Plan Administration Standards 1 and 2.
- Residual Market Functions – Reinsurance Administration Standard 1.

## **II. EXECUTIVE SUMMARY**

The Examination focused on evaluating AIPSO’s regulated operations, including the processes and procedures utilized in collecting and disseminating statistical data, and to determine compliance with applicable regulatory requirements and the Handbook. RIDBR contracted with two Examiners-in-Charge on the examination, one to focus on general examination and one to focus on the actuarial portion of the exam, and did engage other contracted examiners to assist RIDBR with the exam on behalf of and in constant communication with RIDBR throughout the course of the Examination. A pre-examination conference call was held on March 2, 2021. Field work began shortly thereafter and was completed in November 2021.

The overall results of the Examination indicated that AIPSO’s processes and procedures related to its regulated operations meet the standards reviewed. No issues were noted.

## **III. ORGANIZATION AND COMPANY PROFILE**

In 1970, the National Industry Committee (an organization formed at the request of the National Association of Insurance Commissions (“NAIC”) in 1974), established the Automobile Insurance Plans Service Office as a department within the Mutual Insurance Rating Bureau. In anticipation of the dissolution of the Mutual Insurance Rating Bureau on December 31, 1972, the participating companies voted on September 28, 1972, that the Automobile Insurance Plans Service Office continue its operations as a voluntary, unincorporated, non-profit association of insurers serving all companies writing automobile insurance and the Automobile Insurance Plans throughout the

country, both as a rating bureau, a statistical agent, and for other purposes as provided in its Articles of Association.

The Automobile Insurance Plans Service Office began operations as a separate entity headquartered in New York City in 1973. The Automobile Insurance Plans Service Office was governed by a nine-person Executive Board which was comprised of the same companies that made up the National Industry Committee. In 1983, the organization moved its national headquarters to its present location in Johnston, Rhode Island. AIPSO also maintains regional offices in Birmingham, AL; Glen Allen, VA; Mt. Laurel, NJ; New York, NY; and Oakland, CA.

Effective October 21, 1987, the Articles of Association were amended in that the Automobile Insurance Plans Service Office changed its name to "AIPSO." In addition, the Executive Board was expanded from nine (9) to twelve (12) members and was renamed the "Board of Directors." Effective June 6, 2019, the Articles of Association were amended to revise the Board composition as a result of the merger of two (2) industry trade associations, leaving the Board with 13 members.

The thirteen (13) members of the Board of Directors are selected in the following manner. One insurance industry trade association – the APCIA – annually selects six (6) of its member companies to sit on the board. Three (3) companies representing insurers unaffiliated with the APCIA hold seats on the Board following an annual weighted vote conducted by the Nation's unaffiliated insurance companies. These nine (9) companies subsequently elect three (3) additional "at large" companies to serve on the Board. The Board's membership is rounded out by a member from the largest state residual market mechanism managed by AIPSO. The Board appoints the President who is deemed the Chief Executive Officer of AIPSO and directs the work of AIPSO subject to the control of the Board of Directors.

There is an annual meeting of subscribers held to select the individual members of the Board of Directors and to transact any other appropriate business including changes or amendments to the AIPSO Articles of Association.

#### **IV. GENERAL CONCLUSIONS**

Based on the work completed, the Examiners noted certain general conclusions and observations as discussed below. These matters are further detailed in the section of the report titled "Examination Standards."

**Market Conduct Scope:**

- The Organization is effectively addressing the areas reviewed and tested during the Examination. No findings or exceptions were noted.
- AIPSO's policies and procedures regarding the internal audit function, management of computer information, and filing development and submissions were reviewed and were deemed to meet the standards set forth in the Handbook.
- It appears that AIPSO properly implemented its proposed resolution from the prior exam and has addressed the prior exam finding.

**Actuarial Scope:**

- AIPSO's processes and procedures related to its regulated operations meet the relevant Handbook Standards reviewed during the Examination.
- AIPSO has a strong actuarial team with deep expertise in residual market automobile insurance.
- AIPSO uses sound actuarial principles and follows the relevant Actuarial Standards of Practice (ASOP) in the development of prospective rate filings. This includes development of indications, selections of loss cost multipliers, and compilation of actuarial data.

**Information Technology Scope:**

- The IT Examiners determined that AIPSO has adequate Information Technology General Controls ("ITGCs"), resulting in the conclusion that ITGCs are effective on an overall basis for this Examination with no relevant findings or exceptions noted.
- The IT Examiners noted improvements in AIPSO's IT environment since the prior examination, effectively addressing the prior findings.
- AIPSO has successfully adopted globally recognized privacy best practices and standards that include some of the National Institute of Standards and Technology ("NIST") as well as the NAIC COBIT 5 based control environment.
- AIPSO employs a layered security architecture including organizational, process, physical, logical, and monitoring controls designed to protect data assets and quickly detect and respond to threats. AIPSO appears to effectively address the requirements of current NAIC data protection laws.

## V. EXAMINATION METHODOLOGY

The examination was conducted in accordance with standards established by the NAIC and procedures developed by the RIDBR. Targeted testing was performed consistent with examination processes and sampling methodologies. Where appropriate, the Examiners tendered inquiries and follow-up inquiries to AIPSO to gather additional information.

The Examiners relied on judgmental sampling to select samples for review and testing from a population of transactions from certain participating states. Samples were selected for the following market conduct scope areas, including:

- 1) Rate Indications Filings
- 2) Rule Filings
- 3) Form Filings
- 4) Statistical Plans
- 5) Correspondence with Insurers and State Regulators
- 6) Data Collection and Handling

## VI. SUMMARY OF PRIOR EXAMINATION OBSERVATIONS AND RECOMMENDATIONS

Four (4) issues were noted in the prior examination and were related to the following areas: Operations/Management/Governance – Standard 3; Correspondence with Insurers and State Regulators – Standards 1 and 2; and the following two areas of the NAIC Appendix F: User Access to System Software and User Access to Applications. Based on observations made during the current examination, all areas of concern have been addressed to the satisfaction of the Examiners.

## VII. EXAMINATION RESULTS

### Operations, Management, and Governance

**Standard 2 – *The advisory organization uses sound actuarial principles for the development of prospective loss costs.***

**Results:** The Examiners reviewed documentation provided by the Company and performed process review and testing to determine whether AIPSO's rate filings are developed in accordance

with Actuarial Standards of Practice. As a result, the Examiners determined that AIPSO appears to satisfy the requirements of Standard 2.

**Observation:** The Examiners tested this standard by reviewing the process by which AIPSO develops rate indications, as well as reviewing a sampling of rate indications. A listing of rate indications reviewed can be found in Appendix A.

The filings were tested for accordance with Actuarial Standards of Practice (ASOPs), especially ASOP #53: Estimating Future Costs for Prospective Property/Casualty Risk Transfer & Risk Retention. This ASOP encompasses several other rating related ASOPs, including:

- ASOP #12: Risk Classifications
- ASOP #13: Trending Procedures in Property/Casualty Insurance
- ASOP #23: Data Quality
- ASOP #25: Credibility Procedures and,
- ASOP #29: Expense Provisions in Property/Casualty Insurance Ratemaking

The review encompassed several aspects of the filings, including:

- Level of analysis done given the size of states
- Usage of actuarial data
- Methodologies used in developing premiums and losses
- Selection of key assumptions, including loss trend, premium trend, and loss development factors
- Incorporation of loss adjustment expenses
- Incorporation of underwriting expenses
- Profit & contingencies provisions, including incorporation of investment income and,
- Treatment of catastrophe losses

The Examiners' review of the data is documented in the "Data Collection and Handling" section of this report.

In all instances, the Examiners found that AIPSO's work was consistent with Actuarial Standards of Practice.

No findings were noted as a result of the review described above.

**Standard 3 – The advisory organization prepares, submits filings as necessary, adheres to applicable state filing and/or approval requirements, and written procedures prior to distribution of prospective loss costs, policy forms, endorsements, factors, classifications, or rating rule manuals.**

**Results:** The Examiners reviewed documentation provided by the Company and performed a process review and testing. As a result, the Examiners determined that AIPSO appears to satisfy the requirements of Standard 3.

**Observations:** Examiners reviewed AIPSO's process for preparing and submitting filings and noted that AIPSO's policies and procedures outline the listing of priorities and workflow that should be followed by the employees working on the filings. Filing approvals are the number one priority and SERFF is checked daily for approvals.

Additionally, Examiners selected a judgmental sample of twelve (12) rate filings and thirty-three (33) rules and forms filings (See Appendices A and B). Examiners reviewed the selected samples and tested certain filing attributes to determine AIPSO's compliance in reference to Standard 3. The attributes tested included the following:

1. The Company filed the rate via SERFF (or other state filing system, where appropriate).
2. The effective date per the circular notice sent out to subscribing insurers matched the effective date approved by the respective department.
3. The Company was responsive to state filing analyst questions regarding the filings.
4. The materials distributed by the Company were the same as those filed with the applicable states.
5. Instructions for implementation were included in the circular notices for all filings.

No findings were noted as a result of the review described above.

**Standard 8 – The advisory organization conducts ongoing research and review of state insurance laws and insurance-related case law in order to be responsive to necessary changes in prospective loss costs, policy forms, endorsements, factors, classifications, or manuals, as applicable.**

**Results:** Examiners reviewed documentation and related information and conducted testing. Examiners noted that AIPSO appears to satisfy the requirements of Standard 8.

**Observations:** The Company provided documentation of five (5) policies and procedures that are utilized for the monitoring of state insurance laws and insurance-related case law which may impact AIPSO's processes and how AIPSO implements changes when necessary. Each document is summarized below.

- An outline of the monitoring process for NAIC's StateNet, PCI, Insurance Department Bulletins, Regulations, Administrative Orders, etc., Insurance Services Office (ISO), and Request for Proposals from Residual Market managers, and Requests for Filing from Plan Services.
- An outline of the required steps to be taken by the State Leader. This includes entering a compliance issue into the Project Database, conducting a high-level review to determine if a proposal to address the issue may be required, and assigning the project to an analyst if applicable. The document also outlines the required steps of the project analyst.
- An outline of the required steps for the development and drafting of the proposal whether it is a policy and endorsement proposal, a rating rule proposal, or an applications and related form proposal. It also outlines the peer review, initial review, and impact analysis process, as well as the steps taken to submit the proposal, amend the proposal, schedule a follow-up date, follow-up, and close the proposal. A proposal template is also provided in the document.
- An organization chart of the Policy Products and Plan Services section of AIPSO.
- A description of the processes to perform the following reviews/duties/updates:
  - Typeset Manual (State Filer)
  - Bookread Manual (Bookreader)
  - Prepare to Publish (State Filer)
  - Final Check of Publication (Bookreader)
  - Get Approval to Publish from Another Analyst or Actuarial (Bookreader)
  - Prepare Manual PDFS (State Filer), Revision – PDFS
  - Full Manual – PDFS
  - Draft Alert (State Filer)
  - Check Manual PDFS (Bookreader)
  - Image PDFS (Bookreader)
  - Update Plan Manuals Form in Project Database (Bookreader)
  - Update AIPSO.com – Manual (Bookreader)
  - Update AIPSO.com – Revision (Bookreader)
  - Update Archived Manuals (Bookreader)
  - Update AIPSO.com – What's New (Bookreader)
  - Check and Release E-Notice (Bookreader)
  - Printer's Proof and Archive (Bookreader)

- Manage Project Files (State Filer)
- Publish State Project (State Filer)
- Updating the Multistate Interactive Manual Files
- Alternate Method of Accessing Interactive Manuals
- Manually Publish a State Project (Backup Procedure)
- Rate Approvals
- New Commercial Liability and Physical Damage Rate Schedules
- Revised Private Passenger and Commercial Rate Schedules
- Bookread Checklist
- Policy Forms Database
- Draft PFE and Alert
- File Management
- Publish PFE
- Send Alert
- AIO Procedures
- Service Center Procedures (Applies to Private Passenger Forms Only)

In addition to the five (5) documents, the Company provided a list of legal and regulatory evaluations conducted during the past five (5) years categorized by state and line of business.

AIPSO provided a listing of legislative changes that would have an impact on AIPSO, which was then reconciled to listings provided by the three (3) co-lead states. Examiners noted no instances in which a legislative change was identified by one of the co-lead states but not identified by AIPSO.

No findings were noted as a result of the review described above.

**Standard 9 – *The advisory organization uses objective and established procedures when administering assigned risks.***

**Results:** The Examiners reviewed documentation provided by the Company, conducted an interview with the employee responsible for this function, and performed a process review and testing. As a result, the Examiners determined that AIPSO appears to satisfy the requirements of Standard 9.

**Observations:** A procedural review, including a process walkthrough with AIPSO key employees was conducted by the Examiners.

Based on this review, Examiners identified and tested the following process:

- Every insurer that is licensed to write voluntary automobile business in a state is required to subscribe to the state plan that addresses residual market automobile business. An insurer's share of the residual market business in a state is based upon their voluntary market share in that state.
- AIPSO sends out statistical programs to all of the statistical reporting agents, based on each state's plan rules, through the annual statistical call.
- Voluntary automobile data by state and insurer is generally reported to AIPSO through five (5) statistical reporting agencies: American Association of Insurance Services ("AAIS"); ISO; Independent Statistical Services ("ISS"); Mutual Service Office ("MSO"); and National Independent Statistical Services ("NISS").
- AIPSO has a process in place to identify those companies that do not report their voluntary data to statistical agents. This process is based on NAIC data which is used as a basis for the quota for these companies even though this data is not reported to AIPSO. AIPSO pursues the voluntary data from these companies independently.
- AIPSO verifies insurer level data against the NAIC annual statement data.
- The AIPSO Quota Development System determines quotas for each insurer or insurance group (affiliated insurers) on an annual basis. The quotas are updated quarterly for corrections and adjustments.
- Quotas are based on an insurer's or insurance group's percentage of voluntary private passenger liability business in relation to the state total. The same calculation is performed for each insurer's share of commercial business in each state and for determining shares of the auto residual market pooling mechanisms, as applicable. An assigned risk pool is a residual market mechanism used by many states. While the operations vary by state, generally speaking in this mechanism, a residual market insured is assigned to a carrier. When a carrier is assigned a residual market risk, they are required to write that risk at the residual market rates produced by AIPSO and approved by the state. That insurer is then responsible themselves for all expenses incurred by that policy, including any claims expenses. Neither the premium nor expenses for that risk are shared with any other insurers. The procedure by which residual market risks are assigned to insurers will be specified by state law. In this standard, we review the processes by which AIPSO assigns risk and ensures that the assignments comply with relevant state laws and regulations.
- Some states have credit programs for depopulation incentives (take out credits, youthful/inexperienced operator credits, keep-out credits, and the like). These

programs serve to reduce the company's quota since it is voluntarily depopulating the plan from the types of risks that would end up in the plan. There is an algorithm in place that increases other companies' percentages due to these credits being applied.

- Initial estimate of a company's quota premium is calculated based on market share percentage times expected statewide residual market premiums, and total premium for both new and renewal risks. A company is required to write a new risk assigned to it for three years, which counts against fulfillment of the quota, and the remainder is based on new assignments. This is performed by an estimation process, as AIPSO reviews renewal percentages and then applies them to the estimated quota premiums.
- After year end, there is a true-up process using actual plan premium information, rather than the assignments AIPSO received, to minimize distortions due to cancellations. AIPSO receives the companies' information from the statistical agents, including renewal business. A comparison is made for the actual Auto Insurance Plan ("AIP") premium written to the actual plan premium times quota percentage.
- AIPSO calculates an over or under expected premium amount. The balance is carried forward to the next assignment year quota, where over premium companies receive a credit and under premium companies receive a debit. Theoretically this should balance out over time. The over/under amounts are carried year to year until the balance is made up.
- Quarterly quota information is fed into an application processing system, which then assigns the applications randomly to the companies based on their quota ratios. This process is run daily. Assignments are made to companies based on their unfulfilled quotas and a recalculation is conducted after every assignment.
- AIPSO has a system called matched assignments. If a risk was assigned to a company in a prior year, then subsequently cancelled and is back in the assigned risk pool, the risk is assigned to the original company.
- When there are direct assignments to insurers, most states offer insurers an alternative known as a Limited Assignment Distribution ("LAD") buyout program. A company contracts with other companies and will pay a buyout fee in lieu of accepting assignments. In those instances, the servicing company takes on those assignments. There were two different LAD programs, depending on what the state has adopted.
- AIPSO-administered LAD – The buyout fee is set by formula. AIPSO handles billing/fees from buyout companies and pays the servicing carriers. There was only

one (1) servicing company, and that company resigned at the end of 2019. AIPSO has been unsuccessful in finding a replacement carrier. When this happened, the other states transitioned over to a pooling mechanism, generally referred to as the Personal Automobile Insurance Procedure (“PAIP”).

- Negotiated LAD – The buyout company negotiates directly with the servicing company as to dollar amount of buyout fees, without AIPSO’s involvement, and this LAD is more of a pooling-type program. Currently, for those states that directly assign residual market risks to insurers, the negotiated LAD is the only process in place that offers an alternative to taking direct assignments.
- PAIP – Beginning January 1, 2019, two states (KY and RI) transitioned away from the direct assignment of personal auto risks to insurers, and instead adopted a financial pooling arrangement where all risks are serviced by the Plan and the financial results are shared among licensed insurers in the state. Each company’s share of the pool is based on their market share as determined by Annual Statement private passenger auto insurance liability premiums from the NAIC.
- Internal Audit conducts periodic reviews regarding this process. The most recent audits were conducted by Internal Audit in 2016 and 2019. Internal Audit conducted an application-level audit of the Quota Development System to determine if the annual quota ratios are accurately calculated to ensure equitable distribution of application assignments eligible for coverage based on each company’s individual quota. No issues were identified during the audits. Internal Audit also conducted a review of the base and fulfillment data submission and validation processes in 2018. The purpose of the audit was to evaluate controls over the request and processing of base data (the compilation of voluntary written premium and exposure data and the voluntary credit premiums allowable in certain states) and fulfillment data (the compilation of AIP premium data and voluntary takeout credits reported by a subscriber company for assigned risk business) from eligible reporting companies and statistical agents. No issues were identified during the audit.
- Procedures are in place for reconciliations of assigned risk exposure, premium, loss, and claims data received through the submission process to third party sources.

Based on a review of AIPSO’s walkthrough and response, it appears that the Company has adequate processes in place regarding Standard 9.

No findings were noted as a result of this review.

**Standard 10 – *When performing analysis and impact studies of proposed legislation, the advisory organization presents thorough and objective information.***

**Results:** Examiners reviewed documentation and related information provided by AIPSO and conducted a process review to determine the impact of changes in legislation and regulation on the Company's processes. AIPSO appears to satisfy the requirements of Standard 10.

**Observations:** The Examiners conducted a review to confirm that AIPSO has procedures and protocols in place to monitor the regulatory environment that may require changes to rates, rules, and/or forms. This review was documented in Standard 8.

AIPSO provided the Examiners a list of filings submitted as a result of legislative or regulatory changes. The following observations were noted:

- Comparing the filings to feedback from state regulators, Examiners concluded that AIPSO had submitted filings for all relevant legislations.
- In analyzing the impact of changes, AIPSO involved actuarial staff where appropriate. Where involved, the actuarial work was consistent with Actuarial Standards of Practice.
- In all instances, filings reviewed presented clear and objective information as to the nature of the legislative/regulatory change and the impact on AIPSO's rates, rules, and/or forms.
- Filings were presented in a timely manner.

Examiners noted that AIPSO's processes appear reasonable. No findings were noted as a result of the review described above.

**Standard 11 – *The advisory organization has an up-to-date, valid internal or external audit program.***

**Results:** Examiners reviewed documentation and related information provided by AIPSO and conducted a process review, noting that AIPSO appears to satisfy the requirements of Standard 11.

**Observations:** Examiners reviewed AIPSO's internal and external audit programs, with results listed below.

*External Audit Review:* Examiners obtained and reviewed AIPSO's Audit Plans, as presented to the Audit Review Committee by its external auditors (2014 – KPMG; 2015 – 2019 – Grant Thornton) for each year under examination. Examiners noted that within the external audit plans, the auditors outlined the audit timeline, scope, deliverables, significant risks and areas of significant audit focus, fraud risks, and other considerations. Finally, Examiners obtained and reviewed a copy of the 2019 Audited Financial Statement as evidence of the annual CPA financial statement audit.

*Internal Audit Review:* Examiners obtained and reviewed the Internal Audit plans as presented to the Audit Review Committee for each year under examination, with a focus on the most recent reporting year, 2019. The audit plans include various audit elements such as Actuarial and Rating Processes, Data Processes, Plan Management Services, etc., along with the current risk level, last audit report date, and the status (completed or planned) of each element.

Further, Examiners obtained the Internal Audit and Audit Committee Charters and a listing of all internal audits conducted during the examination period. Examiners selected a judgmental sample of fourteen (14) internal audits for review, noting that none of the issues identified within the audits were within the market conduct scope of this examination. In each instance in which a recommendation was made, management provided a response as well as a plan for correction to the Internal Audit Department. The Internal Audit Department is responsible for presenting the management action plans and anticipated resolution dates to the Audit Review Committee. At the resolution date, Internal Audit verifies management resolution of findings and implementation of communicated action plans by retesting. Until fully resolved to Internal Audit's satisfaction, Internal Audit logs outstanding findings and presents them to the Audit Review Committee.

Based on Examiners' review, it appears that AIPSO maintains valid internal and external audit programs that are working as expected, thereby meeting the requirements of Standard 11.

No findings were noted as a result of the review described above.

**Standard 12 – *The advisory organization has appropriate controls, safeguards, and procedures for protecting the integrity of computer information.***

*Results:* The Examiners reviewed documentation provided by the Company and performed a process review and testing. As a result, Examiners determined that AIPSO appears to satisfy the requirements of Standard 12.

**Observations:** Examiners reviewed AIPSO's documentation and the described processes to evaluate the safeguards and procedures for protecting the integrity of computer information.

The Examiners confirmed that appropriate physical security safeguards are in place regarding the Company's computer facility. As a result of access control issues noted in the prior examination, the Examiners performed certain follow-up testing related to logical security, specific to user access within certain critical IT applications of the Organization. Logical security testing was performed for the following system levels:

- Active Directory ("AD") level,
- Actuarial Application

The Examiners also reviewed AIPSO's "change management" protocols related to IT controls and safeguards that the Company has in place to address the protection of computer-related information. Change management refers to the processes and procedures followed when a change is needed within the application for an enhancement to functionality or to repair an issue identified. In doing so, the Examiners confirmed that AIPSO's change management process is centralized and managed by the Organization's Change Management Team, which coordinates changes through AIPSO's System Development Life Cycle ("SDLC"). The Examiners reviewed the written protocols and procedures utilized by AIPSO for administration of changes to the Actuarial Application. For proper segregation of duties, the network team performs all migrations of application code to the production environment.

The Examiners also confirmed that AIPSO utilizes industry recognized tools and services for intrusion detection and prevention. Any potential security exceptions identified by the tools are logged and reviewed by AIPSO's Security staff. All incoming emails are scanned using an email spam and malware filtering service.

Computer viruses represent risk to any organization, but even more so for businesses such as AIPSO, an entity that utilizes and maintains significant volumes of data. As such, the Examiners investigated and reviewed AIPSO's protocols and procedures and found that the Organization's potential virus detection and prevention is enabled at the server and workstation level using an industry recognized anti-virus program. The Examiners obtained evidence that the virus definitions were up-to-date at both the server and workstation levels.

The Examiners also reviewed and confirmed the following AIPSO IT protocols, including:

- Sensitive data may not be transmitted outside of the Organization's network unless encrypted consistent with AIPSO's Information Security Policy.

- All laptops are encrypted utilizing PGP encryption.
- The Organization's network is protected by firewalls, and any changes to the firewalls must be processed through the formal change management process.
- Authorized users may access resources (i.e., Windows File Shares, Actuarial Application, Email) on the AIPSO network remotely through a secure remote access gateway requiring user ID and password.

The Examiners confirmed that AIPSO has established a formal Information Security Incident Management Policy, which addresses AIPSO's initial response protocols, notification and incident reporting. The Company provided documentation indicating that the Company has implemented integrity-checking mechanisms and associated tools to monitor the integrity of information systems and hosted applications using processes, technology, and people. Exceptions and incidents are logged and investigated. Please refer to NAIC Appendix F, beginning on page 41 of this report, for additional information.

No findings were noted as a result of the review described above.

**Standard 13 – *The advisory organization has a valid disaster recovery plan.***

**Results:** The Examiners reviewed documentation provided by the Company and performed a process review and testing. As a result, the Examiners determined that AIPSO appears to satisfy the requirements of Standard 13.

**Observations:** Examiners conducted a procedural review, which included a review of AIPSO's Business Continuity and Disaster Recovery ("BCDR") plan.

The Examiner's review of AIPSO's BCDR plan determined the following:

- AIPSO adopted the standards set forth by the National Incident Management System ("NIMS"), which is a consistent nationwide core set of concepts and principles that enable effective, efficient, and collaborative incident management in conjunction with the public sector.
- The Organization's Senior Management Team is responsible for activating Incident Command. The Incident Command model provides a single point of control for the initial assessment and review of an incident, and coordinates recovery activities.
- AIPSO established a Crisis Management Steering Team in 2002, which subsequently directed the formation of the Business Continuity/Disaster Recovery Unit ("BCDRU") in

2007. The BCDRU is responsible for communicating, documenting, and training employees on emergency procedures and their role in the recovery of critical IT functions.
- AIPSO's BCDR plan provides consistent, companywide continuity management.
  - The Company has a process that creates the rules and structures to document, test and execute the IT disaster recovery and business continuity plans.
  - AIPSO has adequate controls against various hazards including protective procedures.
  - Testing of the BCDR Plan is conducted periodically to validate the BCDR Plan, and the plan will change appropriately based on the results. AIPSO Internal Audit may audit the entire plan, or selected portions of it.

The Examiners noted that the BCDRU identified issues that were followed by corrective action plans, which were reviewed by the Examiners. Examiners confirmed AIPSO's internal processes for issue identification and remediation. AIPSO tests Disaster Recovery ("DR") twice a year. AIPSO has a Recovery Services contract that gives the Company IT Capacity in Marlborough, MA to test its systems twice a year. The Company was able to successfully recover all items that were tested. Examiners were comfortable with the overall result of the DR Test.

The Company appears to have adequate BCDR plans. The business continuity framework contains all the elements necessary for successful recovery of the business. Please refer to NAIC Appendix F, beginning on page 41 of this report, for additional information regarding Business Continuity.

No findings were noted as a result of the review described above.

**Standard 14 – *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:** As a result of the Company's response, Standard 14 does not apply to this examination.

**Observations:** In response to the Coordinator's Handbook, the Company responded: "AIPSO does not contract with any entity to assume a business function or act on behalf of AIPSO as a licensed advisory and rating organization." Therefore, Standard 14 does not apply to this examination.

**Standard 15 – *Records are adequate, accessible, consistent, and orderly and comply with state record retention requirements.***

**Results:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 15.

**Observations:**

The Examiners obtained and reviewed AIPSO's "Record Retention & Destruction Schedule" document, which was revised four (4) times during the exam period. The working schedule and published schedule were provided for each revision. The Company also provided a list of the revision dates and a brief statement of the reasons for each revision. The schedule contains references to the type of record, the official record holder for each type of record, the record location, the record type (paper, electronic) and the record retention (destruction time frame). All employees are responsible for maintaining and adhering to the "Record Retention & Destruction Schedule" for the records they hold. Additionally, the Examiners confirmed that the records retention schedule for Department of Insurance filings and proposals is "ten (10) years or until superseded," whichever is longer.

The Examiners obtained and reviewed AIPSO's "Records Retention & Destruction Procedures" document, which was revised once during the exam period. The Company provided a list of the revision dates and a brief statement of the reasons for each revision. This document is created by AIPSO's Records Retention & Destruction Team and contains companywide standards for proper records retention and records destruction. The document contains sections for Introduction, Purpose, Definition of Common Terms, Records Retention & Destruction Schedules, Updating the Records/Retention & Destruction Schedule, Records Destruction/Destruction Log, Records Destruction/Methods of Destruction, Exceptions "Legal Hold," and Contact Information within the company for records retention related questions. The document also contains a copy of the Records Destruction Log template.

The Examiners obtained and reviewed AIPSO's "Procedures for 'How to Update the Records Retention & Destruction ("RR&D") Schedule,' " which was revised twice during the period. The Company provided a list of the revision dates and a brief statement of the reasons for each revision. All proposed updates are reviewed by the Company's Legal Services department for federal, state, or other applicable compliance issues. In addition, a historical record of RR&D schedule changes is maintained by the Legal Services department.

In addition to review of the Company's record retention schedules and procedures, the Examiners noted that as of June 28, 2021, the documents requested of the Company during the examination were provided on-time, were complete, were organized, and were formatted in a way that was clear and legible, which suggests that their records are adequate, accessible, consistent, and orderly.

No findings were noted as a result of the review described above.

**Standard 16 – *The advisory organization is appropriately licensed.***

**Results:** Examiners reviewed documentation and related information provided by AIPSO and performed testing. Examiners noted that AIPSO appears to satisfy the requirements of Standard 16.

**Observations:** Examiners requested current copies of AIPSO's licenses for each jurisdiction in which AIPSO operates, noting that each jurisdiction establishes the requirements that determine the type of license that is granted.

The Examiner's review confirmed the following:

- AIPSO is licensed in forty-six (46) states and the District of Columbia, and is non-licensed in Maryland, Massachusetts, Oklahoma and Texas.
- AIPSO is licensed as a rating organization, advisory organization, and/or statistical organization in each state in which it conducts transactions.

Examiners confirmed that a copy of the current license for AIPSO for each state or territory was provided.

No findings were noted as a result of the review described above.

**Standard 17 – *The advisory organization cooperates on a timely basis with examiners performing the examination.***

**Results:** Examiners requested certain data, documentation and related materials as well as requesting meetings and walkthroughs with AIPSO personnel. All requests were met to Examiners' satisfaction. Based on the information provided, AIPSO appears to satisfy the requirements of Standard 17.

**Observations:** To assist in evaluating AIPSO's cooperation during the Examination, a request log was maintained which included the date of the request, the response due date, and the date on which a response was provided.

Examiners noted that a large majority of responses to requests were received on/before the original response due date. In some instances, the Company requested, and was granted, an extension of time to respond to certain requests that involved a large amount of data. AIPSO's cooperation and willingness to provide Examiners the needed documentation contributed to an efficient examination process.

No findings were noted as a result of the review described above.

**Standard 18 – *The advisory organization has developed and implemented written policies, standards, and procedures for the management of insurance information.***

**Results:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 18.

**Observations:** The Company provided the following statement: "AIPSO does not maintain any data files containing personally identifiable information in relation to the services it provides as a licensed rating and advisory organization."

The Department's position is that AIPSO holds PII on behalf of other entities and AIPSO is in a position to hold that data based upon its role as an advisory organization. Therefore, the Department sent an information request with additional questions to gain a better understanding of how the Company holds sensitive information. The Company's subsequent response was evaluated as part of "Management and Organizational Controls (Appendix F of NAIC Market Regulation Handbook), III. Information Technology – Security" section included in this examination report.

No findings were noted as a result of the review described above.

### **Statistical Plans**

The Examiners confirmed that AIPSO does not file statistical plans with any state. The statistical agents issue statistical plans and collect the data from the insurance companies. AIPSO obtains summarized and aggregated data that is collected by the statistical agents. The data is reported to AIPSO via the specifications in the AIPSO Statistical Program that is annually issued to the statistical agents.

## Data Collection and Handling

**Standard 1 – *The statistical agent's series of edits are sufficient to catch material errors in data submitted by a company***

**Results:** Examiners reviewed documentation and related information and conducted a process review and testing. The Examiners noted that AIPSO appears to satisfy the requirements of Standard 1.

**Observations:** AIPSO provided a description of its data quality control processes and Examiners conducted a process walkthrough with AIPSO key employees. The Examiners confirmed that Actuarial System validation edits are described in the Actuarial Edit Definitions that were provided for review, including appropriate data fields.

The following validation edits are created to confirm compliance with established requirements:

- **Field Edits** – These edits are performed on a record basis and on each and every field. The edits are performed to determine validity of each field. For example, territory and class codes are validated.
- **Relationship Edits** – These edits are more subjective in nature and are performed on a transactional/submission basis. These edits test for reasonableness of data entered in comparison to previously collected data. For example, reviewing and validating coverage by territory may identify outliers that would indicate there may be a material reporting error, triggering further review by the Actuarial Services Unit.

Based on AIPSO's response, coupled with the walkthrough conducted by Examiners, it appears the Company has adequate controls in place sufficient to catch material errors in data submitted by a company/entity.

No findings were noted based on the review described above.

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

**Results:** The Examiners reviewed documentation and related information and conducted a process review and testing. The Examiners noted that AIPSO appears to satisfy the requirements of Standard 2.

**Observations:** Examiners reviewed AIPSO's process for data quality control and conducted a process review with AIPSO key employees. Examiners identified several reasonability checks related to the data, in the reports noted below:

- Reasonability Checks through the Data Quality Report – This report is reviewed by the data analysts to identify missing data and data anomalies at the statistical agent level - losses, claim counts, decrease in premiums indicating a potential reporting insurer delinquency in reporting; premium/loss mismatch; shifting of data between categories; unusual loss severity, frequency, pure premium, loss ratio; and unusually high or low average premium.
- Validation Error Reports – This report indicates instances where statistical agent level data was not reported according to the specifications of the AIPSO statistical program. AIPSO follows up with the statistical agent to address these issues when material.
- Exclusion Reports – This report provided by the statistical agents is reviewed to identify any insurers excluded from the statistical agent's data submission.
- Inclusion Reports – This report states the insurers that are included in the statistical agent data submission.
- Mapping Reports – Statistical agent data received is summarized and mapped by certain characteristics such as classification code, territory, penalty point, good driver, commercial vehicle type, or lines to an alternate data field.
- Distribution Reports – Statewide data is reviewed by the statistical agent using this report that states the exposures, premiums, losses, and claims by territory and class in relation to the statewide percentage.
- Balancing Card Reports – The data analysts review the totals in the transmittal file and the balance table to ensure that they match. The data analysts also compare prior statistical agent reporting period data submissions as stated in the Data Quality Report in order to identify changes in the data, or unusual or unexpected loss development. Data is also compared on a state level by statistical agent in order to identify any unusual patterns.

AIPSO maintains a data issues log to document data issues and to monitor the status of those issues. Statistical agents follow up with the insurers associated with each error in order to correct the data. On occasion, at the request of the statistical agent, AIPSO may work directly with the insurer in an attempt to correct the reporting error. If the data cannot be corrected, AIPSO will discuss the reporting issue with the respective state's Governing Committee in order to determine if the insurer's data should be excluded. The Examiners selected a judgmental sample

of twenty-five (25) statistical agent data submissions during the Period for testing. A listing of the statistical agent submissions reviewed can be found in Appendix C.

The Examiners also conducted a process walkthrough with the Actuarial Services Unit and found that their process was reasonable.

No findings were noted based on the review described above.

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

**Results:** The Examiners reviewed documentation and related information and conducted a process review and testing. The Examiners noted that AIPSO appears to satisfy the requirements of Standard 3.

**Observations:** AIPSO provided a description of its process for updating databases when data is received. This process is summarized as follows:

When processing the data into the AIPSO Actuarial System, this process loads the data into the AIPSO databases. AIPSO performs a transmittal balancing procedure for all data submissions where totals of submitted data by state, line, and call period are compared to transmittal state totals submitted by the statistical agent as specified in the Statistical Program. The AIPSO Actuarial System identifies transmittal error differences by data element. Any material differences are questioned with the statistical agent.

AIPSO employees performed a process walkthrough for the examination, going through each detailed step from receipt of data from statistical agents, processing data through the Actuarial System per specified system edits, reconciliation of data received, and reasonability checks of data received.

Internal Audit conducts periodic reviews regarding this process. The most recent audits conducted were a review of the base and fulfillment data submission and validation processes in 2018 and of AIPSO's CAIP/JUA/RF servicing carrier and member company data reporting in 2018. No issues were identified during these audits.

Based on review of AIPSO's response, as well as a process walkthrough with AIPSO key employees, Examiners concluded that the Company has adequate processes in place to satisfy the requirements of Standard 3.

No findings were noted as a result of the review described above.

**Standard 4 – Determine that financial 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:** As a result of the Company's response, Standard 4 does not apply to this examination.

**Observations:** The Company provided the following statement: "*The statistical agents collect the data from the insurance companies and are in turn responsible for reconciling the statistical data they receive to the State Page exhibit of Premium and Losses, Statutory Page 14 of the NAIC Annual Statement*".

The Company further explained that it uses ISO, ISS, and NISS as statistical agents. The Examiners reviewed the most recent ISO multi-state exam performed by the District of Columbia Department of Insurance as of December 31, 2016 and confirmed that ISO performs these types of reconciliations. In addition, the prior AIPSO multi-state examination confirmed that the statistical agents are responsible for this standard, and no testing was performed. Therefore, Standard 4 does not apply to this examination.

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

**Results:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 5.

**Observations:** The Company provided the following statement:

*"A detailed review of database calculations occurs when actuarial analysts prepare reports and rate indications from the databases. These are reviewed for reasonableness and completeness. If an anomaly is identified, the analyst traces the anomaly through the report system to the database and back to the data reported by statistical agents, which ensures that the anomaly is data driven and not due to a flaw in the calculation process."*

In addition, the Company stated:

*"When processing the data into the AIPSO Actuarial System this process loads the data into the AIPSO databases."*

It appears the Company has the appropriate controls in place to determine that all calculations associated with the database have been accurately applied, and it also has controls in place to identify whether any anomalies identified are due to calculations or due to issues with the original data.

No findings were noted as a result of the review described above.

**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:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 6.

**Observations:** According to the Company's response:

*"AIPSO performs completeness tests at the statistical agent level as outlined in section E.1. (Data Collection and Handling – Standard 1). The statistical agents perform completeness tests at the company level in accordance to their own established procedures."*

According to the Company's response to Data Collection and Handling – Standard 1:

*"AIPSO's data quality control processes to ensure the completeness and accuracy of data begin with the receipt and processing of the data from the statistical agents. Data is received in accordance with the specifications of the AIPSO Statistical Program and processed in AIPSO's Actuarial System. The Actuarial System cross checks the balancing file received from the statistical agent with the full detail file to verify that exposures, premiums, losses, and claims are matching and received as intended. Subsequently AIPSO's data reasonability tests are performed in accordance with a Data Quality Checklist of steps which include the following:*

- Reasonability Checks through the Data Quality Report – This report is reviewed by the data analysts to identify missing data and data anomalies at the statistical agent level - losses, claim counts, decrease in premiums indicating a potential reporting insurer delinquency in reporting; premium/loss mismatch; shifting of data between categories; unusual loss severity, frequency, pure premium, loss ratio; and unusually high or low average premium.

- Exclusion Reports – This report provided by the statistical agents is reviewed to identify if any insurers are excluded from the statistical agent’s data submission.
- Inclusion Reports – This report states the insurers that are included in the statistical agent data submission.
- Mapping Reports – Statistical agent data received is summarized and mapped by certain characteristics such as classification code, territory, penalty point, good driver, commercial vehicle type, or lines to an alternate data field.
- Balancing Card Reports – This report is utilized to verify that historical years have not changed for exposures and premium. The Balance Cards also provide a quick snapshot of the data to compare average premium and loss ratios across statistical agents.

Upon review of the information provided, it appears the Company has an appropriate system of controls in place to test the completeness of data at the statistical agent level.

No findings were noted as a result of the review described above.

### Correspondence with Insurers and State Regulators

<b>Standard 1 – The statistical agent keeps track of companies that fail to meet deadlines.</b>
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**Results:** Examiners reviewed documentation and related information and conducted a process review and performed testing. Examiners noted that AIPSO appears to satisfy the requirements of Standard 1.

**Observations:** A review was performed of AIPSO’s policies and procedures for tracking and reporting data submissions from statistical agents. It is AIPSO’s policy to keep track of the data submissions received from each of the statistical agents in Data Received Logs that are maintained on the Actuarial Services SharePoint site. AIPSO maintains a separate log, the Data Resubmission Log, to track the original submission date as well as any resubmission dates. If data is not received on time and AIPSO has not been notified of a potential delay, the Data Team contacts the statistical agent regarding the reason for the delay and an estimated timeline of when the data will be submitted. The AIPSO Data Quality Subcommittee is provided the logs as part of the annual Statistical Agent Performance Report review process.

Examiners received and reviewed a copy of the Data Received Log and Data Resubmission Logs from 2019, which were reviewed by the Data Quality Subcommittee on April 29, 2020. In addition, Examiners reviewed the Data Quality Subcommittee agenda and meeting minutes from

April 29, 2020 and confirmed that the Data Received Log and Data Resubmission Logs were reviewed by the Subcommittee.

Examiners noted that the Data Received Log provides the date on which the following statistical agents provided the information to AIPSO for each state and line of business: ISO, ISS, and NISS. The log also indicates the due date of the data. If the data was received late, the date received is reflected in bold. In the 2019 log, Examiners noted five (5) instances in which the data was received late.

For the five (5) instances from two (2) states for which the data was received late, Examiners requested copies of the communications between the statistical organization and AIPSO regarding the late submissions.

Based on Examiner's review of the above, it appears that AIPSO is appropriately keeping track of companies that fail to meet deadlines, thereby satisfying the requirements of Standard 1.

No findings were noted as a result of the review described above.

***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:** Examiners reviewed documentation and related information and conducted a process review and performed testing. Examiners noted that AIPSO appears to satisfy the requirements of Standard 2 and Standard 3.

**Observations:** Examiners reviewed AIPSO's policies and procedures for notifying companies and regulators of material reporting errors and for correcting those errors. In response, AIPSO noted that the statistical agents each have their own policies and procedures for notifying companies and regulators of material reporting errors. AIPSO performs a reasonability analysis of the data and sends any questions that arise to the statistical agents who in turn deal directly with the companies. AIPSO keeps track of questions to statistical agents, and responses received, in its SharePoint issue tracker.

*Issue noted in the prior exam report:*

Noted in the prior exam report, AIPSO did not provide a timeframe in which statistical agents must address reporting issues, nor did AIPSO verify that the statistical agent had fined the reporting insurer in accordance with their penalty program when data is not received timely. Per discussion with AIPSO, specific time frames were added to all inquiries in 2015. Examiners obtained a listing of inquiries made to statistical agents during 2019 and selected a judgmental sample of eighteen (18) inquiries to determine whether due dates were included in the inquiries and whether the statistical agent responded by the due date.

In nine (9) of the eighteen (18) instances, the statistical agent or insurer did not respond within the timeframe set forth by AIPSO. Examiners followed-up with AIPSO regarding whether any recourse was taken when statistical agents/insurers failed to provide timely responses. AIPSO provided the following explanation:

*The number of days past the due date of inquiry that the statistical agent responded is typically an inconsequential amount of time. Often when a response is received later than requested, it is due to the statistical agent being dependent on receiving a response from the company in a sufficient amount of time, to enable the statistical agent to respond to AIPSO timely. The statistical agents will generally provide AIPSO with a status of an inquiry or AIPSO will ask for a status update if a delayed response is of concern.*

If the statistical agent or insurer did not respond to an inquiry within a timeframe requested, and this impacted AIPSO's rate indication work, then AIPSO would report this to the AIPSO Data Quality Subcommittee or state Advisory/Governing Committee. AIPSO noted that this is a rare occurrence and has not encountered a need to report a company for failing to respond in a timely manner during this exam period.

Through Examiners' review of sampled inquiries, it appears that the responses from the statistical agent or insurer are received within a reasonable timeframe, if not received by the due date. In several instances, Examiners also noted evidence of the statistical agent requesting additional time to respond and/or ongoing dialogue between AIPSO and the statistical agent/insurer until a response was received.

Additionally, Examiners noted three (3) instances in which no due date was set forth by AIPSO. Per discussion with AIPSO, two (2) of the instances identified were inquiries directly to the insurer, rather than the statistical agent, so no due date was listed. AIPSO pointed out that the prior exam finding was specific to procedures containing timeframes as they related to statistical agents, not insurers. Examiners agree and noted that in both instances, although no due date

was listed, a response was received by AIPSO within a few days of the inquiry. For the third inquiry in which no due date was listed, AIPSO described that the “inquiry” was an informational notice to the statistical agent, rather than an inquiry, and was sent to the statistical agent prior to the due date of data. The inquiry was sent to the statistical agent more than six (6) months prior to the data being due.

Regarding the issue of verification that the statistical agent fines the reporting insurer, AIPSO stated that in September 2016, the Data Quality Subcommittee approved the following additional language to be included in the Statistical Agent Performance Report going forward: “In reference to insurer data quality reporting issues, (insert name of stat agent) has followed our Data Quality Program Procedures.” Such performance reports are prepared by each statistical agent and contain information related to number of states on schedule; number of states late; average number of days late; number of resubmissions or appended submissions; etc. The reports are prepared by the statistical agents annually and are first reviewed by AIPSO staff, then by the AIPSO Data Quality Subcommittee, and are then submitted to the AIPSO Board of Directors.

Examiners obtained and reviewed copies of the 2019 Performance Reports from each of the three (3) statistical agents as part of the April 29, 2020, Data Quality Subcommittee meeting agenda. Each Performance Report contained the language added to the reports as a result of the prior exam finding.

It appears that AIPSO properly implemented its proposed resolution from the prior exam and has addressed the prior exam finding. Examiners also noted that Standards 2 and 3 are specific to statistical agents, rather than advisory organizations, which are also subject to regulatory examinations.

No findings were noted as a result of the review described above.

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

**Results:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 4.

**Observations:** The Company provided the following statement:

*"AIPSO has the following data quality programs*

1. *The AIPSO Personal Lines Rating Committee is comprised of several senior managers employed by member companies that are responsible for:*
  - *Review ratemaking procedures and make changes when necessary or prudent.*
  - *From an actuarial technical perspective, review ratemaking, rating plan and rating rule techniques and acts on staff recommendations.*
  - *Annually request rate reviews, review rate level indications and initiate rate level actions.*
  - *Maintain rating programs, rate manuals and coverages.*
  - *Review classification plans and initiate necessary changes.*
  - *Perform special studies of an actuarial nature and consider other problems as required or requested.*
  - *Participate in special technical studies as required.*
  - *Implement new products in response to legislative changes.*

*AIPSO has a similar committee for Commercial Auto with similar responsibilities as stated above.*
2. *A Subcommittee of the Personal and Commercial Auto rating committees is the Data Quality Subcommittee. The Mission of the Data Quality Subcommittee is to ensure the accurate, complete, and timely reporting of required automobile insurance statistics employed by AIPSO in pursuit of appropriate rate levels and equitable sharing of residual market insureds.*
3. *Annual report cards are submitted by each of the statistical agents in reference to insurer compliance with statistical agent reporting requirements. The report cards provide information on the number of states that had timely submissions; resubmissions; and exclusions. The report cards are submitted to the AIPSO Board of Directors and AIPSO's Data Quality Subcommittee."*

Based upon the information provided, it appears the Company has a defined review process for any additional data control programs maintained by the statistical agent, in which the results are communicated between the Personal Lines Rating Committee, the Data Quality Subcommittee, and AIPSO's Board of Directors.

No findings were noted as a result of the review described above.

**Standard 5 – *With each standard premium and loss report to the states, the statistical agent 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:** Examiners reviewed documentation and related information and conducted a process review. It was determined that this standard does not apply to AIPSO.

**Observations:** The Company provided the following statement:

*“AIPSO does not report insurance company’s premium and loss reports to the states. This function is performed by the statistical agents.”*

Examiners further inquired whether AIPSO receives copies of the premium and loss reports submitted by the statistical agents, to which it responded that they do not receive copies of such reports.

Finally, examiners looked to Section 2.4 of the NAIC Statistical Handbook of Data Available to Insurance Regulators and noted that the title and content/requirements of the section in question are applicable to the statistical agents, rather than to the rating organization. Therefore, it appears that this standard does not apply to AIPSO. Further, it appears reasonable that AIPSO does not receive copies of these reports, as the reports by the statistical agents are submitted to the states.

### Reports, Report Systems, and Other Data Requests

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

**Results:** Examiners reviewed documentation and related information and conducted a process review. Examiners noted that AIPSO appears to satisfy the requirements of Standard 1.

**Observations:** Examiners performed a procedural review, including a process walkthrough with AIPSO key employees to address Standard 1. AIPSO maintains a data quality control process as described below:

*Data is received in accordance with the specifications of the AIPSO Statistical Program and processed in AIPSO’s Actuarial System. The Actuarial System cross checks the balancing file received from the statistical agent with the full detail file to verify that exposures, premiums, losses, and claims are matching and received as intended. Subsequently AIPSO’s data*

*reasonability tests are performed in accordance with a Data Quality Checklist of steps which include the following:*

- *Reasonability Checks through the Data Quality Report – This report is reviewed by the data analysts to identify missing data and data anomalies at the statistical agent level - losses, claim counts, decrease in premiums indicating a potential reporting insurer delinquency in reporting; premium/loss mismatch; shifting of data between categories; unusual loss severity, frequency, pure premium, loss ratio; and unusually high or low average premium.*
- *Validation Error Reports – This report indicates instances where statistical agent level data was not reported according to the specifications of the AIPSO statistical program. AIPSO will follow up with the statistical agent to address these issues when material.*
- *Exclusion Reports – This report provided by the statistical agents is reviewed to identify if any insurers are excluded from the statistical agent’s data submission.*
- *Inclusion Reports – This report states the insurers that are included in the statistical agent data submission.*
- *Mapping Reports – Statistical agent data received is summarized and mapped by certain characteristics such as classification code, territory, penalty point, good driver, commercial vehicle type, or lines to an alternate data field.*
- *Distribution Reports – Statewide data is reviewed by the statistical agent using this report that states the exposures, premiums, losses, and claims by territory and class in relation to the statewide percentage.*
- *Balancing Card Reports – This report is utilized to verify that historical years have not changed for exposures and premium. The Balance Cards also provide a quick snapshot of the data to compare average premium and loss ratios across stat agents.*

The above processes appear to be sufficient to catch errors in data and/or calculations input into the statistical database.

Once the steps above are completed, the actuarial analysts begin the rate indication process. In accordance with the Rate Review Checklist, the analysts must meet with a member of the Actuarial Data Team to complete a data review of the state. The Data Team outlines the steps that were taken during the review process and points out any data issues, significant shifts in the data from the prior call, and any additional noteworthy items of which analysts should be aware.

The Rate Review Checklist appears to function as an additional data check designed to identify data and/or calculation errors within the statistical database.

Further, Examiners conducted a walkthrough of the data collection and handling procedures with Company personnel. During the walkthrough, the AIPSO Team Lead responsible for making sure

data goes through an accuracy and completeness review before going to the actuaries, described the accuracy and completeness procedures performed. The walkthrough evidenced that the analysts are required to process the data through each of the “Data Quality Control” procedures described in the bulleted list above. The system will not allow the analyst to continue with the processing unless each step is complete.

Once the data has been processed fully through the Data Quality Control procedures, reports including results of the quality control process are created and reviewed by the analyst. In reviewing the reports, the analyst completes a Data Review Form that includes a high-level overview of important items noted from the reports. The forms include the following information:

- Name of reviewer
- Date of review
- State
- Lines (as described in the Statistical Program) reviewed
- Whether the Sub ID appears on the balance card
- Mapping Report
- Validation Error Report
- Balance Report
- Exclusion Report
- Data Quality Report
- Summary Data by Company – For higher volume states only, AIPSO gets a breakdown of data by Company and reviews for reasonableness

Based on this review, Examiners gained comfort that AIPSO processes data through its editing systems and further calculations and procedures are performed to determine whether errors exist within the statistical database.

No findings were noted as a result of the review described above.

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

**Results:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 2.

**Observations:** The Company provided the following statement:

*"Once the steps are completed as noted in section G.1 (Reports, Report Systems, and Other Data Requests – Standard 1). the actuarial analysts begin the rate indication process. In accordance with the Rate Review Checklist on the Actuarial department SharePoint site, there is a step as part of their ratemaking process where they must meet with a member of the Actuarial Data Team to do a data review of the state. The Data Team outlines the steps that were taken during the review process and points out any data issues, any significant shifts in the data from the prior call, and any additional noteworthy items that the actuarial analyst should be aware of."*

In addition, the Company provided a copy of the Rate Review Checklist referenced in their above response.

A review of the Rate Review Checklist confirmed the steps referenced in the Company's response were included in the document. These steps are designed to identify whether the statistical agent has accurately extracted the appropriate information from the statistical database.

The Company indicated that AIPSO's data processing completeness and reasonability checks include the data validity and data collection and handling procedures. The Examiners reviewed the Company's data collection and handling procedures, which include some additional actions by the Company to ensure that the statistical agent has accurately extracted the appropriate information from the statistical database. According to the Company:

*"AIPSO's data quality control processes to ensure the completeness and accuracy of data begin with the receipt and processing of the data from the statistical agents. Data is received in accordance with the specifications of the AIPSO Statistical Program and processed in AIPSO's Actuarial System. The Actuarial System cross checks the balancing file received from the statistical agent with the full detail file to verify that exposures, premiums, losses, and claims are matching and received as intended. Subsequently AIPSO's data reasonability tests are performed in accordance with a Data Quality Checklist of steps which include the following:*

- *Validation Error Reports – This report indicates instances where statistical agent level data was not reported according to the specifications of the AIPSO statistical program. AIPSO will follow up with the statistical agent to address these issues when material.*
- *Distribution Reports – Statewide data is reviewed by the statistical agent using this report that states the exposures, premiums, losses, and claims by territory and class in relation to the statewide percentage.*

- ***Balancing Card Reports** – This report is utilized to verify that historical years have not changed for exposures and premium. The Balance Cards also provide a quick snapshot of the data to compare average premium and loss ratios across stat agents."*

The above appear to be additional controls to determine whether the statistical agent has accurately extracted the appropriate information from the statistical database.

Based upon the information provided, which is consistent with the information provided in the prior examination, it appears the Company has an appropriate system of controls in place to determine whether the statistical agent has accurately extracted the appropriate information from the statistical database.

No findings were noted as a result of the review described above.

**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.**

**Results:** As a result of the Company's response, Standard 3 does not apply to this examination.

**Observations:** The Examiners noted the following statement provided by the Company: "There were no regulator inquiries for statistical data compilations during the current exam period." Therefore, Standard 3 does not apply to this examination.

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

**Results:** As a result of the Company's response, Standard 4 does not apply to this examination.

**Observations:** The Examiners noted the following statement provided by the Company: "There were no regulator inquiries for statistical data compilations during the current exam period." Therefore, Standard 4 does not apply to this examination.

**Standard 1 – *The advisory organization submits filings and/or submissions to the state within the established time frame.***

**Results:** Examiners reviewed documentation and related information and conducted a process review. Examiners noted that AIPSO appears to satisfy the requirements of Standard 1.

**Observations:** The Examiners noted that AIPSO prepares rate indications that contain proposed rates. The Examiners reviewed the procedures regarding these filings, including both reviewing them for consistency with Actuarial Standards of Practice, and reviewing their timeliness. This review is documented in Section I, Operations and Management, Standards 2 and 3.

No findings were noted as a result of the review described above.

### Form Development

**Standard 1 – *The advisory organization has processes in place to identify and provide subscribers with necessary changes (by virtue of changes in state laws or case law) to advisory forms.***

**Results:** Examiners reviewed documentation and related information. Examiners noted that AIPSO appears to satisfy the requirements of Standard 1.

**Observations:** The Company provided the following statement:

*"Any changes to rates are shown on the "Rate Activity" tab of aipso.com. Members/Subscribers can sign up for email notification of rate changes on a state-by-state basis. A detailed description of the process for identifying and making changes are included as an attachment ..."*

Upon review of the information provided and the review performed under Operations, Management, and Governance - Standard 8, it appears the Company has adequate processes in place to identify and provide subscribers with necessary changes to advisory forms.

No findings were noted as a result of the review described above.

**Standard 2 – *The advisory organization has quality assurance processes in place to review submissions of forms, rates, loss costs, or other submissions prior to filing or submitting to the applicable state.***

**Results:** Examiners reviewed documentation and related information and conducted a process review. Examiners noted that AIPSO appears to satisfy the requirements of Standard 2.

**Observations:** The Examiners reviewed documentation and related information related to this standard. This review is documented in Section I, Operations and Management, Standard 3.

No findings were noted as a result of the review described above.

## **Management and Organizational Controls (Appendix F of NAIC Market Regulation Handbook)**

### **I. Information Technology – Governance**

**Results:** The Company's IT management organizational structure has clearly defined roles and responsibilities that supports business objectives and IT priorities and enables efficient decision making. Based on the review procedures conducted by examiners, it appears that AIPSO is in compliance with App F - IT Governance.

**Observations:** AIPSO reports annually to the Board of Directors in writing. The report provides an update on the cybersecurity program and material cybersecurity risks. Consideration is focused to the extent applicable on the following topics:

- The confidentiality of nonpublic information and the integrity and security of AIPSO's information systems.
- AIPSO's cybersecurity policies and procedures.
- Material cybersecurity risks.
- Overall effectiveness of the cybersecurity program.
- Material cybersecurity events during the time period addressed by the report.

The examination IT specialists assessed the level of security awareness throughout the organization, including the awareness of the board of directors. IT specialists determined that the security awareness procedures in place are adequate. IT specialists determined that management and employees are provided with sufficient training to understand the importance of compliance with IT and cybersecurity policies, up to and including at the level of board of directors.

No findings were noted as a result of the review described above.

### **II. Information Technology – Data Management**

**Results:** Data is shared among applications through specific function calls within the application or through AIPSO's job scheduler. Based on the review procedures conducted by Examiners, it appears that AIPSO is in compliance with App F - Data Management.

**Observations:** AIPSO systems utilized the following data-processing centers:

- AIPSO Home Office, Main Datacenter

- 302 Central Avenue, Johnston, RI 02919
- Sungard Recovery Services – Backup Datacenter
  - 777 Central Boulevard, Carlstadt, NJ 07072
- Sungard Workplace Recovery Center
  - 250 Locke Drive, Marlborough, MA 01752
- Microsoft Azure, US datacenters

With regards to data integrity, AIPSO's Data Services department has detailed documented processes by system to perform the following functions:

- Monitor automated batch scheduler process to ensure successful completion in order for the system to begin using the data
- Confirm data collection via electronic transmission is successful
- Upload, balance, validate, and analyze data for accuracy
- Work with business partners when data anomalies are identified to reach corrective action and/or solutions and process data corrections if applicable
- Obtain business partner approval of finalized data
- Provide accurate finalized data to downstream systems and/or business partners
- Distribute reports and files to both internal and external business partners

The Company provided documentation indicating that it has implemented integrity-checking mechanisms and associated tools to monitor the integrity of information systems and host applications using processes, technology and people. Exceptions and incidents are logged and investigated.

There are no business or data-processing services performed by any other entities on behalf of AIPSO in its role as a rating and advisory organization.

No findings were noted as a result of the review described above.

### **III. Information Technology – Reviews and Risk Assessments**

**Results:** AIPSO provided evidence that it provides risk analysis information to stakeholders, including the risk rating of significant IT risks. AIPSO appears to be in compliance with App F - IT - Reviews/Risks.

**Observations:** AIPSO provided Examiners with a list of IT audits for their IA department completed during the period the examination covered:

- Base & Fulfillment Data Submission & Validation Audit
- Physical Security (& Entry System) Audit
- Server Virtualization & Operating System Audit
- Application Delivery - Citrix XenApp Audit
- Continuity Management Audit
- Server Security Administration Audit
- Vulnerability Management Audit
- Customer Relationship Management Audit
- Website Administration Audit
- Email Administration Audit
- Application Processing System Audit
- NY Producer Application Submission System Audit
- Quota Development System Audit
- Server Backup Administration Audit

The Company provided Examiners with additional IT risk assessments. Examiners were satisfied with the type and depth of these assessments.

AIPSO uses Nessus Tenable.io product to compile the results of the vulnerability scans and categorizes the issues identified according to their Vulnerability Priority Rank (VPR). The VPR scores are ranked into 4 categories:

#### Category Rating

- Critical 10.0 – 9.0
- High 8.9 – 7.0
- Medium 6.9 – 4.0
- Low 3.9 – 0.1

Generally, AIPSO management will give priority to remediation of the critical ratings first, then move to high ratings as deemed necessary based on risk. On occasion, management will adjust the criticality of the VPR rankings as necessary based on local environmental controls in place and other factors as deemed appropriate.

Based on the review procedures conducted by Examiners, it appears that AIPSO is in compliance with App F - IT - Reviews/Risks.

No findings were noted as a result of the review described above.

#### **IV. Information Technology – Security**

**Results:** AIPSO provided documentation indicating that security policies and procedures are documented and communicated to stakeholders and users. The Company classifies and encrypts sensitive data as needed. AIPSO appears to be in compliance with App F - IT - IT Security.

**Observations:** AIPSO's IT security-related policies are divided into the following categories:

- Email Data Encryption
- IT Asset Management
- System Operations and Availability
- Systems and Networking
- Vendor and Third Party
- Electronic Information Security
- Portable Device Use
- Device Power Off
- Production System Change Control
- Breach Procedures
- Data Classification
- Data Center Access
- Account Password
- Out-of-Network Computing
- Software and Internet Usages

The Company provided documentation that indicates security policies and procedures are documented and communicated to stakeholders and users.

AIPSO encrypts Company data using an enterprise-level data protection solution. Data is sent electronically to an offsite disaster recovery location. The transmission is encrypted using VPN technology. When electronic media that contains sensitive data is taken off site, the media and/or data is encrypted prior to being transported. AIPSO utilizes Data Classification Guidelines and an Email Data Encryption policy which specifies acceptable handling methods for data. Sensitive data is stored on a database server that is encrypted at the database level using Microsoft SQL Server Transparent Data Encryption (TDE).

AIPSO utilizes Microsoft 365 data loss prevention (“DLP”) policies which are applied to email. This technology detects sensitive items by using deep content analysis, machine learning algorithms, and other methods to detect content that matches AIPSO-defined DLP policies.

AIPSO notifies the user, restricts access to the content for external users, and sends an incident report to administrators for content that is detected by Microsoft's DLP for sensitive information categories.

AIPSO utilizes a Structured Query Language ("SQL") server audit and compliance tool on databases where sensitive information is stored. The tool audits the SQL database and security activities in a tamper-evident repository. Alerts are provided for failed database access attempts. Databases that contain sensitive data are encrypted and logically segmented from other less critical servers and data.

No findings were noted as a result of the review described above.

#### **V. Information Technology – Security – Incident Report**

**Results:** Based on documentation provided for review, the Company has a defined security incident response plan. AIPSO appears to be in compliance with App F - IT - IT Security - Incident Report.

**Observations:** AIPSO appears to have recently drafted a Security Incident Management Plan. The Company uses a high-level incident response plan for a wide range of security incidents. It is used to define general communication processes for managing security incidents, which may help minimize the impact and scope of the incident on the organization.

The plan defines standard incident handling protocols which helps reduce ambiguity and keeps stakeholders accountable and aware during appropriate stages of the incident.

Based on documentation provided for review, the Company has a defined security incident response plan.

No findings were noted as a result of the review described above.

## **VI. Information Technology – System Development/Change Management**

**Results:** Procedures exist to ensure documentation is appropriately updated and distributed to affected users and IT staff upon completion of change. AIPSO appears to be in compliance with App F - IT Tech System Development/Change Management.

**Observations:** AIPSO's change management process is centralized and managed by the Organization's Change Management Team, which coordinates changes through AIPSO's System Development Life Cycle ("SDLC") and Production System Change Control Policies. The procedures and policies are applied to all application functionality enhancements and adjustments to address any identified issues. All system software code, managed by AIPSO, is versioned using Microsoft Team Foundation Services Source Code management tools. Various versions of this software were utilized for software source code management during the period of this examination.

Procedures exist to ensure documentation is appropriately updated and distributed to affected users and IT staff upon completion of change.

No findings were noted as a result of the review described above.

## **VII. Information Technology – Business Continuity**

**Results:** AIPSO appears to have adequate BCDR plans. The business continuity framework contains all the elements necessary for successful recovery of the business. AIPSO appears to be in compliance with App F - Information Technology - Business Continuity.

**Observations:** Currently, AIPSO has a rack at the SunGard facility in Carlstadt, New Jersey with AIPSO's own network equipment, servers, storage and backups. AIPSO also has a Recovery Services contract that gives the Company IT Capacity in Marlborough, MA to test their systems twice a year. The IBM Mainframe testing service is also under contract. AIPSO and SunGard hold regular meetings in order to conduct these tests twice a year.

The Company provided documentation evidencing that it has a defined and documented framework that provides:

- A consistent, companywide continuity management;
- A process that creates the rules and structures to document, test and execute the IT disaster recovery and business continuity plans;
- Identification of critical resources, key dependencies; and

- Monitoring and reporting the availability of critical resources, alternative processing and the principles of backup and recovery.

AIPSO tests DR twice a year. The Company was able to successfully recover all items that were tested. The Examiners are comfortable with the overall result of the DR Test.

AIPSO currently utilizes Commvault as the backup and replication software and EMC VNX 5200 SAN for additional storage and redundancy. The Company provided documentation evidencing effective and efficient data storage, as well as retention and archiving policies and procedures sufficient to meet business objectives.

No findings were noted as a result of the review described above.

#### **VIII. Information Technology – Access Review – Prior Issue Follow-Up**

**Results:** The Company provided evidence that appropriate steps have been taken to effectively resolve the prior IT issues identified. AIPSO appears to be in compliance with App F - IT - Access Review - Prior Issue Follow-Up.

**Observations:** During the prior AIPSO review, the following issues were identified: Prior Issue 1: Microsoft Active Directory (“AD”) controls access to the Company network, Actuarial Application and electronic folders that contain Actuarial documents. Per the discussion, it was noted that a periodic re-certification of user access and permissions granted is not performed at the network or application layer. Issue 1 Resolution: In accordance with AIPSO’s Employee New Hire and Termination Procedures, AIPSO reviews user access and permissions granted for system and applications each time staff are either added or deleted from a system or application.

Prior Issue 2: Microsoft AD controls access to the Company network, Actuarial Application and electronic folders that contain Actuarial documents. It was noted that a periodic re-certification of user access and permissions granted is not performed at the network or application layer. Issue 2 Resolution: AIPSO stated that there has been only one change to the ratemaking methodology since the 2014 audit. In 2017, the commercial blended indication template was changed.

The change was implemented according to the template revision process:

1. An internal working group developed the revision to the ratemaking template.

2. The revisions were reviewed by the Vice President & Chief Actuary and the Assistant Vice President & Actuarial Team Leader during the development process.
3. The revisions were tested by Actuarial Team Leader who was the actuary in charge of the working group.
4. The revisions were announced to the remainder of the Actuarial Department.
5. The formal checking process conducted by all actuarial analysts, documents the testing of calculations and source data.

The Company also provided documentation evidencing that user access rights to systems and data are in line with defined and documented business needs. This includes access rights granted to service providers. For additional comfort, Examiners reviewed a listing of user access roles, including systems and applications access, as well as a listing of hires, transfers and terminations for the last six months. The Company provided documentation indicating that user access rights are requested by user management, approved by system owners, and implemented by the security-responsible person to grant, limit, and revoke access to systems, applications, and data.

Examiners reviewed the Template approval.pdf file which demonstrated the review and reasonability tests performed for a selected change to the template document.

The Company provided evidence of template approval and checklists.

No findings were noted as a result of the review described above.

### Classification and Appeals Handling

**Standard 1 - *The advisory organization takes adequate steps to finalize and dispose of the classification appeal in accordance with applicable statutes, rules and regulations, and written manuals and procedures.***

**Results:** As a result of the Company's response, Standard 1 does not apply to this examination.

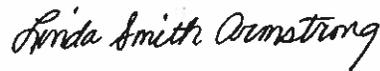
**Observations:** Per discussion with the Company, AIPSO does not process classification appeals. There are provisions under the state Plan Manuals and those appeals are processed by the state Plan governing bodies. Therefore, this standard does not apply to this examination.

### VIII. CONCLUSION

Examination procedures were applied to the NAIC Standards contained in this report using the techniques deemed appropriate to reach the conclusions included herein. Other than what has been noted in the body of this report, Examiners were not informed of, and did not become aware of any findings or issues related to the NAIC Standards reviewed.

### IX. EXAMINATION DRAFT REPORT SUBMISSION

The examination was conducted by Brett Bache of the Rhode Island Department of Business Regulation - Insurance Division; Linda Armstrong, Shelby Lambert, and Stefan Obereichholz-Bangert of Noble Consulting Services, Inc.; and Greg Fanoë and Brett Miller of Merlinos & Associates, Inc., and is respectfully submitted.



Linda Smith Armstrong  
Co-Examiner-in-Charge



Greg Fanoë  
Co-Examiner-in-Charge

**APPENDIX A – RATE FILINGS SAMPLES**

<b>Sample Number</b>	<b>LOB</b>	<b>State</b>	<b>Filing Designation</b>
1	Private Passenger	AL	AL 18-05
2	Private Passenger	IN	IN 19-03
3	Private Passenger	ND	ND 18-04
4	Private Passenger	NY	NY 19-04
5	Private Passenger	RI	RI 18-01
6	Private Passenger	VT	VT 19-01
7	Commercial	AZ	AZ 18-06
8	Commercial	DC	DC 19-05
9	Commercial	FL	FL 18-13
10	Commercial	KS	KS 18-06
11	Commercial	NJ	NJ 18-08
12	Commercial	WI	WI 18-01

**APPENDIX B – RULES AND FORM FILINGS SAMPLES**

<b>Sample Number</b>	<b>Filing Type</b>	<b>LOB</b>	<b>State</b>	<b>Filing Designation</b>
1	Forms	Personal Auto	AR	AR 18-04
2	Forms	Personal Auto	CA	LC 19-01
3	Forms	Commercial Auto	CO	CO 19-02
4	Rules	Commercial Auto	CO	CO 19-01
5	Plan Sections and Forms	Personal and Commercial Auto	DE	DE 19-07
6	Forms	Personal Auto	GA	GA 19-06
7	Rules	Personal Auto	GA	GA 19-10
8	Rules	Personal Auto	IA	IA 19-04
9	Rules and Forms	Personal Auto	ID	ID 19-01
10	Rules	Personal Auto	IL	IL 18-01
11	Forms	Commercial Auto	IL	IL 19-08
12	Rules and Forms	Personal Auto	KS	KS 19-06
13	Plan Sections and Rules	Personal Auto	KY	KY 19-01
14	Forms	Personal Auto	KY	KY 19-23
15	Forms	Commercial Auto	LA	LA 19-01
16	Rules	Commercial Auto	LA	LA 19-02
17	Rules and Forms	Personal and Commercial Auto	MO	MO 19-05
18	Rules and Forms	Personal Auto	MS	MS 19-04
19	Rules and Forms	Commercial Auto	ND	ND 19-03
20	Rules and Forms	Commercial Auto	NE	NE 19-04
21	Rules and Forms	Commercial Auto	NH	NH 18-03
22	Rules and Forms	Personal and Commercial Auto	NJ	NJ 19-09
23	Rules and Forms	Personal and Commercial Auto	NY	NY 18-10
24	Rules	Personal and Commercial Auto	NY	NY 19-11
25	Forms	Commercial Auto	OK	OK 19-01
26	Rules	Commercial Auto	OK	OK 19-02
27	Rules and Forms	Personal Auto	SC	SZ 18-03
28	Rules and Forms	Personal Auto	TN	TN 19-07
29	Rules and Forms	Personal Auto	VA	VA 19-06
30	Rules	Commercial Auto	WA	WA 19-01
31	Forms	Commercial Auto	WA	WA 19-02
32	Rules and Forms	Commercial Auto	WI	WI 18-04
33	Rules and Forms	Commercial Auto	WV	WV 19-01

**APPENDIX C – DATA COLLECTION AND HANDLING SAMPLES**

<b>Sample</b>	<b>State</b>	<b>Submission ID</b>	<b>Line of Business</b>
1	CT	2218 (ISO), 2220 (ISS), 2215 (NISS)	Private Passenger
2	NH	2218 (ISO), 2221 (ISS)	Private Passenger
3, 4	IL, LA	2237 (ISO)	Commercial Auto
5	RI	2289 (ISO), 2288 (ISS), 2278 NISS	Private Passenger
6, 7	IL, NY	2320 (ISO), 2321 (ISS), 2319 (NISS)	Private Passenger
8	CT	2324 (ISO), 2319 (NISS)	Private Passenger
9, 10, 11	DC, NJ, VA	2326 (ISO), 2327 (ISS), 2319 (NISS)	Private Passenger
12	RI	2331 (ISO), 2330 (ISS), 2319 (NISS)	Private Passenger
13	CO	2333 (ISS)	Private Passenger
14	IA	2334 (ISS)	Private Passenger
15	PA	2336 (ISO), 2333 (ISS), 2319 (NISS)	Private Passenger
16, 17, 18, 19, 20	CT, DC, MO, SD, VT	2348 (ISO)	Commercial Auto
21	VA	2348 (ISO)-Original, 2349 (ISO)- Revised	Commercial Auto
22	LA	2349 (ISO)	Commercial Auto
23	PA	2349 (ISO), 2333 (ISS)	Commercial Auto
24	KS	2358 (ISO)	Commercial Auto
25	KS	2361 (ISO); 2362 (ISS); 2363 (NISS)	Private Passenger