

REPORT ON EXAMINATION OF  
INSURANCE SERVICES OFFICE, INC.

AS OF

DECEMBER 31, 2004

DATE OF REPORT:

MAY 25, 2007

EXAMINER:

KAMAL MOHAMED



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

David A. Paterson  
Governor

James J. Wynn  
Superintendent

Honorable James J. Wynn  
Superintendent  
New York, NY 10004

Sir:

Pursuant to instructions contained in Appointment No. 22428, dated October 27, 2005, I have made an examination into the conditions and affairs of the Insurance Services Office, Inc., as of December 31, 2004 and the following report thereon is respectfully submitted.

Whenever the designations "ISO" or "the corporation" appear herein without qualification, they should be understood to indicate the Insurance Services Office, Inc.

Whenever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at ISO's home office located at 545 Washington Boulevard, Jersey City, New Jersey and at offices of other entities as indicated in the report.

## TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO</u>
1. Scope of Examination	1
2. Organization and Management	1
a. History	1
b. Management	2
c. Internal Organization	4
d. Functions and Lines of Business Serviced	4
e. Locations of Offices	5
f. Licenses	5
g. Members, subscribers and service purchasers	5
3. Statistical Plans and Filings	6
4. Significant Program and Rate Level Changes	8
a. Advisory Prospective Loss Costs	8
b. Policy Forms, Endorsements and Program Manuals	10
5. Methodology of Notification of Approval for Forms, Rules & Loss Costs	10
6. Assessments and Incentive Programs	11
a. Assessment Fees and Charges	11
b. Incentive Assessment Program	11
7. Financial Statements	11
8. Data Verification Procedures, Information System and Field Review	11
a. Data Collection and Quality Control Procedures	12
b. Information System	14
c. Field Review of Company Compliance	16
9. ISO's Function as a Central Organization for Automobile Loss Reporting	17
10. Compliance with Prior Report on Examination	17
11. Current Comments and Recommendations	18

## 1. SCOPE OF EXAMINATION

Pursuant to §309(b)(3) of the New York Insurance Law (“NYIL”), the superintendent is charged with conducting an examination, at least once in every five years, of every rate service organization which makes or files rates. Accordingly, the current examination covers the period January 1, 2000 through December 31, 2004. The prior examination was made as of December 31, 1993. The examination included a review of those items as called for in the Rating/Statistical Organization section of the Market Regulation Handbook of the National Association of Insurance Commissioners, as well as a review of assessments, disbursements and those records deemed necessary to accomplish an analysis of ISO’s operations.

## 2. ORGANIZATION AND MANAGEMENT

### a. History

The Insurance Services Office was formed on April 1, 1971 as a national voluntary, non-profit unincorporated association of insurers through the consolidation of various state, regional and national rating bureaus for various lines of property/casualty insurance. Over the decades that followed its formation, ISO made a series of changes in its operations and structure. Effective January 1, 1983, Insurance Services Office changed its legal form from that of a non-profit association to that of a non-profit corporation. Its name changed from Insurance Services Office to Insurance Services Office, Inc. (ISO). By 1989, ISO started making advisory loss costs instead of advisory rates, and transferred complete decision making authority on all rate related matters, including actuarial methodology, to ISO staff from insurer committees. By 1994, insurers relinquished control of ISO to a member board that included seven non-insurer directors. In 1997, ISO became an independent for-profit corporation. Insurers may only own stock in ISO that have very restricted voting rights, primarily limited to the election of a minority of the board of directors and matters involving a substantial change to the structure or business purposes of the corporation.

ISO and its domestic subsidiaries as of 2004 were incorporated under the laws of the State of Delaware. Also, ISO had two UK subsidiaries in 2004.

On April 17, 2001, ISO informed the Department of the relocation of the home office from New York City to its current address in Jersey City, New Jersey effective May 1, 2001.

ISO Data, Inc., a subsidiary of ISO, applied to the Department for designation as a statistical agent on July 6, 2001 in accordance with section 2313(b) of New York Insurance Law (NYIL) and it was acknowledged and placed on file by the Department on July 13, 2001.

b. Management

In accordance with the Certificate of Incorporation of ISO, there shall be 11 directors or such greater number as may be determined by resolution of the board. At least seven of the directors should be persons who are not employed by a competitor of the corporation or an insurer; and at least three of the directors need to be senior officers employed by members and one director should be the chief executive officer of the corporation.

The board of directors elects the Chairman. The Chairman may appoint or remove, with the approval of the finance committee, if any, or the board of directors, other officers of the corporation, including, but not limited to, a president, one or more executive vice-presidents, one or more senior vice presidents, one or more vice-presidents and a secretary. The board of directors also elects the chief executive officer. The chief executive officer has the authority to direct and supervise all activities of all officers and employees. The chairman and the chief executive officer, subject to the direction of the board, have the authority to represent the corporation in any matter.

To the extent permitted by law, the board of directors may delegate to committees established pursuant to the certificate of incorporation or the by-laws or to the Chairman such matters which it deems appropriate under policy which it may establish. As of December 31, 2004 there were five committees of the board. These were the Nominating Committee, the Finance and Investment Committee, the Executive Committee, the Audit Committee, and the Compensation Committee.

In addition to the committees of the board, ISO has established User Advisory Panels and Liaison Panels. User advisory panels have no decision making authority but make recommendations in their area of expertise. Commercial Lines, Personal Lines, and Actuarial Advisory Panels are some of the user advisory panels. Members of user advisory panels are employees of suitable senior position of a member or a subscriber of the corporation. National, regional and/or state liaison panels are established for the purpose of obtaining input and comment with respect to matters of significant concern from such non-insurers and non-insurer industry organizations, including but not limited to, associations of agents, brokers, underwriters, actuaries, regulators and risk managers.

The members of the board as of December 31, 2004 were as follows:

NAME	PRINCIPAL AFFILIATION
Joseph P. Brandon	Chairman and Chief Executive Officer, General Re Corporation
J. Hyatt Brown	Chairman and Chief Executive Officer, Brown & Brown, Inc.
Frank J. Coyne	Chairman, Insurance Services Office, Inc.
Glen A. Dell	Partner, MapleWood Equity Partners LP
Henry J. Fienberg	Partner, Technology Crossover Venture
Christopher M. Foskett	Managing Director, Global Sales and Marketing, Citigroup Global Transactions Services
Constantine P. Iordanou	President and Chief Executive Officer, Arch Capital Group Limited
John F. Lehman, Jr.	Chairman, J. F. Lehman & Company
Samuel G. Liss	Executive Vice President, St. Paul Travelers Companies
Andrew G. Mills	Former Chief Executive Officer, Financial and Professional Publishing, Thompson Corporation
Arthur J. Rothkopf	General Counsel, U. S. Chamber of Commerce
Barbara D. Stewart	President, Stewart Economics, Inc.
David B. Wright	Executive Vice President, Office of the CEO, Strategic Alliances and Global Accounts, EMC Corporation

The principal officers of ISO as of December 31, 2004 were as follows:

Name	Title
Frank J. Coyne	Chairman, President, & CEO
Carole J. Banfield	Executive Vice President
Kenneth G. Geraghty	Executive Vice President, and Chief Financial Officer
Scott G. Stephenson	Executive Vice President
Joseph P. Giasi, Jr.	Senior Vice President, General Counsel, and

	Corporate Secretary
Richard P. Boehning	Senior Vice President and President – AISG
John McCue	Senior Vice President, Sales and Marketing
Patrick McLaughlin	Senior Vice President, Risk Decision Services
Roy S. Nicolosi	Senior Vice President and Chief Information Officer
Kevin B. Thompson	Senior Vice President, Insurance Lines Services

c. Internal Organization

ISO has several departments to conduct its various functions. These include Insurance Services, Government Relations and Data Management, Risk Decision Services (RDS), Finance and Corporate Center, Information Systems and Technology (IST), Non-Rate Service Organization Units, Sales and Marketing, and Legal departments.

d. Functions and Lines of Business Served

As a rate service organization, licensed in accordance with section 2313(b) – NYIL, ISO performs the following functions:

- Prepares, files and distributes manuals of advisory prospective loss costs, territory definitions, rules, forms and other supplementary rating information.
- Promulgates specific commercial property loss costs based on Specific Commercial Property Evaluation Schedule.
- Promulgates community Public Protection Classifications based on the Fire Suppression Rating Schedule.
- Promulgates community ratings based on the Building Code Effectiveness Grading Schedule (BCEGS).

ISO also produces various reports that provide detailed risk and hazard analyses of specific properties that insurers may use in underwriting, rating and loss control.

ISO Data, Inc., a subsidiary of ISO, is a designated statistical agent in accordance with section 2315-NYIL. It collects and compiles data from participating companies. The composite statistical report is filed with state regulators and then made available to companies.

In accordance with Article IX of ISO's by-laws, the lines of insurance serviced by ISO include: Private Passenger Automobile, Homeowners, Dwelling Fire and Allied Lines, Inland Marine, Commercial Fire and Allied Lines, Commercial Multiple Line, Commercial Automobile, Nuclear Energy Liability, Boiler and Machinery, General Liability, Crime, Fidelity, Forgery and Theft, Glass, Farm and Farmowners, and Professional Liability.

e. Locations of Offices

ISO is headquartered at 545 Washington Boulevard, Jersey City, New Jersey. In addition, ISO has six Regional Field Offices located in Lisle, Illinois; Quincy, Massachusetts; Trenton, New Jersey; Atlanta, Georgia; Dallas, Texas; San Francisco, California and a federal affairs office in Washington, DC.

f. Licenses

ISO is licensed as a rate service organization in New York in accordance with section 2313(b) of New York Insurance Law (NYIL). According to ISO, it is also licensed in all other states, the District of Columbia, Guam, the US Virgin Islands and Puerto Rico.

g. Members, Subscribers and Service Purchasers

An insurer may participate with ISO in different categories in different jurisdictions and in different lines or subdivisions of lines of insurance. ISO has three categories of participants: member, subscriber, and service purchaser.

Members are insurers authorized by applicable law to write a line of insurance in a jurisdiction of the United States where ISO is authorized to act by applicable law as a rate service organization. Insurers must apply for membership in accordance with the forms and procedures of ISO; and must purchase or contract to purchase services furnished by ISO or any of its subsidiaries. As provided in Article IV and VI of the by-laws of the corporation, senior officers of members are eligible for election as Class B Directors and members' employees of suitable senior position are eligible to serve on user advisory and other panels of the corporation.

Subscribers are insurers authorized by applicable law to write a line of insurance in a jurisdiction of the United States where ISO is authorized to act by applicable law as a rate service organization. Insurers must apply for subscribership in accordance with the forms and procedures of ISO and must purchase or contract to purchase services furnished by ISO or any of its subsidiaries. As provided in Article VII of the bylaws, subscribers' employees of suitable senior position are eligible to serve on user advisory and other panels of the corporation. No



employee of a subscriber may serve on the board of directors or on any committee of the board of directors.

Service purchasers are any persons or entities which have purchased or contracted to purchase services furnished by ISO but do not qualify or have not applied for membership or subscribership and which, in accordance with the forms and procedures of ISO have applied to be service purchasers. Employees of service purchasers are not eligible to serve on the board of directors or any panels of ISO.

### 3. STATISTICAL PLANS AND FILINGS

ISO Data, Inc. maintains the statistical plans filed with regulators and the databases by line of insurance. There are three types of statistical plans: the Commercial Lines Statistical Plan (CLSP), the Personal Lines Statistical Plan – Other than Automobile (PLSP-OTA) and the Personal Automobile Statistical Plan (PASP).

In general, the statistical plans define the statistical reporting requirements in accordance with the requirements of section 2315-NYIL and the requirements of other States. Such requirements include the specification of data elements, the coding of the data elements, the codes for information on an insurer's premiums and losses, and the record layouts for formatting information from insurance contracts in a comprehensive manner. The source of statistical data needed for complying with various state filing requirements is an insurance company's individual policies. The statistical data, which contains information regarding insurance coverage, premium, loss experience and other pertinent information, is maintained by the statistical agent in statistical databases.

The CLSP consists of two types of plans known as the Commercial Statistical Plan (CSP) and the Commercial Minimum Statistical Plan (CMSP). These plans require reporting of data at different levels for: Commercial Fire and Allied Lines, Farmowners/Ranchowners, Commercial Inland Marine, Medical Professional Liability, General Liability, Commercial Automobile, Fidelity and Forgery, Glass, Crime/Burglary and Theft, Boiler and Machinery, Commercial Earthquake, and Businessowners.

PLSP-OTA collects data for: Homeowners, Tenants and Condominiums, Mobilehomes, Dwelling, Earthquake, Inland Marine, and Liability other than Automobile. Effective January 1, 2000, the personal lines minimum statistical plan - other than automobile (PLMSP-OTA) was

replaced by the Personal Lines Statistical Agent Plan – Other than Auto (PLSAP - OTA) which recognizes that some companies write small volumes of business for some lines of insurance.

The personal automobile statistical plan (PASP) collects data for personal automobile line of business. Effective January 1, 2000, the Personal Auto Minimum Statistical Plan (PAMSP) was replaced by the Personal Lines Statistical Agent Plan (PLSAP - Auto) which recognizes that some companies write small volumes of business for some lines of insurance.

The New York private passenger automobile business statistics are also subject to Statistical Data Monitoring System (SDMS) in accordance with the requirements of Regulation 103. The purpose of this requirement is to assure the accuracy and reliability of private passenger automobile statistical data reported to the Department by its licensed statistical agents.

ISO files the composite statistical data with the Department annually. As per ISO's letter dated November 17, 2005, the composite statistical data of ISO members and subscribers which reported their statistical data for the year 2003 has been filed with the Department as follows:

<u>Line of Insurance</u>	<u>Date Filed</u>
Commercial fire & allied lines	12/15/2004
Businessowners	12/15/2004
Farmowners	12/15/2004
Commercial inland marine	12/15/2004
Personal inland marine	02/11/2005
Medical/professional liability	01/19/2005
General liability -	
- OL&T	01/19/2005
- M&C	01/19/2005
- Products	01/19/2005
Commercial auto -	
- Liability	02/08/2005
- Physical damage	02/08/2005
Burglary & theft	12/15/2004
Glass	12/15/2004
Boiler & machinery	12/15/2004
Personal theft	02/11/2005

Personal auto -	
- Liability	04/05/2005
- Physical damage	04/05/2005
Homeowners	02/11/2005
Dwelling fire & allied lines	02/11/2005
Personal liability	02/11/2005
Aviation	04/08/2005

#### 4. SIGNIFICANT PROGRAM AND RATE LEVEL CHANGES

##### a. Advisory Prospective Loss Costs

ISO reviews experience of the lines of business it services on an annual or biennial basis. If the review indicates a loss cost level change, ISO submits a filing to the Department to revise its advisory prospective loss costs and/or increased limits factors.

An overview of ISO experience-based filings approved during the examination period that was provided by ISO on December 9, 2005 appears below.

Basic Limits Loss Costs Revisions

Line of Business	<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>	
	<u>Date</u>	<u>Change</u>	<u>Date</u>	<u>Change</u>	<u>Date</u>	<u>Change</u>	<u>Date</u>	<u>Change</u>	<u>Date</u>	<u>Change</u>
Personal Auto					8/1	3.8%			4/1	1.1%
Homeowners									7/1	-18.3%
Dwelling Fire & EC										
Inland Marine-Personal	8/1	-15.1%					3/1	18.7%		
Personal Liability			1/1	8.5%						
Commercial Auto	7/1	-6.8%	7/1	-0.8%			2/1	5.2%	4/1	5.0%
Commercial Auto Zone Rated							2/1	20.3%		
GL-( Prem/Ops & Products)			11/1	1.7%			2/1	7.6%		
GL-NYC										
Apartments/Tenements							11/1	24.9%		
Commercial Fire & Allied Lines	11/1	-9.3%	11/1	-3.6%						
Commercial Package Policies	3/1	2.0%	1/1	-2.4%	1/1	3.6%				
Hospital Prof. Liability			7/1	7.8%	12/1	1.0%				
Businessowners	2/1	-26.1%	2/1	-6.4%						
Boiler & Machinery			10/1	-9.5%			12/1	7.4%		
Farm & Farm Inland Marine			9/1	-6.4%					6/1	0.3%
Inland Marine –Commercial	9/1	-9.2%			10/1	-12.3%				
Crime/Fidelity	9/1	5.3%			8/1	-5.0%			9/1	10.3%

Increased Limits Revisions

Commercial Auto			7/1	3.5%	7/1	4.2%			4/1	-3.5%
GL- Prem/Ops			1/1	-0.2%	9/1	2.4%			11/1	7.1%
GL-Products Liab.			1/1	-2.1%					11/1	0.4%
Hospital Prof. Liability			1/1	-3.3%			8/1	5.1%		
Nursing Home Prof Liability					10/1	19.5%				

b. Policy Forms, Endorsements and Program Manuals

ISO submits revisions to its insurance programs (policy forms and endorsements, manual rules and pricing considerations) as needed to reflect changes in New York statutes, regulations and Department circular letters as appropriate. ISO also makes changes to its programs in response to general developments in the marketplace, societal changes, competitive needs and general advancements in the property/casualty industry.

One such development during the examination period was related to terrorism coverage. Following the events of September 11, 2001, ISO began to re-examine exclusionary policy language in property and liability policies related to terrorism coverage. In response to the Terrorism Risk Insurance Act of 2002 (TRIA), ISO filed various forms related to losses from “certified acts of terrorism” for insurers to use on existing, new, and renewal policies. It also developed and filed loss costs for terrorism coverage for Commercial Property, General Liability, Commercial Auto and Businessowners policies.

5. METHODOLOGY OF NOTIFICATION OF APPROVAL FOR FORMS, RULES AND LOSS COSTS

ISO advises its participating insurers of the filing of forms, rules and loss costs in New York through publication of insurance circulars. Once the filing is approved by the New York State Insurance Department, ISO releases a follow-up circular advising the insurers of the approval, and the approximate date by which the material will be available through ISO's electronic and paper-based distribution systems. Manuals are typically distributed 30 to 60 days prior to the actual effective date. ISO also makes the manuals available through ISONet.

For the Commercial Fire line of business, ISO uses the Specific Commercial Property Evaluation Schedule (SCOPES) to develop specific loss costs for the basic group I cause of loss, for properties that are not subject to class rating. After a building/occupancy is surveyed the information is entered into ISO's Specific Property Information System where users can access Experience Level Adjustment (ELA) factors, and Basic Group I (BGI) and Basic Group II (BGII) loss costs.

6. ASSESSMENTS AND INCENTIVE PROGRAMS

a. Assessment Fees and Charges

ISO calculates the charges for participation by line of insurance and by the service purchased. Each charge may have as many as three parts:

- A flat fee for each service and State selected.
- A fixed rate amount based on the company's premium volume.
- Premium volume credits and statistical reporting credits.

The total charge for any service is the flat fee plus the fixed rate amount less any applicable credits. Premium volume credits reduce a company's total charges as their premium volume exceeds various thresholds. These credits are available for: Personal Auto, Dwelling Fire, Homeowners, Commercial Inland Marine, and Medical Professional Liability.

b. Incentive Assessment Program (IAP)

Late and/or erroneous data submissions of statistical data create substantial delays, and incur additional expenses in data processing. IAP was developed to reallocate some of the additional expenses generated by late and inaccurate submissions of data to those companies responsible for the additional expenses. It discourages delays and reporting of erroneous data, takes positive action to meet the needs of participating companies, and facilitates compliance with statutory and regulatory requirements. All insurers affiliated to report statistics under the Calls for Statistics (Calls) are subject to the IAP.

## 7. FINANCIAL STATEMENTS

ISO's financial records were audited annually by a firm of certified public accountants. An unqualified opinion was rendered for every year during the examination period.

## 8. DATA VERIFICATION PROCEDURES, INFORMATION SYSTEM AND FIELD REVIEW

The Department retained a consulting actuary to assist the Department in conducting an examination of ISO by performing a review of data collection and quality control procedures, and information systems. In addition, a field review of some of the companies was performed by the examiners to determine their compliance with ISO's statistical reporting plans.

a. Data Collection and Quality Control Procedures

The objectives of this review were:

- (i) Conduct an actuarial review of ISO's data reconciliation and verification process with respect to data submitted by insurers in order to evaluate ISO data collection, data handling procedures, and the quality of ISO data.
- (ii) Review the accuracy of the ISO database and whether there are adequate quality control procedures in place to assure the accuracy of the data as reported by insurers and processed by ISO.
- (iii) Review whether ISO reconciles the data reported to it with the data reported in insurers' annual statements and, if so, how this reconciliation is accomplished and what steps, if any, ISO takes when these data do not match.
- (iv) Review whether ISO has adequate procedures to assure that data used for classification and territorial relativities are complete and reliable.
- (v) Identify what procedures ISO has in place to assure the reliability of data used for calculating loss development factors and other adjustments to losses.

The findings of this review were:

ISO data collection and data handling procedures, through the arrival of the data, editing steps, departures with errors correction and resubmissions, and close-out procedures, establish datasets of suitable quality to pass to the actuarial teams for analysis.

The quality control procedures for each of the statistical plans – Commercial-Full Level (CSP), Commercial-Minimum (CMSP), Personal Lines-Other Than Auto (PLSPOTA) and Personal-Auto (PASP) – are appropriate to ensure that the data entering the actuarial analysis is sufficiently accurate.

The reconciliation process and its correction procedures provide reasonable assurance that the statistical submissions agree with insurer's reported financial data, or that the regulatory entities are appropriately notified when these do not agree.

The procedures established by ISO to assure data used for classification and territorial analyses result in reasonably accurate data entering the calculations for indicated relativities for territories and classes.

The control procedures established by ISO to assure the reliability of data used for calculating loss development factors, deductible adjustments, and other adjustments to losses result in reasonably accurate data entering those calculations.

There are many checkpoint controls used by ISO to ensure the reliability of data. Generally, data is excluded only when it is not able to be trusted as correct. Controls ensure that excluded data plus included data matches to originating datasets. Disclosures concerning excluded data are clear. Quality assurance comparisons within company, between companies and between years result in actuarial data suitable for analysis.

The procedures ISO utilizes to follow-up with insurers who have reporting errors, along with the assessment of fines, are adequate to allow for the inclusion of data from most insurers in statistical filings and ratemaking exhibits. ISO has developed a database, DQID, to assist in logging and tracking reporting errors. Most errors are identified in the initial review of data, referred to as front-end edits. Thresholds have been developed for each Statistical Plan for which an insurer may provide submissions. If the error rates are outside of these thresholds, the submission is rejected.

Back-end edits involve a visual review of the data by ISO personnel to identify anomalies and possible errors. Individuals involved in this portion of the process possess substantially more industry experience than those who work to resolve front-end edits. While the decision to investigate is judgmental based upon experience, this practice was found to be reasonable. While there are no explicit thresholds, there are well documented internal guidelines for the data check processes. These types of control procedures produce actuarial reviews of good quality with sufficiently large bodies of data.

There are some companies who, for various reasons, are unable to correct errors prior to the submission of statistical filings with the New York State Insurance Department, or who do not provide submissions at all. These companies will be excluded from statistical filings until the submission is received and/or the errors are corrected. However, per regulatory requirements, the New York State Insurance Department is notified of these companies in a memo that accompanies the statistical filings each year.

b. Information Systems

The objectives of this review were:



- (i) Review ISO's information systems operations, which may include interviews with ISO staff, in order to determine the accuracy and adequacy of management reports.
- (ii) Review and critique various program testing phases and documentation used by ISO to implement current information systems; treatment of known problems, and the adequacy of the overall systems environment and data conversions.
- (iii) Review and report on ISO's Internet based initiatives and operations.
- (iv) Identify operational problems that may involve the review of original requirements and planning documents and the testing of interfaces between various operating systems.

The findings of this review were:

Through a series of interviews with ISO's personnel, review of documentation provided, observation of controls and judgmental and statistical sampling, it is concluded that management reports are reasonably adequate and accurate.

The review of ISO's program testing procedures, phases and documentation to implement information systems, treatment of known problems, data conversions and the adequacy of the overall systems environment found that problems identified are appropriately addressed and the process to receive data from insurers and convert such data over to ISO systems is adequately controlled.

However, procedures surrounding the implementation process are not adequately documented and do not provide assurance that new implementations are authorized prior to development and appropriately tested prior to being introduced into the live environment. Additional weaknesses were found in the following significant areas: physical access, logical access and business continuity. In view of the weaknesses noted in these areas, the Department has the following recommendations:

- ISO should document user and IT management authorization to perform application changes, periodically review System Management Facility (SMF) reports or FootPrint reports to validate the integrity of the Endeavor system and continue with the procedures of attaching test plans to the Unicenter Service Desk records.
- ISO should ensure that management approval is obtained and documented prior to beginning work on a project and at critical stages of its development as required by its system development lifecycle (SDLC).

- ISO should modify the tape library configuration so that only personnel whose jobs require the right to use the tape library are granted access.
- ISO should establish a policy to standardize their password policy and parameters across all platforms and applications such that they are a minimum 7 characters, unique, tracked at least 32 generations (24 for Windows), not similar, do not contain adjacent digits, do not contain repeating characters, disabled after a maximum 5 incorrect login attempts, expire at least quarterly and cannot be changed within 2 days of a previous change, contain letters and at least one number, cannot be changed for at least 2 days unless reset by an Administrator, require complexity, where possible, and expire after a maximum of 90 days.
- ISO should enhance its termination policies and procedures to require the appropriate security officer be assigned responsibility for development and enforcement of termination policies and procedures, notify all administrators of employee transfers and terminations, remove system, application and any additional access in a timely fashion for terminated users, and delete ID's that have not been used in 90 days from the system.
- ISO should maintain authorization forms, approved by appropriate management, for access to its systems and applications, define procedures for periodic reviews of access privileges, perform the reviews at least annually, maintain documentation of the reviews to confirm that access levels are appropriate and up to date, and include in these reviews complete re-certification of every user with access to any processing platform or application.
- ISO should continue with its current project to improve the Business Continuity Plans based on business impact analyses and the plans should include: guidelines on how to use the continuity plan, emergency procedures to ensure the safety of all affected staff members, response procedures to minimize damage to the business during the incident, manual processing procedures to be used while computer systems are not available, prioritized business functions to expedite effective recovery, recovery procedures to restore the business to the state it was in prior to the incident, procedures to safeguard and reconstruct the home site, coordination procedures with public authorities, communication procedures with stakeholders, employees, key customers, critical suppliers, stockholders and management, and critical information on continuity teams, affected staff, customers, suppliers, public authorities and media. To ensure an effective continuity plan, management should assess its adequacy on a regular basis or upon major changes to the business or IT infrastructure. This requires careful preparation, documentation, reporting test results and, according to the results, implementing an action plan.

ISO utilizes the internet for email correspondence with insurance companies and for receiving submissions from these companies. It is found that initiatives with regard to the receipt of submissions are reasonably sound and that the procedures are adequately controlled. Outgoing email is not scanned for potentially damaging or inappropriate content; however this does not pose a significant risk to internet operations.

The review did not find significant operational problems involving the review of original requirements or planning documentation or the testing of interfaces between applications.

c. Field Review of Company Compliance

In order to further assess the accuracy of the data collected by ISO, a field review of three companies was performed. These companies were: Tower Insurance Company, Countrywide Insurance Company and Greater New York Mutual Insurance Company.

The following audit procedures were used during this review:

- (i) Verification of the carrier's internal data field records with the information contained in the original application, policy, endorsement and loss notice.
- (ii) Verification of the carrier's internal data records with data reported to ISO.
- (iii) Resolution of any differences in the data caused by multiple endorsements, cancellations and/or reinstatements;
- (iv) Verification of entries for each type of report (premium, paid losses, unpaid losses, etc.).
- (v) Verification of the total amount of premium, losses, and count of policy transactions reported.
- (vi) Verification of supplemental submissions and corrections by companies to their original submissions to ISO.

Random sampling technique was employed for the selection of samples. The size of each sample was restricted and based upon the premium and loss records for the general liability and personal lines of business.

Although some data entry and coding problems were noted, the companies substantially met the reporting standards established by ISO.

## 9. ISO's FUNCTION AS A CENTRAL ORGANIZATION FOR AUTOMOBILE LOSS REPORTING

In 1998, ISO was designated as a central organization in place of the National Insurance Crime Bureau (NICB) for the reporting of private passenger automobile losses, including total theft losses, and all other first or third party losses exceeding \$2,500, pursuant to Department Regulation 64, Section 216.8. The purpose of Regulation 64, Section 216.8 is to implement the provisions of section 3412 of the Insurance Law, which provides for measures to be applied by insurers and a central organization engaged in loss prevention in order to prevent payment of fraudulent claims arising under automobile physical damage policies.

## 10. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The recommendation made in the prior Report on Examination and ISO's response to each is listed below:

1. In the prior Report on Examination, it was recommended that ISO conduct random checks of data at the insurance company level (Page 37). In its response on July 22, 1996, ISO stated that the recommendation was virtually identical to the one stated in the 1981 New York Examination report and its comments made to such recommendation was still pertinent. ISO maintained its belief that cost of conducting audit by the statistical agent would be prohibitive and could not be justified when compared with the anticipated minimal benefits in data quality from such audit. In addition, ISO stated that many checks and balances were already in place.

Based on ISO's response and the result of the current field review conducted by the Department, it seems that random checks of data at the insurance company level are not necessary.

## 11. CURRENT COMMENTS AND RECOMMENDATION

The following is a summary of recommendations as set forth in pages 14-16 of the report:

- a. ISO should document user and IT management authorization to perform application changes, periodically review System Management Facility (SMF) reports and continue with the procedures of attaching test plans to the Unicenter Service Desk records.
- b. ISO should ensure that management approval is obtained and documented prior to beginning work on a project and at critical stages of its development as required by its system development lifecycle (SDLC).

- c. ISO should modify the tape library configuration so that only personnel whose jobs require the right to use the tape library are granted access.
- d. ISO should establish a policy to standardize their password policy and parameters across all platforms and applications, enhance its termination policies and procedures, maintain appropriate authorization forms for access to its systems and applications, define procedures for periodic reviews of access privileges, perform the reviews at least annually, and maintain documentation of the reviews to confirm that access levels are appropriate and up to date.
- e. ISO should continue with its current project to improve the Business Continuity Plans based on business impact analyses.

Respectfully submitted,

\_\_\_\_\_  
Kamal Mohamed  
Senior Insurance Examiner

STATE OF NEW YORK }  
                                  }     SS.  
COUNTY OF NEW YORK }

Kamal Mohamed, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_  
Kamal Mohamed

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2009

Appointment No. 22428

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Kamal Mohamed**

*as proper person to examine into the affairs of the*

**INSURANCE SERVICES OFFICE, INC.**

*and to make a report to me in writing of the condition of the said*

**Rating Service Organization**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,*

*this 27th day of October, 2005*



A handwritten signature in cursive script, appearing to read "Howard Mills".

---

HOWARD MILLS  
Superintendent of Insurance