



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 – APRIL 7, 2021

Members Present

Mr. Jerry Sleeper – Chair
Ms. Kara Boehm
Ms. Erin Cummings
Ms. Melissa Harmon ⁽¹⁾
Mr. Thomas Harris
Mr. Robert Littlewood
Ms. Sharon Murphy
Mr. Kenneth Olivieri
Mr. Henry Risman
Mr. Barry Tagen
Mr. Sean Thompson ⁽²⁾

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

Substituted for:

Ms. Brenda Williams ⁽¹⁾
Mr. Christopher Taylor ⁽²⁾

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 November 5, 2020. The Records have been distributed and are on file.

21.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for Farm Family, focus audit reports of Permanent General and Progressive Insurance and an informational only report on the interim summary quota share data file provided by Foremost Insurance. Beginning with the Farm Family Hybrid Audit report, he stated that Farm Family has a Limited Assignment Distribution Agreement (LADA) with Pilgrim Insurance and thus the audit sample included data reported by both Farm Family and Pilgrim. Mr. Barry Tagen of Pilgrim recused himself from participating in discussion regarding all audit results.

For sampled Farm Family policies, the audit scope included \$811,000 in written premium. Associated loss dollars, including paid losses and allocated loss adjustment expenses, totaled \$2,046,000. Mr. Hirsh noted thirteen recurring statistical reporting issues not in compliance with the Statistical Plan. He

also referenced that Farm Family's response letter indicated multiple system corrections were already in progress.

On a roll call vote, the Committee unanimously accepted the report and directed staff to conduct a focus audit of Farm Family data in the second quarter of 2022, and if the outstanding items prioritized in the audit report remain uncorrected, Farm Family's future monthly accounting statistical submissions would be considered as Late and Unacceptable Shipments in accordance with the Statistical Plan and eligible for penalties until monthly submissions with accurate data are reported.

Mr. Hirsh then reviewed the focus audit results of both Permanent General and Progressive. Beginning with Permanent General, he explained that Permanent General entered the Massachusetts private passenger automobile insurance market in January 2020 as part of an agreement with Occidental National Insurance Company, and that most of the prior Occidental policy holders were offered new policies through Permanent General. Occidental previously had a third-party vendor agreement with Embark General to underwrite, service, and statistically report automobile insurance business in Massachusetts on behalf of Occidental, and that Permanent General entered into a similar contract with Embark. Mr. Hirsh described that prior to exiting Massachusetts, Occidental underwent Hybrid Audit procedures in 2019 that resulted in the Committee requiring a future focus audit.

CAR's Vice President of Business Operations, Ms. Wendy Browne, communicated to Embark in writing on January 7, 2020 a detailed description of reporting issues that required correction as Embark began reporting Permanent General statistical data. Ms. Browne also notified both Embark and Permanent General that Permanent General would require a focus audit in 2021 to determine if the reporting issues continued. Lastly, Ms. Browne communicated to Permanent General that regardless of the agreement with Embark, Permanent General is responsible for compliance with the CAR Rules, procedures, and reporting requirements including those measured in future compliance audit reports. In an overview of focus audit results that compared the issues included in the Occidental Hybrid Audit report to the Permanent General focus audit, Mr. Hirsh stated that six of the ten findings were corrected, but that two new additional reporting problems were identified.

On a roll call vote, the Committee unanimously accepted the report and directed staff to conduct a Hybrid Audit of Permanent General data in the second quarter of 2022, and if the items prioritized in the audit report remain uncorrected, Permanent General's future monthly accounting statistical submissions would be considered as Late and Unacceptable Shipments in accordance with the Statistical Plan and eligible for penalties until monthly submissions with accurate data are reported.

The current focus audit of Progressive followed a Hybrid Audit in 2016 and subsequent focus audit in 2018. Progressive requested and received a delay in the start date of the second focus audit due to significant system rework planned for its Massachusetts data call. Mr. Hirsh commented that the focus audit results confirmed that although some inconsistencies remain, Progressive corrected all ten specific statistical data reporting issues noted in the first focus audit results.

On a roll call vote, the Committee voted unanimously to accept the audit report without further consideration.

Mr. Mark Alves presented focus audit results of Harleysville-Worcester that considered only the ARC's compliance to the statutory requirement applicable to the Special Investigative Unit (SIU). Staff was unable to test adherence at the time of the Hybrid Audit due to a lack of SIU referrals. Mr. Alves provided background explaining that the Performance Standards approved by the Division of Insurance require that all ARCs upload SIU claim referral activity data into CAR's SIU System and that a sample of 25 referrals be used to test in the SIU evaluation process, and that previously, multiple Hybrid Audit findings of new entrants included a similar result. The audited companies commented in response that their

business model was to target high net worth clients resulting in a low market share, making it difficult to identify at least 25 potential SIU referrals. However, CAR's Claims Subcommittee met in 2016 and determined that the requirement of 25 referrals was reasonable regardless of market share or business strategy, and ARCs that do not have the minimum referrals shall be determined not in compliance. Both the Claims Subcommittee and the Compliance Audit Committee requested that staff proactively take steps to assist those companies achieve compliance with the intent of the statute. In response, staff developed a standardized methodology to create opportunities for those companies to evaluate and screen for potential fraud focusing on certain types of loss payments and SIU documentation efforts. Harleysville received the methodology from staff in 2018 and partially utilized the recommendations.

Focus audit results noted that Harleysville documented an SIU program that considered fraud in accordance with the statute and investigated suspicious loss claims, and that Harleysville was in compliance with the CAR Rule 32 requirement that the SIU investigate suspicious underwriting, rating, and premium circumstances. The SIU provided an example of the Rule 32.C. requirement that the ARC SIU conduct an audit of a representative sample of policies to verify garaging and policy facts.

On a roll call vote, the Committee voted unanimously to accept the audit report without further consideration.

Mr. Alves also provided an overview of the Safety Insurance Commercial Claims Performance Standards and SIU audit 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, Safety 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, Safety 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.

On a roll call vote, the Committee voted unanimously 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. She noted that CAR is making excellent progress on the second phase currently underway that will transition the existing error and informational listings to CAR's website. The project team is currently completing the final report that is the new Excess Loss report that identifies any liability losses that exceed maximum liability limits on a policy per occurrence.

Ms. Rosenberg stated that it is anticipated that updates to the Manual of Administrative Procedures regarding changes to the CAR Accounting System, including the elimination of most of the non-critical edits will be provided to the Committee at its June meeting. Ms. Rosenberg also indicated that the last phase currently in development is the conversion of the Reinsurance Audit System from a mainframe to a web-based system and it is anticipated that the project will be completed by the close of summer.

21.07 Updates to the Manual of Administrative Procedures

Ms. Marian Adgate presented the Committee with two modifications to Chapter V – Premium of the Manual of Administrative Procedures. The Common Coverages Endorsements chart has been updated to include the Specialty and Classic Auto – Massachusetts endorsement, which was recently placed on file by the Division of Insurance. Also, the Certifications chart has been updated to reflect the current approval date of January 2021 for the Non-Fleet Private Passenger Type Certification Form.

On a roll call vote, the Committee voted unanimously to recommend to the Governing Committee the updates to Chapter V – Premium of the Manual of Administrative Procedures.

21.08 Impacts to Reporting requirements Under a Combined Commercial Servicing Carrier Program

Ms. Wendy Browne notified the Committee that the Governing Committee, at its February 10, 2021 meeting, approved the recommendation of the Commercial Program Oversight Committee that the Taxi, Limousine, and Car Service Program be combined with the Commercial Automobile Program. At its March 16, 2021 meeting, staff provided the Commercial Automobile Committee with a brief update of the impacts to procedures and manual language that would result from combining the two Programs. The identified reporting related issues were referred to the Compliance and Operations Committee for consideration.

Ms. Browne explained in detail the three reporting related issues identified, including issues regarding Cession Reporting Requirements. Currently, cessions are reported with one of two Risk Indicator values. Value 1 designates Taxi, Limousine, or Car Service policies, and Value 2 designates Other Commercial policies. Ms. Browne recommended that beginning with policies effective January 1, 2022, Value 2 be reported on all cession records, and any cession record reported with Value 1 be converted to Value 2.

Ms. Browne then outlined the second reporting issue regarding Cession Backdate Procedures. She noted that under the current commercial program, the Cession Backdate Procedures allow for a carrier to designate a producer for automatic backdating of new business cessions. Under the Taxi, Limousine, and Car Service Program, however, automatic backdating occurs on all late-reported policies regardless of the producer. Ms. Browne recommended that the automatic backdating for taxi, limousine, and car service policies be phased out for policies effective January 1, 2022. Carriers could still designate a producer to be automatically backdated, but such a designation would no longer be the default.

Finally, Ms. Browne detailed the third reporting related issue identified regarding the Cession/No Premium Write-Off. Currently, the annual Cession/No Premium Write-Off amount is determined separately for taxi, limousine, and car service business and other commercial business. However, Ms. Browne noted that by combining the Programs, the penalty amounts would not be altered. Staff recommended to the Committee that for policies effective January 1, 2022, one overall commercial cession/no premium write-off amount be calculated.

The Committee agreed with staff recommendations and Ms. Browne indicated that specific updates to the Manual of Administrative Procedures would be presented at the next Committee meeting for review and approval.

MATTHEW HIRSH
Compliance Audit Supervisor

Boston, Massachusetts
April 13, 2021

ATTACHMENT LISTING

Docket #COPC21.02, Exhibit #1

Attendance Listing

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING
 MEETING ATTENDEES
 APRIL 7, 2021**

Individual's Name

Company / Agency

PLEASE PRINT

Jerry Sleeper	Safety Insurance Company
Kara Boehm	Allstate Insurance Company
Erin Cummings	The Norfolk & Dedham Group
Melissa Harmon	MAPRFE U.S.A. Corporation
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
Sean Thompson	The Hanover Insurance Company
Marian Adgate	CAR Staff
Mark Alves	CAR Staff
Wendy Browne	CAR Staff
Peter Bertoni	CAR Staff
Timothy Galligan	CAR Staff
Matt Hirsh	CAR Staff
Daniel Mason	CAR Staff
Lynne Rosenberg	CAR Staff
Robin Tigges	CAR Staff
Mary Ellen Thompson	DOI
Matthew Novak	Integon National Insurance Company