



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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NOTICE OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE

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

WEDNESDAY, SEPTEMBER 5, 2018 AT 1:30 P.M.

MEMBERS OF THE COMMITTEE

Mr. Jerry Sleeper – Chair
Safety Insurance Company

Ms. Erin Cummings
Ms. Kathleen Devericks
Mr. Bruce Dodge
Mr. Thomas Harris
Mr. Robert Littlewood
Mr. Kenneth Olivieri
Mr. Barry Tagen
Mr. Christopher Taylor

The Norfolk & Dedham Group
Nancy Z. Bender Insurance Agency, Inc.
MAPFRE U.S.A. Corporation
Quincy Mutual Group
Arbella Insurance Company
J.K. Olivieri Insurance Agency, Inc.
Pilgrim Insurance Company
The Hanover Insurance Company

AGENDA

COPC

18.01 Records of Previous Meeting

The Records of the Compliance and Operations Committee meeting of June 6, 2018 should be read and approved.

COPC

18.03 CAR Conflict of Interest Policy

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

COPC

18.04 Informational Items

The Chair will report on any Governing Committee actions that impact the Compliance and Operations Committee.

COPC

18.05 Compliance Audit Program

Staff will present an overview of the most recent private passenger results conducted in accordance with the Compliance Audit Program. The Committee should be prepared to discuss the audit findings.

COPC

18.06 Operational Reports

The 2nd Quarter 2018 Operational Reports will be posted to CAR's website in early September. If available prior to the Compliance and Operations Committee meeting, questions or comments relative to these reports will be discussed at the meeting.

COPC

18.08 Special Investigations Unit System Development

Staff will provide an update to the systems development efforts related to the Special Investigations Unit (SIU) Audit System.

COPC

18.10 Claims Performance Standards

Staff will provide an update of the most recent Claims Subcommittee meeting and efforts pertaining to the biennial review of the Private Passenger and Commercial Claims Performance Standards pursuant to G.L. c. 175, §113H.

COPC

18.12 Distributional Analysis Rewrite

Staff will review the attached Statistical Data Quality Penalty Program proposal relative to the Distributional Analysis program. (Docket #COPC18.12, Exhibit #1)

COPC

18.13 Final Close-Out of Policy Effective Year 2007

A review of the ceded outstanding losses reported in the June 2018 monthly accounting submissions has demonstrated that while the loss amount may exceed the threshold, the volume of open

ceded claims for policy effective year 2007 is low enough to warrant a final close-out. (Docket #COPC18.13, Exhibit #1)

Other Business

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

Executive Session

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

MATTHEW HIRSH
Compliance Auditor and Specialist

Attachments

Boston, Massachusetts
August 22, 2018



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Proposal for Distributional Analysis Data Quality Penalty Program

CAR implemented the redesigned Distributional Analysis program in the 2nd quarter 2016 for premium reporting. The new, online program was designed to focus on relevant quota share and rate making data elements and compare a company's distribution of its statistically reported data to like distributions of industry-wide data. The edits were designed to determine whether significant variances were due to a company's book of business or reflective of a system reporting problem. Within the application, companies are asked to provide explanations as to why a variance might exist for Coverage, Class Type by Compulsory Coverage, and Territory on commercial business and Coverage, Stat/Rate Class, Merit Rating, and Territory on private passenger business. Responses are required within 60 days of the run date for any report that was found to be over tolerance.

In 2nd quarter 2017, CAR added loss reporting to the Distributional Analysis program. Like the premium reports, the loss reports were designed to focus on the need for accurate data reporting for rate making and residual market administration purposes and to compare a company's loss reporting to its premium reporting and also to like distributions of industry wide data. The loss edits were designed to also determine whether significant variances were due to a company's book of business or reflective of a system reporting problem. For commercial business, companies are asked to respond to over tolerance conditions on variances to Premium Town, Class Type, Transaction Type, and Type of Loss. For private passenger business, companies are asked to respond to over tolerance conditions on variances related to Class Code, Territory, Transaction Type, Type of Loss, and Merit Rating. Responses are required within 60 days of the run date for any report that was found to be over tolerance.

With four cycles of the premium Distributional Analysis reports and two cycles of the loss Distributional Analysis reports having been run, there has been relatively good compliance with reviewing the reports and providing an explanation of the over tolerance conditions. However, there are approximately 45 companies that have not responded to any of the over tolerance conditions for all cycles of the reports (both premium and loss) and a number of companies who have agreed that they have a reporting issue but have not actively moved towards fixing the issue. Other companies have responded with a standard answer of the data is correct as reported.

Since the reports have been in production for 2 years starting with the premium reports in June 2016, CAR would expect greater compliance and believes a Data Quality Penalty Program is necessary to achieve better compliance and to incent those companies with data reporting issues to modify their systems.

With penalty amounts based upon the current Statistical Data Quality Penalty Program, CAR is proposing two additional penalty programs aimed at achieving better response rate and improved data reporting by the industry. Similar to statistical reporting data quality programs, the penalty would be assessed at the company level and not the group level. Also, the penalty would be assessed separately for premium and loss.

Accordingly, CAR is proposing the addition of the following two components:

- 1) If there is no response to at least 75% of the cited over tolerance conditions at the company level (not group) and by transaction (premium or loss) by the due date, a penalty of \$150 would be assessed. If, after 60 days, the company still has not responded to at least 75% of the over tolerance conditions, another \$150 penalty would be assessed. The max penalty for each run would be \$300. It would then start over on the next run of the DA reports.
- 2) Once a reporting problem has been identified, CAR will notify the company that it has one year to fix the reporting error on a going forward basis. If, after a year, the reporting issue is not resolved, CAR will assess \$3,000 per accounting shipment until it is fixed. For example, if a reporting issue is identified in the June 2018 run of the Distributional Analysis, CAR will notify the company. The company would need to fix the problem no later than the June 2019 monthly accounting submission due in August 2019. If the June 2019 submission does not reflect the corrected data reporting, CAR would assess \$3,000. For each subsequent monthly statistical submission that the problem is not corrected, CAR will assess a \$3,000 penalty.

CAR is proposing to begin the penalty program with the 2019 Distributional Analysis reports. Accordingly, the first potential penalty for not entering explanations would occur with the June 2019 reports which would run in early September 2019. The first potential penalty for not correcting a data reporting problem on a going forward basis would be the June 2020 monthly statistical submission.

Additionally, if approved, CAR will reach out to those companies who have repeatedly failed to provide an explanation or correct an identified reporting issue to ensure the company is aware of the heightened expectations and repercussions for non-compliance.

POLICY EFFECTIVE YEAR 2007

RESERVES as of 06/2018

<u>Company Number</u>	<u>2007 Dollars</u>	<u>2007 # of Claims</u>
245	379,839	1
279	163,943	1
312	19,174	10
514	2,773	2
773	59,176	2
Industry Total	624,905	16
Commercial	547,642	3
Private Passenger	77,263	13