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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – MARCH 28, 2018

Members Present

Mr. Jerry Sleeper – Chair	Safety Insurance Company
Ms. Erin Cummings	The Norfolk & Dedham Group
Mr. David Dafgek	The Hanover Insurance Company
Ms. Kathleen Devericks	Nancy Z. Bender Insurance Agency, Inc.
Mr. Bruce Dodge	MAPFRE U.S.A. Corporation
Mr. Thomas Harris	Quincy Mutual Group
Mr. Robert Littlewood	Arbella Insurance Company
Mr. Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company

Substituted for:

Not in Attendance:

17.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of October 26, 2017. The Records have been distributed and are on file.

18.04 Informational Items

Ms. Wendy Browne informed the Committee that the proposed Private Passenger Statistical Plan changes regarding Continuous Coverage and Low Frequency Discounts and the proposed Commercial Statistical Plan changes regarding Private Passenger Type – Fleet Classification Codes and Garagekeepers – Miscellaneous Coverage were approved by the Governing Committee at its November 15, 2017 meeting and by the Division of Insurance on December 7, 2017.

18.05 Compliance Audit Program

Mr. Mark Alves presented Hybrid Audit results for Privilege Underwriters Reciprocal Exchange (PURE). Mr. Barry Tagen of Pilgrim Insurance recused himself from participating in this agenda item. The audit scope for sampled policies included approximately \$1,009,000 in written premium. Associated

loss dollars, including paid losses and allocated loss adjustment expenses, totaled \$461,000. PURE began writing Massachusetts private passenger automobile insurance in 2013 and continues to write only voluntary business. For this first Hybrid Audit of PURE, multiple reporting and data quality issues were identified, resulting in a high error rate for both the quota share and rate making data analyses. Additionally, three separate but similar systemic rating issues were identified that resulted in the incorrect premium charged to the policyholder on 69% of the sampled policies. In all three instances, the amount of premium charged was not in accordance with the PURE rates and rules on file with the Division of Insurance. Lastly, the PURE SIU program was considered not compliant to both the statutory SIU requirement and Rule 32.C. of CAR's Rules of Operation pertaining to the SIU verification of garaging and policy facts.

The PURE audit response letter indicated that several data issues noted in the report have either been corrected or are in the process of being corrected. However, based upon audit results, CAR staff recommended a future focus audit to address specific findings included in the report. The Committee unanimously accepted the report as written and directed CAR staff to conduct a focus audit of PURE data in the second quarter of 2019 after the company has been provided sufficient time to correct system issues.

Mr. Alves then provided an overview of commercial audit results specific to the Taxi and Limousine Program for the two Servicing Carriers, Pilgrim Insurance and Safety Insurance. Audit results included premium/claim statistical reporting of ceded data only, compliance with CAR Rules and procedures, Claim Performance Standards and the SIU evaluation. Samples were selected from 2016 accounting and accident year for all audited components and included ceded data only. The Committee accepted all reports of each component without further consideration. In addition to the individual company reports, the Committee reviewed the Commercial Division Summary Report developed from the Pilgrim and Safety audit results.

Lastly, the Committee voted unanimously to accept the modifications to the 2018 audit schedule as a result of changes to the audit plan for both Progressive and Bankers focus audits as well as additional commercial auto focus audits. These commercial focus audits include a review of allocated medical bill assessment fees and the planned focus audits to support the development of Servicing Carrier underwriting standards. The schedule has been updated and posted to CAR's website.

17.08 Disaster Recovery – Business Continuity Plan

Ms. Browne reviewed with the Committee the draft of CAR's Business Continuity Plan. She indicated that this is the final phase of CAR's ongoing effort, starting with the development of the Business Impact Analysis, the current IT effort to implement CAR's Disaster Recovery Plan, and the current development of the Business Continuity Plan. This plan identifies the resources and tools required to effect a smooth and timely restoration of administrative and operational activities for a period of up to six months once a disruption occurs. She noted that the recovery will be based on the severity of the event that triggers the disaster, and that the plan outlines the activities for core functions that would be performed at home or at an alternative site. Ms. Browne noted that as approved by this Committee, the Business Impact Analysis identifies that CAR's website, including the MAIP Policy Application will be functioning within two business days and that the mainframe will be restored and functioning within six months.

Ms. Browne noted that, in the event of a declared disaster, two recovery locations exist – one for the LAN and one for the mainframe. The plan requires that copies of the disaster recovery procedures will be maintained at the recovery locations as well as at the homes of the Emergency Response Team. Furthermore, CAR's Disaster Recovery process includes annual testing of the disaster recovery and business continuity procedures.

The Business Continuity Plan outlines the responsibilities of each functional unit, based on various timeframes (Days One and Two, Day Three through Two Weeks, etc.). Ms. Browne noted that the responsibilities for the VP of Business Operations outlined the activities that would impact the industry, including the various communications and services that CAR would restore, and the associated timetables, in the event of a declared disaster. The Committee unanimously voted to recommend to the Governing Committee approval of CAR's Business Continuity Plan.

18.07 Private Passenger and Commercial Statistical Plans

Ms. Marian Adgate reviewed a modification made to the Private Passenger Statistical Plan in conjunction with the Division of Insurance's recent approval of an amendment to Rule 21 of CAR's Rules of Operation. The Rule 21 amendment confirmed the end date of March 31, 2018 for the restriction on the non-renewal of Clean-in-Three risks written by qualifying former Exclusive Representative Producers. Accordingly, CAR ID Code 1, used to identify this type of business, is no longer a valid code for policies effective April 1, 2018 and subsequent and has been eliminated from the CAR ID Code table.

Ms. Adgate also reviewed a proposed modification to the Commercial Statistical Plan. The change includes updated language to the Rating Identification Code table for clarification and will apply to policies effective January 1, 2019.

The Committee unanimously voted to recommend to the Governing Committee approval of the proposed Private Passenger and Commercial Statistical Plan pages as presented.

18.08 Special Investigations Unit System Development

Mr. Alves provided an overview of the Special Investigations Unit (SIU) System applicable to both private passenger and commercial business that is currently in development. The system will be a Graphical User Interface (GUI) based web application designed to replace the currently manual process. System objectives for automation include the ability to generate audit samples, control auditor work papers and notes, and develop result tables for use in audit reports.

All companies will upload the SIU Quarterly Activity Logs that are mandated by the Division of Insurance directly into the application using a specific file type and in a predetermined format. Additionally, the upload process requires that all companies provide log data that is consistent to statistically reported data. Once uploaded, the log data is automatically matched to statistical data to obtain accurate premium and claim detail.

System benefits include the development of a standardized SIU Quarterly Activity Log that eliminates inconsistencies from company to company. This standardized approach allows for the utilization of activity log data to enhance controls useful to monitoring SIU effectiveness including company or industry savings that result from SIU efforts.

Staff plans to transition to the new SIU system over a period of four quarters beginning with the industry reporting of the June 2018 SIU Quarterly Activity Logs.

Other Business

Mr. Alves notified the Committee that by statute the private passenger and commercial claims Performance Standards are due for biennial review. The current versions of the Standards were last

approved by the Division of Insurance on May 31, 2016. The Claims Subcommittee will meet in early May to consider proposed changes. Any changes that are recommended by the Subcommittee will subsequently be provided to the Compliance and Operations Committee at the June meeting.

MATTHEW HIRSH
Compliance Auditor & Specialist

Boston, Massachusetts
April 6, 2018

ATTACHMENT LISTING

Docket #COPC18.02, Exhibit #1

Attendance Listing

