



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – JANUARY 30, 2019

Members Present

Mr. Jerry Sleeper – Chair
Mr. Hall Crowder ⁽¹⁾
Ms. Erin Cummings
Mr. Bruce Dodge
Mr. Thomas Harris
Mr. Robert Littlewood
Mr. Kenneth Olivieri
Mr. Barry Tagen
Mr. Christopher Taylor
Ms. Marie-Armel Theodat

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

Substituted for:

⁽¹⁾ Mr. Nathan Remmert

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 November 7, 2018. The Records have been distributed and are on file.

19.04 Informational Items

Ms. Wendy Browne informed the Committee that the updated pages to the Massachusetts Private Passenger and Commercial Statistical Plans regarding a new Statistical Data Quality Penalty Program for the Distributional Analysis System have not yet been approved by the Division of Insurance as the Division has requested further information that staff is currently researching.

19.05 Compliance Audit Program

Mr. Mark Alves and Mr. Matthew Hirsh presented Hybrid Audit results for Integon National Insurance Company. The audit scope for sampled policies included approximately \$733,000 in written premium. Associated loss dollars, including paid losses and allocated loss adjustment expenses, totaled \$956,000. Integon began writing Massachusetts private passenger automobile insurance in 2016 and

currently writes only voluntary business. For this first Hybrid Audit of Integon, several reporting and data quality issues were identified, resulting in a greater than acceptable error rate for both the quota share and combined rate making data analysis. Additionally, an isolated but systemic rating issue was identified that resulted in the incorrect premium charged for certain comprehensive coverage deductibles on 20% of the sampled policies. Lastly, Integon's SIU program was 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 Integon audit response letter indicated that several data issues noted in the report have either been corrected or are currently in the process of being corrected. However, based upon audit results, CAR staff recommended a future focus audit to retest quota share and rate making data, verify that system corrections have been effectively completed and that Integon has become compliant to the specific findings included in the report. The Committee unanimously accepted the report as written and directed CAR staff to conduct a focus audit of Integon data in the first quarter of 2020 after the company has been provided time to correct system issues. Also, that Integon must begin providing sufficient SIU Quarterly Activity Logs in 2019 in accordance with the Performance Standards prior to the scheduled focus audit.

18.10 Claims Subcommittee

The Committee Chair, Mr. Jerry Sleeper, provided an overview of the process taken regarding the Performance Standards to date. He noted that the Standards were remanded to the Claims Subcommittee by the Governing Committee with the directive to enhance the record to address concerns raised by the Compliance and Operations Committee pertaining to the medical fee database reference in Standard III. He also informed the Committee that the Subcommittee Chair, Mr. David DeLuca, was in attendance to respond to questions from the Committee. Mr. Alves then provided an overview of the Explanatory Memorandum requested of staff that was distributed with the meeting Notice. The Memorandum referenced the requirement of cost containment as central to the Performance Standards. He also referenced Massachusetts G.L.c.175, §113H and §113B which require cost containment programs to ensure the timely payment of valid claims at the lowest reasonable cost and that the cost containment programs be designed to materially impact premium charged policyholders by reducing incurred costs and expenses. Mr. Alves outlined the concerns expressed by the Committee at the prior meeting and stated the Subcommittee addressed each at the December 20, 2018 meeting. He also noted that the Subcommittee further reviewed the questions asked by the Hearing Officer at the January 22, 2016 Public Hearing. Mr. Alves noted that the Subcommittee viewed the use of medical fee databases as an opportunity to reduce costs considered in excess of usual and customary. Mr. Bruce Dodge stated that the primary benefit is not only cost containment but a benefit to the policyholder as this would enhance the ability for the insured to obtain the maximum benefit that otherwise may be prematurely exhausted. Mr. DeLuca discussed that the majority of states have a fee structure tool in place that assists in the prevention of overbilling medical service fees. Mr. DeLuca also stated that the Subcommittee's role is to review the Standards biennially including the responsibility to reflect the current claim environment in recommendations.

After discussion, the Committee voted unanimously to recommend to the Governing Committee approval of the proposed changes to the Private Passenger and Commercial Claims Performance Standards and forward these to the Commissioner of Insurance for approval.

19.07 Cession Backdate Appeal

The MAPFRE Insurance Company requested approval of cession backdates for 46 policies effective December 1, 2018 through December 3, 2018. Mr. Bruce Dodge of MAPFRE Insurance Company recused himself from this discussion.

Ms. Wendy Browne began with a summarization of the circumstances leading to the appeal. She indicated that MAPFRE is requesting backdates for 46 policies that were submitted late due to a processing problem experienced by its vendor. Ms. Wendy Browne informed the Committee that there were different scenarios outlined in the Manual of Administrative Procedures that governed how cession backdate requests were handled. She noted that this situation does not fall into the categories that CAR can approve and consequently, this backdate request is being reviewed by the Committee. Ms. Browne noted that MAPFRE provided copies of the 46 declaration pages, which clearly demonstrated the intent to cede the 46 policies prior to the effective dates; however, MAPFRE's cession verification procedures were not as thorough as they could have been in that the company was not utilizing CAR's online FTP Cession Transmission Report which would have allowed for an earlier identification of the problem.

Ms. Pamela Lazerick, representing the MAPFRE Insurance Company, agreed that it was the intent of the company to cede the policies and that intent was clearly indicated on the declaration pages of each policy. The decision to cede was also made prior to the policy effective dates as demonstrated by the current date of 309, which represents November 5th. She also noted that none of these policies had incurred any losses.

Ms. Lazerick indicated that MAPFRE has been working with its vendor to implement new controls, and has been using the new reports available through CAR website. MAPFRE has also strengthened the review and validation process to alleviate any future cession issues, and has been able to implement controls ensuring the commercial renewal batch cession FTP file is balanced and verified prior to sending to CAR. Overall, MAPFRE has strengthened their internal controls to detect any future cession issues.

Discussion followed in which the Committee focused on whether MAPFRE should be held accountable for not having controls in place to identify the issue and for not taking immediate action, or if the backdate should be granted as MAPFRE had clearly demonstrated an intent to cede and has since put in place controls to identify future issues. Also considered in the discussion was the concern that if the Committee granted the cession backdate, it would establish a precedent with potential future ramifications. The Committee considered the impact such a precedent would have in the event that a similar problem occurred.

In conclusion, the Committee considered the Manual of Administrative Procedures criteria relative to Cession Backdate Criteria. While several Committee members reasoned that approving the backdate would set precedent, the majority of the Committee felt that MAPFRE had clearly intended to cede the policies and had put in place sufficient controls to identify future problems. Accordingly, the Committee voted to approve the request for cession backdates by a vote of 6 to 2.

19.08 Cession Reporting and Correction System Conversion

Ms. Lynne Rosenberg presented a status report on the system development efforts related to the conversion of the mainframe Cession Reporting and Cession Correction System to an online application available through CAR's website. Ms. Rosenberg indicated that the new online applications will provide an easier path for the industry to access the systems. Ms. Rosenberg also stated that the updated systems have moved into parallel testing in production with an expected release date in mid-March, and that CAR will provide instructions for use of the applications and will offer support along with the release.

Ms. Marian Adgate noted that updates to the Manual of Administrative Procedures are necessary to coincide with the release of the new systems. Ms. Adgate indicated that these changes will include updates to Chapter IV - Cession Rules and Procedures to clarify current procedures, delete obsolete language, and provide screenshots of the new online screens. The Committee voted unanimously to accept

the changes to the Manual of Administrative Procedures and to recommend approval by the Governing Committee.

18.14 Impact of Registry System Changes

Ms. Browne provided the Committee with an update of data quality issues related to the migration of the Massachusetts Registry of Motor Vehicle ALARS system to the new ATLAS system. This transition occurred in late March 2018. She noted that since the conversion of license data, CAR has been working with companies to help identify specific reporting problems. Most companies have addressed their respective issues, however one issue remains regarding the lack of operator data for out-of-state operators. Ms. Browne noted that the Registry is unable to provide to CAR data for these operators and consequently, credit data is being erroneously flagged in error. She indicated that CAR has held the error rate constant since February 2018 in the Rule 29 Credit Edit System, but is proposing to unfreeze the error rate moving forward. However, to negate the impacts from the missing out-of-state operator data, CAR is proposing to exclude April 2018 and forward effective date records flagged with Error Code 1 (No Match) from the adjusted process. Because the Registry does not have a timetable for the resolution of this issue, this process would remain in place until the Registry is able to update its system to transfer the needed data to CAR. The Committee unanimously voted to approve CAR's recommendation.

MATTHEW HIRSH
Compliance Auditor and Specialist

Boston, Massachusetts
February 8, 2019

ATTACHMENT LISTING

Docket #COPC19.02, Exhibit #1

Attendance Listing

COMPLIANCE AND OPERATIONS COMMITTEE MEETING
 SIGN-IN SHEET
 Wednesday, January 30, 2019

Individual's Name

Company / Agency

PLEASE PRINT

MARK ALVES	CAR
Jerry Steerer	Safety
Wendy Brown	CAR
Lynne Rosenberg	CAR
Ben Hucks	CAR Counsel, TS&D
Kon Olivier	J.K. Olivier Ins Agency
Barry Tager	Pilgrim
Tom Harris	Quincy Mutual
CHRIS TAYLOR	HANOVER
HALL CROCKER (sub for NATE REMMERT)	AUSTATE
Bob Whitwood	ARBELLA
Erin Cummings	N&D
Bruce Dodge	MAPFRE
Maureen Adgate	CAR
Matt Hirsch	CAR
Patricia LAZENICK	Mapfre
Benjamin Hensley	Mapfre
Mary Suggs	mapfre
Dipak Lamsal	CAR
JAMES RIBERY	CAR
Liz Kim	Arbella
David DeLack	Vermont Mutual
PETE BERTONI	CAR
PETER MCCABE	CAR
Joy Sawyer	CGI
Susan Basileo	CGI
Robert Jones	CAR
MARIE-ARMELE THODAT	R. THODAT INS.