COMMONWEALTH AUTOMOBILE REINSURERS
101 Arch Street, Suite 400 Boston, Massachusetts 02110
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NATALIE A. HUBLEY
PRESIDENT

ADDITIONAL INFORMATION

TO MEMBERS OF THE GOVERNING COMMITTEE

FOR THE MEETING OF:

Wednesday, September 19, 2018 at 10:30 a.m.

GC
18.10 Loss Reserving Committee

The Summary of the Loss Reserving Committee meeting of September 5, 2018 is attached. (Docket #GC18.10, Exhibit #3)

GC
18.13 Actuarial Committee

The Records of the Actuarial Committee meeting of September 11, 2018 are attached. (Docket #GC18.13, Exhibit # 2)

The Records of the Actuarial Committee meeting of September 11, 2018 have been distributed and are on file.

NATALIE A. HUBLEY
President

Attachments

Boston, Massachusetts
September 17, 2018

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SUMMARY OF MEETING

LOSS RESERVING COMMITTEE – SEPTEMBER 5, 2018

Ms. Lynellen Ramirez – Chair	Arbella Insurance Group
Mr. Michael Lombardi [(1)]	MAPFRE U.S.A. Corporation
Ms. Alyssa Potter	The Hanover Insurance Company
Ms. Melissa Vaughn [(2)]	Safety Insurance Company

Substituted for:

[(1)] Mr. Warren Ehrlich
[(2)] Mr. Glenn Hiltpold

18.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Loss Reserving Committee meeting of June 4, 2018. The Records have been distributed and are on file.

18.06 Policy Year Deficit and Loss Ratio Report

The Committee set loss and loss adjustment expense reserves, using data through June 30, 2018.

The Committee estimated a policy year 2015 commercial deficit of $25.4 million with a loss ratio of 91.1 percent, representing an increase of $7.5 million since the prior quarter. This increase was primarily due to increases in reserves to 3 policies totaling approximately $6.2 million. One policy involved a bus accident reserve that was newly reported at the 5.0 million Combined Single Limit (CSL).

The Committee estimated a policy year 2016 commercial deficit of $47.0 million with a loss ratio of 102.3 percent, representing an increase of $4.2 million from the prior quarter. This increase is partially related to significant increases in reserves to 6 policies totaling approximately $3.0 million.

The Committee estimated a policy year 2017 commercial deficit of $39.9 million with a loss ratio of 96.8 percent, representing an increase of $5.3 million from the prior quarter. This increase is partially related to significant increases in reserves to 4 policies totaling approximately $2.0 million.

For 2016-2017, in response to increasing upward loss development results related in part to large loss activity, the Committee felt that the ultimate loss selections for the AOBI pool was on the lower end of the alternate projections that the Committee uses. The Committee felt that higher selections were warranted, and ultimately decided to select the incurred loss projections based on the "latest 12" methodology, which put the final selections for AOBI between the original recommendation and the maximum of the alternate methodologies. The Committee felt that this approach was necessary to address the increasing projections that have been consistent for the past several quarters.

Additionally, the Committee discussed a significant Policy Year 2018 claim relating to a bus accident occurring in Canada that was reserved at the $5.0 million CS during the current quarter. The Personal Injury Protection (PIP) was also discussed, relating to Canadian law that allows for up to $1.0 million per passenger, highlighting the potential for future PIP reserve growth.

To date, all known large losses have been reported to CAR and included in the loss reserving data. Ultimate loss ratio and deficit projections for policy years 2015-2017 are detailed in the attached exhibit.

The following summary displays results from the September 5, 2018 meeting:

Total AO

		Loss & Allocated Loss Adjustment Expense (000)				Number
CAL/AY	Earned Premium(000)	Paid	Case Outstanding	IBNR	Held Ultimate	of Open Claims
2009	111,743	75,164	133	1	75,298	2
2010	95,938	73,829	14	(2)	73,841	3
2011	88,176	74,766	125	1	74,892	2
2012	91,576	64,852	1,751	(49)	66,554	15
2013	102,216	72,712	8,670	(145)	81,237	55
2014	117,843	92,931	9,202	420	102,553	102
2015	140,066	95,765	14,738	3,026	113,529	314
2016	160,231	96,165	51,543	14,762	162,470	838
2017	175,292	88,310	56,462	30,685	175,457	2,753
2018	93,104	25,642	27,586	38,110	91,338	3,417
Total	**1,176,185**	**760,136**	**170,224**	**86,809**	**1,017,165**	**7,501**

Total PP

		Loss & Allocated Loss Adjustment Expense (000)				Number
CAL/AY	Earned Premium(000)	Paid	Case Outstanding	IBNR	Held Ultimate	of Open Claims
2009	82,820	81,515	17	(7)	81,526	8
2010	2,871	2,792	-	-	2,792	-
Total	**85,691**	**84,307**	**17**	**(7)**	**84,318**	**8**

SHANNON CHIU
Actuarial/Statistical Analyst

Boston, Massachusetts
September 17, 2018

COMMERCIAL ULTIMATE POLICY YEAR DEFICIT PROJECTIONS
BASED ON DATA REPORTED THROUGH QUARTER ENDING JUNE 2018
(000's OMITTED)

SUMMARY EXHIBIT

	Policy Year 2015		Policy Year 2016		Policy Year 2017	
	Dollars	% Prem	Dollars	% Prem	Dollars	% Prem
Premium	151,439	100.0%	169,100	100.0%	182,400	100.0%
Losses Incurred and ALAE	138,023	91.1%	172,989	102.3%	176,563	96.8%
Underwriting Expenses	38,778	25.6%	43,151	25.5%	45,782	25.1%
Underwriting Result	(25,362)	-16.7%	(47,040)	-27.8%	(39,945)	-21.9%

COMPARISON OF ULTIMATE POLICY YEAR DEFICIT PROJECTIONS
PRIOR AND CURRENT QUARTER ESTIMATES

Policy Year 2017

	Prior Qtr Estimate		Current Qtr Estimate		Variance	
	Dollars	% Prem	Dollars	% Prem	Dollars	Percent
Premium	182,200	100.0%	182,400	100.0%	200	0.1%
Losses Incurred and ALAE	171,086	93.9%	176,563	96.8%	5,477	3.2%
Underwriting Expenses	45,732	25.1%	45,782	25.1%	50	0.1%
Underwriting Result	(34,618)	-19.0%	(39,945)	-21.9%	(5,327)	15.4%

Policy Year 2016

	Prior Qtr Estimate		Current Qtr Estimate		Variance	
	Dollars	% Prem	Dollars	% Prem	Dollars	Percent
Premium	169,100	100.0%	169,100	100.0%	0	0.0%
Losses Incurred and ALAE	168,762	99.8%	172,989	102.3%	4,227	2.5%
Underwriting Expenses	43,152	25.5%	43,151	25.5%	(1)	0.0%
Underwriting Result	(42,814)	-25.3%	(47,040)	-27.8%	(4,226)	9.9%

Policy Year 2015

	Prior Qtr Estimate		Current Qtr Estimate		Variance	
	Dollars	% Prem	Dollars	% Prem	Dollars	Percent
Premium	151,439	100.0%	151,439	100.0%	0	0.0%
Losses Incurred and ALAE	130,528	86.2%	138,023	91.1%	7,495	5.7%
Underwriting Expenses	38,778	25.6%	38,778	25.6%	0	0.0%
Underwriting Result	(17,867)	-11.8%	(25,362)	-16.7%	(7,495)	41.9%

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RECORDS OF MEETING

ACTUARIAL COMMITTEE – SEPTEMBER 11, 2018

Members Present

Ms. Lynellen Ramirez – Chair	Arbella Insurance Group
Mr. Geoffrey Arnold	Plymouth Rock Assurance Corporation
Ms. Sarah Clemens	MAPFRE U.S.A. Corporation
Mr. Hall Crowder	Allstate Insurance Company
Mr. Glenn Hiltpold	Safety Insurance Company
Mr. Greg Karabinos	The Norfolk & Dedham Group
Mr. Todd Lehmann	Quincy Mutual Group
Mr. Sean Thompson(1)	The Hanover Insurance Company
Ms. Meredith Woodcock	Liberty Mutual Group

Substituted for:
(1) Mr. Adam Kreuser

Not in Attendance:
Mr. Christopher Dupill — EM Freedman Insurance Agency, Inc.

18.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Actuarial Committee meeting of June 13, 2018. The Records have been distributed and are on file.

18.04 Quota Share Credits for Policies Effective April 1, 2019 and Later

At the last meeting, the Committee requested exhibits to study alternative approaches to allow for gradual changes to credit factors to minimize market impact while allowing a transition toward indicated credit need.

Staff reviewed exhibits to facilitate discussion, including the current methodology codified in Rule 29, a model that indexed the Market Share Group Ranges by year, with varying minimum thresholds for credit eligibility, a model that modifies the current methodology to keep 80% of a credit factor if that class/territory cell is formulaically indicated to be eliminated, and a similar model that also caps new credit factors at 20% of their indicated value.

Mr. Hall Crowder, representing Allstate Insurance Company, reviewed a proposal that uses the current Rule 29 methodology, altered to transition decreases to credit factors in cells indicated for elimination over a 4 or 5 year period. Mr. Crowder's detailed exhibits displayed results using the four year time-frame. The proposal resulted in a .3% increase to credit eligible exposures, and a 15.3% decrease to potential credit premium for the first year of transition. Mr. Crowder noted the importance of the four or five year window for appropriate and transparent notification to both companies and agencies of the specified class/territory cells indicated for elimination. Because the proposal is based off of the current Rule 29 methodology, credit factors scheduled for eventual elimination would increase back to 1.00 if the formulaic indications result in a credit increase.

Mr. Geoff Arnold, representing Plymouth Rock Assurance Company, reviewed a proposal that included relative range proportionality incorporating fractional credit factor movement for increases and decreases. Mr. Arnold's proposal offers credit for residual market rates beginning at 1.195 times the statewide average. For the first year, this proposal results in a 72.7% increase to credit eligible exposures, and an 8.7% increase to potential credit premium for the first year.

General discussion by the Committee followed the presentations.

In regards to the Allstate proposal, Ms. Sarah Clemens noted her concern that the current Rule 29 methodology already has a built in tempering factor using residual market share over a three year period with self-correcting constraints as part of the mechanical formula. However, Ms. Clemens felt that the 5.0% residual market share threshold for obtaining a credit may be too restrictive, given the current residual market size of approximately 1.3%. Mr. Lehmann agreed, and added that he favored fractional or indexed credits.

Similarly, Mr. Sean Thompson expressed concern that the 5.0% threshold for credits in the Allstate proposal is too high. Mr. Thompson mentioned the territories of concern noted by the Division of Insurance (DOI), which would also potentially lose credit under this proposal.

Ms. Meredith Woodcock noted that the credits are an important part of keeping the residual market size small, and is concerned that credits could still be eliminated, albeit over a number of years. Ms. Woodcock would not favor any proposal that includes large decreases to credits, and proposed freezing the credit factors at current levels.

Ms. Lynellen Ramirez favored the Allstate proposal, suggesting that the multi-year gradual transition in cells indicated to eliminate credit eligibility would satisfy those that feel there are too many credits in the system, while allowing for the opportunity to test the assumptions that the residual market size will not grow materially given the viable competitive market that exists today. Though there would be a reduction to credit factors and therefore MAIP credit premium, there is no immediate elimination of MAIP credit eligible exposures. The DOI territories of concern would still receive significant credit.

Mr. Glenn Hiltpold was not in favor of any proposal that adds credit premium, given the low residual market size. Mr. Hiltpold favored the indexed method.

Mr. Greg Karabinos opined that the only method he would vote for was the indexed method. He felt credits should be reduced and he was not in favor of tempering that reduction.

After additional discussion, a motion to recommend the Allstate proposal based on a 4 year transition to eliminate a credit that is formulaically indicated to go to zero failed with 3 members in favor and 5 opposed.

After continued discussion, a majority of members were still interested in the idea of a gradual transition in cells indicated to eliminate credit eligibility with some members favoring the indexed approach. Others noted that the indexed method would not likely be supported by the Governing Committee in light of concerns raised in 2017. Some members favored the Allstate approach because it allows credits to be unwound gradually to reflect current market conditions.

After additional discussion, a motion was made to recommend the Allstate proposal using the 5 year transition to eliminate a credit that is formulaically indicated to go to zero. However, Mr. Thompson expressed concern that because the Allstate model uses the corrective formula in the current methodology, it would not restore credit fast enough if the residual market size increases in a cell that is scheduled for eventual credit elimination. To address this concern, the Committee discussed quarterly monitoring of the results to enable appropriate action in the event of any residual market share swings related to elimination of credits, including the urban territories of concern noted by the DOI.

A new motion to recommend the Allstate proposal using the 5 year transition to eliminate a credit that is formulaically indicated to go to zero, with a quarterly review of results to be performed by the Actuarial Committee. This motion passed with 5 members in favor and 3 opposed.

The Committee agreed to meet again on November 1, 2018 to review and approve related Rule language, and directed Staff to update the recommended proposal using data through August, 2018, as done with prior year's credit recommendations.

AC
18.05 Potential Impact of Registry System Changes on Quota Share Credits

Ms. Wendy Browne provided the Committee with the status of data quality issues related to the migration to the ATLAS system by the Registry of Motor Vehicles (RMV), which occurred in late March, 2018. Ms. Browne reminded the Committee that because of the data issues, the February, 2018 Rule 29 Credit Edit error rates in place before the problems were held constant for all companies and applied to reported credit premium since the March, 2018 Quota Share report.

Since the last update, the RMV had solicited feedback from insurance companies and implemented changes to its systems. The companies have also been updating their systems to correspond with the Registry changes.

Ms. Browne noted that CAR has been reviewing the correction efforts on a company by company basis, as companies have been impacted in different ways depending on their usage of Registry data. Many companies have resolved their issues, and CAR expects better data to be reported in the July, 2018 accounting shipment, including correction activity going back to past data shipments. CAR will continue to review the data, and move away from the universal Rule 29 Credit Edit adjustment, while continuing to adjust individual companies where necessary.

Staff will continue to monitor any corrective action and report on the status of its review at the November Actuarial Committee meeting.

TIMOTHY GALLIGAN
Actuarial/Statistical Services Director

Boston, Massachusetts
September 17, 2018