



NATALIE A. HUBLEY  
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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**ADDITIONAL INFORMATION**

**TO MEMBERS OF THE COMMERCIAL AUTOMOBILE COMMITTEE**

**FOR THE MEETING OF:**

**Monday, April 2, 2018 at 1:00 p.m.**

**CAC**

**18.06 Commercial Automobile Residual Market Standards Subcommittee**

Attached are the Records of the Commercial Automobile Residual Market Standards Subcommittee meeting of March 29, 2018. (Docket #CAC18.06, Exhibit #1)

JOHN METCALFE  
Director – Residual Market Services

Attachment

Boston, Massachusetts  
March 30, 2018



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## RECORDS OF MEETING

### COMMERCIAL AUTOMOBILE RESIDUAL MARKET STANDARDS SUBCOMMITTEE – MARCH 29, 2018

#### Members Present

Mr. John Olivieri, Jr. – Chair	J.K. Olivieri Insurance Agency, Inc.
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. Barry Tagen	Pilgrim Insurance Company

Substituted for:

Not in Attendance:

Mr. Thomas Skelly, Jr., Deland, Gibson Insurance Associates, Inc.

The Subcommittee unanimously agreed to a waiver of the 10-day meeting notice.

#### 18.01 Records of Meeting

The Subcommittee unanimously voted to approve the Records of the Commercial Automobile Residual Market Standards Subcommittee meeting of February 6, 2018. The Records have been distributed and are on file.

#### 18.04 Commercial Residual Market Issues

Ms. Wendy Browne stated that an updated list of issues impacting the commercial residual market was attached to the Additional Information Notice and noted that the list will be updated after each meeting to reflect the current status of the Subcommittee's deliberations. She informed the Subcommittee that modifications made to the definition of Principal Place of Business in Rule 2 – Definitions to incorporate the nerve center test in order to verify a risk's eligibility for placement in the commercial residual market have been approved by the Division of Insurance. The Subcommittee agreed that for its upcoming meetings, the priority of issues to be discussed should be producer requirements, information sharing and standards for non-fleet private passenger type risks.

#### 18.06 Standards for Validating the Principal Place of Business

The Subcommittee discussed in detail standard procedures to be used by Servicing Carriers and producers to validate an entity's principal place of business in determining a risk's eligibility for placement

in the Massachusetts residual market. In light of the recently approved amendment to the Principal Place of Business definition in Rule 2, the procedures seek to ensure consistency among Servicing Carriers and producers in their efforts to validate the corporation's nerve center as defined as its center of direction, control, and coordination.

With respect to Servicing Carrier requirements, the Subcommittee agreed that adoption of the nerve center definition represents significantly enhanced standardization. The Subcommittee recommended that Servicing Carriers be notified of an expectation to enhance their focus on validating principal place of business and radius of operation for intermediate and long distance TTT and bus classifications. It was also noted that the information sharing opportunities being considered by the Subcommittee will allow for improved efficiency in underwriting efforts.

Discussion focused on expectations for producers to substantiate the principal place of business prior to binding coverage, including opportunities as well as limitations for Servicing Carriers to address questionable circumstances during the underwriting process. After substantial deliberation, the Subcommittee members agreed that the most effective tool at point of application would be a certification by the risk of the location of its principal place of business. Pursuant to the discussion, the Subcommittee directed staff to update the producer standards to include a requirement to obtain a signed certification form from all new business applicants.

#### **18.07 Program Oversight and Auditing**

Mr. Mark Alves presented CAR's proposed plan for a Focus Audit to be used to assist the Subcommittee in its initial efforts to develop underwriting standards for managing the commercial residual market as well as long term audit and oversight procedures. He noted that all Servicing Carriers will be audited with the objective of gathering information relative to efforts to validate the eligibility, classification and rating of a risk in the residual market. Staff has initially identified five classes of business from which to sample. In addition to the data samples, staff will request a count of risks that were declined coverage through the residual market and an explanation for the declination. However, the Subcommittee indicated that a more effective approach would be to request policies that were cancelled or non-renewed, noting the unlikelihood of an initially declined policy and requested that the proposal be modified to include this clarification.

The Subcommittee will be provided with a summarized audit report of staff's findings that may be used to further develop commercial residual market standards. This report will also share information regarding both common and unique procedures employed by the Servicing Carriers pertaining to those policies that have been declined, cancelled or non-renewed. Finally, Mr. Alves noted that the audit will conclude in a manner consistent with the audits currently performed for Member Companies and Servicing Carriers as described in Chapter IX – Compliance Audit of the Manual of Administrative Procedures with reports provided to Compliance and Operations as well as the Commercial Automobile Committees for consideration.

The Subcommittee unanimously recommended approval of the commercial Focus Audit to the Commercial Automobile Committee.

MARIAN ADGATE  
Corporate Documentation Specialist

Boston, Massachusetts  
March 30, 2018

## Proposed Commercial Focus Audit

### Overview

At its February 14, 2018 meeting, the Governing Committee discussed staff's efforts to begin focus auditing of all Servicing Carriers in the commercial residual market. The Committee specifically noted concerns with Private Passenger Type (PPT) Non-Fleet and interstate bus risks as classes contributing most significantly to the growth of the residual market.

### Current Environment

Much of CAR's focus during 2017 has been to evaluate the risk concerns that have adversely impacted the commercial market and to develop a coordinated plan to improve results. The Commercial Auto Residual Market Standards Subcommittee is currently considering issues and identifying opportunities to standardize underwriting procedures among the Servicing Carriers. Procedure audits will be developed in the future from the standardization efforts of the Subcommittee. In the interim, staff will perform focus audits to gather additional information relative to Servicing Carrier handling of the above noted classes in order to aid in the development of standards and ensure consistent procedures going forward.

### Compliance Audit Overview

CAR's Compliance Audit Department currently conducts premium and claim statistical audits designed to test the quality of data reporting in accordance with the Commercial Statistical Plan. These audits address the accuracy of statistical reporting for ratemaking purposes. These audits are not intended to evaluate the quality of underwriting.

Compliance Audit also conducts claims Performance Standards and Special Investigations Unit (SIU) audits that measure the consistency of claims handling between the voluntary and residual markets, and the consistency of the audited company's SIU Department to industry Best Practices.

### Focus Audit Objective

The objective of the focus audit is to gather more detailed information regarding the Servicing Carrier's efforts to validate the *eligibility* of the risk in the residual market, validate the proper *classification*, and *rating* of the risk. Audit results should support the development of the residual market standards currently in process by the Commercial Auto Residual Market Standards Subcommittee.

### Focus Audit Sample Selection:

Staff has identified five classes of business on which to concentrate the initial focus audit based on concerns expressed in committee discussions to date, as well as an analysis of the five year loss ratios for each class. Staff has defined sample selections which will target 20 policies with losses for each Servicing Carrier within each of the five groupings for which data is reported. Samples from each group will not be randomly generated but will be selected intentionally by reviewing the associated statistical data and other supplemental resources utilized in the normal audit process. The five classes include:

1. Fleet Public Transportation: Charter Bus; zone rated (>200 miles)
  - Class Type 38 and Class Code 540900
2. Fleet Public Transportation: Charter Bus; intermediate (51 to 200 miles)
  - Class Type 37 and Class Code 549#00
3. Non Fleet Public Transportation: Charter Bus; zone rated (>200 miles)
  - Class Type 34 and Class Code 547900

## Proposed Commercial Focus Audit

4. Non Fleet Public Transportation: Bus Not Otherwise Classified; zone rated (>200 miles)
  - Class Type 34 and Class Code 587900
5. Private Passenger Type Non-Fleet: Vehicles used in business
  - Class Type 81 and Class Code 739100

The Servicing Carriers are also asked to provide a count of residual market risks that have been declined, cancelled or non-renewed with a corresponding explanation for the action. Staff will subsequently request documentation supporting the decision on a sample of these risks not to exceed 20 in total.

### Requested Documentation

All Servicing Carriers will be audited remotely and concurrently. To obtain an accurate overview of residual market practices and procedures, CAR will require access to each Servicing Carrier's policy processing and claim systems. Access to all underwriting files including underwriting notes, premium systems, claim systems and SIU documentation where relevant will also be required. CAR may also follow up with additional requests while in the process of auditing.

For each sampled charter bus, the Servicing Carrier shall provide the Motor Carrier Number to enable verification of information through the Federal Motor Carrier Safety Administration (FMCSA).

### Focus Audit Report

CAR will produce a single audit report that objectively summarizes findings while not attributing results to a specific Servicing Carrier. The report objective is to provide an overview that is useful to the further development of standards pertaining to commercial automobile residual market issues.

For the five sampled groupings, the report will summarize information gathered and comment on:

- The eligibility of the risks in the residual market.
- The appropriateness of the classification of the risks.
- The appropriateness of the rating of the risks.
  - As CAR currently audits all Servicing Carriers biennially for the accuracy in rating based on statistical reporting, CAR will not conduct a complete rerating of the ceded policy but consider policy attributes with impact to rating.
- In accordance with Chapter III.B.3.e. of the Manual of Administrative Procedures, the report will comment on the Servicing Carrier's Loss Control Services including inspection of vehicles, driver and equipment evaluations, etc.
- Should the Servicing Carrier have obtained further information from the insured to research the sampled risks?
- Should the Servicing Carrier have forwarded the policy or loss to its SIU department for further investigation if it did not?

CAR will compile an overall control report to share with the Committee both common and unique procedures employed by Servicing Carriers pertaining to those risks that have been declined, cancelled or non-renewed.

## Proposed Commercial Focus Audit

### Audit Conclusion Procedures

The closing audit process will be primarily consistent with Chapter IX – Compliance Audit of the Manual of Administrative Procedures pertaining to the audits of Member Companies and Servicing Carriers. Findings will be included in the report as determined by CAR staff but will not identify results by naming Servicing Carriers.

The company may provide a response letter to the overall focus audit and include any additional comments it deems appropriate. Response letters will not be provided to the Committee without the Servicing Carrier's consent.

The report will be provided for consideration to the Compliance and Operations Committee and the Commercial Automobile Committee.