

**Report to the
National Association of Insurance Commissioners
Multiple Rating Organization Study Group**

**on
Multiple Statistical Agents**

By

**Workers' Compensation Working Group
American Academy of Actuaries**

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The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

Workers' compensation insurance is unique and is distinct from other lines of business. It is a social insurance system designed to provide the exclusive remedy for all work related injuries and diseases incurred by employees. In return for giving up their right to sue employers, employees receive no fault benefits as mandated by state statutes. Additionally, employers are encouraged to provide a safe workplace. State rating laws or regulations generally promote this through a uniform and mandatory experience rating plan. About 75 years ago, The National Council on Compensation Insurance, Inc. ("NCCI") was established by the precursor organization to today's National Association of Insurance Commissioners to act as the states' statistical agent and advisory organization.

A statistical agent collects and compiles workers' compensation data from insurance carriers and some self-insurers (or their authorized agents) with license from the state insurance regulators, according to statistical plans authorized by those regulators. A key purpose of the data collected by the statistical agents is to support the ratemaking process. As a by-product, regulators, insurers, and self insurers may also use the aggregated information for other purposes such as reserving, pricing, and benchmarking.

An advisory organization assists its members in ratemaking activities. Often, the advisory organization and the statistical agent may be the same entity. In some instances, the respective roles of advisory organizations and statistical agents are not well defined by state laws or regulations.

The NCCI has performed statistical data collection and management services in its role as an advisory/rating organization in most states, including several states with independent rating bureaus. (Many of the larger states have independent bureaus which also act as statistical agent.) However, with the emergence of IDR Statistical Services, Inc. ("**IDRSS**") over the last several years, states are considering how multiple statistical agents can exist within a single state. The use of multiple statistical agencies and multiple advisory organizations has already been approved in Florida. Arizona has also licensed multiple advisory organizations and has designated **IDRSS** as the statistical agent to compile aggregate data from the licensed advisory organizations. Several other states are considering the possibility of competitive statistical agents.

There are a variety of models that states may choose. Some states may decide to permit competition in the delivery of services and allow multiple statistical agents to exist side by side. Others may opt to make the point of competition at the bid to provide services, and may implement a formal process whereby multiple statistical agents can submit bids, but only one agent is selected. Some may decide

to continue to keep their existing statistical organization in place without opening up the statistical agent function to competition. There may be other valid models. The American Academy of Actuaries takes no position regarding which model works best, but has developed a set of guidelines which should apply to any model in order to maintain integrity in the system. The basic guidelines developed by the American Academy of Actuaries are intended to help (1) states in their consideration of multiple statistical agents and (2) the NAIC in providing recommendations to the states.

These basic guidelines are as follows:

1. Industrywide aggregations of data should continue to exist regardless of the number of statistical agents licensed to do business 'in the state.

2. There should be a common set of class definitions and a single minimum standard statistical plan in each state. To the extent practicable, there should also be consistency in the statistical plans across states. Likewise, to the extent practicable, and also to the extent that classes are reasonably homogeneous, there should be consistency in class plans across states. Common sets of definitions and minimum standards are needed to:

- Provide a common basis of high quality information so that accurate and meaningful compilations across employers, insurers, and statistical agents can be made;
- Increase credibility in the ratemaking process;
- Improve predictability and reduce pricing risk;
- Provide the ability to aggregate experience across states, where permitted by law and where appropriate (This is particularly important for smaller classes.);
- Allow for comparisons across states;
- Facilitate the pricing of multi-state risks, where permitted by law, and where appropriate; and
- Promote efficiency for carriers, producers writing policies, statistical agents, advisory agents, and regulators overseeing the system.

Note that minimum standards would not preclude individual states from choosing to sub-divide classes and incorporate additional classes and/or data elements as deemed appropriate.

3. The confidentiality of individual employer, employee, claimant and insurer information must continue to be protected. Therefore, the data aggregations referred to in Principle 1 should not be performed or maintained by a state or other agency subject to open records laws. Access to detailed data should also be limited 'in accordance with the property rights of insurers in collected data and information and consistent with applicable laws and regulations

4. The confidentiality of individual employer, employee, claimant and insurer information must continue to be protected. Therefore, the data aggregations referred to in Principle 1 should not be

performed or maintained by a state or other agency subject to open records laws. Access to detailed data should also be limited 'in accordance with the property rights of insurers in collected data and information and consistent with applicable laws and regulations

There should be minimum qualification requirements for the statistical agent(s) which are aimed at ensuring data integrity and appropriate data confidentiality. (It is critical to maintain data integrity in order to promote accurate historical data and prospective estimates and projections overall, by class, and by employer.) Such qualifications should include:

- Good electronic communications and data transfer abilities between the statistical agent(s) and the advisory organization(s), in order to ensure efficiency and data integrity. This communication is also critical in the promulgation of interstate experience rating. In the single statistical agent/single advisory organization model, the data transfer issues are nonexistent. In other models, they need to be addressed.
- Good electronic communications and data transfer abilities among the statistical agents when there are multiple agents. This is important in order to provide employers (or prospective insurers with appropriate authority) with a complete, accurate, and timely record of their historical experience, regardless of which statistical agent is collecting its data from current and past 'insurers. For experience rating, such communication is critical to:

=>Determine eligibility for experience rating ;

=>Determine entities under common ownership and verify that data for an insured is complete; and

=>Promulgate the experience modifications accurately and in a timely manner.

5. The statistical agent(s) should be responsible for the maintenance of data, databases, and related programs in a manner which allows for ease of transfer to other organization(s) in the event that a statistical agent goes out of business or ceases to be an authorized statistical agent in the state.

6. All decisions should keep in mind the potential costs and benefits for all parties involved. Such consideration of costs and benefits should include the following:

- Costs to insurers, including the costs of reporting data in different formats to different agents and the costs of any potential delays in the production of experience modifications;
- Costs to statistical agents, 'including the cost of collecting data and transferring data to the advisory organizations and to other statistical agents;
- Costs to advisory organizations, including the cost of gathering data from multiple statistical agents, verifying data accuracy and completeness, and any promulgating of experience modifications;
- Costs to state regulators, including the cost of overseeing multiple entities and ensuring

- compliance with rules and regulations;
- Costs to other authorized users;
- Benefits to state regulators, advisory organizations, and other authorized users in potential obtaining better, more timely aggregate data from the statistical agent(s);
- Potential improvements in operations and technology, as well as other innovations resulting from competition; and
- Potential reductions in system costs attributable to improved technology, operational efficiencies and other competitive initiatives.

The actuarial profession has a vested interest in the data collection and ratemaking process. There is a diversity of views within the actuarial community and throughout the insurance industry as to which of the potential models is most desirable. We hope that these guidelines will be helpful in your deliberations. We welcome the opportunity to answer questions and work with you further.