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NOTICE OF MEETING

COMMERCIAL AUTOMOBILE COMMITTEE

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

THURSDAY, MARCH 15, 2018 AT 1:00 P.M.

MEMBERS OF THE COMMITTEE

Mr. Thomas DePaulo – Chair
Cabot Risk Strategies, LLC

Mr. Peter Chung
Ms. Sarah Clemens
Ms. Sheila Doherty
Ms. Mayre Hammond
Mr. Coleman Johnson
Mr. Brian Lam
Mr. John Olivieri, Jr.
Mr. Thomas Skelly, Jr.
Mr. Barry Tagen

The Norfolk & Dedham Group
MAPFRE U.S.A. Corporation
Doherty Insurance Agency, Inc.
Arbella Insurance Group
The Hanover Insurance Company
Safety Insurance Company
J.K. Olivieri Insurance Agency, Inc.
Deland, Gibson Insurance Associates, Inc.
Pilgrim Insurance Company

AGENDA

CAC

18.01 Records of Previous Meeting

The Records of the Commercial Automobile Committee meeting of February 8, 2018 should be read and approved.

CAC

18.03 CAR Conflict of Interest Policy

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

CAC

18.04 Servicing Carrier Service Levels Subcommittee

At its February 8, 2018 meeting, the Commercial Automobile Committee unanimously voted to accept the recommendation of the Subcommittee and recommend that the Governing Committee adopt proposed updates to Rule 11.C.2. and Section E. of Chapter III of the Manual of Administrative Procedures. The proposed modifications define overall expectations for commercial Servicing Carrier service levels and procedures for the review of requests for reimbursement of extraordinary expenses.

At the Governing Committee's February 14, 2018 meeting, amended language to Rule 11 and Chapter III was presented and the matter was remanded back to the Commercial Automobile Committee for further consideration, discussion and recommendation. (Docket #CAC18.04, Exhibit #1)

CAC

18.07 Distribution of Residual Market Books of Business

At its meeting of February 8, 2018, the Committee agreed that there exists a clear inequity among Servicing Carriers that needs to be addressed and that any redistribution effort should attempt to attain equity by causing the least disruption as possible. As a result, staff was directed to evaluate current Servicing Carrier premium volumes and to prepare data reports, including the potential number of agencies impacted, for the Committee's review at its next meeting. The reports will be distributed as additional information prior to the meeting.

CAC

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. Early in 2017, the Committee directed Staff to prepare Servicing Carrier Company Profiles and outlined topics to be addressed in the Servicing Carrier Annual Reports. A schedule for the submission and review of Servicing Carrier Annual Reports has also been prepared. The Committee should be prepared to discuss and confirm expectations. (Docket #CAC18.08, Exhibits #1 and #3)

Other Business

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

Executive Session

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

JOHN METCALFE
Director – Residual Market Services

Attachments

Boston, Massachusetts
March 1, 2018

CAR | **Rules of Operation**
Rule 11 | **Assessments and Participation**
Revision Date | **2014.10.24**
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C. Settlement of Balances

1. CAR will issue quarterly summaries to all Members reflecting their cumulative balances. However, CAR will settle the cumulative balances relating to the current policy year following the close of the third quarter of the calendar year, or at a later date if so determined by the Governing Committee.
2. The Governing Committee, subject to the approval of the Commissioner, may authorize reimbursement of a Servicing Carrier in whole or in part for a specific necessary and extraordinary expense incurred in ~~qualifying for, serving performing its obligations~~ as, ~~or ceasing to be~~ a Servicing Carrier. The Servicing Carrier must petition the Governing Committee for such relief and the expense must be actually incurred before reimbursement. Such expense must be explained by the Servicing Carrier in such detail as required by the Governing Committee and must be shown to be ~~a~~ necessary expense that is significantly in excess of the normal additional expense expected to be incurred by the Servicing Carrier such that the expense could not have been reasonably contemplated by ~~the~~ a Servicing Carrier in its acceptance of the terms of CAR's request for proposal for the current service period.
3. The Governing Committee, subject to the approval of the Commissioner, may authorize reimbursement of Servicing Carriers for normal insurance business losses incurred in connection with CAR business. Such normal business losses shall be defined and designated by the Governing Committee but shall not include any loss or expense incurred as a result of fraud or dishonesty on the part of a Servicing Carrier's claims personnel including, but not limited to, independent adjusters and agents, and each Servicing Carrier shall hold CAR harmless from and reimburse it for any such loss or expense charged. The Servicing Carrier must petition the Governing Committee for such relief.

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E. Request for Reimbursement of Extraordinary Expenses from Commercial Automobile or Taxi and Limousine Servicing Carrier Programs

A Servicing Carrier may be reimbursed in whole or in part for a specific necessary and extraordinary expense incurred in ~~qualifying for, serving as, or ceasing to be~~ performing its obligations as a Servicing Carrier. The Servicing Carrier must petition CAR for such relief and the expense must be actually incurred before reimbursement. Such expense must be explained by the Servicing Carrier in such detail as is requested and establish that the expense is necessary and significantly in excess of the normal additional expense that could reasonably have been contemplated ~~expected to be incurred~~ by the Servicing Carrier in acceptance of the terms of CAR's request for proposal for the current service period.

1. Reimbursement Considerations

An advisory committee will be appointed to review a Servicing Carrier's petition for reimbursement and will make a recommendation to CAR's Governing Committee as to whether or not the Servicing Carrier qualifies for the reimbursement it requested or some portion thereof. Reimbursement of an extraordinary expense will be reviewed on an individual case basis.

2. Procedures

a. Request for Reimbursement

A Servicing Carrier must provide CAR with timely and reasonable notification that it is seeking reimbursement of extraordinary expenses involved in a matter it deems to be significantly in excess of costs that could reasonably have been contemplated ~~were reasonably anticipated~~ in the expense allowance provision for the current Servicing Carrier program.

The Servicing Carrier must complete a Request for Reimbursement of Extraordinary Expenses form (Exhibit III-E-1) with a copy sent to the Commissioner of Insurance. The following additional information must also be provided:

- 1) A summary of the request.
- 2) A detailed description of the issue(s) directly responsible for the request and why the petitioner deems its efforts as being necessary and extraordinary, i.e. why the effort/expense is

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considered to be outside of the scope of services accepted by the carrier in response to CAR's Request for Proposal for Commercial Automobile or Taxi and Limousine Servicing Carrier Appointment.

- 3) A background of events, in chronological order, leading up to the request, including pertinent correspondence and documentation between the company(s), producer(s) and/or any other involved entity.
- 4) A summary of efforts undertaken by the Servicing Carrier to mitigate the impact to the residual market.
- 5) A detailed accounting of any incurred expenses directly related to the residual market issue by company employees and/or contracted ~~other~~ service providers utilized by the company on a regular or routine basis that are alleged to be extraordinary. Provide detailed explanations as to why these efforts/costs are deemed to be necessary, significant and extraordinary.
- 6) An explanation for the need of any outside business, legal or other service provider contracted to specifically address resolution of the issue(s) along with the anticipated costs and an accounting of any expenses already incurred that are directly related to the issue presented by the Servicing Carrier.
- 7) Confirmation that the Commissioner of Insurance has been copied on the request.

b. Advisory Committee Review

The appointed advisory committee will be charged with determining whether or not the Servicing Carrier had diligently used usual and customary procedures for managing residual market business, including effective oversight of agency/company business submissions (underwriting, loss control, etc.) and whether the company diligence was timely in addressing issues that may have otherwise held costs to lower amounts. The petitioning Servicing Carrier must demonstrate that it qualifies for relief and address why the expected and/or incurred extraordinary costs ~~were~~ could not have been anticipated in the Servicing Carrier's acceptance of the service terms and the expense allowance provision resulting from Servicing Carrier selection process. The committee's presumption prior to review of the request will be that expense allowance expectations for

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residual market business were intended to be at a level that would anticipate and require a higher level of management versus voluntary business. A decision to authorize reimbursement and the amount of reimbursement will not be based solely on whether the Servicing Carrier's efforts were justified but also on whether the efforts are deemed to have been extraordinary and the company took appropriate steps to mitigate negative impact to the residual market.

The advisory committee will require any level of detail it may deem necessary to support the amount of the requested reimbursement. The Servicing Carrier bears the burden of providing adequate documentation and justification for all requested expense amounts. ~~The committee may recommend an "expense not to exceed" in order that the company may move forward in its efforts to act in the best interest of the residual market and the motoring public.~~ Reimbursable expenses must be already paid, directly related to the residual market issue, and quantifiable and verifiable prior to reimbursement and are subject to the further approval required in 2.d. and 2.e. of this Section.

c. CAR Review of an Approved Expense Reimbursement

To the extent that clarification or revision of the original requested reimbursement amount occurs as a result of advisory committee deliberations, CAR staff will verify that all documentation supports the recommended reimbursement amounts pursuant to the committee discussion.

d. Governing Committee and Commissioner of Insurance Approval

The Governing Committee will consider whether to authorize reimbursement of all or any part of the amount requested. Any decision by CAR's Governing Committee to approve reimbursement of extraordinary expenses, will be ~~sent to~~ subject to the review and approval of the Commissioner of Insurance for review.

e. Reimbursement by CAR

~~After final approval~~ If approved by the Commissioner of Insurance, CAR staff will review final expense documentation to confirm compliance with the approved reimbursement amount and approved reimbursement payments will be processed as bulk adjustments to ~~a~~ the Servicing Carrier's Settlement of Balances and the Governing Committee will be notified.

Commonwealth Automobile Reinsures
Commercial Automobile Committee
Servicing Carrier – Annual Reports/Company Profile

Servicing Carrier Company Profiles

At the November 2016 meeting of the Commercial Automobile Committee, Staff indicated that it would develop an Annual Company Profile to assist the committee in evaluating Residual Market results and Servicing Carrier performance. In January 2017, Staff distributed the following list of items for consideration for inclusion in the Profile, which was approved by the Committee:

- Total Written Premium
- Market Share
- Voluntary Written Premium and Percent
- Ceded Written Premium and Percent
- Voluntary Written Premium from Assigned agencies and Percent
- Ceded Written Premium from Assigned agencies and Percent
- Number of Agencies set up for Auto Backdating
- Auto Backdated Cession Count and Percent

- Ceded Paid Losses
- Ceded Reserves
- Ceded Loss Ratio

- Ceded Premium by Class Type
- Ceded Losses by Class Type
- Ceded Loss Ratio by Class Type

- Premium and Loss Counts
- Premium and Loss Statistical Error Counts
- Premium and Loss Statistical Error Percentages
- Ceded Policy Counts
- Cession Error Counts
- Critical Error Counts
- Non-Critical Error Counts
- Rate Edit Eligible and Error Counts (by subline)
- Experience Rated Policy Information

- Stat Penalties
- Ceded Penalties

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Servicing Carrier – Annual Reports/Company Profile

Servicing Carrier Annual Reports

The establishment of an annual Servicing Carrier report was initially discussed as a concept that might facilitate the monitoring of each company's residual market performance by CAR and the Commercial Auto 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 during the prior year. Accordingly, Staff has updated the outline of suggested topics for inclusion in the Servicing Carrier Annual Report to reflect concerns based on more recent 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

From RFP:

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

From 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.

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Commercial Automobile Committee
Servicing Carrier – Annual Reports - Schedule

Servicing Carrier Annual Reports – Schedule

- May 15, 2018 – CAR will complete populating the Servicing Carrier Company Profiles
- May 15, 2018 – Servicing Carriers will submit their Annual Reports to CAR
- By June 1, 2018 – CAR will distribute the Annual Reports and Company Profiles to the Committee
- By June 30 2018 - the Servicing Carriers will present their Annual Reports to the Committee
- By September 12, 2018 – the Commercial Auto Committee will identify and recommend additional areas where standard procedures and improvements in processes will benefit the residual market.
- September 19, 2018 – the Commercial Auto Committee will report its finding to the Governing Committee