



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

RECORDS OF MEETING

COMMERCIAL AUTOMOBILE COMMITTEE – JANUARY 22, 2019

Members Present

Mr. John Olivieri, Jr. – Chair	J.K. Olivieri Insurance Agency, Inc.
Mr. William Cahill, Jr. ⁽¹⁾	The Hanover Insurance Company
Mr. Peter Chung	The Norfolk & Dedham Group
Mr. Paul Drennan	MAPFRE U.S.A. Corporation
Mr. Brian Lam	Safety Insurance Company
Ms. Mona McCowen	Arbella Insurance Group
Mr. Thomas Skelly, Jr.	Deland, Gibson Insurance Associates, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company

Substituted for:

⁽¹⁾Mr. Coleman Johnson

Not in Attendance:

Ms. Sheila Doherty

Ms. Sharon Pontes

Doherty Insurance Agency, Inc.

Acadia Insurance Company

18.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Commercial Automobile Committee meeting of November 8, 2018. The Records have been distributed and are on file.

19.04 Commercial Automobile Residual Market Standards Subcommittee

The Commercial Automobile Committee unanimously voted to approve the Records of the Commercial Automobile Residual Market Standards Subcommittee meeting of December 18, 2018.

18.09 Procedures for the Review of Large Ceded Losses

Ms. Natalie Hubley informed the Committee that staff is currently preparing materials for this agenda item based upon feedback received at the Committee's last meeting and upon concerns raised by the Governing Committee at its September meeting relative to the growing commercial deficit and the impact of large losses on the volatility of the Loss Reserving Committee's deficit projections. She noted that the large ceded loss notification procedures initially presented to the Commercial Automobile Committee at its November 8, 2018 meeting are being modified based upon feedback received that the procedures as drafted did not sufficiently address the Governing Committee's concerns with respect to the

evaluation of Servicing Carrier underwriting and claims handling for large losses exceeding a certain threshold. Updated procedures will be presented to the Committee for review at its next meeting.

19.05 Commercial Residual Market Issues

Ms. Wendy Browne reported that the list of issues impacting the commercial residual market has been updated to reflect the current status of the Commercial Residual Market Standards Subcommittee's deliberations. For today's meeting, she indicated that the Commercial Automobile Committee will continue to discuss driver licensing requirements, the development of a market need concept for new producer appointments and review of modifications to Rules 52 and 72 of the Commercial Automobile Manual relative to radius of operation and rating territory. Additionally, the Committee will review a draft of Servicing Carrier and Exclusive Representative Producer standards for determining and validating radius class and geographic classification for trucks, tractors and trailers and public automobiles.

She further noted that the Ineligible Risk Database continues to be actively utilized by Servicing Carriers to share information on ceded risks that are ineligible for coverage in the Massachusetts commercial residual market. The database currently has over 100 entries, primarily for trucks, tractors and trailers, zone rated trucks, tractors and trailers and non-fleet private type risks. She stated that CAR will be contacting Servicing Carriers to solicit additional information relative to usage of and possible enhancements to the database and will present information obtained at a future meeting.

19.06 Standards for the Verification of Applicant Drivers' Licenses

Ms. Hubley stated that based upon discussion at the Committee's November 8, 2018 meeting, several updates have been made to the Servicing Carrier and Exclusive Representative Producer Standards for the Verification of Applicant Drivers' Licenses. At that meeting, the Committee suggested that the Operator Exclusion Endorsement be used in instances where a listed operator does not hold a valid license, rather than rejecting the risk as ineligible. Additionally, the Committee had expressed concern that Servicing Carrier expectations with respect to a schedule for review of renewal business should be more clearly defined, especially given concerns that significant effort will be required by carriers to address risk eligibility at renewal.

Committee discussion focused on requirements to validate licenses for renewal business with non-fleet private passenger type exposure as well as for all other classes. Some members were concerned with the significant resources that would be required by Servicing Carriers if all renewal business was required to be reviewed. However, others commented on the legal requirements regarding licensing that have the potential to affect eligibility for each risk at each renewal. After considerable discussion, the Committee members agreed that, in order to comply with the legal licensing requirements and to ensure consistent Servicing Carrier procedures, all risks must be reviewed to validate licensing at inception and at renewal, regardless of classification. The Committee, therefore, directed staff to reinsert the wording "and renewal" in the first paragraph of the Standards and delete the last two paragraphs.

The Committee unanimously voted to approve the Standards as amended, and to approve as presented, modifications to the eligibility definition in Rule 2 – Definitions of CAR's Rules of Operation and modifications to Rule 31 – Operator Exclusion Form of the Commercial Automobile Insurance Manual.

19.07 Producer Requirements

Mr. John Metcalfe stated that at its last meeting, after review of data reports profiling the commercial marketplace, the Commercial Residual Market Standards Subcommittee directed staff to draft a market need concept proposal for the appointment of new commercial residual market Exclusive Representative Producers (ERPs).

Mr. Metcalfe reviewed the various components of the draft with the Committee. He stated that an applicant with a voluntary commercial automobile contract will be appointed to a Servicing Carrier when the eligibility requirements of Rule 14.A.4. have been satisfied. If the applicant does not have a voluntary commercial automobile contract with an active Massachusetts commercial automobile insurer, the Governing Committee or its designee, on an annual basis, will assess whether a market need exists. If it is determined that a market need exists, the committee will determine the conditions under which new appointments would be made to applicants not having a voluntary commercial automobile contract. If it is determined that a market need does not exist, no new appointments for applicants without a current voluntary contract will be made. He noted, however, that in this situation, the applicant may petition for a review of its application before a CAR committee in order to demonstrate that a market need exists that would be uniquely satisfied by the appointment of the applicant. The committee's determination of whether or not a market need exists will be based upon a review of current residual market data in order to evaluate access to producers servicing all classes of commercial risks throughout the Commonwealth.

Finally, Mr. Metcalfe noted that if an applicant, regardless of whether he or she has a voluntary commercial automobile contract, is purchasing the book of business of an ERP or former ERP who has been terminated pursuant to CAR Rules or has withdrawn from an appointment where grounds for termination were previously issued, the applicant must also petition the committee for a Servicing Carrier appointment. The applicant must satisfy the committee that the conditions for termination are not present in the purchase and must demonstrate that a market need exists that would be uniquely served by the appointment of the applicant.

After some discussion, the Committee agreed that the draft proposal effectively addressed the issues discussed by the Subcommittee, and unanimously voted to approve the market need concept as presented.

Mr. Metcalfe also noted that language has been added to Rule 14.A.4. Eligibility Requirements to require that an applicant meets the conditions for addressing a market need as determined by the criteria established by CAR's Governing Committee. The Committee unanimously voted to approve the updated language, with minor editorial modifications as suggested by Mr. Benjamin Hincks, CAR counsel.

18.12 Radius of Operation and Rating Territory

Ms. Marian Adgate provided the Committee with an overview of updates made to Rule 72 and Section III – Trucks, Tractors and Trailers of the Commercial Automobile Manual relative to the determination of radius of operation and geographic class. She noted that staff distributed around the table, for the Committee's reference, an exhibit previously reviewed by the Commercial Residual Market Standards Subcommittee which included modifications to the Zone Rating Tables contained in the Rating Section of the Commercial Manual.

Ms. Adgate stated that based on discussion at prior meetings of the Subcommittee, additional recommended modifications have been made to the Rules. She outlined for the Committee specific modifications including an update relative to how rating territory is determined for non-zone rated automobiles when the majority of the automobile's operation is outside of Massachusetts. The Rule has

been modified to include direction in this regard; specifically that the Servicing Carrier will assigned the highest rated Massachusetts territory regardless of the automobile's Massachusetts operations.

Mr. Paul Drennen noted that at the last Subcommittee meeting, a question was raised relative to whether it was more proper to rate a vehicle as origin zone 03 – Boston rather than origin zone 49 – other than Boston if the risk is principally garaged outside of Massachusetts, as zone 49 produces a lower rate. Ms. Hubley indicated that staff had researched this issue and concluded that this is a rating issue that would more appropriately be addressed in CAR's commercial rate filing.

Ms. Adgate further provided the Committee with an overview of the updates made to the Servicing Carrier and Exclusive Representative Producer Standards for the Determination of the Radius Class and Rating Territory, as recommended by the Subcommittee. She noted that the Standards provide instruction on how radius and geographic class is to be determined when the risk is unable to or fails to provide credible documentation to validate its garaging and/or operations. In this situation, the automobile's radius class will default to intermediate radius and rating territory will default to Territory 10. Servicing Carriers will then re-rate the policy and apply the rating change depending on whether the risk was a new or longer term risk.

The Committee agreed that if the risk has been in operation for more than one year and provides credible documentation to validate a different radius and/or geographic class, the rating change would be applied prospectively from the date the documentation is provided. However, the Committee had further discussion regarding the scenario where the risk has been in operation for less than one year and provides credible documentation to validate a different radius and/or geographic class. The Committee requested that staff clarify the standards to indicate that if the documentation is provided at least 90 days prior to the policy expiration date, the rating change would be applied as of the effective date of the policy, but if the documentation is provided within 90 days of the policy's expiration date, the rating change would be applied as of the effective date of the renewal policy.

Lastly, the Committee requested staff to further update the Standards relative to determining and validating principal garaging to include language that indicates that Servicing Carriers are not just limited to the list of tools noted.

The Committee unanimously voted to adopt the modifications made to Section III – Trucks, Tractors and Trailers, Rule 72 – Public Automobile Classifications and the Zone Rating Tables of the Commercial Automobile Insurance Manual, and the Servicing Carrier and Exclusive Representative Producer Standards for Determining and Validating Radius and Geographic Classification, with modifications as suggested by the Committee.

MARIAN ADGATE
Corporate Documentation Specialist

Boston, Massachusetts
February 13, 2019

ATTACHMENT LISTING

Docket #CAC19.02, Exhibit #1

Attendance Listing

