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COMMONWEALTH AUTOMOBILE REINSURERS

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ADDITIONAL INFORMATION

TO MEMBERS OF THE COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

FOR THE MEETING OF:

TUESDAY, JANUARY 19, 2021 AT 1:00 P.M.

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) is scheduled to be distributed to the industry by March 1, 2021 for Servicing Carrier appointments to service the commercial automobile residual market, beginning with policies effective January 1, 2022 and subsequent.

For the Committee's discussion, and in preparation of its recommendation to the Governing Committee at its February 10, 2021 meeting, the following exhibits are attached:

- A document highlighting the changes made to the RFP. (Docket #CPOC20.06, Exhibit #5)
- A draft of the RFP for the Commercial Automobile Program. The draft includes components of the commercial programs for the upcoming Servicing Carrier appointment term as discussed by the Committee at its October 15, 2020 meeting. (Docket #CPOC20.06, Exhibit #6)
- An exhibit providing historical taxi, limousine and car service ceded written premium and PDL exposure data. This exhibit also identifies the producer volume for the current two Servicing Carriers. (Docket #CPOC20.06, Exhibit #7)

JOHN METCALFE
Director – Residual Market Services

Attachments

Boston, Massachusetts
January 13, 2021



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REQUEST FOR PROPOSAL
FOR COMMERCIAL SERVICING CARRIER APPOINTMENT
MASSACHUSETTS AUTOMOBILE RESIDUAL MARKET
COMMERCIAL AUTOMOBILE PROGRAM
CEDED POLICIES EFFECTIVE JANUARY 1, 2022

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Section 1 – Background and Purpose

1.1 Schedule of Events

Commonwealth Automobile Reinsurers (CAR) intends to progress in this procurement in a series of orderly steps. The schedule that follows has been developed in order to provide adequate information for proposers to prepare definitive proposals and to permit CAR to consider fully various factors that may affect its decision. These dates should be carefully observed.

<u>Event</u>	<u>Date</u>
Notice of RFP Issued	March 1, 2021
Mandatory Pre-Response Conference	March 17, 2021
Final Date for Proposer Questions	March 31, 2021
Final Date to Submit Proposals	April 16, 2021
Selection Committee Evaluation of Proposals	May 3-28, 2021
Governing Committee Decision	June 16, 2021
Servicing Carrier Appointment Notification	June 17, 2021
ERP Distribution Notification	September 1, 2021
ERPs Contracted by Servicing Carriers	October 29, 2021
Servicing Carrier Implementation of Services	January 1, 2022

1.2 Background Information

CAR has employed separate specialized programs to manage, 1) ceded commercial automobile risks other than taxi, limousine, and car service classifications and 2) ceded taxi, limo, and car service classifications in order to control the size of the residual market and to establish equitable access to the residual market for all classes of commercial automobile business. The programs consolidate the servicing of commercial residual market business to a limited number of Servicing Carriers; each appointed for a specific term. The programs were designed to enhance the effectiveness of underwriting and loss control practices by assigning each producer to one Servicing Carrier for each program. For the upcoming Servicing Carrier appointment term, the programs will be combined into a single program to service all classes of commercial automobile residual market business, eliminating the separate programs of prior terms. The Commercial Program Oversight Committee has indicated its preference to appoint four Servicing Carriers for the upcoming program term. However, the Committee noted that a final decision regarding the number of Servicing Carriers will be determined subsequent to the evaluation of the submitted proposals.

Section 1 – Background and Purpose (Continued)

1.3 Administrative Procedures - Servicing Carrier and Producer Requirements

Servicing Carriers shall comply with all provisions of Rules 1 through 20 of CAR's Rules of Operation and required procedures set forth in CAR's Manual of Administrative Procedures, Commercial Automobile Manual, and Commercial Claims Performance Standards. These manuals are available on CAR's website at www.commauto.com.

1.4 Purpose

The purpose of this Request for Proposal (RFP) is to provide qualified Member Companies with sufficient information to enable submission of proposals for appointment as a Servicing Carrier to service all classes of Massachusetts ceded commercial automobile business effective January 1, 2022. Proposals shall respond to all terms and conditions of this RFP. Proposers shall complete all information requested.

1.5 Program Oversight

Oversight of the Commercial Servicing Carrier Program is managed through the combined efforts of the Commercial Program Oversight Committee and the Compliance and Operations Committee.

The Commercial Program Oversight Committee is responsible for the general oversight of the Commercial Servicing Carrier Program and acts as the selection committee for Servicing Carrier appointments. The Committee reviews Servicing Carrier annual reports and CAR audit results to recommend potential enhancements to program standards that may involve further consideration by the Commercial Auto Committee. The Committee also engages in reviews of and recommendations to the Governing Committee relative to Servicing Carrier requests for extraordinary expenses, and any other issues that may arise concerning oversight of the programs.

The Compliance and Operations Committee reviews the results of recurring and focused audits conducted by CAR staff designed to monitor Servicing Carrier adherence to the program standards, statistical reporting requirements, and claims handling performance standards. The Committee may recommend corrective action where appropriate.

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(s).
- For commercial automobile residual market business with policy effective dates beginning on or after January 1, 2022, each appointed 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 based on an annual percentage rate (APR), and no more than a 30% first or deposit payment due 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 Policy Processing

Subject to general direction of CAR, the Servicing Carrier(s) will be required to provide the ability for assigned Exclusive Representative Producers to immediately bind coverage and certify registrations for commercial automobile residual market business. The Servicing Carrier(s) shall:

- Evaluate and confirm residual market eligibility.
- Properly classify and rate all risks ceded to the commercial residual market.
- Comply with all standards and issuance of all appropriate commercial forms, endorsements, and applications with each risk's underwriting file as described in the Commercial Automobile Manual and Chapter 10 of the Manual of Administrative Procedures.
- Provide training for, support to, and oversight of assigned producers.

2.3 Claims Management Services

Subject to general direction of CAR, the Servicing Carrier(s) shall establish procedures for claims management for the risks insured through this program pursuant to the provisions of CAR's Rules of Operation, Manual of Administrative Procedures, and Commercial Claims Performance Standards.

- The Servicing Carrier(s)' Massachusetts claims units will manage claims arising out of state.
- Each Servicing Carrier is required to maintain a Special Investigative Unit in accordance with M.G.L. Chapter 175 Section 113H, Articles III and IV of the Plan of Operation and Rule 10 of the Rules of Operation to investigate suspicious claims and to assist in the underwriting of questionable risks with the objective to eliminate fraud.

Section 2 – Program and Performance Requirements (Continued)

2.3 Claims Management Services (Continued)

- The Servicing Carrier must employ litigation management and legal cost containment processes.
- The Servicing Carrier must develop a fraud management program and describe related costs associated with it.

2.4 Management Information Systems

Subject to general direction of CAR, the Servicing Carrier(s) shall gather and produce reliable, relevant, and properly organized data that supports the decision-making process.

- 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 staff and its committees.
- Meet all statistical reporting requirements.

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.

Section 8 – Selection Process (Continued)

8.4 Evaluation Factors (continued)

Loss Control Services Evaluation		
A. Experience/Demonstrated Performance		
1. Demonstrated performance writing Massachusetts commercial automobile business		4%
2. Demonstrated performance with commercial business, including servicing residual market automobile programs		2%
3. General experience of proposer		2%
B. Personnel and Leadership		
1. Administrative and account management leadership		2%
2. Capability and experience of staff assigned		4%
3. Integration of loss control with underwriting and claims operations		2%
C. Location of Staff		3%
D. Capability for Adjusting to Changed Exposure		2%
Subtotal		21%

Other		
A. Management Information Systems which include the ability to produce ad-hoc reports.		2%
B. Minimize/Mitigate Market Disruption		3%
C. Experience with Massachusetts reporting requirements which includes statistical reporting, financial reporting and Registry of Motor Vehicle requirements		2%
D. Quality of Implementation Plan		1%
E. Additional Services/Creativity		1%
F. AM Best Rating		3%
Subtotal		12%
TOTAL		100%

Summary of Evaluation Factors

Category	Underwriting	Claims	Loss Control	Total
Experience	15%	15%	8%	38%
Personnel & Leadership	12%	12%	8%	32%
Location of Staff	3%	4%	3%	10%
Adjust to Change	3%	3%	2%	8%
Subtotal	33%	34%	21%	88%
AM Best Rating				3%
Other				9%
Total				100%

Section 8 – Selection Process (Continued)

8.5 Proposer Conferences

Following the initial screening of proposals, some of the proposers may be eliminated from consideration. Those that have not been eliminated may then be requested at no cost to CAR to meet with CAR staff and its committees and advisors for the purpose of presenting distinguishing elements of its proposal and responding to questions. Each such conference may be expected to take up to two hours.

8.6 Proposer Selection

The field of proposers shall be reduced to a group of finalists. The finalists, or a subset thereof, may be invited to participate in a more detailed review of qualifications and capabilities with CAR. CAR's personnel will also be available during that time to meet with each proposer's personnel to discuss any special requirements presented by this RFP.

These conferences may be supplemented by visits to the proposer's office. Interviews with individual staff on-site may be required.

Concurrently, each finalist may be requested to submit supplemental information based on its meeting with CAR and the ongoing evaluation of its proposal. This supplemental information will also be considered in CAR's selection process.

Following the procedures previously described, CAR will make a decision regarding selection of the proposer(s) to whom it will engage for the purpose of servicing ceded commercial business.

Appendix A

Exhibit 5.1.1

Summary of Projected Costs for Servicing the Commercial Residual Market

A. ULAE Expenses	2 Carriers	3 Carriers	4 Carriers	Preference
Claims Management Services Loaded Annual Staffing Costs				
Overhead/Traveling Expenses*				
Special Investigations (concerning the facts of the loss)				
Adjuster's Fees				
Motor Vehicle Appraisal Fees				
Fees for retrieval of pre-inspection reports				
Other				
Total				
* All salaries, including ULAE-related salaries, should be reported in the salary supplement.				

B. Underwriting/Technical Services Expenses	2 Carriers	3 Carriers	4 Carriers	Preference
Underwriting/Technical Services Loaded Annual Staffing Costs				
Agency Education and Training				
General Processing Expenses				
Other				
Total				

C. Loss Control Services Expenses	2 Carriers	3 Carriers	4 Carriers	Preference
Loss Control Services Loaded Annual Staffing Costs				
Surveys of New Insureds				
Surveys of Renewal Insureds				
Cost for Vehicle Inspection				
Educational Programs				
Monitoring of Loss Control Recommendations				
Special Services				
Other				
Total				

Appendix A

Exhibit 5.1.1

Summary of Projected Costs for Servicing the Commercial Residual Market

D. Company/General Expenses	2 Carriers	3 Carriers	4 Carriers	Preference
Other Loaded Annual Staffing Costs				
Administrative/Account Management Services				
Management Information System Services				
All Other Services				
Rent and Rent Items				
Office Equipment & Supplies				
Professional Services (Auditors, Actuarial, Legal, etc.)				
Taxes, Licenses, & Fees				
Other				
Total				

E. Calculation of Total Expenses	2 Carriers	3 Carriers	4 Carriers	Preference
Section A. Total: ULAE Expenses				
Section B. Total: Underwriting/Technical Services Expenses				
Section C. Total: Loss Control Services Expenses				
Section D. Total: Company/General Expenses				
TOTAL: (A+B+C+D)				

F. Estimated Residual Market Premium				

G. PY 2022 Expense Ratio (Total E / F)				

Appendix A

Exhibit 5.1.1

Summary of Projected Costs for Servicing the Commercial Residual Market

	2 Carriers	3 Carriers	4 Carriers	Preference
H. PY 2022 Price				
If different from H., please explain				
I. PY 2023 Price				
If different from H., please explain				
J. PY 2024 Price				
If different from I., please explain				
K. PY 2025 Price				
If different from J., please explain				
L. PY 2026 Price				
If different from K., please explain				

Taxi/Limo/Car Service Commercial Ceded Data as of September, 2020

A. Written Premium

<u>Policy Year</u>	<u>Taxi Ceded Premium</u>	<u>Limo Ceded Premium</u>	<u>Car Service Ceded Premium</u>	<u>T/L/CS Total</u>	<u>Average Based on 4 SC</u>
2003	13,302,765	1,510,575	5,326,203	20,139,543	
2016	5,359,888	811,673	3,980,041	10,151,602	2,537,901
2017	4,995,966	1,249,741	4,800,613	11,046,320	2,761,580
2018	3,736,972	937,620	4,796,196	9,470,788	2,367,697
2019	2,749,463	723,070	3,878,365	7,350,898	1,837,725
Latest 12 Months	2,188,713	545,833	2,786,240	5,520,786	1,380,197

B. PDL Exposure Volume

<u>Policy Year</u>	<u>Taxi Ceded PDL Exp</u>	<u>Limo Ceded PDL Exp</u>	<u>Car Service Ceded PDL Exp</u>	<u>Total T/L/CS PDL Exp</u>	<u>Average Based on 4 SC</u>
2003	2,124	356	1,335	3,815	
2016	670	206	775	1,651	413
2017	645	294	996	1,935	484
2018	555	197	968	1,720	430
2019	419	159	772	1,350	338
Latest 12 Months	329	131	603	1,063	266

C. Producer Volume

Safety 77 Active ERPs, 35 of which have Safety as their Commercial Servicing Carrier.
349 Total ERPs appointed.

Pilgrim 54 Active ERPs, 14 of which have Pilgrim as their Commercial Servicing Carrier.
454 Total ERPs appointed.