

MARKET CONDUCT EXAMINATION REPORT
AMERICAN ASSOCIATION OF INSURANCE SERVICES

As of

May 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner

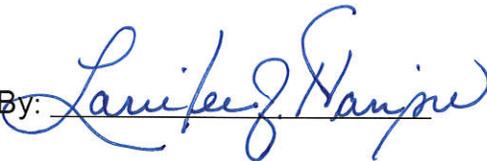


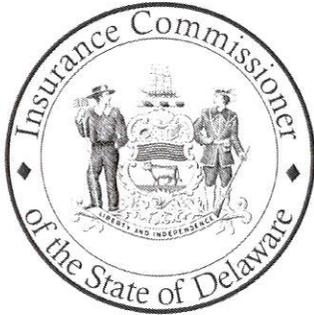
Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of May 31, 2011 on

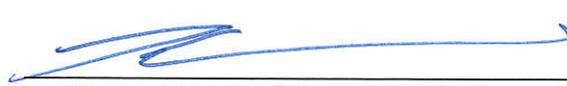
AMERICAN ASSOCIATION OF INSURANCE SERVICES

is a true and correct copy of the document filed with this Department.

Attest By: 



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

 11/29/11
Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
AMERICAN ASSOCIATION OF INSURANCE SERVICES
AS OF
May 31, 2011

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A blue ink handwritten signature, appearing to read "Karen Weldin Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

September 21, 2011

Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 11.705, and pursuant to statutory provisions including 18 *Del. C.* §318-322, a market conduct examination has been conducted of the affairs and practices of:

American Association of Insurance Services

The examination was performed as of May 31, 2010. American Association of Insurance Services, hereinafter referred to as the "Company" is incorporated under the laws of the State of Delaware. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

1745 South Naperville Street, Wharton, IL 60189-5898

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination was a market conduct examination of the following business areas: Advisory Organization and Statistical Agent Operations and Management, Statistical Plans, Data Handling, Error Handling and Correspondence with Insurers and Regulators, Report to Regulators, Rating Making and Filing, and Forms Development.

The examination reviewed the Company's activities to determine that the advisory organization is performing its' permitted and regulated functions in a manner consistent with state rating laws and in a manner that results in accurate and compliant products and services for its' subscribing or member companies.

There were no areas of concern noted during the examination.

SCOPE OF EXAMINATION

The scope of the exam was a comprehensive review of the advisory organization including a review of operations and management. Statistical plans were reviewed by looking at the procedures for collecting data and how that data is verified, how they have handled data submission errors that may have occurred, and how the data is reconciled. Correspondence with companies and regulators included a review of all reports submitted along with copies of all validation and control reports. All rate and forms filings submitted during the examination period were reviewed for their accuracy and to ensure they are not discriminatory. All areas were reviewed to ascertain their compliance with the statues and regulations of the Delaware Insurance Department.

The experience period for this examination is January 1, 2010 through May 31, 2011

HISTORY AND PROFILE

American Association of Insurance Services was originally organized as the Mutual Marine Conference in 1936. In 1947 the Mutual Marine Conference and Mutual Aircraft Conference merged to form the Transportation Insurance Rating Bureau (TIRB). In 1975 TIRB changed its name to American Association of Insurance Services (AAIS) and incorporated in 1984. AAIS is a not-for-profit organization and is licensed in all states, the District of Columbia and Puerto Rico. The Company's headquarters address is 1745 S. Naperville Rd, Wheaton, IL 60189.

The Company provides services to insurance companies in the area of forms and endorsement development, rules and rating information, and statistical data collection.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Advisory Organization found in the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Regulation Handbook* (2010 edition).

The reviews used for this type of examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Regulation Handbook*.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination, the standards were tested through a "generic" review.

Each Standard contains a brief description of the purpose or reason for the Standard. The examiners' "Observations" are noted following each Standard tested. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate corresponding Standard.

EXAMINATION FINDINGS

The following examination areas were reviewed and deemed as passing without notable exceptions:

Company Operations and Management – 2010 NAIC MRH Chapter 16

- Standard 1 – The Company has valid internal and external audit programs.
- Standard 2 – The Company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.
- Standard 4 – The Company has a valid recovery plan.
- Standard 8 – The Company is licensed as a rating bureau or association.

- Standard 9 – The Company cooperates on a timely basis with examiners performing the examination.
- Standard 12 - The regulated entity has policies and procedures to protect the privacy of confidential data.
- Standard 18 – All data required to be reported to Department is complete and accurate.

Advisory Organization Operations and Management – 2010 NAIC MRH Chapter 25

- Standard 1 – The Company has implemented written policies and procedures to prevent anti-competitive practices in the insurance marketplace, as related to the Company’s services and communications to insurers.
- Standard 2 – The Company uses sound actuarial principles for the development of prospective loss costs.
- Standard 3 – The Company prepares, submits filings as necessary, adheres to applicable state filing and approval requirements and written procedures prior to distribution of prospective loss costs, policy forms, endorsements, factors, classifications or rating rule manuals.
- Standard 8 – The Company 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.

Statistical Plans – 2010 NAIC MRH Chapter 25

- Standard 1 – The Company has filed its statistical plan in accordance with applicable statutes, rules and regulations.
- Standard 2 – The statistical plans are reviewed and updated in accordance with applicable statutes, rules and regulations.
- Standard 3 – The Company verifies that companies submit data in accordance with the appropriate statistical plan.

Data Collection – 2010 NAIC MRH Chapter 25

- Standard 1 – The Company’s series of edits are sufficient to catch material errors in data submitted by a company.
- Standard 2 – All data that is collected pursuant to the statistical plan is run through the editing process.
- Standard 3 – Determine that all databases were updated as needed with all accepted company data.

Correspondence with Insurers & States – 2010 MAIC MRH Chapter 25

- Standard 1 – The Company keeps track of companies that fail to meet deadlines.
- Standard 2 – The Company has established procedures for notifying companies (and regulators, as requested or required) of material errors and for correcting those errors.
- Standard 3 – The Company maintains a follow-up procedure with companies that have reporting errors.
- Standard 5 – With each standard premium and loss report, the Company provides a listing of companies whose data is included in the compilations and a report listing insurers whose data for the state is excluded.

Reports, Report Systems and Other Data Requests – 2010 NAIC MRH Chapter 25

- Standard 1 – All calculations used to develop the database have been performed accurately.
- Standard 2 – The Company has accurately extracted the appropriate information from the statistical database.
- 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.

Ratemaking Functions – 2010 NAIC MRH Chapter 25

- Standard 1 – Company submits filing and/or submissions to the state within the established time frame.

Forms Development – 2010 NAIC MRH Chapter 25

- Standard 1 – The Company 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, rules and loss costs.
- Standard 2 – The Company 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.

CONCLUSION

There were no exceptions noted during the course of this examination. The examination was conducted by Cyndy Campbell and Jim Myers and supervised by Dudley Ewen and is respectfully submitted,

A handwritten signature in black ink that reads "Cyndy Campbell". The signature is written in a cursive style with a horizontal line underneath the name.

Cyndy Campbell, CIE, MCM, ACS, AIRC,
AIAA, API, AU, AIS, ACP, CCP, AINS
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware