COMMONWEALTH AUTOMOBILE REINSURERS
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NATALIE A. HUBLEY
PRESIDENT

RECORDS OF MEETING

AD HOC REDISTRIBUTION COMMITTEE – MARCH 18, 2021

Members Present

Mr. John Olivieri, Jr. – Chair	J.K. Olivieri Insurance Agency, Inc.
Mr. John Kelly	MAPFRE U.S.A. Corporation
Ms. Mary McConnell	Safety Insurance Company
Mr. Thomas Skelly, Jr.	Deland, Gibson Insurance Associates, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company
Mr. David Zawilinski	Arbella Insurance Group

Substituted for:
N/A

Not in Attendance:
N/A

20.01 Records of Previous Meeting

On a roll call vote, the Committee unanimously voted to approve the Records of the Ad Hoc Redistribution Committee meeting of February 24, 2021. The Records have been distributed and are on file.

21.04 Commercial Program Evaluation – 2021 Request for Proposal

At the last meeting, the Committee discussed measures that could be taken to either minimize the number of book of business redistributions performed or to minimize the negative impacts of redistribution. Of the potential alternatives discussed, the Committee agreed that the development of a threshold approach, including consideration of the development of a definition of inequity for determining whether a redistribution is appropriate, should be further pursued. The Committee requested staff to prepare a model demonstrating how a threshold approach would work.

Ms. Natalie Hubley stated that attached to the Additional Information for today's meeting, was an outline to facilitate continued discussion on potential approaches for mitigating the need for redistributions. The model included with the outline illustrates the impact to a Servicing Carrier's expense allowance under different levels of imbalance in books of business and under different sizes of the residual market.

Ms. Hubley indicated that under the threshold approach, a quarterly review of the commercial ceded book would be performed. Adoption of this approach would also require the Committee to determine whether a standard should be developed to identify a definition of inequity. For example, the Committee may establish as equitable, a threshold that is plus or minus a certain percentage from the 25% ought to have share for each of the four Servicing Carriers. When a Servicing Carrier either exceeds its ought to have share or is undersubscribed and falls below that share, the Servicing Carrier could request consideration of a redistribution, providing information to the Committee relative to the cause of the imbalance. The Committee could consider the scope of a required redistribution and any other relevant topics to determine whether or when to perform a redistribution. She further stated that under this approach, the Committee had noted its preference for limiting distributions to one per appointment term where possible.

Ms. Hubley also identified an alternative expense allowance allocation method that merits further discussion by the Committee. This approach would provide for the equal allocation of expense allowance dollars for each Servicing Carrier, either for each appointment term or for each year of the appointment contract. For discussion purposes, she referenced the example provided in the outline exhibit. The example identified that each Servicing Carrier would receive $5.5 million to service its share of the residual market book of business, regardless of the premium volume being managed by each Servicing Carrier. This example uses approximately 12.5% of the current ceded premium, but the percentage would be determined through the Servicing Carrier bid process, with the dollar amount established annually based upon the size of the residual market.

Ms. Hubley stated that the Program would continue to require an equitable distribution of ceded written premium, ensuring an equivalent result, but changing the circumstances under which a carrier would be disadvantaged by a shift in the distribution of the books of business. That is, under the current procedure, the carriers that are typically requesting a redistribution are those that are on the low side of their ought to have share. Under this concept, the carriers most disadvantaged are those that are managing more than their fair share and believe that they are not being appropriately compensated. Although either of these approaches will not eliminate the need for redistribution, they may minimize the need, while encouraging Servicing Carriers to depopulate.

Ms. Hubley remarked that one advantage of a fixed amount model is that Servicing Carriers would be able to plan for and anticipate what their revenues will be. She noted that other advantages to the flat expense model are also evident in several real-life scenarios that have occurred over the life of the program. During this recent term, one Servicing Carrier petitioned for redistribution due to having a difficult producer whose book consisted predominately of risks not eligible for the commercial residual market. When the Servicing Carrier non-renewed the majority of that book, the carrier was left undersubscribed, while not compensated for resources expended to manage that book of business. If the flat dollar methodology had been in place at the time, it is possible that the Servicing Carrier may have had a higher tolerance for that inequity which may have mitigated the Servicing Carrier's request for reimbursement of extraordinary expenses. Ms. Hubley noted similar circumstances surrounding the second request for reimbursement during this appointment term. Finally, she suggested that as Servicing Carriers depopulate the residual market by retaining business voluntarily, they may also have a higher tolerance before requesting a redistribution.

Mr. John Kelly expressed concern with implementing any approach that would involve procedural changes, as this may delay the issuance of the RFP. He requested further clarification of the agent issues relative to redistribution.

Mr. Barry Tagen opined that past redistributions have gone smoothly, with a minimum of agents being moved. Pilgrim is not aware of any recent complaints or comments from the agents relative to Servicing Carrier inconsistencies, which suggests that the procedures and standards established by CAR's committees has paid off. However, if further issues or inconsistencies are identified, these should be addressed at CAR.

Mr. John Olivieri indicated that upon reassignment to a new Servicing Carrier, the new carrier will often re-underwrite a risk that had previously been repeatedly renewed, often resulting in higher premium charges or nonrenewal. He also noted that redistributions often involve the smaller agencies that are least equipped to handle a move, and at a significant cost and disruption to those agencies.

Mr. Nick Fyntrilakis, representing MAIA, agreed and noted that agent concerns with the redistribution process often involve risks representing complex markets with federal filing requirements. He provided an example where a new Servicing Carrier that re-wrote the risk required different documentation than the former carrier, causing difficulty to both the agent and the insured. He noted that Committee efforts over the past few years to create consistency among Servicing Carriers have been positive, with consistency continuing to improve going forward, but nuances in underwriting processes and documentation requirements still exist among carriers, creating a variety of hoops that both agents and their risks are often required to go through to renew the business. He stated that he is not against redistributions, but that the number of redistributions performed should be limited in order to mitigate the disruptive impact to producers and their insureds.

Committee members agreed that meaningful work has been done by CAR's various committees over the past few years, including implementing standards and filing rates. It is anticipated that this will lead to improved residual market results and fewer redistribution requests going forward. It was noted that some agents tend to write the more challenging types of business, such as trucking risks, and it may be difficult for a carrier, not familiar with that risk, to properly underwrite it. Therefore, going forward, CAR's committees should continue to address consistency among Servicing Carriers.

Mr. Kelly further suggested that the Committee may want to determine whether the impact of reassigning an agency that has a large, concentrated type of business in a specific class should be addressed and whether the assignment process for those agencies handling specialty classes should be managed differently during a redistribution.

The Committee agreed that a threshold approach could be used to consider a redistribution and that the objective should be to limit redistributions to one per assignment term, with a provision that allows a Servicing Carrier to request consideration of a further redistribution if the carrier is able to demonstrate that the inequity in its book of business causes significant burden or hardship. Finally, a process should be established to address agent concerns identified following a redistribution that includes referral of additional opportunities to address procedural inconsistencies among Servicing Carriers to the appropriate CAR committee.

Based upon the Committee's discussions, staff was directed to develop a statement of the Committee's objectives outlining parameters for addressing redistributions while minimizing their disruptive impacts and providing producers with a means by which their concerns may be addressed. It is anticipated that the Committee's statement of intent will be provided to the Commercial Program Oversight Committee for adoption and for recommendation to the Governing Committee at its April 21, 2021 meeting.

MARIAN ADGATE
Corporate Documentation Specialist

Boston, Massachusetts
April 2, 2021

ATTACHMENT LISTING

Docket #AHRC21.02, Exhibit #2	Attendance Listing

AD HOC REDISTRIBUTION COMMITTEE MEETING
MEETING ATTENDEES
MARCH 18, 2021

Individual's Name	Company / Agency
PLEASE PRINT	
John Olivieri, Jr.	J.K. Olivieri Insurance Agency Inc.
John Kelly	MAPFRE U.S.A. Corporation
Mary McConnell	Safety Insurance Company
Thomas Skelly, Jr.	Deland, Gibson Insurance Associates, Inc.
Barry Tagen	Pilgrim Insurance Company
David Zawilinski	Arbella Insurance Group
Roberta Fitzpatrick	Arbella Insurance Group
William Hughes	Arbella Insurance Group
Mary Ellen Thompson	Division of Insurance
Nick Fyntrilakis	MAIA
Peter Barton	Safety Insurance Company
Marian Adgate	CAR Staff
Wendy Browne	CAR Staff
Tim Costain	CAR Staff
Richard Dalton	CAR Staff
Timothy Galligan	CAR Staff
Natalie Hubley	CAR Staff
Cheryl Kopas	CAR Staff
John Metcalfe	CAR Staff
Katy Proctor	CAR Staff
Lynne Rosenburg	CAR Staff
Robin Tigges	CAR Staff
Ben Hincks	TSH & D – CAR Counsel
Steve Torres	TSH & D – CAR Counsel