



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110
www.commauto.com 617-338-4000

ADDITIONAL INFORMATION

TO MEMBERS OF THE AD HOC REDISTRIBUTION COMMITTEE

FOR THE MEETING OF:

THURSDAY, MARCH 18, 2021 AT 10:00 A.M.

AHRC

21.04 Commercial Program Evaluation – 2021 Request for Proposal

The Committee will continue its discussions relative to measures that could be taken to minimize the frequency of and the negative impacts of book of business redistributions. The Committee should be prepared to finalize a recommendation for the Commercial Program Oversight Committee.

To assist the Committee in its deliberations, attached is a discussion outline listing options to minimize the frequency of redistributions and describing potential guidelines to evaluate ceded book of business imbalances. Also included is an exhibit which illustrates the extent to which Servicing Carrier expense allowances are impacted as the book of business distribution varies. (Docket #AHRC21.04, Exhibit #2)

JOHN METCALFE
Director – Residual Market Services

Attachment

Boston, Massachusetts
March 8, 2021

Ad Hoc Redistribution Committee

Guidelines to Evaluate Ceded Book of Business Imbalances Redistributions

The Ad Hoc Redistribution Committee has discussed alternatives to minimize the number of redistributions in an appointment term. Options noted were:

- Limit the number of Servicing Carriers to 1 or 2
- Threshold for the Existing Expense Allowance Procedure
- Equitable Distribution of Expense Allowances

The attached exhibit illustrates how the allowances allocated to Servicing Carriers are impacted by the distribution of ceded books of business under a percent of premium allocation model. Another approach discussed has been an equal distribution of allowances to Servicing Carriers. A threshold approach may then be considered to evaluate the distribution of ceded premium and the requests for a redistribution to maintain equity among Servicing Carriers. Considerations may include:

Threshold for Existing Expense Allowance Procedure

1. Quarterly review of ceded commercial written premium distribution (Rule 13, C, 2)
2. Preference to limit redistributions to one per appointment term
3. Standard to consider inequitable distribution
 - a. \pm X% premium
 - b. Threshold to be determine with each RFP
 - c. One SC with \pm X% of their ought to have premium volume
4. Servicing Carrier redistribution requests
 - a. Threshold has been exceeded
 - b. Demonstrate hardship resulting from inequity
 - c. Demonstrate positive performance warranting rebalancing
5. Committee evaluation of request
 - a. Cause of imbalance
 - b. Scope of required redistribution
 - c. other

Equitable Distribution of Expense Allowances

1. Quarterly review of ceded commercial written premium distribution (Rule 13, C, 2)
2. Preference to limit redistributions to one per appointment term
3. Expense allowance allocation - Equal distribution of allowances among Servicing Carriers
Example: \$5.5M per Servicing Carrier
(approximately 12.5% ULAE and general expense allowance on a \$177M total ceded book)
 - a. Allowance distribution independent of premium
 - b. Allowance TBD each year based on total premium volume for most recent year
4. Standard to consider inequitable distribution
5. Servicing Carrier redistribution requests
 - a. Threshold has been exceeded
 - b. Demonstrate hardship resulting from inequity
 - c. Demonstrate positive performance warranting rebalancing
6. Committee evaluation of request
 - d. Cause of imbalance
 - e. Scope of required redistribution
 - f. other

CAR Ad Hoc Redistribution Committee
Threshold Alternatives for Evaluation of Distribution Equity
Four Servicing Carriers (Ought To Have = 25% of Total Premium)

	PY 2020 Current Premium	Varying Residual Market Size (Written Premium)					
Total Residual Market Premium	177,000,000	75,000,000	125,000,000	175,000,000	225,000,000	275,000,000	325,000,000
Premium Per Servicing Carrier	44,250,000	18,750,000	31,250,000	43,750,000	56,250,000	68,750,000	81,250,000
<u>Variance From Ought To Have Share (25%)</u>		<u>Premium Difference from Ought to Have</u>					
±1.0%	1,770,000	750,000	1,250,000	1,750,000	2,250,000	2,750,000	3,250,000
±2.0%	3,540,000	1,500,000	2,500,000	3,500,000	4,500,000	5,500,000	6,500,000
±3.0%	5,310,000	2,250,000	3,750,000	5,250,000	6,750,000	8,250,000	9,750,000
±4.0%	7,080,000	3,000,000	5,000,000	7,000,000	9,000,000	11,000,000	13,000,000
±5.0%	8,850,000	3,750,000	6,250,000	8,750,000	11,250,000	13,750,000	16,250,000
±6.0%	10,620,000	4,500,000	7,500,000	10,500,000	13,500,000	16,500,000	19,500,000
±7.0%	12,390,000	5,250,000	8,750,000	12,250,000	15,750,000	19,250,000	22,750,000
±8.0%	14,160,000	6,000,000	10,000,000	14,000,000	18,000,000	22,000,000	26,000,000
 ULAE/Company Expense Allowance Per Company (11%)	 4,867,500	 2,062,500	 3,437,500	 4,812,500	 6,187,500	 7,562,500	 8,937,500
<u>Percent Difference Ought To Have Share (25%)</u>		<u>Expense Reimbursement Difference from Ought to Have</u>					
4.0%	194,700	82,500	137,500	192,500	247,500	302,500	357,500
8.0%	389,400	165,000	275,000	385,000	495,000	605,000	715,000
12.0%	584,100	247,500	412,500	577,500	742,500	907,500	1,072,500
16.0%	778,800	330,000	550,000	770,000	990,000	1,210,000	1,430,000
20.0%	973,500	412,500	687,500	962,500	1,237,500	1,512,500	1,787,500
24.0%	1,168,200	495,000	825,000	1,155,000	1,485,000	1,815,000	2,145,000
28.0%	1,362,900	577,500	962,500	1,347,500	1,732,500	2,117,500	2,502,500
32.0%	1,557,600	660,000	1,100,000	1,540,000	1,980,000	2,420,000	2,860,000

This ULAE/Company Expense Per Company assumes a percentage of premium of 11%.

CAR Ad Hoc Redistribution Committee
Threshold Alternatives for Evaluating Distribution Equity
Examples Using 5.0% Variance Threshold, Residual Market Size of \$177.0 Million WP

Example 1: One Carrier Exceeds +5.0% Threshold, Three Others Below Ought to Have But Not Exceeding Tolerance

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over /(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 53,500,000	30.2%	\$ 9,250,000	5.2%	YES	\$ 1,017,500	20.9%
Servicing Carrier B	42,500,000	24.0%	(1,750,000)	-1.0%	NO	(192,500)	-4.0%
Servicing Carrier C	42,500,000	24.0%	(1,750,000)	-1.0%	NO	(192,500)	-4.0%
Servicing Carrier D	38,500,000	21.8%	(5,750,000)	-3.2%	NO	(632,500)	-13.0%
Total	\$ 177,000,000	100.0%					

Span of Premium: 8.5% (Difference from High to Low Premium)
Span of Expenses: \$1,650,000 (Difference from High to Low Expenses)

Example 2: One Carrier Exceeds -5.0% Threshold, Three Others Above Ought to Have But Not Exceeding Tolerance

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over /(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 35,100,000	19.8%	\$ (9,150,000)	-5.2%	YES	\$ (1,006,500)	-20.7%
Servicing Carrier B	47,300,000	26.7%	3,050,000	1.7%	NO	335,500	6.9%
Servicing Carrier C	47,300,000	26.7%	3,050,000	1.7%	NO	335,500	6.9%
Servicing Carrier D	47,300,000	26.7%	3,050,000	1.7%	NO	335,500	6.9%
Total	\$ 177,000,000	100.0%					

Span of Premium: 6.9% (Difference from High to Low Premium)
Span of Expenses: \$1,342,000 (Difference from High to Low Expenses)

Example 3: No Carrier Exceeds +/- 5.0% Threshold

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over /(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 51,400,000	29.0%	\$ 7,150,000	4.0%	NO	\$ 786,500	16.2%
Servicing Carrier B	40,675,000	23.0%	(3,575,000)	-2.0%	NO	(393,250)	-8.1%
Servicing Carrier C	40,675,000	23.0%	(3,575,000)	-2.0%	NO	(393,250)	-8.1%
Servicing Carrier D	44,250,000	25.0%	0	0.0%	NO	0	0.0%
Total	\$ 177,000,000	100.0%					

Span of Premium: 6.1% (Difference from High to Low Premium)
Span of Expenses: \$786,500 (Difference from High to Low Expenses)