



NATALIE A. HUBLEY
PRESIDENT

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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – OCTOBER 18, 2018

Members Present

Mr. Jerry Sleeper – Chair
Ms. Erin Cummings
Mr. Bruce Dodge
Mr. Thomas Harris
Mr. Robert Littlewood
Mr. Kenneth Olivieri
Mr. Barry Tagen
Mr. Christopher Taylor

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

Substituted for:
N/A

Not in Attendance:
N/A

18.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of September 5, 2018. The Records have been distributed and are on file.

18.05 Compliance Audit Program

Committee Chair, Mr. Jerry Sleeper began by noting that this focus audit is unlike the customary testing conducted by staff in accordance with normal compliance audit program reviews. The Governing Committee directed CAR to gather information on Servicing Carrier procedures in regards to confirming the eligibility and classification of risks presented for cession. As the audit report was not subject to Committee approval, the individual company results are not identified, and the uniqueness of the audit process allowed for all Committee members to participate in the discussion. Committee responses and reactions to staff observations and recommendations will be used to assist in the development of future audit procedures of the Servicing Carrier compliance audit program.

Mr. Mark Alves noted that the audit focused on classes that were adversely impacting the commercial residual market pool. He outlined necessary changes to the audit sample that occurred subsequent to the original audit proposal. The original sample objective was to test policies with losses for five specific classes of business including Zone Rated or Intermediate Charter Buses that were Fleet or Non-Fleet, Buses Not Otherwise Classified and Private Passenger Type Non-Fleet vehicles used in business. Staff found that in most instances not enough policies with losses existed to satisfy the per

company sample size. Also, some of the selected classes of business didn't have enough individual policies without regard to associated losses to satisfy the per company sample size. Staff decided that the samples would include policies without losses and be supplemented by selecting other classes of Fleet or Non-Fleet buses. The overall sample was then broken out into six unique groupings. Lastly, staff determined that the sample policy period would be restricted to policies effective January 2016 through December 2018. This resulted in a total sample of 336 policies of which 249 had at least one associated loss.

Compliance Audit's testing approach typically relies on auditing through the consistent application of established procedures. As no established procedures existed, 12 unique categories were developed as controls to measure results. Each category then referenced eligibility, classification and rating. Mr. Mathew Hirsch provided the Committee an overview of the methodology developed to measure an audit result found in Section One of the focus audit report. He specifically identified the audit controlled categories as Business Description at New Business and at Renewal, New Business Application and Renewal Application, Radius of Operation at New Business and at Renewal, and Rating. Each category was part of the measurement methodology. He explained that each result would either be allocated to agree, disagree, not applicable or unable to verify. Each Servicing Carrier could then be audited through a standardized process that would lead to consistent results regardless of differences with documentation or company procedures pertaining to eligibility or classification. Staff acknowledged that the developed methodology was subjective and that other result measurement methods are possible. He then provided an overview of the combined overall results by sample grouping and individual audit result.

Four observations were detailed in Section Two of the report. The primary audit observation was a lack of underwriting notes provided with the requested audit material. Without underwriting notes, a high volume of findings were unable to be verified. Based on the measurement methodology, the combined results attributed to Eligibility at New Business were unverified for 34% of the sample. This percentage increased to 85% for Eligibility at Renewal Applications. The combined results for Classification at New Business was unverified for 38% of the sample and 85% for Classification at Renewal Applications. Staff indicated that underwriting notes and applications are critical for an effective review of Servicing Carrier compliance. For a normal procedural audit, a lack of documentation would lead to a non-performance result. A long term audit plan would include an expectation that notes and applications would be available for auditor review. The absence of this documentation would be noted in the individual audit report. Staff suggested that CAR committees might consider enhanced on-going renewal review requirements for chronically problematic classifications.

The second observation was the subjective use of both garaging location and vehicle operation by all Servicing Carriers to determine radius class, zone combination, and rating territory. Staff noted that the manual rule lacks clear direction. Staff further noted another factor to be the difficulty in obtaining supporting documentation to validate vehicle operation. The Commercial Residual Market Standards Subcommittee is currently considering the development of standards to validate radius class, zone combination, and rating territory including potential modifications to Rule 72. Similar to standards recently approved, these will be used in developing a long term audit program. Additionally, staff suggested the developed Manual Rules and standards include definitions of key terms with specific examples.

The third observation was that one of the four Servicing Carriers incorrectly calculated physical damage premium for TTT classes. The Servicing Carrier is in the process of making programming corrections.

The final observation was outside the identified audit scope. This pertains to additional insureds included on residual market auto policies. In many instances, staff located customary additional insureds such as lienholders or lease companies added to a policy and supported with appropriate underwriting endorsement documentation. However, several less customary entities were also added including casinos, out-of-state school districts, the Cape Cod National Seashore and an out-of-state metropolitan transit

commission. Without applications, staff was unable to determine if an entity was appropriately listed as an additional insured to the policy. Also, neither endorsements nor contracts with the listed additional insureds were provided with the supporting documentation to assist in determination. Staff noted that the Commercial Residual Market Standards Subcommittee may consider this observation to further evaluate potential exposure to the pool and develop standard procedures.

After reviewing the observations, the Committee discussed the overall audit. Several Committee members commented on the percentage of Unable to Verify at the Servicing Carrier level. In particular, Mr. Sleeper noted the significant increase of Unable to Verify upon renewal.

Another Committee member noted that the classes of business sampled in this focus audit represent known residual market problems that directly impact the commercial pool. He questioned whether other common concerns might exist related to efforts by risks to obtain coverage by manipulating existing eligibility criteria. Staff suggested that the issues being considered by the Commercial Residual Market Standards Subcommittee represent the most readily available opportunities for improved results. These efforts have already established underwriting standards, procedures and producer requirements with changes implemented to define standards for validating Principal Place of Business and a definition of nerve center.

Further discussion included the possibility of future Servicing Carrier training sessions regarding the application of new standards and rules as well as the potential impact to future audits. Ms. Wendy Browne noted that each of the four servicing carriers have participated in the development of these standards and acknowledged the possible benefit of a future training program.

Mr. Alves concluded by emphasizing that this audit focused solely on policies and claims that precede efforts of the Commercial Residual Market Standards Subcommittee to further define eligibility and risk classification. He also echoed the Chair's earlier comments regarding the subjectivity of the audit based upon a review of risk eligibility. However, this fact finding effort provided an increased knowledge base for staff while allowing for significant groundwork toward the development of an updated Compliance Audit Program to be completed during 2019. Future audits will link information from this process to updated underwriting standards, Servicing Carrier procedures, and enhancements to producer requirements.

Other Business

Ms. Wendy Browne notified the Committee that CAR has received inquiries regarding the new Gender X option that may be approved by the Massachusetts Registry of Motor Vehicles, and the impact the new gender option will have on Classification Codes. Ms. Browne indicated that the new gender option has yet to be approved by the Massachusetts legislature. However, CAR has begun consideration of possible options to address this change upon approval.

MATTHEW HIRSH
Compliance Auditor & Specialist

Boston, Massachusetts
November 1, 2018

ATTACHMENT LISTING

Docket #COPC18.02, Exhibit #4

Attendance Listing

COMPLIANCE AND OPERATIONS COMMITTEE MEETING
 SIGN-IN SHEET
 Thursday, October 18, 2018

Individual's Name

Company / Agency

PLEASE PRINT

MARK ALVES	CAR
Jerry Sleeper	Safety
Wendy Brown	CAR
Steve Tones	TS&D - counsel
Ken Olivieri	J.K. Olivieri Ins Agency
Bobby Tegen	Pilgrim
Tom Harris	Quincy Mutual
Chris Taylor	HANOVER
Alison Ruggiero	CAR
JAMES ROBERTY	CAR
Bob Dittmann	AR-Bond
Erin Cummings	NFD
Bruce Dodge	MAPFRE
Matt Hirsch	CAR
Michael Dawson	CAR
JOHN METCALFE	CAR
Brian Murphy	Amica
Victor Pleuse	CAR
Rod Jones	CAR
Dipak Lamsal	CAR
Peter BERTONI	CAR
Natasha Hubley	CAR
Mona McCowen	Arbella