



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – NOVEMBER 5, 2020

Members Present

Mr. Jerry Sleeper – Chair	Safety Insurance Company
Ms. Sarah Cast ⁽¹⁾	Allstate Insurance Company
Ms. Erin Cummings	The Norfolk & Dedham Group
Mr. Thomas Harris	Quincy Mutual Group
Mr. Robert Littlewood	Arbella Insurance Group
Ms. Sharon Murphy	Acadia Insurance Company
Mr. Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Mr. Henry Risman	Risman Insurance Agency, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company
Mr. Christopher Taylor	The Hanover Insurance Company
Ms. Brenda Williams	MAPFRE U.S.A. Corporation

Substituted for:
Mr. Trent Bohacz ⁽¹⁾

Not in Attendance:
N/A

20.01 Records of Previous Meeting

On a roll call vote, the Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of October 8, 2020. The Records have been distributed and are on file.

20.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for Preferred Mutual and State Farm. Both companies have a Limited Assignment Distribution Agreement (LADA) with Pilgrim Insurance. The State Farm audit sample included data reported by both State Farm and Pilgrim. However, due to its Quota Share calculation, Preferred Mutual does not receive any MAIP assignments and Pilgrim data was not included in the data sample. Consistent audit procedures were applied to all three companies. Mr. Barry Tagen of Pilgrim recused himself from participating in discussion regarding all audit results.

For sampled Preferred Mutual policies, the audit scope included \$639,000 in written premium. Associated loss dollars, including paid losses and allocated loss adjustment expenses, totaled \$796,000. Mr. Hirsh noted that while several statistical reporting issues not in compliance with the Statistical Plan were identified, Preferred Mutual’s overall results were considered consistent to industry audited averages. On a roll call vote, the Committee voted unanimously, with one recusal, to accept the audit report without further consideration.

The State Farm sample included \$512,000 in written premium and \$1,107,000 in paid losses and allocated loss adjustment expenses. Mr. Hirsh indicated that several data quality issues were noted in the overall voluntary audit results and that Quota Share error rates were higher than industry averages. However, this higher than average discrepancy rate was attributed to the amount of Out-of-State and Out-of-Country operators in the audit sample, along with the default audit procedures utilized in verifying licensure for those operators. On a roll call vote, the Committee voted unanimously, with one recusal, to accept the audit report without further consideration.

Mr. Hirsh then provided an overview of the Pilgrim Commercial Claims Performance Standards and SIU audit report. Mr. Barry Tagen of Pilgrim recused himself from participating in the consideration of this report. The Performance Standards approved by the Division of Insurance establish a benchmark for the handling of claims while documenting audit procedures. Staff tested both ceded and voluntary claims in accordance with the Performance Standards and conducted distributional testing to ensure consistent claims handling between the voluntary and residual markets as mandated by statute. Ceded policies are required to have a minimum 80% rate of compliance. Overall, Pilgrim was compliant with all Performance Standards as measured by coverage within the sample for each Best Practice and with all three of the distributional tests. Separately, Pilgrim was well above the 80% minimum benchmark on ceded claims within all coverages. The SIU testing resulted in 100% compliance with each measured Best Practice. The Committee voted unanimously, with one recusal, to accept the audit report without further consideration.

20.07 CAR Accounting System Rewrite

Ms. Lynne Rosenberg presented a status report on the system development efforts related to the conversion of the mainframe CAR accounting system to an online application available through CAR's website. Ms. Rosenberg noted that CAR is making excellent progress in developing various reports as part of the new CAR accounting system, and in doing so, has been evaluating the current system to identify opportunities to enhance or improve the process.

The first area considered was in the correction piece of the accounting system. Ms. Rosenberg indicated that only two "grid corrections" had been processed within the past six months due to a low error rate among Servicing Carriers' ceded premium and loss data, and that those errors that are considered more critical in nature will typically require a more substantial correction than a grid correction. Grid corrections are also only allowed on a handful of fields and are more utilized in ensuring consistency, rather than amending coverage on a ceded policy.

Ms. Rosenberg noted that with the elimination of most of the non-critical edits, the need to allow for grid corrections lessens. Since the remaining edits are more critical in nature, these would more likely require a new cession record or an offset and reenter correction to a premium or loss record. Therefore, it's unlikely that a grid correction would rectify a critical error. As a result, Ms. Rosenberg noted that CAR was requesting consensus of the Committee to eliminate the grid correction option in the new application. Ms. Rosenberg stated that with a consensus, CAR would then update the Manual of Administrative Procedures to document the changes and present the draft to the Committee for approval at a future meeting.

The Committee provided conceptual approval to eliminate the grid correction option in the new CAR accounting system.

20.14 Proposal for Changes to the Hybrid Audit Plan

Mr. Mark Alves provided an overview of proposed changes to the Hybrid Audit Program (HAP) that includes all private passenger Compliance Audit responsibilities. He began with the origin of the HAP audit developed in 2009 to address audit needs that occurred due to the transition from the fixed and

established rate-setting process and the ceded pool environment to Managed Competition and the MAIP. Additionally, the Claims Performance Standards (CPS) and SIU evaluations were reduced and folded into the Hybrid Audit in 2010. The overall Compliance Audit Program approved by CAR's Governing Committee includes the requirement that every ARC writing in MA is subject to the HAP audit once every three years.

Mr. Alves noted several changes that have impacted the approved plan including the increase to the number of ARCs from 12 in 2009 to 34 currently included in Quota Share. In addition to the scheduled HAP audit of more ARCs than initially contemplated, the need to conduct Quota Share or interim summary data focus audits of new entrants has increased as well. Lastly, changes have occurred in the commercial residual market resulting in the directive to increase oversight as part of a coordinated industry plan to improve underwriting results. In response, Compliance Audit staff has shifted some resources to focus on commercial market auditing needs and the development of enhanced audit procedures applicable to the Commercial Servicing Carrier Program.

Staff proposed that the frequency of the HAP audit be adjusted from once every three years to once every five years. Also, that staff implement a Traffic Light Assessment rating system of audit results to provide recommendations to the Committee. If HAP findings indicate that the audited company has no Quota Share or ratemaking issues and is compliant to the statutory requirements and CAR Rules, the ARC receives a green light assessment and is only audited once every five years. For companies with Quota Share or ratemaking statistical reporting issues with an error rate greater than 2% of the current industry average, or is determined to be not compliant to the CPS or SIU evaluation, the ARC receives a yellow light assessment. This will result in focus auditing within 12 to 18 months of the HAP audit. Also, the recommendation will include potential penalty language for continued statistical reporting issues or non-compliance with statutory requirements in accordance with the MA Private Passenger Statistical Plan or the Performance Standards. If the ARC remains non-compliant subsequent to focus auditing, the Committee may recommend potential punitive considerations to the Governing Committee in accordance with Chapter XI – Compliance Audit of the ARC Procedures Manual.

Staff noted potential benefits of the proposal that include maintaining HAP objectives of prior committee activity in the consideration of the overall Compliance Audit Program. Also, this would maintain the requirement of CAR's enabling statute (G.L. c. 175 § 113H) to conduct periodic audits of all members while considering both voluntary and residual market data. The Traffic Light Assessment rating system would focus on ARCs with reporting issues while allowing for those that report in accordance with requirements to be audited less frequently. Lastly, this allows staff to maintain a focus on enhanced audit procedures of the Commercial Servicing Carrier Program as directed by CAR's Governing Committee.

Mr. Alves stated that upon the Committee's conceptual approval of the proposal, the changes to the HAP schedule and assessment of results would occur immediately. Also, staff will develop a standardized recurring audit of the Commercial Servicing Carrier Program by the close of 2021 for Committee consideration. If approved, staff will then prepare modifications to the Manual of Administrative Procedures and the ARC Procedures Manual of the overall changes to the Compliance Audit Program and present the updates to the Committee at a future meeting. Mr. Thomas Harris commented that the proposal was thoughtfully developed and indicated he was in agreement. The Committee noted that the proposal was a sensible adjustment that enabled the audit plan to concentrate on companies with reporting issues and agreed in concept with the changes to the Hybrid Audit as presented.

MATTHEW HIRSH
Compliance Audit Supervisor

Boston, Massachusetts
November 13, 2020

ATTACHMENT LISTING

Docket #COPC20.02, Exhibit #5

Attendance Listing

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING
 MEETING ATTENDEES
 NOVEMBER 5, 2020**

Individual's Name

Company / Agency

PLEASE PRINT

Jerry Sleeper	Safety Insurance Company
Sarah Cast	Allstate Insurance Company
Erin Cummings	The Norfolk & Dedham Group
Thomas Harris	Quincy Mutual Group
Robert Littlewood	Arbella Insurance Group
Sharon Murphy	Acadia Insurance Company
Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Henry Risman	Risman Insurance Agency, Inc.
Barry Tagen	Pilgrim Insurance Company
Christopher Taylor	The Hanover Insurance Company
Brenda Williams	MAPFRE U.S.A. Corporation
Marian Adgate	CAR Staff
Mark Alves	CAR Staff
Wendy Browne	CAR Staff
Peter Bertoni	CAR Staff
Shannon Chiu	CAR Staff
Matt Hirsh	CAR Staff
Nina Le	CAR Staff
Daniel Mason	CAR Staff
Lynne Rosenberg	CAR Staff
Robin Tigges	CAR Staff
Edith Wendell	AIB
Mary Ellen Thompson	DOI