



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110
www.commauto.com 617-338-4000

ADDITIONAL INFORMATION

TO MEMBERS OF THE GOVERNING COMMITTEE

FOR THE MEETING OF:

Wednesday, February 12, 2020 at 10:30 a.m.

GC

20.07 Compliance and Operations Committee

The Records of the Compliance and Operations Committee meeting of January 29, 2020 are attached. (Docket #GC20.07, Exhibit #1)

The Records of the Compliance and Operations Committee meeting of January 29, 2020 have been distributed and are on file.

GC

20.08 Financial Audit Committee

The Records of the Financial Audit Committee meeting of February 4, 2020 are attached. (Docket #GC20.08, Exhibit #1)

The Records of the Financial Audit Committee meeting of February 4, 2020 have been distributed and are on file.

GC

20.09 Personnel Committee

The Records of the Personnel Committee meeting of February 4, 2020 are attached. (Docket #GC20.09, Exhibit #1)

The Records of the Personnel Committee meeting of February 4, 2020 have been distributed and are on file.

NATALIE A. HUBLEY
President

Attachments

Boston, Massachusetts
February 7, 2020



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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – JANUARY 29, 2020

Members Present

Mr. Jerry Sleeper – Chair	Safety Insurance Company
Mr. Thomas Bird ⁽¹⁾	Acadia Insurance Company
Mr. Trent Bohacz	Allstate Insurance Company
Ms. Erin Cummings	The Norfolk & Dedham Group
Mr. Thomas Harris	Quincy Mutual Group
Mr. Robert Littlewood	Arbella Insurance Group
Mr. Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Mr. Henry Risman	Risman Insurance Agency, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company
Mr. Sean Thompson ⁽²⁾	The Hanover Insurance Company
Ms. Brenda Williams	MAPFRE U.S.A. Corporation

Substituted for:

⁽¹⁾Ms. Sharon Pontes

⁽²⁾Mr. Christopher Taylor

Not in Attendance:

N/A

19.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of September 4, 2019. The Records have been distributed and are on file.

20.04 Informational Items

Ms. Wendy Browne informed the members that the Governing Committee approved the two actions items from the September Compliance and Operations Committee meeting. These included updates to the Classification Code Decision Table in the Private Passenger Statistical Plan to indicate MAIP only fields, the elimination of an obsolete class code for electric cars (0400), and the procedures for the Final Close-Out of effective years 2008 and 2009. The Statistical Plan updates were approved by the Division of Insurance (DOI) and published to the industry in late October. Additionally, the Committee was informed that the DOI had approved other changes to the Statistical Plans that were submitted for consideration in November 2018. These changes included the addition of two new premium/accident town codes and the addition of a data quality penalty program for the Distributional Analysis Program. The

effective dates for both changes were extended one year as a result of the delayed DOI approval. Ms. Browne also noted that staff would communicate with the industry to ensure all companies are aware of the new data quality penalty program.

20.05 Compliance Audit Program

Mr. Mark Alves provided an overview pertaining to the recent audits of the Commercial Servicing Carrier (SC) Program. The reports provided to the Committee are the initial findings from phase one of enhanced audit procedures of the commercial residual market. The audit specifically considered residual market eligibility relating to Principal Place of Business (PPoB) and nerve center test for certain bus risks pursuant to the CAR Rules of Operation and Manual of Administrative Procedures (MAP).

Samples were developed using statistical data matched to cession file records that included policies with bus classification codes effective as of January 2019. In particular, the samples focused on policies with multi-state buses. However, if a complete sample of 15 policies with multi-state bus risks was not available, policies with other bus classifications were then selected. To capture all supports and avoid incomplete findings, each SC was required to provide an electronic or hard copy file of all documentation, including material retained by the agent, that the SC considered relevant to its determination of eligibility. An audit methodology was established to ensure consistency in cataloguing all supporting documentation. Audit procedures were developed using the documentation provided by each SC specific to requirements noted in Bulletins 1055 and 1065, which outline PPoB standards and certification forms, and Bulletin 1066 detailing implementation of the Ineligible Risk Database. In accordance with the MAP, status reports were distributed and agreed to by the SC. The status reports were not intended as a measurement tool but only to identify the document types provided by the SC in its efforts to determine residual market eligibility.

Draft reports were provided to each SC that included an outcome determined by staff based on the review of the policy documentation. The outcome was limited to either staff agreement that sufficient documentation existed to support the SC eligibility decision or another recommendation/comment was provided. The simplified outcomes were intended to provide SCs reasonable conclusions based on the documentation it had provided. Upon receipt of the report, the SC was afforded an opportunity to comment on each outcome or provide further clarification. Staff then either modified the outcome based on the SC comments or included the comments into the report to document the company's perspective. However, all outcomes included in the final reports were determined by staff.

Prior to reviewing the reports individually, Mr. Alves commented that in general, overall results demonstrated that all four SCs responded to the Bulletin requirements and use the underwriting tools and opportunities included in the SC and Exclusive Representative Producer (ERP) Standards for validating the risk's PPoB. In most instances, documentation including PPoB certifications existed to confirm that the SC worked to support the eligibility determinations for new business and reevaluate policies upon renewal. Also, use of the SIU to effectively investigate the validity of PPoB as part of the eligibility determination was present. Lastly, while not designed as a measurement tool, the status reports confirmed that most sampled policies included varying types of business supports and evidence towards a process for the consideration of eligibility.

At the outset of the individual report discussions, Mr. Barry Tagen of Pilgrim recused himself from participating in the consideration of all audit reports.

The Arbella Protection sample included seven policies with zone rated vehicles; four new business and three renewals. Mr. Robert Littlewood of Arbella recused himself from participating in the consideration of the Arbella report. Overall, the staff outcome noted agreement that sufficient

documentation existed to support the SC eligibility decision for all 15 sampled policies. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

The MAPFRE U.S.A. Corporation sample included seven policies with zone rated vehicles; four new business and three renewals. Ms. Brenda Williams of MAPFRE recused herself from participating in the consideration of the MAPFRE report. Overall, the staff outcome noted agreement that sufficient documentation existed to support the SC eligibility decision for 13 sampled policies. Two policies included a recommendation that the SC reconfirm eligibility and obtain an updated PPoB certification upon renewal. Also that the SC consider underwriting tools and opportunities in accordance with the established SC and ERP PPoB Standards. MAPFRE agreed with the recommendations but noted a current PPoB certification was provided on one of the two policies. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

The Pilgrim Insurance sample included five policies with zone rated vehicles; three new business and two renewals. Overall, the staff outcome noted agreement that sufficient documentation existed to support the SC eligibility decision for all 15 sampled policies. The Committee voted unanimously, with one recusal, to accept the audit report without further consideration.

The Safety Insurance sample included zone rated vehicles on all 15 policies; seven new business and eight renewals. Mr. Jerry Sleeper of Safety recused himself from participating in the consideration of the Safety report. Overall, the staff outcome noted agreement that sufficient documentation existed to support the SC eligibility decision for 8 sampled policies. Seven policies included a recommendation that the SC reconfirm eligibility and obtain an updated PPoB certification upon renewal. Safety disagreed with two of the recommendations indicating that the risk had provided sufficient documentation to support residual market eligibility. Staff noted the company's perspective in the report. Staff also noted that several policies included business documentation including leases and office bills provided by the risks. However, other documentation on the same policies raised red flags making the eligibility decision less clear. In these instances, staff recommended reevaluating eligibility and obtaining an updated PPoB certification upon renewal. Safety agreed with the remaining recommendations. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

Mr. Alves then provided an overview of the MAPFRE Claims Performance Standards and SIU commercial audit report. Ms. Brenda Williams of MAPFRE recused herself 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, MAPFRE was compliant with all Performance Standards as measured by coverage within each Best Practice and with all three of the distributional tests compiled to determine consistency in claims handling. Separately, MAPFRE 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 two recusals, 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 indicated that the system rewrite is in the initial stages of development and that more information would be available as development progresses.

20.08 Impacts of Gender X on Statistical Reporting

Ms. Rosenberg described for the Committee a number of approaches that could be considered in modifying the reporting of classification code in light of the RMV's implementation of the Gender X designation. These alternatives range from the adoption of new codes to identify Gender X to a redefinition of all class codes to eliminate all gender distinction. However, she noted that this would also be an appropriate time to allow the Actuarial Committee to consider whether a more complex redefinition of class codes to gather risk characteristics such as years driving experience and number of accidents and incidents would benefit MAIP quota share and ratemaking requirements. Accordingly, Ms. Rosenberg advised that the issue will be presented to the Actuarial Committee for discussion in March, prior to any final decision on recommended Statistical Plan changes. The status of those deliberations will be provided to the Compliance and Operations Committee for further discussion at its April 2020 meeting.

MATTHEW HIRSH
Compliance Audit Supervisor

Boston, Massachusetts
February 7, 2020



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RECORDS OF MEETING

FINANCIAL AUDIT COMMITTEE – FEBRUARY 4, 2020

Members Present

Mr. Thomas LaFrancois – Chair	Arbella Insurance Group
Mr. Matthew Anglim	Plymouth Rock Assurance Corporation
Ms. Pamela Bodenstab-Krynicky	P L Krynicky Insurance Agency
Mr. Brian Breeden	MAPFRE U.S.A. Corporation
Mr. David McCormick	McCormick & Sons Insurance Agency, Inc.
Mr. Sean Moone	The Norfolk & Dedham Group

Substituted for:

N/A

Not in Attendance:

N/A

19.01 Records of Previous Meeting

Mr. Thomas LaFrancois noted that the June 12, 2019 records incorrectly identified his prior interactions with AAFCPA as an Audit Committee member of the Automobile Insurers Bureau of Massachusetts (AIB). However, he advised that the record should note that his affiliation is with the WCRIBMA, not AIB. The Committee unanimously voted to approve the Records of the Financial Audit Committee meeting of June 12, 2019. The Records have been distributed and are on file.

20.04 Annual Audit of CAR for Fiscal Year Ending 2019

Mr. John Buckley, representing Alexander, Aronson, Finning & Co. (AAFCPA), provided a detailed overview that emphasized the reduction in scope between a traditional audit in accordance with generally accepted auditing standards and those procedures conducted by AAFCPA to perform CAR's engagement. Mr. Buckley advised that, based on the agreed upon procedures performed in accordance with standards established by the American Institute of Certified Public Accountants, and its review of CAR's financial statements, AAFCPA will issue a clean, unqualified review report as of and for the year ended September 30, 2019. Mr. Thomas Perruna, representing AAFCPA, discussed the procedures performed, and stated that no management letter items are noted.

After a brief discussion, the Committee unanimously voted to recommend Governing Committee approval of CAR's financial statements for the fiscal year ending September 30, 2019.

MARK ALVES
Director – Compliance Audit

Boston, Massachusetts
February 6, 2020



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RECORDS OF MEETING

PERSONNEL COMMITTEE – FEBRUARY 4, 2020

Members Present

Mr. Thomas DePaulo – Chair	Cabot Risk Strategies, LLC
Ms. Pamela Bodenstab-Krynicki	PL Krynicki Insurance Agency
Ms. Elizabeth Brodeur	Safety Insurance Company
Ms. Gail Eagan	Arbella Insurance Group
Mr. John Kelly	MAPFRE U.S.A. Corporation

Substituted for:
N/A

Not in Attendance:	
Ms. Paula Gold	Plymouth Rock Assurance Corporation

19.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Personnel Committee meeting of September 18, 2019. The Records have been distributed and are on file.

19.06 Retirement Savings Plan

The Committee continued its consideration of a staff proposal to amend CAR's retirement savings plan for employees hired after June 1, 2010. The Committee had previously requested additional information on what peer organizations are currently offering and what a formal survey conducted for CAR in 2010 reflecting member company plans had revealed.

Ms. Natalie Hubley provided information the Committee requested and offered a detailed explanation of proposed amendments to CAR's 401k plan and the potential financial impacts based on anticipated plan participation by newer employees who have no defined benefit. She indicated that the proposal has three primary objectives. First is to provide a competitive benefit package to fortify recruitment efforts and fuel greater employee retention levels within the context of succession planning in anticipation of extensive turnover during the next decade. Second is to promote employee financial wellness by encouraging increased employee participation in retirement savings. Third is to realize long term overall organizational expense reductions as CAR transitions staffing during the next decade. She said that even if the proposed plan changes result in increased employer matching obligations, CAR would realize significant overall savings due to anticipated retirements of long term higher compensated employees and lower salary levels of replacement employees with no defined benefit. Ms. Hubley reviewed a 2010 survey of member company retirement savings plans conducted by an outside firm and noted that when compared to plan offerings today, no change has occurred insofar as CAR remains below the average of what is offered in terms of combined 401k and profit sharing. She further explained that

the proposed plan changes encourage greater employee participation than plan offerings of both member companies and industry funded organizations.

The Committee questioned how many current employees would be eligible to take advantage of the amended plan and if approved, when CAR would implement the plan changes. Following discussion, the Committee reached consensus that the goals of the proposal are reasonable and the anticipated costs as explained by Ms. Hubley are not excessive.

The Committee unanimously voted to recommend to the Governing Committee approval of the plan amendments as proposed.

20.04 2020 Annual Merit Increase

Mr. Timothy Costain reviewed an annual merit increase survey of member companies and industry-funded peer organizations. He noted that salary increase indications from participating member companies and peer organizations are consistent with 2019 merit increase percentages.

The Committee discussed the survey results and the relationship between merit increase percentages and the lower rate of salary range growth and how CAR addresses the outpacing of salary levels to their associated ranges. The Committee was advised that CAR's merit increase formula is structured to retard the ascension rate of salary levels as they progress further into their respective ranges, thereby diminishing the likelihood that a salary level would hit its range ceiling.

Ms. Hubley explained that she was proposing a 2020 merit increase taking into consideration the dedication and hard work of CAR staff throughout 2019 to develop solutions focused on reducing the commercial residual market deficit. She added that her proposed increase tracks to industry funded peer organizations as historically targeted per committee direction. She requested a total merit increase percentage, a portion of which will be allocated as discretionary funds to recognize employees whose job performance in 2019 is deserving of additional compensation.

Following discussion, the Committee unanimously voted to recommend to the Governing Committee adoption of a merit increase as proposed by Ms. Hubley with a defined portion of the total increase percentage to be distributed by the President to deserving employees on a discretionary basis.

20.05 2020 Annual Range Movement

Mr. Costain reviewed salary range survey information compiled by CAR among member companies and industry-funded peer organizations. He identified average 2020 salary range increases among participating member companies for reference and peer organizations for more targeted alignment. Based on the survey information, a recommendation was made for a salary range increase for 2020.

Following discussion, the Committee unanimously voted to recommend to the Governing Committee a salary range increase percentage as recommended for calendar year 2020.

20.06 Officer Salary Recommendations

Ms. Hubley provided a review of the 2019 job performance of Ms. Wendy Browne, Vice President of Business Operations. Ms. Browne's 2019 performance included numerous aspects of staff's efforts to address the commercial residual market deficit, including managing a large staff and directing efforts with

several advisory committees to develop and implement changes to eligibility criteria, an eligible risk database, a large loss pre-notice process and a new Servicing Carrier audit process to standardize procedures. Ms. Hubley noted that in spite of all of the focus on finding solutions to the commercial market deficit growth, day to day business operations continued to function smoothly under Ms. Browne's direction.

Ms. Hubley proposed a salary increase for Ms. Browne consistent with the overall merit increase percentage approved for staff for 2020.

Ms. Hubley provided a review of the 2019 performance of Mr. Peter McCabe, Vice President of Technical Operations. She informed the Committee that Mr. McCabe oversees CAR's entire technical operations work behind the scenes which keeps CAR mainframe and server based systems operating efficiently and effectively. He oversaw the conversion of numerous mainframe applications to web based programs to provide a better member company user experience and more effective cost management in the future. He completed a comprehensive study of CAR's system architecture for strategic planning purposes and directed the replacement of CAR's mainframe hardware.

Ms. Hubley proposed a salary increase for Mr. McCabe consistent with the overall merit percentage approved for staff for 2020.

The Committee unanimously voted to recommend to the Governing Committee a 2020 salary increase for Wendy Browne, Vice President of Business Operations, as proposed by Ms. Hubley.

The Committee unanimously voted to recommend to the Governing Committee a 2020 salary increase for Peter McCabe, Vice President of Technical Operations, as proposed by Ms. Hubley.

20.07 President's Salary Recommendation

Chair Thomas DePaulo offered his thoughts on CAR President, Natalie Hubley's performance through his interaction with her as Governing Committee Chair. He noted that she is dedicated and hardworking, sharply focused on meeting her performance objectives and deeply committed to CAR's staff. Mr. DePaulo added that bottom line results from much of her work during the past year will take time to materialize, but her efforts have CAR effectively addressing the challenges it faces. Comments from committee members focused on Ms. Hubley's transparency and willingness to build strong working relationships with committee members and industry representatives to meet those challenges and move CAR forward. It was also noted that assessment of a President's job performance should remain focused on the overall performance of the company as well as personal interactions and observations. The Committee briefly discussed the level of Ms. Hubley's salary with several members questioning whether she is being adequately compensated as CAR President, given that she has held the position for five years and is performing at a high level. The Committee agreed to further investigate the matter.

The Committee's comments were universally supportive of the Ms. Hubley's performance in 2019 and there was consensus on a recommended merit increase to reflect that support.

Following discussion, the Committee unanimously voted to recommend to the Governing Committee a salary increase for Ms. Hubley as proposed.

TIMOTHY COSTAIN
Chief of Staff

Boston, Massachusetts
February 7, 2020