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PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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ADDITIONAL INFORMATION

TO MEMBERS OF THE COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

FOR THE MEETING OF:

Tuesday, January 22, 2019 at 12:30 p.m.

CPOC

18.04 Commercial Program Oversight

Reflective of the Committee's previous discussions, attached is an updated draft of a template for Servicing Carriers to use for preparing their 2018 Annual Reports. (Docket #CPOC18.04, Exhibit #14)

CPOC

18.06 Request for Reimbursement of Extraordinary Expenses – Arbella Protection Insurance Company

As requested by the Committee at its last meeting, attached is additional information provided by Arbella relating to its determination of employee costs included in its request for reimbursement of extraordinary expenses. (Docket #CPOC18.06, Exhibit #4)

JOHN METCALFE
Director – Residual Market Services

Attachments

Boston, Massachusetts
January 16, 2019

2018 Annual Report Schedule

April 1-15, 2019	CAR data and cover document sent to Servicing Carriers
May, 15, 2019	Servicing Carrier Annual Reports due to CAR
Late May/Early June 2019	Oversight Committee Review of Annual Reports
June 19, 2019	Governing Committee meeting

**Commercial Servicing Carrier Annual Report
CAR Data Reports for
2018 Review**

CAR will provide data and profile reports reflecting the residual market experience for the 2018 policy year and will also include historical data in some of the reporting elements for perspective and reference. The data reports should be used by Servicing Carriers to comment on and reference their experiences, challenges and successes during the review year.

Reports may include:

- Cession Rate Summary: Industry
- Cession Rate Summary by Class Type: Servicing Carrier vs. Industry
- Written Premium by Class Type: Servicing Carrier vs. Industry
- Exposure Summary by Class Type: Servicing Carrier vs. Industry
- Claim Count by Policy Year: opened, closed, total incurred
- Claim Count by Class Type by Policy Year
- Claim Count, Frequency and Severity by Type of Loss by Policy Year
- Loss Reserve Dollars by Policy Year
- Paid Loss Dollars by Policy Year
- Total Incurred Loss Dollars by Policy Year
- Loss Ratios by Policy Year
- Loss Reserve Dollars by Policy Year by Class Type
- Paid Loss Dollars by Policy Year by Class Type
- Total Incurred Loss Dollars by Class Type: Servicing Carrier vs. Industry
- Loss Ratios Summary by Class Type: Servicing Carrier vs. Industry

**Commercial Servicing Carrier Annual Report
2018 Review**

A. Introduction

The purpose of the Commercial Servicing Carrier Annual Report is to provide Servicing Carriers a framework to report annually to CAR their efforts in managing the commercial automobile residual market. The Servicing Carriers will provide a self-assessment of their performance in addressing past commercial market concerns and the results of those efforts, including depopulation efforts. The Servicing Carriers will outline their objectives to maintain current levels of achievement in dealing with the issues identified in the marketplace over the past years and strategies for maintaining or exceeding those expectations in upcoming years.

B. Specific Areas for Servicing Carrier Comment

1. Describe what efforts were employed in 2018 that sought to reduce the cession rate for all classes of commercial auto business (Response would address all areas of depopulation efforts i.e. voluntary writing, eligibility determination, renewal reviews, etc.):

2. Describe what efforts were employed in 2018 that sought to manage and control the cession growth in the non-fleet private passenger types and bus classes.

3. Describe how the claims, underwriting and loss control functions integrate to address the following (provide detail and/or examples):
 - a. Renewal reviews and audits (by class)

- b. Claim handling for large losses and resulting audit process

- c. Class determination

- d. Rate development

4. Describe efforts and quantify results pursuant to compliance with Rule 10 – Claims of CAR’s Rules of Operation which requires a Servicing Carrier to conduct audits on representative samples of policies to verify garaging and policy facts.

5. Describe efforts and quantify results relating to the implementation of standards in 2018 for validation of a risk’s principal place of business.

6. Describe efforts and quantify results relating to the implementation of standards for non-fleet private passenger type risks relative to:

- a. The validation of the business entity

- b. The validation of operator licenses

- c. The process in filing and obtaining approval for rates recognizing driver experience

7. Comment on the impact of information sharing efforts in 2018, including use of the Ineligible Risk Data Base.

8. Describe other successes and/or challenges in 2018, including agency management and compliance issues as well as significant residual market activities:

9. Servicing Carrier Program Recommendations for 2019:

- a. Provide input on any market concerns and/or identify any new conditions not currently being addressed by the Committee and provide recommendations to focus on these issues.

- b. Provide suggestions, recommendations and/or solutions that would further control claims and service costs for 2019:

C. General Topics to be Addressed by the Servicing Carrier in the Annual Report

Servicing Carriers are expected to comment on market conditions and experience both relative to the industry and specific to their company in the handling of commercial automobile residual market business during the 2018 policy year. Comment on the industry and your company's efforts, challenges and successes in handling business. (CAR has provided industry and company data report information to assist you in your evaluation and comments.)

1. Residual Market – Industry (Observed Trends and Issues)

- a. Market Conditions (general observations and comments)
- 1) Deficit trending
 - 2) Cession rate trending
 - 3) Classification and rating issues

- b. Concerns (comments)
- 1) Rates
 - 2) Classifications
 - 3) Rating
 - 4) Eligibility
 - 5) Underwriting
 - 6) Rules

2. Servicing Carrier Performance and Results – Company

a. Quantitative:

- 1) Number, and percent of total, of policies taken voluntary over the year

- 2) Written premium taken voluntary during 2018

- 3) Classification and rating efforts and results

- 4) Provide year to year company results on trending classifications to indicate the effect of your depopulation efforts on those class types.

b. Qualitative: (Comment on efforts)

- 1) Exclusive Representative Producer management (Identify number of ERPs with and without voluntary commercial auto contracts including number with a voluntary contract with your company)

- 2) Actions undertaken to address developing market issues or specific classification and/or rating issues.

- 3) Residual market losses (loss ratios/large losses/loss control)

Completed Annual Report responses for 2018 will be due to CAR by Wednesday, May 15, 2019. The Commercial Program Oversight Committee will hold a meeting to discuss their review of the reports in late May or early June of 2019. Servicing Carriers are expected to be present at that meeting to respond to any questions from Committee members.

Note: Servicing Carriers should also provide a copy of their Annual Report to CAR that will be included in the distribution of the Commercial Program Oversight Committee's Notice of Meeting. That copy may include the redaction of any report details that the Servicing Carrier deems to be proprietary or sensitive in nature relative to its publication.

LAW OFFICES OF ROBERTA FITZPATRICK

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Roberta R. Fitzpatrick | 617 769-3511
Roberta.Fitzpatrick@arbella.com

January 15, 2019

VIA EMAIL

Mr. John Metcalfe
Commonwealth Automobile Reinsurers
101 Arch Street, Suite 400
Boston, Massachusetts 02110

Re: Additional Information (Affidavits) in Support of Arbella's
Protection Insurance Company's Request for Reimbursement
of Extraordinary Expenses
CPOC 18.06

Dear Mr. Metcalfe:

In follow up to the December 2018 Commercial Program Oversight Committee Meeting concerning Arbella's request for reimbursement of extraordinary expense, attached please find the Affidavits of David Zawilinski and Linda Zarella of Arbella's underwriting department. The two attachments to the Zawilinski affidavits were previously filed, and are attached for the convenience of the Committee members. Please note I made one correction to the spreadsheet attached as Exhibit "A" to Mr. Zawilinski's affidavit. The change had no impact on the amounts reported. It was a change which deleted a percentage that had no corresponding dollar amount.

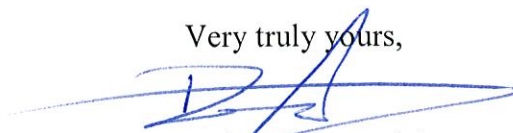
As I explained, Arbella's underwriting department does not track employee time in the same manner as the operations department.

Kindly share the attached information with the Committee members in connection with next week's meeting.

Should you have any questions, please feel free to contact me.

Thank you

Very truly yours,



Roberta Fitzpatrick

RRF/jpc
Attachments

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**COMMONWEALTH AUTOMOBILE REINSURERS
COMMERCIAL PROGRAM OVERSIGHT COMMITTEE**

CAR Docket No. CPOC 18.06

**Further Supplemental Support for Arbella Protection Insurance Company's
Request for Reimbursement of Extraordinary Expense**

Affidavit of David Zawilinski

I, David Zawilinski, do hereby state under oath that I have personal knowledge of the following:

1. I am a commercial lines underwriting manager for Arbella Protection Insurance Company ("Arbella").
2. I was hired by Arbella in 2015.
3. Throughout 2016 and 2017 a substantial portion of my team's time was devoted to the significant amount of work required to properly underwrite the business being submitted by the Point Insurance Agency. This work was required as a result of the substantial fraud within the Point/Rapo book of business, as detailed in Arbella's prior CAR filings.
4. Arbella terminated the Rapo and Jepsen Agency based on the widespread fraud. Point acquired the Rapo book of business and serviced the book using virtually all of the Rapo employees and locations. The book of business was then reassigned back to Arbella through Point. Arbella's underwriting department put a significant amount of time into developing underwriting guidelines and procedures necessary to ferret out the fraud and ensure that only eligible risks were insured through the CAR commercial market.¹
5. The procedures we created included the development of a renewal application to aide in determining which of the Rapo and Jepsen policies coming up for renewal through Point were actually commercial risks. This process began in September 2016 after Point was appointed to Arbella.
6. When the renewal applications were returned, they were manually logged by commercial lines operations, a checklist was completed, UMS information was obtained, corporate data information was obtained and the logs were reviewed daily according to the expiration date to determine next steps for underwriting.

¹ Following Arbella's March 2016 Notice of Termination of the Rapo and Jepsen Insurance Agency, the Point Agency was created by an employee of Rapo and Jepsen. In June of 2016 the Point Agency acquired the Rapo book of business and the CAR Market Review Committee upheld the Rapo termination. At that time, approximately 80% of the Rapo book of business consisted of non-fleet PPT business. Arbella's SIU Department had uncovered a scheme whereby Rapo and Jepsen was creating fake businesses, on paper, for persons who did not actually have a business, and then binding coverage for these shell businesses through its CAR commercial appointment.

7. At the same time as we were implementing our procedures, Point sued Arbella in October, November, and December of 2016 in the Division of Insurance, the Massachusetts Superior Court and at CAR, respectively (See copy of timeline previously filed and a copy of which is attached hereto). The Point allegations required our underwriting department to work closely with our legal department to provide the necessary information as to our procedures and to respond to numerous factual allegations asserted by Point.

8. As of December 31, 2016 the in force policy count for the Point Agency was 5,318.²

9. By January of 2017, the volume of work required on renewal intensified. The following provides some sense of the extraordinary effort required of underwriting both given the magnitude of the fraud within the book of business, Point's ongoing failure to work with us and the sheer volume of non-fleet PPT accounts:

<u>Month (2017)</u>	<u>Number of renewal applications received and reviewed</u>
January	136
February	177
March	157
April	131
May	101
June	127

10. Not only was there a drain on Arbella underwriting resources relative to implementing the procedures and guidelines concerning non-renewal, and responding to the litigation, but we found that Point was not working with us relative to the submission of new business and the submission of rewrites (e.g. submitting non-renewed business as new business and changing operators).

11. Given the extensive nature of the fraud throughout the book of business, the need to develop particular tools to ferret out the eligible accounts from those that were ineligible for the commercial market, Point's efforts to thwart Arbella's fraud fighting tools, (including, but not limited to, deleting operators from prior accounts, adding drivers that had no connection to the applicant, selling GL and workers compensation policies to make it appear as though the risk was a commercial account, submitting non-renewed business as new business, and advising

² As of September 30, 2018 the Point in force policy count was 1,074

insureds that they could not change their policies to private passenger policies the effort required by Arbella to properly underwrite the book of business was extraordinary.

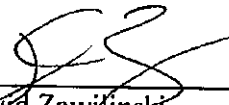
12. In March of 2017 we hired an additional senior underwriter who undertook significant responsibility for handling the Point account, among other responsibilities. Her work includes some of the work described herein and is described in more detail in a separate Affidavit also being submitted to CAR.

13. In the fall of 2017 our underwriting department was asked to undertake a review and analysis of the time we had been spending on handling the Point Agency account.

14. Each of us described the type of work we had been doing relative to the Point Agency, reviewed our workflow and procedures and advised as to the amount of time we had been spending on a regular basis managing the Point business.

15. I was already aware of the significant amount of time my team was spending on the Point Agency. However, I personally interviewed the members of our team. I requested that each person I spoke with review their workflow and the nature of the work they had been doing on Point. We discussed the portion of their days that was spent on Point and we detailed the amount of time that each person had been spending solely and exclusively on handling Point. Together with my manager we calculated the time spent by our team members solely on the Point Agency. We took a conservative approach to this calculation. The information I obtained from meeting with my team and reviewing the workflow, including the calculation of the extraordinary expense incurred by our underwriting team, is accurately reflected on the attached spreadsheet.

**SIGNED UNDER THE PAINS AND PENALTIES OF PERJURY THIS __ DAY
OF JANUARY, 2019.**

 1/15/19

David Zawidzinski

**COMMONWEALTH AUTOMOBILE REINSURERS
COMMERCIAL PROGRAM OVERSIGHT COMMITTEE**

CAR Docket No. CPOC 18.06

**Further Supplemental Support for Arbella Protection Insurance Company's
Request for Reimbursement of Extraordinary Expense**

Affidavit of Linda Zarella

I, Linda Zarella, do hereby state under oath that I have personal knowledge of the following:

1. I am a senior commercial lines underwriter for Arbella Protection Insurance Company ("Arbella").
2. I was hired by Arbella in March of 2017.
3. Shortly after I started working at Arbella, managing the new and renewal business submitted by the Point Insurance Agency became one of my primary responsibilities.
4. Because of the volume of renewals, the number of rewrites, incomplete new business submissions, the resubmission of non-renewals as new business, the patterns we had been seeing, ongoing disputes with Point, the need for frequent communication with the agency, and other tasks, other underwriters in our department also has to spend an extraordinary amount of time to properly manage the Point book of business.
5. A significant amount of time, over and above normal underwriting activity, was required for the many reasons detailed by Arbella in its filings with CAR. These reasons include, but are not limited to, the extensive fraud within the book of business, Point's efforts to delete operators from prior policies when submitting the renewal, the addition of drivers not related to the risk, and the sale of GL policies and workers compensation policies to make it appear that the risk was commercial, to name a few examples.
6. The types of activities our underwriters engaged in include the following. This list is just an example, there were many steps and activities necessitated on a regular basis to properly manage the Point Agency:
 - Careful review of new business applications to ensure eligibility for the CAR commercial market and comparison of information to existing accounts;
 - Careful review of all rewrites to compare them with the prior policies for any red flags;
 - Careful review of all renewal applications to ensure operator information was complete and accurate, review proof of business

forms attached to renewal applications including GL policies, workers compensation policies, tax information where applicable, and other documents

- On line research of addresses, company name/individual names to help validate genuineness of commercial entity;
- Frequent outreach to the agent to verify information or obtain missing information;
- VIN numbers were checked on the registry for all vehicles listed on the policy, license numbers were verified and compared on the system to determine whether the operator was on another policy written with Arbella;
- Documentation done in our policy administration system on new business, rewrites and renewals
- 15% to 20% of rewrites warranted further SIU review;
- More than 50% of renewals warranted SIU referral
- Review of all SIU investigations to determine the extent to which further action would be necessary regarding the SIU findings.

7. In the fall of 2017 our underwriting department was asked to undertake a review and analysis of the time we had been spending on handling the Point Agency account.

8. Each of us described the type of work we had been doing relative to the Point Agency, reviewed our workflow and procedures and advised as to the amount of time we had been spending on a regular basis managing the Point business.

9. I reviewed and reported on my workflow and the amount of time I spent solely and exclusively on Point. This time was over and above normal underwriting that would be required for any agency. I calculated how much of my time daily and weekly was spent on Point and I provided this information to my underwriting manager.

10. The time I spent on Point is accurately reflected on the attached spreadsheet.

**SIGNED UNDER THE PAINS AND PENALTIES OF PERJURY THIS __ DAY
OF JANUARY, 2019.**


Linda Zarella

A

RAPO/POINT TIMELINE

March 2016	Arbella issues Notice of termination to Rapo and Jepsen
April 2016	Rapo and Jepsen appeals the termination
April 2016	Bruno Rozembarque, while employed at Rapo and Jepsen, obtains producer's license
April 2016	Bruno Rozembarque creates the Point Insurance Agency
June 2016	Point Insurance and Rapo and Jepsen enter into a purchase and sale agreement wherein Point purchases the assets of Rapo and Jepsen including all expirations owned by the Rapo and Jepsen
July 2016	Point is appointed by CAR as an ERP and is assigned to Arbella
July 2016	Point requests guidelines from Arbella "to avoid the problems experienced by Rapo and Jepsen"
July 2016	Arbella provides Point with the requested guidelines
September 2016	Point and Arbella enter into a Limited Servicing Carrier Contract which includes the requested guidelines
September 2016	Rapo and Jepsen withdraws its appeal of the termination
<hr/>	
10/17/2016	Point files a Lengthy Complaint and Motion for Temporary Injunction against Arbella at the Division of Insurance seeking, amongst other relief, to enjoin Arbella from using fraud fighting tools such as guidelines, renewal applications and SIU interviews.
10/16	Arbella prepares and files detailed opposition papers
11/1/2016	Point files in the Division of Insurance an Emergency Motion for An Expedited Hearing on its Request for a Temporary Restraining Order against Arbella
11/16	Arbella responds to Points Emergency Motion
11/7/2016	Point files a Complaint, a Motion for a Temporary Restraining Order (TRO), and a Request for Hearing on its Emergency Motion for a TRO against Arbella in the Massachusetts Superior Court seeking essentially the same relief sought in the Division of Insurance
11/16	Arbella prepares and files detailed opposition papers

11/10/2016 After hearing, Justice Heidi Brieger denies all of the relief sought by Point in the Superior Court

11/29/2016 The Division of Insurance holds a hearing on the Complaint filed by Point against Arbella

12/15/2016 Point files a Request for Relief at CAR pursuant to CAR Rule 20 seeking essentially the same relief as it sought in the Division of Insurance and the in the Massachusetts Superior Court

12/19/2016 The Division of Insurance Issues A Decision Dismissing the Complaint Point Filed Against Arbella and declining to grant Point the relief sought.

1/17 Arbella prepares and files detailed Opposition papers in the connection with the newly initiated CAR proceeding

1/12/2017 The CAR Market Review Committee holds a hearing and issues a decision finding that Point did not establish that the conduct of Arbella unfair, unreasonable or improper and denying the relief sought by Point against Arbella

1/13/2017 Point appeals from the Decision of the CAR Market Review Committee

1/31/2017 The Governing Committee Review Panel holds a hearing and unanimously votes to uphold the decision of the Market Review Committee

2/2/2017 Point files another Complaint against Arbella at the Division of Insurance and Files a Notice of Appeal of the CAR Decision

2/17 Arbella files a brief detailing the history and requesting that the Division of Insurance uphold the CAR Decision on appeal and deny the Complaint against Arbella

3/15/2017 Point Files another Emergency Motion for a Preliminary Injunction against Arbella in the Division of Insurance

3/28/2017 Point files a letter in the Division of Insurance Renewing its Request for an Emergency and Expedited hearing on its Request for a Preliminary Injunction against Arbella

4/12/2017 The Division of Insurance holds a preliminary hearing on Point's Appeal and Complaint

4/21/2017 Point files a Supplemental Memorandum in the Division of Insurance in Support of its Request for Relief

6/23/2017 Point files a Further Supplemental Memorandum with the Division of Insurance

B

Extra Ordinary Expense for Point Procedures, Investigation and Litigation

Extra Ordinary Resources Dedicated to Point Insurance	% of time spent 2016	% of 2017	months involved	cost per month	7/1/16 - 6/30/17	Expense Bills	GRAND TOTAL
Employee 1 Claims	0%	80%	5	\$3,897.00	\$19,485		
Employee 1 SIU	30%	30%	12	\$5,825.00	\$69,900		
Employee 2 SIU	10%	10%	12	\$1,458.00	\$17,496		
Employee 3 SIU	50%	100%	12	\$5,434.00	\$65,208		
Employee 1 Underwriting	40%	40%	9	\$4,900.00	\$44,100		
Employee 2 Underwriting		50%	4	\$3,750.00	\$15,000		
Employee 3 Underwriting	5%	5%	9	\$612.00	\$5,508		
Employee 4 Underwriting	40%	40%	9	\$2,162.00	\$19,458		
Employee 5 Underwriting	60%	60%	9	\$3,234.00	\$29,106		
Employee 6 Underwriting	10%	10%	2	\$770.00	\$1,540.00		
Employee 1 Operations			8	\$1,005.13	\$8,041.10		
Employee 2 Operations			6	\$1,996.63	\$11,979.78		
Employee 3 Operations			4	\$265.29	\$1,061.17		
Employee 4 Operations			2	\$222.08	\$444.16		
In-house Counsel						\$62,842.71	
Totals				\$35,531.13	\$308,327.21	\$62,842.71	\$371,169.92