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## RECORDS OF MEETING

### ACTUARIAL COMMITTEE – SEPTEMBER 11, 2018

#### Members Present

Ms. Lynellen Ramirez – Chair	Arbella Insurance Group
Mr. Geoffrey Arnold	Plymouth Rock Assurance Corporation
Ms. Sarah Clemens	MAPFRE U.S.A. Corporation
Mr. Hall Crowder	Allstate Insurance Company
Mr. Glenn Hiltbold	Safety Insurance Company
Mr. Greg Karabinos	The Norfolk & Dedham Group
Mr. Todd Lehmann	Quincy Mutual Group
Mr. Sean Thompson <sup>(1)</sup>	The Hanover Insurance Company
Ms. Meredith Woodcock	Liberty Mutual Group

Substituted for:

<sup>(1)</sup> Mr. Adam Kreuser

Not in Attendance:

Mr. Christopher Dupill

EM Freedman Insurance Agency, Inc.

#### 18.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Actuarial Committee meeting of June 13, 2018. The Records have been distributed and are on file.

#### 18.04 Quota Share Credits for Policies Effective April 1, 2019 and Later

At the last meeting, the Committee requested exhibits to study alternative approaches to allow for gradual changes to credit factors to minimize market impact while allowing a transition toward indicated credit need.

Staff reviewed exhibits to facilitate discussion, including the current methodology codified in Rule 29, a model that indexed the Market Share Group Ranges by year, with varying minimum thresholds for credit eligibility, a model that modifies the current methodology to keep 80% of a credit factor if that class/territory cell is formulaically indicated to be eliminated, and a similar model that also caps new credit factors at 20% of their indicated value.

Mr. Hall Crowder, representing Allstate Insurance Company, reviewed a proposal that uses the current Rule 29 methodology, altered to transition decreases to credit factors in cells indicated for elimination over a 4 or 5 year period. Mr. Crowder's detailed exhibits displayed results using the four year time-frame. The proposal resulted in a .3% increase to credit eligible exposures, and a 15.3% decrease to potential credit premium for the first year of transition. Mr. Crowder noted the importance of the four or five year window for appropriate and transparent notification to both companies and agencies of the specified class/territory cells indicated for elimination. Because the proposal is based off of the current Rule 29 methodology, credit factors scheduled for eventual elimination would increase back to 1.00 if the formulaic indications result in a credit increase.

Mr. Geoff Arnold, representing Plymouth Rock Assurance Company, reviewed a proposal that included relative range proportionality incorporating fractional credit factor movement for increases and decreases. Mr. Arnold's proposal offers credit for residual market rates beginning at 1.195 times the statewide average. For the first year, this proposal results in a 72.7% increase to credit eligible exposures, and an 8.7% increase to potential credit premium for the first year.

General discussion by the Committee followed the presentations.

In regards to the Allstate proposal, Ms. Sarah Clemens noted her concern that the current Rule 29 methodology already has a built in tempering factor using residual market share over a three year period with self-correcting constraints as part of the mechanical formula. However, Ms. Clemens felt that the 5.0% residual market share threshold for obtaining a credit may be too restrictive, given the current residual market size of approximately 1.3%. Mr. Lehmann agreed, and added that he favored fractional or indexed credits.

Similarly, Mr. Sean Thompson expressed concern that the 5.0% threshold for credits in the Allstate proposal is too high. Mr. Thompson mentioned the territories of concern noted by the Division of Insurance (DOI), which would also potentially lose credit under this proposal.

Ms. Meredith Woodcock noted that the credits are an important part of keeping the residual market size small, and is concerned that credits could still be eliminated, albeit over a number of years. Ms. Woodcock would not favor any proposal that includes large decreases to credits, and proposed freezing the credit factors at current levels.

Ms. Lynellen Ramirez favored the Allstate proposal, suggesting that the multi-year gradual transition in cells indicated to eliminate credit eligibility would satisfy those that feel there are too many credits in the system, while allowing for the opportunity to test the assumptions that the residual market size will not grow materially given the viable competitive market that exists today. Though there would be a reduction to credit factors and therefore MAIP credit premium, there is no immediate elimination of MAIP credit eligible exposures. The DOI territories of concern would still receive significant credit.

Mr. Glenn Hiltbold was not in favor of any proposal that adds credit premium, given the low residual market size. Mr. Hiltbold favored the indexed method.

Mr. Greg Karabinos opined that the only method he would vote for was the indexed method. He felt credits should be reduced and he was not in favor of tempering that reduction.

After additional discussion, a motion to recommend the Allstate proposal based on a 4 year transition to eliminate a credit that is formulaically indicated to go to zero failed with 3 members in favor and 5 opposed.

After continued discussion, a majority of members were still interested in the idea of a gradual transition in cells indicated to eliminate credit eligibility with some members favoring the indexed approach. Others noted that the indexed method would not likely be supported by the Governing Committee in light of concerns raised in 2017. Some members favored the Allstate approach because it allows credits to be unwound gradually to reflect current market conditions.

After additional discussion, a motion was made to recommend the Allstate proposal using the 5 year transition to eliminate a credit that is formulaically indicated to go to zero. However, Mr. Thompson expressed concern that because the Allstate model uses the corrective formula in the current methodology, it would not restore credit fast enough if the residual market size increases in a cell that is scheduled for eventual credit elimination. To address this concern, the Committee discussed quarterly monitoring of the results to enable appropriate action in the event of any residual market share swings related to elimination of credits, including the urban territories of concern noted by the DOI.

A new motion to recommend the Allstate proposal using the 5 year transition to eliminate a credit that is formulaically indicated to go to zero, with a quarterly review of results to be performed by the Actuarial Committee. This motion passed with 5 members in favor and 3 opposed.

The Committee agreed to meet again on November 1, 2018 to review and approve related Rule language, and directed Staff to update the recommended proposal using data through August, 2018, as done with prior year's credit recommendations.

## **AC**

### **18.05 Potential Impact of Registry System Changes on Quota Share Credits**

Ms. Wendy Browne provided the Committee with the status of data quality issues related to the migration to the ATLAS system by the Registry of Motor Vehicles (RMV), which occurred in late March, 2018. Ms. Browne reminded the Committee that because of the data issues, the February, 2018 Rule 29 Credit Edit error rates in place before the problems were held constant for all companies and applied to reported credit premium since the March, 2018 Quota Share report.

Since the last update, the RMV had solicited feedback from insurance companies and implemented changes to its systems. The companies have also been updating their systems to correspond with the Registry changes.

Ms. Browne noted that CAR has been reviewing the correction efforts on a company by company basis, as companies have been impacted in different ways depending on their usage of Registry data. Many companies have resolved their issues, and CAR expects better data to be reported in the July, 2018 accounting shipment, including correction activity going back to past data shipments. CAR will continue to review the data, and move away from the universal Rule 29 Credit Edit adjustment, while continuing to adjust individual companies where necessary.

Staff will continue to monitor any corrective action and report on the status of its review at the November Actuarial Committee meeting.

TIMOTHY GALLIGAN  
Actuarial/Statistical Services Director

Boston, Massachusetts  
September 17, 2018

**ATTACHMENT LISTING**

Docket #AC18.02, Exhibit #2

Attendance Listing

ACTUARIAL COMMITTEE MEETING  
 SIGN-IN SHEET  
 September 11, 2018

Individual's Name	Company / Agency
Tim Galligan	CAR Staff
Lynellen Ramirez	Arbella
Melissa Hubley	CAR
Wendy Browne	CAR
Glenn Herpod	Safety Insurance
Geoffrey Arnold	Plymouth Rock
Meredith Woodcock	Liberty Mutual
HILL PROWDA	ALLSTATE
Todd Lehmann	Quincy Mutual
Sarah Clemens	NAPLES
Sean Thompson	Hanover
Greg Kurobes	ND
Shirley Chiu	CAR
Marian Adgate	CAR