



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

NOTICE OF MEETING

COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

A meeting of the Commercial Program Oversight Committee will be held at the Automobile Insurers Bureau Conference Center at 101 Arch Street, 7th Floor, Boston, on

TUESDAY, AUGUST 7, 2018 AT 10:30 A.M.

MEMBERS OF THE COMMITTEE

Mr. William Cahill, Jr. – Chair
The Hanover Insurance Company

Mr. Charles Boynton, III
Mr. Peter Chung
Mr. Thomas Harris
Mr. John Olivieri, Jr.

Boynton Insurance Agency, Inc.
The Norfolk & Dedham Group
Quincy Mutual Group
J.K. Olivieri Insurance Agency, Inc.

AGENDA

CPOC

18.03 CAR Conflict of Interest Policy

The Chair will read a statement relative to CAR's Conflict of Interest Policy.

CPOC

18.04 Commercial Program Oversight

The Commercial Program Oversight Committee is responsible for oversight of the Commercial Servicing Carrier Programs. The Committee will recommend program requirements to be included in a request for proposal, serve as the selection committee to recommend Servicing Carrier appointments, and review Servicing Carrier annual reports and CAR audit results to recommend potential enhancements to program standards. In addition, the committee will review Servicing Carrier requests for extraordinary expenses, and any other issues that may arise concerning oversight of the programs.

The Committee should be prepared to discuss program expectations, the development of evaluation and oversight parameters, and the program's review process at this meeting. Attached is an exhibit that provides background relative to the requirement that Servicing Carrier's provide CAR with annual reports

that detail their efforts, strategies, successes and challenges to depopulate the commercial auto residual market. (Docket #CPOC18.04, Exhibit #1)

Additional information to assist the Committee in its deliberations, including data reports detailing initial expense projections and current commercial automobile residual market information, will be distributed as additional information prior to the meeting.

Other Business

To transact any other business that may properly come before this Committee.

Executive Session

The Commercial Program Oversight Committee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

JOHN METCALFE
Director – Residual Market Services

Attachment

Boston, Massachusetts
July 26, 2018

Commercial Automobile Program Oversight Committee
Background Information for Initial Committee Discussion
August 7, 2018 – 10:30am

Servicing Carrier Annual Report Requirement

<u>Source</u>	<u>Discussion</u>	<u>Documentation</u>
1/27/16 Commercial Auto Selection Committee	Added Requirement for a Servicing Carrier Annual Report to the RFP for 1/1/17 Appointments	Records of Meeting (2 Pages) January 27, 2016
Request for Proposal (2016 for 1/1/17 Eff. Dt.)		Excerpt from RFP CAR Bulletin #1014 Section 2, Pages 8-10 of 30 (CAR Bulletin #1015 – Taxi RFP)
2/8/18 and 3/15/18 Commercial Auto Committee	Confirmation of SC expectations and schedule added. Schedule was distributed with the Notice of Meeting For the February 8, 2018, discussion was tabled to the March 15, 2018 meeting	Notice of Meeting February 8, 2018 – CAC 18.08 (Attachment) Records of Meeting March 15, 2018 – CAC 18.08



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

225 Franklin Street Boston, Massachusetts 02110

www.commauto.com

617-338-4000

RECORDS OF MEETING

COMMERCIAL SERVICING CARRIER SELECTION COMMITTEE – JANUARY 27, 2016

Members Present

Mr. Thomas C. DePaulo – Chair
Mr. William J. Cahill
Mr. Sean Moone⁽¹⁾
Mr. M. John Olivieri, Jr.
Mr. John P. Tierney

Meridian Insurance Agency, LLC
The Hanover Insurance Company
The Norfolk & Dedham Group
J.K. Olivieri Insurance Agency, Inc.
Quincy Mutual Group

Substituted for:

⁽¹⁾Mr. Michael L. Faron

Not in Attendance:

N/A

10.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Commercial Servicing Selection Committee meeting of October 19, 2010. The Records have been distributed and are on file with CAR's Secretary.

16.03 Request for Proposals – Commercial Servicing Carrier and Taxi/Limousine Program

The Committee discussed the Request for Proposal (RFP) process for the Commercial Servicing Carrier and Taxi/Limousine Programs, including the Committee's responsibilities relative to recommending an appropriate number of Servicing Carriers for each of the Programs and the method by which expense allowances paid to Servicing Carriers for servicing ceded business should be developed. Also discussed was the projected implementation schedule, the content of the RFPs and development of a final recommendation to the Governing Committee.

Mr. John Metcalfe walked the Committee through the Commercial Servicing Carrier RFP, identifying those areas of the RFP that have been updated. He pointed out that that the Taxi/Limousine RFP is similar in format to the Commercial Servicing Carrier RFP. He further noted that the RFPs were approved by the Commercial Automobile Committee in the mid-2000s and have been used as a template in the 2006 and 2011 Servicing Carrier selection process. The evaluation factors used have also remained consistent.

To determine the number of Servicing Carriers appropriate for each of the Programs, Mr. John Tierney questioned whether it would be helpful to ask the prospective bidders to comment on whether there is a maximum or minimum ceded premium level that is necessary for their participation in the Program. The Committee agreed that the request for this information be added to the RFP. However, it was the consensus of the Committee that specifying the number of Servicing Carriers in the RFP document might restrict the Committee's ability to exercise judgment during the selection process based upon the number of proposers and their qualifications. Rather, the Committee agreed that its report to the Governing Committee would include the Committee's preference for four Servicing Carriers, but that the final recommendation would be made during the selection process.

To assist the Committee in its deliberations relative to the development of expense allowances to be paid to Servicing Carriers for servicing ceded business, Ms. Natalie Hubley provided the Committee with information on how expense allowances have been historically developed. Since the Program has been in place, two different approaches have been taken. For 2006, the prospective Servicing Carriers were requested to bid the program price and provide detailed information with respect to anticipated expenses for the Program. Those bids were compared to expense information available through the ratemaking process, allowing the Committee to negotiate a final price. For 2011, using expense information available in the rate filings, Staff included a proposed price with the RFP and Servicing Carriers were requested to comment on whether the price was sufficient and if not, how their services would be impacted. Ms. Hubley advised that both approaches had similar results with respect to initial expense ratios, but also noted that in 2011 the number of Servicing Carriers was being reduced from six to four, so the selection process was fairly competitive.

After discussion, the Committee agreed to solicit price quotations from prospective bidders. Accordingly, the Committee unanimously voted to recommend that Section 5 – Program Price of the RFP be amended to reflect that Servicing Carriers must include an expense analysis and develop a detailed cost proposal for servicing ceded business. The RFP will require Servicing Carriers to provide expense information and a bid rate for policy years 2017 through 2021. Further, to assist the Committee in its efforts to evaluate the appropriate number of Servicing Carriers, the proposals should include an indication of how expenses would be impacted as the number of carriers varies.

The Committee then observed the increasing size of the residual market during recent years and questioned whether CAR should consider alternatives to reverse this trend. To that end, Mr. Tierney suggested including a requirement in the RFP to have proposers describe their intended methods for depopulating the residual market. Additionally, the RFP should note that Servicing Carriers will be required to submit an annual report to CAR describing the effectiveness of their depopulation efforts. The Committee unanimously voted to recommend that these requirements be incorporated into Section 2 – Program and Performance Requirements and Section 7 – Proposal Information of the RFP.

MARIAN ADGATE
Corporate Documentation Specialist

Boston, Massachusetts
February 11, 2016

Section 2 – Program and Performance Requirements

2.1 Administrative and Account Management Services

The Servicing Carrier(s) will be expected to:

- Assign a management level account executive with knowledge of the Program responsible for responding to CAR inquiries and the requirements set forth herein and, upon reasonable notice, be available to meet with CAR staff and committee representatives.
- For commercial automobile residual market business with policy effective dates beginning on or after January 1, 2017, each approved Servicing Carrier shall utilize an installment payment plan that has been filed with and approved by the Commissioner of Insurance. The plan shall include the application of an installment finance charge plan based on an annual percentage rate (APR), and no more than a 30% first or deposit payment on or before the policy effective date. The plan shall also include that no fewer than seven monthly payments thereafter must be offered to the insured that chooses to pay in installments. The Servicing Carrier will cooperate with its producers assigned through the program to assure that policyholders are made aware of their option to utilize an installment plan.

2.2 Underwriting and Technical Services

Subject to general direction of CAR, the Servicing Carrier(s) shall:

- Comply with the provisions of the Rules of Operation and CAR's Manual of Administrative Procedures
- Perform pre-audits in order to prevent premium leakage on:
 - ✓ All risks written on a gross receipts, mileage or composite rated basis and on any trucking risk with a cost of hire exposure and five or more power units or the equivalent of exposures if hired by the risk.
 - ✓ The pre-audits must be completed within 120 days of the policy effective date.
 - ✓ Additional or return premium shall be computed in accordance with the results of the audit with appropriate notification given to the producer and the insured.

2.3 Claim Management Services

- Subject to general direction from CAR, the Servicing Carrier(s) shall establish procedures for claims management for the risks insured through this program including, but not limited to the provisions of CAR's Rules of Operation and Manual of Administrative Procedures.
- The Servicing Carrier(s)' Massachusetts claims units will manage claims arising out of state.

2.4 Management Information Systems

Subject to general direction of CAR, the Servicing Carrier(s) shall:

- Provide all data required by CAR's Rules of Operation and Manual of Administrative Procedures.
- Produce ad hoc reports as may be requested by CAR.

2.5 Loss Control Services

The Servicing Carrier(s) will be expected to provide safety engineering or loss control services consistent with Best practices and as directed by the Governing Committee. Minimum parameters for the establishment of loss control programs to be made available to qualifying policyholders are as follows:

- Upon request, any risk regardless of size will be provided written material concerning loss control. Any risk with five or more power units or the equivalent of such exposure, if hired by the risk, that develops an experience rating debit will be offered a loss control survey.
- Program features shall include vehicle inspection, driver and equipment evaluation, a review of accident and loss experience, a safety newsletter or other informational mailings.
- The results of the loss control survey shall include a corrective action plan, safety management features and, if applicable to the risk, a hazardous material plan.

2.6 Integration of Claims and Underwriting Operations with Loss Control

The Servicing Carrier(s) must provide the means to facilitate successful integration of the claims, underwriting and loss control functions including but not limited to an SIU investigation of suspicious underwriting issues and the establishment of procedures for claims alerts to the underwriting and loss control personnel. It is critically important that the claims and underwriting operations are fully coordinated with loss control services.

2.7 Innovative and Creative Solutions

As CAR's statutory obligation is to contain and control costs, CAR is very interested in pursuing innovative and creative ideas that would strengthen the underwriting, claim administration and loss control process in a cost effective manner, applying them to the Program wherever appropriate. Proposals will be evaluated, in part, on their ability to bring fresh ideas and concepts to these classes of commercial business.

2.8 Additional Services

CAR is interested in any other services which the proposer is qualified to offer that would enhance, or expand in a related manner, the services that CAR provides to its Members, producers, and insureds in a cost effective manner.

2.9 Staffing

Whenever possible, staff should be assigned full time to the Program. Any and all staff assigned to the Program must have an excellent working knowledge of the needs and requirements of the Program and how these may differ from other business. The account executive must be able to make a time commitment to the management of this account and will be held responsible for the delivery of all services provided by the Servicing Carrier(s).

2.10 Implementation

CAR will be very interested in the development of an implementation plan which will provide the smoothest transition and minimal service disruption for the producer and the insured.

2.11 Term and Termination

CAR seeks a multi-year appointment of five years. In accordance with the provisions of CAR's Rules of Operation and Manual of Administrative Procedures, CAR has the ability to terminate the appointment for lack of acceptable performance by the Servicing Carrier. Lack of acceptable performance relates to the non-performance of material services or the performance of material services in a manner that does not meet CAR Performance Standards.

2.12 Depopulation Efforts

The Servicing Carrier(s) are expected to assist CAR in its efforts to control the size of the commercial residual market by employing strategies to depopulate where possible. CAR will require an annual report from Servicing Carriers outlining the effectiveness of their efforts to depopulate the residual commercial automobile market. The report should include any factors that may have successfully permitted or negatively impacted the company's efforts to achieve a reduction. The report should be submitted to CAR on or before March 31st subsequent to each year of the term of appointment.

Commonwealth Automobile Reinsures
Commercial Automobile Committee
Servicing Carrier Annual Reports

Servicing Carrier Annual Reports

The concept of a Servicing Carrier annual report was initially discussed during the Servicing Carrier selection process as a means to facilitate the monitoring of the Servicing Carriers' residual market performance by CAR and the Commercial Automobile Committee. During discussions, it was agreed that this tool would also enable the Committee and CAR to obtain input from the Servicing Carriers relative to their successes and challenges in addressing market issues in order to consider value added enhancements to the program. Accordingly, Staff has updated the outline of suggested topics for inclusion in the Servicing Carrier Annual Reports to reflect topics discussed during the Committee's discussion of market issues. Additionally, a schedule for the submission and review of the Annual Reports is included for the Committee's review.

Servicing Carrier Annual Reports – Suggested Topics

General Components

Program and Performance Requirements Listed in the RFP:

- Underwriting
- Claims Management
- Loss Control
- Integration of Underwriting and Loss Control (SIU)
- Innovative and Creative Solutions
- Depopulation Errors

Servicing Carrier Requirements Pursuant to CAR Rules:

- Management of ERPs
- Inspection Services
- Communication
- Fraud

Other Components/Current Concerns:

The residual market has seen growth in written premium in the following classifications:

- Non-Fleet Private Passenger Types
- Bus classifications
- Other, including Long Haul Truckers.

Please describe your company's efforts in addressing these areas related to underwriting and depopulation of this business.



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

RECORDS OF MEETING

COMMERCIAL AUTOMOBILE COMMITTEE – MARCH 15, 2018

Members Present

Mr. Thomas DePaulo – Chair	Cabot Risk Strategies, LLC
Mr. Peter Chung	The Norfolk & Dedham Group
Ms. Sarah Clemens	MAPFRE U.S.A. Corporation
Ms. Sheila Doherty	Doherty Insurance Agency, Inc.
Ms. Mayre Hammond	Arbella Insurance Group
Mr. Coleman Johnson	The Hanover Insurance Company
Mr. Brian Lam	Safety Insurance Company
Mr. John Olivieri, Jr.	J.K. Olivieri Insurance Agency, Inc.
Mr. Thomas Skelly, Jr.	Deland, Gibson Insurance Associates, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company

Substituted for:

Not in Attendance:

18.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Commercial Automobile Committee meeting of February 8, 2018. The Records have been distributed and are on file.

18.04 Servicing Carrier Service Levels Subcommittee

At its last meeting, the Commercial Automobile Committee unanimously voted to adopt the recommendations of the Servicing Carrier Service Levels Subcommittee and recommend the adoption of proposed modifications to Rule 11.C.2. and Chapter III.E. of the Manual of Administrative Procedures to the Governing Committee. The proposed modifications define overall expectations for commercial Servicing Carrier service levels and procedures for the review of requests for reimbursement of extraordinary expenses.

Ms. Marian Adgate noted that at the Governing Committee's February 14, 2018 meeting, a Committee member, with the intent to further strengthen Servicing Carrier requirements and procedures relative to requests for reimbursement of incurred extraordinary expenses, presented suggested modifications to the proposed language. She stated that the suggested language included further strengthening of the language to specify that the extraordinary expense incurred for which the Servicing Carrier was requesting reimbursement also had to be an expense that was necessary to be incurred by the company in order to perform its obligations as a Servicing Carrier. Additionally, the suggested

modifications included the elimination of a sentence in the Manual of Administrative Procedures relative to the approval of an “expense not to exceed” amount due to concerns that a pre-approval type of process should not apply. Ms. Adgate noted that the Governing Committee agreed that further discussion of these issues was required and remanded the Rule and Manual language back to the Commercial Automobile Committee for further review.

The Committee addressed the addition of the requirement that the expenses incurred must be considered “necessary” in addition to “extraordinary”, with members expressing concern as to the appropriate party responsible for determining whether the expense was necessary. It was noted that since the word “necessary” was subjective in nature, language to specifically define it could not be incorporated into the Rule. However, the Committee did agree that it would be the Servicing Carrier’s responsibility to persuade the reviewing committee that the expenses being requested were both necessary and extraordinary in performing its duties as a Servicing Carrier.

The Committee also addressed the suggested removal of the “expense not to exceed” wording from Chapter III.E.2.b. of the Manual of Administrative Procedures. This language is similar to that in the existing defaulted broker expense procedures and was intended to provide a Servicing Carrier with the ability to come before a committee for approval of expenses prior to the Servicing Carrier actually incurring those expenses. The recommendation to eliminate this sentence was suggested out of the concern that having this type of pre-approval process may jeopardize the Servicing Carrier’s efforts to do its due diligence as a Servicing Carrier if the committee didn’t agree that the expense was extraordinary. The Committee expressed its concern that the timing and logistics of scheduling committee meetings may impact a Servicing Carrier’s ability to obtain a CAR committee’s approval in a timely manner, and that the sentence as written could potentially make it difficult for a Servicing Carrier to move forward in its efforts to manage the residual market. Accordingly, the Committee agreed that the pre-approval process should not be allowed and that the sentence should be removed.

Following significant discussion, the Committee recommended further editorial changes to Rule 11.C.2. and Chapter III.E. of the Manual of Administrative Procedures to clarify that an expense requested for reimbursement by a Servicing Carrier must be a specific, necessary and extraordinary expense, and to ensure consistency between the Rule and Manual of Administrative Procedures language. The Committee unanimously voted to recommend Governing Committee approval of the amended language.

18.07 Distribution of Residual Market Books of Business

Rule 13.C.2. requires CAR to perform a quarterly review of the distribution of ceded commercial written premium and, if necessary, permits a redistribution of residual market books of business to maintain equity among the Servicing Carriers. Redistribution may occur 12 reporting months from the effective date of the previous distribution with the redistribution performed no sooner than 60 days from the date of the review.

At its February 8, 2018 meeting, the Committee agreed that there exists a clear inequity among Servicing Carriers that needs to be addressed and that any redistribution effort should cause the least amount of disruption possible. Accordingly, staff was directed to evaluate current Servicing Carrier premium volume and prepare data reports for review by the Committee. Mr. Timothy Galligan reviewed the prepared exhibits with the Committee noting that in order to rebalance premium both in total and by class type among the four Servicing Carriers with the least amount of disruption, 26 producer reassignments with an associated written premium volume of \$19 million will be necessary. It was noted that 11 of the 26 producers have voluntary contracts with their new Servicing Carrier. The exhibits identified a summary of producer movement and the distribution of premium by class type before and after reassignment, using the latest written premium data through December 2017.

The Committee expressed concern that six of the producers to be reassigned had previously also been reassigned during the redistribution process occurring less than 18 months ago when Pilgrim replaced Travelers as a Servicing Carrier. Ms. Natalie Hubley indicated that regardless of how the reassignment process is modeled, it will be virtually impossible to reach the goal of minimizing disruption and maintaining equity by classification without impacting some of the producers that were reassigned to Pilgrim last year. She further noted that every effort has been made to assure that as many of the producers as possible had a prior relationship with the carrier to which it would be reassigned which limited the reassignment to the six producers.

It was the Committee's consensus that the numbers presented reflect a more equitable distribution both in premium volume and by class type and on a motion with 7 in favor and 2 opposed, the Committee recommended to the Governing Committee to move forward with staff's recommended redistribution as presented in the exhibits, for new and renewal policies effective July 1, 2018.

18.08 Commercial Servicing Carrier Annual Report

The Commercial Auto and Taxi/Limo RFPs require that Servicing Carriers provide an annual report outlining their strategies to depopulate the residual market and address market conditions, as well as the successes and challenges of those efforts. The Committee directed Staff to prepare Servicing Carrier Company Profiles and an outline of topics to be addressed by Servicing Carriers in their annual reports.

Ms. Wendy Browne presented to the Committee the proposed schedule for CAR's development of Servicing Carrier Company Profiles and the submission of Servicing Carrier Annual Reports. She noted that CAR will develop a profile containing basic market information for each Servicing Carrier. Additionally, in order for CAR and the Committee to monitor a Servicing Carrier's residual market performance, each Servicing Carrier will be required to prepare an annual report that addresses components of the Servicing Carrier program as noted in the RFP and the CAR Rules, as well as current concerns present in today's marketplace and company efforts undertaken to address these concerns.

The Committee discussed the information to be contained in these reports and suggested that a ceded loss count and the number of agents assigned to each Servicing Carrier be added to the information provided by CAR in the Servicing Carrier profile. Additionally, in order to provide the Servicing Carrier with information that may be beneficial in preparation of their profiles, the Committee suggested that the schedule be modified to push back the distribution date for the Servicing Carrier Company Profiles to May 1, 2018 and adjust the due date for the Servicing Carrier Annual Reports to June 1, 2018. Ms. Browne indicated that staff will rework the remainder of the schedule based upon those dates, including the scheduling of Servicing Carrier Annual Report presentations to the Committee. The Committee's report of its findings will be presented to the Governing Committee at its September 2018 meeting.

MARIAN ADGATE
Corporate Documentation Specialist

Boston, Massachusetts
March 26, 2018