



NATALIE A. HUBLEY  
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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**ADDITIONAL INFORMATION**

**TO MEMBERS OF THE COMMERCIAL AUTOMOBILE COMMITTEE**

**FOR THE MEETING OF:**

**Tuesday, March 5, 2019 at 10:30 a.m.**

**CAC**

**18.09 Procedures for the Review of Large Ceded Losses**

Attached is an updated draft of Servicing Carrier large ceded loss disclosure and notification procedures for the Committee's review. (Docket #CAC18.09, Exhibit #2)

**CAC**

**19.09 Review of Additional Insureds**

Attached is information to assist the Committee in its discussion relative to the requirements for listing additional insureds on ceded policies. (Docket #CAC19.09, Exhibit #1)

**CAC**

**19.10 Non-Ownership Liability Coverages**

Attached are data reports to assist the Committee in its discussion of this issue. (Docket #CAC19.10, Exhibit #1)

WENDY BROWNE  
Vice President – Business Operations

Attachments

Boston, Massachusetts  
February 28, 2019



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### **Commercial Residual Market Large Loss Notification and Disclosure Procedures**

#### Background

The Governing Committee has expressed concern with the growing commercial deficit and the impact of large losses on the volatility of Loss Reserving Committee deficit projections. Committee discussion has focused on issues of timely reporting of significant losses, effective distribution of information, and potential review of underwriting and claims handling under certain circumstances. To address these issues, CAR staff recommends the following procedures for consideration.

#### Timely Reporting of Significant Losses

Governing Committee members have commented on the need to provide timely information to Member Companies of circumstances surrounding potentially large losses in order that Members may appropriately assess financial impacts. To that end, staff recommends implementing early notification requirements and developing procedures to monitor timely statistical reporting by Servicing Carriers.

##### 1. Large Loss Pre-Reporting Notification Requirement

CAR recognizes that in some instances, statistical reporting of a potentially large loss may be delayed as the Servicing Carrier determines liability or coverage. Accordingly, in order to provide timely information to those impacted by such potential losses, staff recommends introducing a pre-reporting notification feature. Servicing Carriers will be required to promptly notify CAR of an incident involving a commercial ceded insured that may potentially result in a large loss liability for the pool, regardless of consideration of liability or coverage. Such incidents will include those involving serious injuries including but not limited to spinal injury, traumatic brain injury, amputation or fatality, or may include multiple injured parties.

CAR staff will develop a web-based reporting application to collect and store the information as displayed on the attached Exhibit A. The application will include a requirement for regular status updates, and incidents reported through this application will be brought to the attention of the Loss Reserving Committee (LRC), until reserves are statistically reported or the matter has otherwise been closed.

The Commercial Automobile Committee should consider the following issues to direct development efforts and information distribution:

- Servicing Carrier requirement for prompt notification (within 2 days of incident, 1 week, etc.)
- Distribution of information beyond LRC (committees, member companies, etc.)

- Security requirements to access reports (publicly available or password requirements)
- Data to be included with information distribution (incident description only)

## 2. Monitor Servicing Carrier Loss Reporting

### a. Confirm Compliance with Pre-Reporting Notification Requirement

As staff identifies new reporting of large losses, it will confirm that the carrier had complied with the notification requirement. Servicing Carrier performance in this regard will be incorporated into the company profile report provided to Commercial Program Oversight Committee in conjunction with its annual review of Servicing Carrier Annual Reports. Furthermore, any patterns of non-compliance will be brought to the attention of the Compliance and Operations Committee for review.

### b. Monitor the Timeliness of Loss Reserve Reporting

Staff will develop an analysis identifying reporting patterns of claims reported within specific timeframes of accident date in order to identify industry trends and potential servicing carrier anomalies. Reporting anomalies will be brought to the attention of the Servicing Carrier for further explanation and corrective action plan. The carrier's status of corrective action will be reviewed with the Compliance and Operations Committee. This analysis will also be incorporated into the company profile report provided to the Commercial Program Oversight Committee in conjunction with its annual review of Servicing Carrier Annual Reports.

### Additional Distribution of Information

In addition to the proposed distribution of information described above, staff has also responded to the expressed need for improved disclosure of large loss occurrences through the information provided to the LRC. Staff expanded upon the large loss reports produced quarterly, and has included those reports with the distribution of LRC information to the Governing Committee. A copy of those reports, reflecting data reported through the September 2018 quarter, is attached for discussion purposes.

### Large Loss Review

The Governing Committee has discussed the need to incorporate a strengthened review of large losses into the Commercial Automobile Program. The Committee expressed an interest in developing a review process that evaluates various aspects of underwriting and claim handling involving policies which have incurred large losses while recognizing the need to protect the integrity of ongoing claim investigations. The parameters of the review process will establish the roles and responsibilities of those charged with performing the reviews and the expected consequence of unfavorable review findings.

Exhibit A

Commonwealth Automobile Reinsurers  
Large Loss Pre-Notification Reporting Form

Servicing Carriers are required to notify CAR of an accident involving a commercial ceded insured within two business days of becoming aware of a potential large loss liability for the pool, regardless of the carrier's loss reserving practices. Large losses are those that may involve payments in excess of CAR's maximum cedeable limits of \$1M CSL, due to the risk's required compliance with relevant financial responsibility laws.

Policy Information

Policy Number	Policy Effective Date	Cession Number		
Class Code	Vehicle Description	Policy Limits		
		BI	PDL	CSL
Prior Policy Information-Current Carrier				
Original Effective Date:				
Prior Policy Information-Different Carrier				
Carrier	Policy ID	Policy Effective Date(s)		

Accident Information

Accident Date		Accident Location		
		City	State	Country
VINs Involved in Accident		Number of Potential Claimants		
Estimate of Potential Losses		Estimate of Potential Expenses		
BI		Legal		
PDL		Claims Adjusting		
PIP		Other		
Expected Statistical Reporting Date				
Description of Incident				



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## COMMERCIAL AUTOMOBILE COMMITTEE REVIEW OF ADDITIONAL INSURED COVERAGE

### Background:

An additional insured is a person or organization, other than the first named insured, identified as an insured in the policy declarations or an addendum/endorsement to the policy. The additional insured endorsement extends vicarious liability coverage to a third party with whom the named insured has a business relationship where a covered claim involves negligence on the part of the named insured. The protection afforded the additional insured is more limited than that afforded the policyholder, but typically includes defense coverage and coverage for certain 3<sup>rd</sup> party lawsuits arising out of the relationship. The cost of adding an additional insured is generally low because there is no increase to overall policy limits and thus, the additional risk is considered marginal.

As part of its review during the Servicing Carrier Focus Audits, staff observed a number of ceded policies with additional insureds listed. In many cases, the additional insureds added to the policy were lienholders and lease companies. Other entities included casinos, out-of-state school districts out-of-state metropolitan transit commissions and government entities. Because of the potential exposure to the pool, the Committee should discuss the requirements for adding additional insureds to ceded policies.

### Current Additional Insured Endorsements approved for the residual market:

#### Garage Endorsements:

- Additional Insured – Municipalities - Massachusetts MM 25 98 09 98

#### Special Types Endorsements

- Additional Insured – Lessor of Leased Equipment CA 20 47 07 97
- Additional Insured – Owner of Leased Vehicle Massachusetts MM 20 25 09 98
- Lessor – Additional Insured and Loss Payee Massachusetts MM 20 26 10 06

#### Truck, Tractor, Trailer Endorsements

- Truckers – Named Lessee as Insured CA 23 12 12 93

#### Common Coverages Endorsements

- Additional Insured – Massachusetts MM 99 50 09 98

Proposed Required Documentation for Additional Insureds on Ceded Policies:

Staff recommends adopting the following requirements for supporting documentation to validate the insured's request for the added endorsement:

- A contract demonstrating a business relationship between the named insured and the additional insured must be provided. Similarly, documentation demonstrating the requirement for coverage by municipalities, transit authorities, or other government entities must be provided. A request for coverage by a producer without supporting documentation is insufficient proof of the need for coverage.
- Copies of contracts and other related documentation must be maintained by either the Servicing Carrier or the producer and must be provided to CAR during an audit.

Limitations:

The Committee should consider whether any limitations should be placed on the use of the Additional Insured endorsement.

Rating:

Current CAR Additional Insured endorsements placed on file for use with ceded policies do not incorporate any premium charges. The Committee should discuss whether the coverage afforded by any of these endorsements represents an additional exposure to the pool for which a rate should be developed.

**Commercial Automobile Committee**  
**Non-Owned Automobile Data (Class Types 61, 62) By Policy Year**  
**Data Reported Through December, 2018**

Industry Residual Market Data (CAR ID Codes 4, 5)

<b>Policy Year</b>	<b>Written Premium</b>	<b>Incurred Losses</b>	<b>Loss Ratio</b>	<b>Cession Rate</b>	<b>Reported Deficit*</b>
2013	1,983,861	4,923,213	248%	13.8%	-3,474,994
2014	2,194,797	4,695,435	214%	15.1%	-3,073,480
2015	2,375,854	2,068,831	87%	16.0%	-301,196
2016	2,587,571	4,806,578	186%	16.2%	-2,878,838
2017	2,596,636	2,492,577	96%	17.3%	-542,503
2018	2,846,253	304,975	21%	18.4%	1,861,024

\*Reported Deficit = Premium – Loss – Expenses. Losses are undeveloped with no IBNR.

**Commercial Automobile Committee**  
**Non-Owned Automobiles Policy Year 2018 Premium By Class Code**  
**Data Reported Through December, 2018**

<b><u>Non-Ownership Liability</u></b>			
<u>Class Type</u>	<u>Class Code</u>	<u>Description</u>	<u>Premium</u>
61	6601	Risks with 0-25 Employees	940,122
61	6602	Risks with 26-100 Employees	52,877
61	6603	Risks with 101-500 Employees	33,549
61	6604	Risks with 501-1000 Employees	14,805
61	6605	Risks with 1001+ Employees	14,780
61	6671	Individual Liability of Employees	84,511
61	6670	Volunteers – Social Service	23,361
61	6672	Individual Liability of Volunteers – Social Service	7,838

Subtotal Non-Ownership Liability      1,171,843

<b><u>Hired Automobiles</u></b>			
<u>Class Type</u>	<u>Class Code</u>	<u>Description</u>	<u>Premium</u>
61	6611	Hired Autos – Non-Truckers	23,380
61	6613	Hired Autos – Truckers	96,505
62	6619	Hired Autos – On a Minimum or an "If Any" Basis	1,207,654

Subtotal Hired Autos      1,327,539

<b><u>Other Non-Owned Automobiles</u></b>			
<u>Class Type</u>	<u>Class Code</u>	<u>Description</u>	<u>Premium</u>
62	9020	Drive Other Car Coverage	346,871

Subtotal Other Non-Owned Autos      346,871

**Total Non-Ownership Liability, Hired and Other Non-Owned Autos Premium      2,846,253**

**Stand Alone Policy Premium      1,087,032**

**% of Total Premium      38%**



## Commercial Automobile Committee Non-Owned Rating Summary by State

<u>Description</u>	<u>Massachusetts</u> <u>CAR</u>	<u>Pennsylvania</u>	<u>New York</u>	<u>Connecticut</u>	<u>New Jersey</u>
Garage / Auto Dealer Non-Owned	NO	NO	NO	NO	NO
Fast Food / Prepared Food Delivery		# Employees * .75 * PP Rate	Rate Increments on # of Employees	# Employees * .75 * PP Rate	Rate Increments on # of Employees
Social Services Agency	Rate Per Volunteer		Rate Per Volunteer	Rate Per Volunteer	
Auto Repair		35% * PPT Rate	35% * PPT Rate	35% * PPT Rate	35% * PPT Rate
Service Station		35% * PPT Rate	35% * PPT Rate	35% * PPT Rate	35% * PPT Rate
Storage Garage		35% * PPT Rate	35% * PPT Rate	35% * PPT Rate	35% * PPT Rate
Public Parking		35% * PPT Rate	35% * PPT Rate	35% * PPT Rate	35% * PPT Rate
Tow Truck Operator		35% * PPT Rate	35% * PPT Rate	35% * PPT Rate	35% * PPT Rate
All Other	Rate by # of Employees	Rate by # of Employees  Other rules apply if > 50% of employees are involved	Rate by # of Employees  If > 50% of employees, multiply rate * 2	Rate by # of Employees	Rate by # of Employees  If > 50% of employees, multiply rate * 2