CAR
COMMONWEALTH AUTOMOBILE REINSURERS
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NATALIE A. HUBLEY
PRESIDENT

NOTICE OF MEETING

COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

A meeting of the Commercial Program Oversight Committee will be held virtually via Zoom video conferencing software, on

THURSDAY, OCTOBER 15, 2020 AT 10:00 A.M.

If you plan to attend this meeting and are not a member of this Committee, please RSVP by completing the Visitor Security Form located in the Contact Us/Visitor Information section of CAR's website. CAR will then forward to you, via email, meeting access information. Please do not share access information provided by CAR, but refer others wishing to attend the meeting to CAR's Visitor Security Form.

MEMBERS OF THE COMMITTEE

Mr. William Cahill, Jr. – Chair
Vermont Mutual Insurance Group

Mr. Charles Boynton, III	Boynton Insurance Agency, Inc.
Mr. Brian Hayes	Quincy Mutual Group
Mr. Bryan Hurwitz	Norfolk and Dedham Group
Mr. John Olivieri, Jr.	J.K. Olivieri Insurance Agency, Inc.

AGENDA

CPOC
20.01 Records of Previous Meeting

The Records of the Commercial Program Oversight Committee meeting of July 28, 2020 should be read and approved.

CPOC
20.03 CAR Conflict of Interest Policy

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

CPOC
20.06 Commercial Program Evaluation – 2021 Request for Proposal

The current Commercial Servicing Carrier Program is set to expire on December 31, 2021. A Request for Proposal (RFP) will be distributed to the industry by March 1, 2021 for a subsequent engagement to service the commercial automobile residual market, beginning with policies effective January 1, 2022 and subsequent.

To assist the Committee in its development of recommendations and specifications for the upcoming RFP, attached are discussion topics to be addressed by the Committee. (Docket #CPOC20.06, Exhibit #3)

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
October 2, 2020

Commercial Automobile Programs
2021 Request for Proposal
Issues for Consideration

Staff is in the process of preparing a draft of the Request(s) for Proposal for Servicing Carrier appointments to be effective January 1, 2022. Staff will edit the RFP to address program enhancements put in place during the current appointment term, including Servicing Carrier and ERP standards, enhanced compliance audits, and annual reporting requirements. Staff is looking for additional direction from the Commercial Program Oversight Committee with respect to the issues described below.

Combine Taxi/Limo/Car Service classes into the Commercial Auto Program

With each RFP, the Committee has considered whether to merge the two commercial programs. The separate Taxi/Limousine Program was initiated in 1995 when all Massachusetts commercial auto writers were servicing the commercial residual market business. At that time, the taxi and limousine classes contributed significantly to the residual market deficit, and presented concerns relative to rating, classification, and loss control challenges. With the introduction of the Limited Servicing Carrier Program in 2006, support for the separation of the programs continued due to the uniqueness of these public classifications and the improvement of the financial results. Given current market conditions, and the growing mixed use of PPT-NF and other vehicles for TNC services, the Committee should consider whether such challenges would be better managed in a combined program. **A recommendation of the Committee is needed for the Governing Committee at its November 2020 meeting in order to draft the RFP.**

Number of Servicing Carriers

The Committee should be prepared to offer guidance, if any, with respect to reference to be included in the RFP relative to a minimum and/or maximum number of Servicing Carriers to be appointed. Past RFPs have requested bids involving multiple scenarios pursuant to the number of Servicing Carriers selected for the term. Consideration may be given to premium volumes, program efficiencies, historical perspective, other states programs, and the number of proposals submitted.

Servicing Carrier Compensation

The Committee should be prepared to discuss the existing Servicing Carrier fee structure, and consider whether an alternative approach would result in improvements to the program. The Committee should include in its deliberations Rule 13 provisions that mandate the equitable distribution of ceded written premium among the Servicing Carriers in order to provide equity in compensation, resulting in forced physical redistributions of producer books of business when inequity is determined. Alternatives compensation methods may include:

- Fee per exposure
  Servicing Carriers are currently paid $420 per PDL exposure to service the commercial residual market. This allowance is increased by 2% per year. CAR has observed a consistent shifting in the distribution of the books of business among carriers as a result of market conditions

during the most recent appointment term, leading to inequity with respect to Servicing Carrier compensation, and two physical redistributions in three years. The Committee should consider whether program enhancements introduced during this term are expected to mitigate this result, or whether a change to the compensation methodology would further diminish the likelihood of required redistributions.

- Percent of premium
  To the extent that books of business are distributed among Servicing Carriers based on expected written premium, an allowance based on a percentage of premium is more closely aligned to the expected equitable compensation than the current fee per exposure method.

- Flat dollar amount to be paid to each Servicing Carrier
  The Committee may consider whether a specified dollar amount to be paid to each Servicing Carrier, regardless of the book of business distribution, would allow for fewer required adjustments by increasing the tolerance for shifting books of business. For example, if a total allowance of $20 million/year were approved, each of 4 Servicing Carriers would receive $5 million/year, plus premium tax and commission, to service the residual market, regardless of the distribution of the books of business.

- Flat dollar amount plus a percent of premium
  The Committee may also consider whether a hybrid approach of a fixed dollar amount paid to each Servicing Carrier plus a percentage of premium may reduce the need for redistributions. For example, if a total allowance of $20 million were expected, each of 4 Servicing Carriers would receive $2.5 million/year, plus 5% of written premium, plus premium tax and commission.

- Compensation that varies by classification
  The Committee may consider whether compensation amounts that vary by class grouping may allow for fewer required adjustments by increasing the tolerance for shifting books of business.

Initial discussion by the Committee should indicate whether any of above alternatives should be considered or eliminated. **Staff is requesting that the Committee discuss direction that should be referenced in the RFP draft.**

Note: One Servicing Carrier, in its 2019 Annual Report, recommended consideration of a loss ratio incentive program to be adopted for the PPT-NF classification. Under such a program, the Servicing Carrier's compensation for handling this class of business would be adjusted pursuant to the Servicing Carrier's actual loss ratio results. **The Committee should discuss whether adoption of such an approach would benefit the program at this time, in order that staff may include appropriate reference in the RFP draft.**

Book of Business (Re)Distributions – Market Disruption

As part of its evaluation of the Pilgrim request for redistribution last year, the CPOC requested that staff put forth alternatives for consideration to minimize the market disruption associated with ERP reassignments. Changes to the distribution of expenses such as those described above may improve financial equity among Servicing Carriers, and therefore minimize the need for physical redistributions. Alternatively, Staff has discussed internally the feasibility of an assigned policy method for distributing the ceded books of business among Servicing Carriers.

Specifically, the Committee may consider the merits of replacing the current assigned producer model with an assigned policy distribution. Program details would need to be developed and approved, however conceptually, producers would use a web-based application to notify CAR of a potential commercial ceded risk. CAR would then assign risks on a rotational basis to a Servicing Carrier for evaluation. Although such a process would require that each producer work with multiple Servicing Carriers, the random distribution, which would be trued up with each monthly base data update, would ensure an equitable distribution and eliminate the need for physical redistributions. Should the Committee consider such a model to have merit, it would require substantial evaluation and amendment to CAR Rules of Operation and other manuals. Consequently, the Committee may wish to consider alternative implementation timeframes and/or modify appointment terms as may be appropriate.