

Report of Market Regulation Examination



Specialty Risk Services, LLC

55 Farmington Avenue
Suite 501
Hartford, CT 06105

FEIN: 20-0730592
License # TAF103388

NAIC Examination Tracking System: ME 008-M30

Examination Period:
January 1, 2008 through December 31, 2008

Pursuant to Title 24-A M.R.S.A. § 221, a Targeted Market Regulation Examination was conducted of Specialty Risk Services, LLC. I hereby accept this Report of Examination and make it an official record of the Bureau of Insurance.

Eric A. Cioppa
Superintendent of Insurance
Maine Bureau of Insurance

Date

Contents

EXECUTIVE SUMMARY 3

 Significant Findings: 4

HISTORY OF ENGAGEMENT 4

DESCRIPTION OF COMPANY 4

SCOPE OF EXAMINATION..... 5

METHODOLOGY 5

FINDINGS 5

 (1) Standard G-3 Claims are resolved in a timely manner. TEST 1:..... 5

 FINDINGS # 1:..... 6

 (2) Standard G-4 The Company responds to claim correspondence in a timely manner..... 6

 FINDINGS # 2:..... 7

 (3) Standard G-5 Claim files are adequately documented..... 7

 FINDINGS # 3:..... 7

ACKNOWLEDGMENT..... 8

October 3, 2011

The Honorable Eric A. Cioppa
Superintendent of Insurance
Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent Cioppa:

Pursuant to the certification of findings in accordance with Title 39-A M.R.S.A § 359(2) from the State of Maine Workers' Compensation Board ("WCB") and under the authority of 24-A M.R.S.A. § 221 and in conformity with your instructions, Bureau staff has made a targeted market regulation examination of:

SPECIALTY RISK SERVICES, LLC

hereinafter referred to as the "Company".

The examination period covered indemnity claims, with dates of injury occurring on or after January 1, 1993, that were open between January 1, 2008 and December 31, 2008, for employees residing in Maine or claimants involved in losses in Maine. The Bureau of Insurance examiners conducted the on-site phase of the examination at the Company's offices located at:

South River Road, Route 3
Bedford, NH 03110

The following report is by test and all tests applied during the examination are reported and respectfully submitted. The material findings and violations contained in this report are summarized below.

EXECUTIVE SUMMARY

The Maine Bureau of Insurance examined a statistical sample of all open indemnity workers' compensation claims, during the examination period, for Maine employees handled by the Company. Various noncompliant practices were identified, some of which may extend to other jurisdictions. It is suggested that the Company take corrective action to demonstrate its ability and intention to conduct business according to the Maine Workers' Compensation Act of 1992, and WCB Rules and Regulations. When applicable, corrective action for other jurisdictions should be addressed.

Significant Findings:

- The pattern of questionable claims handling techniques relating to timeliness of initial, subsequent and medical services payments no longer exists.
- The overall compliance ratios for the timeliness of form filings were at acceptable levels.
- The timely filing of Notices of Controversy “WCB-9” was not at an acceptable compliance level. The compliance level was at 67%. The WCB Benchmark level is 90%.
- Accuracy of indemnity payments were not at an acceptable level. The compliance level was 59% due to 13 overpayments and 7 underpayments.

HISTORY OF ENGAGEMENT

Pursuant to 39-A M.R.S.A. § 153(9), the WCB established the Office of Monitoring, Audit and Enforcement (“MAE”) program. The functions of the MAE program include but are not limited to audits of payment timeliness and claims-handling practices of insurers in accordance with 39-A M.R.S.A. § 359. The WCB audited selected claims of the Company with dates of injury between January 1, 2005 and December 31, 2005, in part to determine whether the Company had violated the claims-handling provision of 39-A M.R.S.A. § 359(2). The results of this audit are reported in a Compliance Audit Report dated December 12, 2007. The report’s findings relevant to Title 39-A M.R.S.A. § 359(2) include:

- Failure to file or timely file forms with the Board
- Chronic filing of incomplete/inaccurate/inconsistent information
- Failure to pay benefits timely
- Failure to pay claims accurately

The WCB determined that the pervasiveness and magnitude of the findings constituted a “pattern of questionable claims-handling techniques”. In 2007, the WCB and the Company entered into seven consent decrees, one of which established the patterns of questionable claims-handling techniques described above and assessed fines therefore.

In accordance with 39-A M.R.S.A. § 359(2), the WCB certified the WCB audit findings to the Superintendent of Insurance. Title 39-A M.R.S.A § 359(2) requires the Superintendent of Insurance to take appropriate action to bring such practices to a halt.

DESCRIPTION OF COMPANY

The Company is a wholly-owned subsidiary of The Hartford. The Company provides third-party claims administration services in property and casualty insurance lines, including workers’ compensation, in the United States. The Company’s branch location in Bedford, New Hampshire handles the Maine Worker’s Compensation Claims for clients with employees working in Maine. This branch office holds a Maine Nonresident License as a Branch Adjusting Firm, # BAN119174, and each adjuster handling claims holds a separate Maine Adjuster Nonresident License.

SCOPE OF EXAMINATION

In order to meet the responsibilities set forth in § 359(2), the Superintendent of Insurance had to determine whether or not the patterns of questionable claims-handling techniques found by the WCB still existed. Therefore, an examination was planned in accordance with the National Association of Insurance Commissioners' Market Regulation Handbook ("Handbook"). The Bureau of Insurance examiners developed compliance verification procedures based on the Handbook to measure whether the Company timely filed all required WCB forms, accurately calculated indemnity benefits, timely distributed benefit payments and did not unreasonably contest claims as required by the Workers' Compensation Act, Title 39-A M.R.S.A., and WCB Rules and Regulations issued thereunder.

METHODOLOGY

Company records indicated a population of 754 lost-time claims during the examination period. The software program ACL was used to select a random sample of 60 files from the lost-time population of claims. Of these, 49 also had medical payments and therefore were selected to test timely payments to health care providers.

FINDINGS

The following Handbook standards were the basis for developing the examination procedure. All references are to either Title 39-A M.R.S.A., WCB Rules and Regulations or WCB Protocols of the MAE program.

(1) Standard G-3

Claims are resolved in a timely manner.

TEST 1:

Verify if initial and subsequent indemnity payments were made in accordance with 39-A M.R.S.A. § 205(2) and § 205(3) penalty for nonpayment over 30 days after becoming due.

Verify that payments to health care providers are in accordance with WCB Rule 5.7(2) and 39-A M.R.S.A. § 205(4) penalty for nonpayment after notice from provider by certified mail.

	Testing	Paid Timely	Not Paid Timely	N/A	WCB Benchmark	% In Compliance
Initial Payment	Paid within 14 days of Employer notice	38	4	18	87%	91%
	Paid beyond 44 days	42	1	17	NA	98%
Subsequent	Paid weekly	31	4	25	NA	91%

Payments	within 7 days					
	Paid beyond 37 days	37	2	21	NA	95%
	Testing	Paid Timely	Not Paid Timely	N/A	WCB Benchmark	% In Compliance
Health Care Provider Payments	Paid within 30 days of receipt of bill	221	12	NA	NA	95%

FINDINGS # 1:

- The Company exceeded the WCB’s specific compliance benchmark for the initial payment.
- It was determined that the pattern of questionable claims-handling techniques relating to timeliness of initial, subsequent and medical services payments no longer exists.

(2) Standard G-4

The Company responds to claim correspondence in a timely manner.

TEST 2:

Verify the timely filing of the following forms with the WCB in accordance with 39-A M.R.S.A. § 360 (1) (A) or (B) and WCB Rules and Regulations.

Form Type	Testing	Filed Timely	Not Filed Timely	N/A	WCB Benchmarks	% In Compliance
WCB-1	within 7 days of ER notice	40	5	15	85%	89%
WCB-2	within 30 days of ER notice	42	4	14	NA	91%
WCB-2A	within 30 days of ER notice	46	0	14	NA	100 %
WCB-3	within 14 days of ER notice	37	6	17	85%	88%
WCB-9	within 14 days of ER notice	6	3	51	90%	67%
WCB-11 First	195 days from injury date	39	0	21	NA	100%
WCB-11 Annual/Final	15 days of anniversary date	11	2	47	NA	85%

FINDINGS # 2:

- The Company exceeded the WCB’s specific compliance benchmark for the timely filings of the first report of injury (“WCB-1”).
- The Company exceeded the WCB’s specific compliance benchmark for the timely filings of the memorandum of payment (“WCB-3”).
- The filing of WCB-9s, Notices of Controversy (“NOC”), is not at an acceptable compliance level.
 - An insurer must file a NOC when it intends to deny a claim. Failure to file a NOC can therefore increase claim costs. The Company should review its operating procedures to ensure timely filings of the NOC.

(3) Standard G-5

Claim files are adequately documented.

TEST 3:

Verify that payments are calculated accurately in accordance with 39-A M.R.S.A. § 212, § 213 and § 215.

	Paid Accurately	Not Paid Accurately	% In Compliance
Indemnity Paid	29	20 (A)	59%

(A) Numbers represent the number of claims rather than each specific calculation or payment. “Not Paid Accurately” represents 20 claim files where one or more payments were not made accurately. These files included 13 overpayments and 7 underpayments. The circumstances relating to the under and overpayments were widely varied and no pattern of causes was noted. There were 5 claims resulting in overpayments that occurred when the Company made the provisional payment with incomplete data in order to comply with the 14 day payment timeline. Therefore, these claims were reflected in the paid accurately category as payments made in good faith based upon incomplete data and not considered to be errors.

FINDINGS # 3:

- The Company did not calculate indemnity payments at an acceptable level of accuracy, and this pattern of questionable claims handling techniques therefore continues.

ACKNOWLEDGMENT

The courtesy, hospitality and cooperation extended by the officers and employees of the Company during the course of the Examination are gratefully acknowledged. The Examination was conducted and is respectfully submitted by the undersigned.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

Kendra L. Coates, being duly sworn according to law, deposes and says that in accordance with the authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination on the condition and affairs of the

Specialty Risk Services, LLC

of Hartford, CT for the period January 1, 2008 through December 31, 2008, and that the foregoing report of examination, subscribed to by her, is true to the best of her knowledge and belief.

The following examiners from the Bureau of Insurance assisted:

Kendra L. Godbout (Coates)
William A. Bourne
Carolee M. Bisson AIE, AIRC

Kendra L. Coates, CPA, CIE, CFE
Director of Financial Analysis

Subscribed and sworn to before me

This 4th day of, October 2011

Karma Lombard, Notary Public

My commission expires: