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NATALIE A. HUBLEY
PRESIDENT

TRANSCRIPT OF

GOVERNING COMMITTEE MEETING

A meeting of the Governing Committee was held at the Automobile Insurers Bureau Conference Center at 101 Arch Street, 7th Floor, Boston, on

WEDNESDAY, FEBRUARY 13, 2019 AT 10:30 A.M.

Committee Members present –

Mr. Thomas C. DePaulo – Chair
Cabot Risk Strategies, LLC

Ms. Pamela L. Bodenstab-Krynicki	P.L. Krynicki Insurance Agency, Inc.
Ms. Elizabeth B. Brodeur	Safety Insurance Company
Mr. Christopher D. Dupill	EM Freedman Insurance Agency, Inc.
Ms. Paula W. Gold	Plymouth Rock Assurance Corporation
Mr. Thomas A. Harris	Quincy Mutual Group
Mr. James S. Hyatt	Arbella Insurance Group
Mr. John V. Kelly	MAPFRE U.S.A. Corporation
Mr. M. John Olivieri, Jr.	J.K. Olivieri Insurance Agency, Inc.
Ms. Kellie A. Thibodeau	The Hanover Insurance Company
Ms. Meredith M. Woodcock	Liberty Mutual Group

Substituted for:
N/A

Not in Attendance:
N/A

PROCEEDINGS

(Meeting began at 10:30 a.m.)

Mr. DePaulo: Good morning, everyone. Welcome to the Governing Committee meeting of February 13th. Before we start, I just want to say we have a very full agenda today. We have a lot of topics to be discussed. Every one of them deserves their opportunity. I will do my best to keep us on track so we can do this in a timely fashion.

GC
18.01 Transcript of Previous Meeting

Mr. DePaulo: We'll move right into our agenda. The first agenda item is the Transcript of the Previous Meeting. The transcript of the Governing Committee of November 14th has been dispersed and should have been read. I look for a motion to approve the transcript of the previous meeting.

Mr. Hyatt: So moved.

Ms. Bodenstab-Krynicki: Second.

Mr. DePaulo: Any discussion? Motion carries.

Mr. Hyatt: You've got to put it to a vote.

Mr. DePaulo: I'm sorry. All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you, Jim. Motion carries. The transcript of the previous meeting has been approved.

GC
19.04 President's Report

Mr. DePaulo: The second item on our agenda is the President's Report.

Ms. Hubley: I only have a couple of brief items for you. The industry participants have been notified that CAR's most recent private passenger rate filing has been placed on file. CAR had filed for a 13.2 percent rate increase. The Division of Insurance had approved 9.9 percent and the effective date for that is May 1, 2019. All of the materials are out there for carriers to implement those changes.

In addition – I think it was at your last meeting – you approved some changes to the Private Passenger and Commercial Statistical Plans relating to the addition of some codes, as well as a penalty provision for a distributional analysis program that was implemented about a year ago. The Division of Insurance has asked for more information relating to the distributional analysis programs and penalty provisions in other states' plans in its review of that request. Wendy is putting that together for the Division. So, the decision on those submissions is pending still.

Finally, to give a bit of a recap or a status report on our efforts relating to the commercial residual market improvement, you are going to hear, as usual, a report from the Loss Reserving Committee relative to the current deficit projections. So, I'll let Tim speak to those numbers. We do have, though, a number of issues in progress, improvement things that were put in place. Again, Members have been made aware that CAR's most recent rate request was placed on file as well and that has an effective date of March, I believe. Also, as part of the review and approval of the most recent rate request, the Division of Insurance has indicated a need for a comprehensive rate study. A discussion of that topic has been placed on your agenda for this meeting. We'll get into more detail when we get to that agenda item.

You have a number of action items to consider today relating to the Commercial Auto Committee's recommendations, three in particular: the validation of driver licenses, implementation of a market need criteria for eligible producer assignments, and standards relating to determination of radius of operation and geographic class. In addition, the Commercial Auto Committee has a number of upcoming issues that they are considering and should be putting forth in the next couple of meetings for you for consideration relating to the large loss review, a very important item that we're looking at, understanding the additional insured endorsements and coverage impacts that might be there, and also non-owned coverage. Tim Galligan is working now to see if we can get together a rate and rule filing related to the non-owned coverage because that is a small item but it does have an impact on our deficit. So, there'll be more information for the Commercial Auto Committee on that as well.

The Program Oversight is continuing its work in developing annual report specifications for Servicing Carrier presentations. The discussions taking place this year I think will make that process a lot more valuable in this next review period.

Finally, we're working on an audit program and should be presenting something in some of the upcoming meetings of the Compliance and Operations Committee.

The last thing to mention or to add, last month, I distributed to the Governing Committee and outline. We're trying to kind of improve the communications between staff and the Governing Committee members and to help you prepare for these upcoming meetings to keep, in one close, easy, reference place, some of the items that are under consideration by the ongoing committees and some of the action items that will be coming before the Committee. Hopefully, you find this to be an effective tool. I wanted to mention that and make sure that – find out if the Committee members agreed and wanted to keep this as an ongoing item going forward.

Mr. Kelly: I found it well done. I think we should continue to do that, enhance it. That would be great.

Ms. Hubley: We will continue to put this together monthly for you. We will run that by counsel as well to make sure that there aren't any items included in here that might be contrary to the Open Meeting Law. But we will make sure it gets its review that way and then we'll distribute this on a monthly basis to you.

That would conclude my report.

Mr. DePaulo: Very good. Thank you.

GC
19.05 Counsel's Report

Mr. DePaulo: Moving to the next agenda item, we will have the Counsel's Report.

Mr. Torres: Thank you, Mr. Chairman. The first item is an announcement as opposed to an update. The Governing Committee Review Panel meeting that was scheduled to convene this this afternoon has been postponed with the assent of the parties. One of the participants is under the weather and wasn't able to make it. So, apologies for the last minute postponement but that was postponed with the assent of the parties and will take place in the near future. That's the Governing Committee Review Panel matter involving the Shannon Insurance Agency.

The next item is an update on a prior matter. The Calianos Insurance Agency appeal to the Division has been the subject of prior reports. That issue has been fully briefed and argued and is still pending at the Division.

The next item involves Point Insurance and its appeals at the Division. We've previously reported on two Point appeals. One, the Point I matter, was a Rule 20 proceeding instituted by Point against Arbella. That's been briefed and argued and is pending at the Division. The second item, the Point II appeal, is a matter at the Division of Insurance whereby Point is challenging its termination by Arbella. That's also been briefed and is pending at the Division. Since the last Governing Committee meeting, Point initiated a third proceeding at the Division of Insurance on December 14th challenging other conduct by Arbella concerning new forms that Point raised and said that Arbella's practices in requiring certain information at renewal was unfair, unreasonable or improper. We refer to that one as the Point III appeal. At the invitation of the Division, CAR and Arbella as well as Point submitted briefs and appeared at the Division of Insurance on January 30th concerning the Point III appeal. CAR took the position that the appeal should be dismissed because, among other reasons, the matters at issue in the Point

III appeal are already before the Division in the other Point appeals and that the conduct at issue involving foreign licensed drivers primarily is conduct that is permissible under existing Registry and CAR rules. That matter is pending at the Division as well.

The next item, the Rule 31 amendment, that's something that has also been the subject of prior reports. That's been submitted to the Division and is pending.

A more recent matter, the Rule 29 amendment, is now pending at the Division. The Division convened a hearing that took place on January 24th on Rule 29. The Division invited interested parties to submit written statements and/or appear at the Division to provide oral testimony. CAR provided a written statement in advance of the hearing and appeared at the hearing but did not provide any oral testimony. A number of companies, producers and other interested parties such at the Attorney General appeared at the hearing and made statements. The hearing officer, presiding officer, kept the record open until February 7th and others submitted statements. That's been the subject of a hearing and is now pending at the Division as well.

The next two items are action items for your consideration involving Limited Assignment Distribution Agreements. The first one is between Pilgrim Insurance and Metropolitan Property and Casualty Insurance Company. We reviewed that LADA agreement with Pilgrim and Met and found the terms to be consistent with the CAR Rules, in particular CAR Rule 36, and that the terms included there are similar to and consistent with prior LADA agreements that have been approved by the Governing Committee. So, from a legal perspective, we see no basis to prevent approval of this agreement and note that CAR staff has confirmed that there is no issue from a premium volume perspective to prevent the adoption of this agreement. This is an action item for the Governing Committee to consider if so inclined.

Mr. Olivieri: So moved.

Mr. Harris: Second.

Ms. Bodenstab-Krynicki: I have to recuse myself.

Mr. DePaulo: We have one recusal.

Ms. Gold: I recuse myself also.

Mr. DePaulo: Okay. So we have Paula Gold recusing. Any other recusals? Any further discussion? All in favor?

Most Committee Members: Aye.

Mr. DePaulo: Any opposed? The motion carries to approve the LADA agreement between Pilgrim and Metropolitan.

Mr. Torres: The second one is between Pilgrim and Middlesex Insurance Company and Sentry Select Insurance Company. Also, with that one, we've reviewed the agreement as drafted and find its terms to be consistent with CAR Rules including, in particular, CAR Rule 36 and see no issue from a legal perspective to prevent approval of the agreement and note with this one as well that CAR staff has confirmed that this is no issue from a premium volume perspective to prevent the adoption of this agreement. This one is also an action item for the Governing Committee to consider if it's inclined to do so.

Mr. Olivieri: So moved.

Mr. Harris: Second.

Ms. Gold: Please note my recusal.

Mr. DePaulo: Okay. Paula is recusing. One only recusal? Okay. Any further discussion? All in favor?

Most Committee Members: Aye.

Mr. DePaulo; Any opposed? Okay. The motion carries to approve the LADA agreement with Pilgrim and Middlesex.

Mr. Torres: The final item on our Counsel Report relates to the matter discussed in Executive Session at the September Governing Committee meeting. Counsel has completed our review and analysis of the files provided by CAR and have prepared an initial draft report and recommendation. Counsel will confer with CAR staff in regard to its work to date and finalize the report for delivery – or further report – at the next Governing Committee meeting. With that, unless that are any questions, that concluded counsel's report.

Mr. DePaulo: Okay. Thank you.

GC
18.10 Loss Reserving Committee

Mr. DePaulo: Moving on to our next agenda item, we have the Loss Reserving Committee report which will be presented by Tim Galligan.

Mr. Galligan: Good morning. Tim Galligan, CAR staff, reporting on the December 5th Loss Reserving Committee meeting. A Summary of the meeting was distributed with the agenda. This is listed as Docket #GC18.10, Exhibit #4. That's a nine-page exhibit. First, the Committee approved the Records from the September 5, 2018 meeting which are on file with CAR's Secretary.

Next, the Committee discussed ongoing data reporting and data quality concerns mainly relating to large losses that have been under discussion for several quarters now. Initially, the Committee was informed that 11 large loss claims were referred this quarter to CAR's Compliance Audit Department for additional information and verification. These claims were identified and passed along to CAR's department because either the reserve was new, the reserve had changed significantly from the prior quarter or the claim had experienced payment activity that was significantly higher than the prior quarter reserve. In these instances, staff contacts the company, gets information about the accident, the details and the potential for growth given the limit of the claim.

The second part of the discussion with data quality, the Committee reviewed two new historical large loss reports that identify individual claims with large losses. Attached to your agenda as Pages 5 through 7 of this Summary. If you could turn your attention to that report. This report was requested by the Governing Committee at a prior meeting and shows detailed information for large claims over a million dollars and includes the latest ten years that would be included in the loss reserving data. As of the third quarter 2018, there were 67 of these large losses that were over a million dollars. If you take a look at the report – I won't get into all the details. I'll just highlight the fact that by policy or by claim we're offering detailed information including liability limit, accident date, the number of claimants involved, what kind of vehicle, vehicle description, and current and prior loss information. So, you can easily see where a large loss was last quarter versus this quarter and easily see the change that occurred during the quarter.

The second report on Page 7 of 9 is really just a higher level summary of these large losses. It's giving you a breakdown of the number of large losses and also including a large loss of range. On this report we start at \$300,000 and go up to \$5 million. It's giving you a breakdown of where these large losses fall into those ranges over years and give you a nice comparison over a 10-year time period. I just wanted to point out that these reports will be part of the record of the Loss Reserving Committee and will be provided to this Committee each quarter. We are trying to improve the communication of these large losses and let everyone know what's going on.

The last data quality item that the Committee discussed was on staff's research concerning out-of-state and out-of-country claims for the potential for Personal Injury Protection payments that exceed the \$8,000 Massachusetts residual market coverage. The Loss Reserving Committee had previously discussed this issue at the prior meeting in relation to an accident year 2018 bus loss that occurred in Canada and was reserved at a \$5 million CSL. I believe it's been reported to this Committee that there was also a potential due to Canadian law where the PIP reserve could be paid up to \$1 million per claimant. That was something that our Counsel was researching. If there are any questions about that I would refer to CAR Counsel.

Moving on to establishing a reserve using the data through September 2018. Initially, the Committee had a pretty decent discussion about the variability in the ultimate loss development for the past 6 to 8 quarters that everyone has been seeing for a number of years, including older years, in part due to the large loss activity. The Committee looked at commercial BI projections including and excluding these large losses and it gave them an opportunity to have another reasonability check on the loss projections that they're making. Part of our other discussion, there was some concern that some of the loss projections were slightly high or could be slightly high at the time. In certain instances, the Committee concluded that lower selections were warranted at this time for some accident years.

Walking through the three current years, the Committee estimated a policy year 2016 commercial deficit of $49.1 million with a loss ratio of 103.5 percent. This represents an increase of $2 million from the prior quarter. This increase is primarily related to significant increases in reserves to three policies totaling approximately $2.3 million.

The Committee estimated a policy year 2017 commercial deficit of $33.4 million with a loss ratio of 93.4 percent. This actually represented an improvement of $6.5 million from the prior quarter. This decrease is partially related to the tempering of the AOBI loss ratios that I mentioned. The Committee had also mentioned that they felt that it's still pretty early on in development for this year. But at this time they felt like the prior quarter selection was high.

For policy year 2018, the commercial deficit of $39.3 million was estimated with a loss ratio of 96.3 percent. I'd just like to point out that this is the first time that that deficit is being estimated. Included in that 2018 data, there were two significant losses greater than a million dollars, one of which related to the Canadian bus accident that was reserved at the $5 million CSL.

Included in your Summary are ultimate loss ratio and deficit projections for policy years 2016 to 2018. Those are attached on Pages 8 and 9 of your packet.

That concludes my report. I would be happy to take any questions.

Mr. DePaulo: Any questions for Tim? John?

Mr. Kelly: Great report, Tim. I'm just going in order, I guess. On the quality report where you looked at the large losses, the write-up didn't say this and I don't think you said it either, but when the Compliance Audit Department looked at the claims there's nothing they saw that caused any problems of the information of the claim?

Mr. Galligan: No, there's nothing that they saw that caused any problems. They are getting an accident description from the company. We are doing a basic verification that the claim is valid, the claim makes sense. We're getting an idea of the scope of the accident, what kind of potential injuries and potential for growth are out there. Similar to the Canadian bus incident where it was realized that there was a potential for growth, it's an alert for us to bring that to the next level and start investigating that a little more.

Ms. Hubley: I just want to clarify that. This isn't really a review. The staff isn't looking – they're just really looking to gather facts that might be relevant to the Loss Reserving Committee and understanding the situation around the accident and considering their reserves. So, CAR wouldn't be in a position to say either way if there was a…

Mr. Kelly: Maybe it's under the other Committee's report because there's the large loss review going on there, right, that would look at verifying coverage or the process fault for these large losses by the Servicing Carriers, correct?

Ms. Hubley: Correct. That's a really a process that's under discussion and development so that type of review hasn't yet begun.

Mr. Kelly: Okay. Very good. On the report, just going forward, great reports here. I think this is a good example of providing meaningful data so we can manage this issue. Obviously, it shows some activity in the '16 and '15 years with large numbers, an increased number of large losses. I think the report could be enhanced a little, on the report itself, Tim. You have the actual accident year, month and day, plus the accident date, which is repetitive, on the report itself, on the detail report. I think it would be meaningful to me and probably to others if we replace maybe one of these with the first reported date to see when it was first reported. I think it's also helpful to identify the producer and the Servicing Carrier on this report also, again, trying to see if there are trends out there, you know, from where these large losses are coming from. I think that would help us, you know, look at this information and take action on it if we're seeing trends develop appropriately.

Ms. Thibodeau: Could I just ask a clarifying question about report date? Were you thinking report date to the Servicing Carrier as well as report date to CAR or should those be aligned relatively closely?

Mr. Kelly: It's a good point. I was thinking of more the Servicing Carriers reporting to CAR and when that happens. Obviously, if there's a delay there then research could determine if it was reported late to the Servicing Carrier or not.

Mr. Galligan: It's very simple for us. We have our accident date. We can certainly add first reporting date. It would certainly be up to the pleasure of this Committee if they want to add additional information such as Servicing Carrier on that report.

Mr. DePaulo: Jim?

Mr. Hyatt: I'm a little confused or I don't remember exactly where we left this last time, the idea – I think John was talking about this at some prior meetings about how do we just continue the communication, not just from the reports, which are really good, and I agree with suggested changes that you made, but just, you know, in particular this last Canadian bus claim is particularly concerning and has the potential to be particularly large. Where did we leave the kind of ongoing update for the Governing Committee about what where things stand. Again, I realize and recognize it's an open claim so only much can be said, but where did we leave all that?

Ms. Hubley: That large loss review reporting notification disclosure, that whole process is currently being discussed by the Commercial Auto Committee. Staff had presented a first draft of some procedures. They included some initial large loss reports which actually got incorporated into the Loss Reserving Committee's reports. They included a pre-notification report that would allow for notification prior to the reporting to CAR for the disclosure and information for you. The Committee reviewed that and had some comments on it and CAR staff is working on a second draft. But it is very important to us that we make sure that we balance the communication process and the reporting process to you with any legal requirements in keeping open claims confidential. We want your comments on the information that you need. We will incorporate that into the program. Hopefully, in the next meeting or two, we'll have something for your consideration.

Mr. Hyatt: Great. Thank you. That's important. This claim in particular, we can test the process, I think. I think it's important for people on the Governing Committee who may not be sitting on some of these subcommittees, this is a way, unfortunately, for us to all get close to the severity of the problem, no pun intended. I know we're going to talk more about commercial auto today, but it's these types of claims that are absolutely just tanking the results of it and certainly driving the deficit. I appreciate the work that staff is doing on that.

Mr. DePaulo: John?

Mr. Kelly: Just on that topic, I would agree with everything Jim said. I would stress that, in my view, these reports are great but I would encourage CAR staff to look at the reports and analyze them to develop trends and then develop action plans to address those trends. It's not just reporting of it but it's trying to find out why, in '16, did the numbers go up dramatically? What happened there? Is it just bad luck? Was there something that happened that we can take a step back and try to manage the residual market better going forward by taking some action obviously through the committees and bringing those recommendations to the appropriate committee? So, that piece of it, to me, is more important than just reporting out on these things.

Mr. DePaulo: That would be helpful to have it as part of the quarterly reports that they give.

Mr. Kelly: Yes. Lastly, on the specific claim that was referenced in the records for this bus issue in Canada, I think that that causes me great concern. I couldn't really tell in talking to my representative on the Loss Reserving Committee or in the records really what we're trying to say with that in the reserve setting piece of this. When I read it, it seemed to say that we have set reserves excluding that additional exposure that's out there for this potential claim. That causes me concern that we're supposed to be reporting the accurate reserves out there. As a large writer that picks up a piece of this deficit, I want it to be clear in what we're saying out there as far as what this claim is in. There was a reference to $43,000 of PIP claims but yet there was concern that there was additional exposure out there. I guess I'm trying to understand where we are with that claim and should the reserves be much higher than what was included, what was published, in the quarterly results or does the Committee feel it's adequately set right now?

Mr. Torres: One of the things I wanted to mention, in reviewing the minutes, there were certain statements attributed to CAR's counsel. I want to be clear that we haven't given any type of coverage opinion or made any determination on this specific loss. We weren't asked to do that and, in fact, haven't done it and would leave it to the Servicing Carrier in the first instance to make its coverage review and handle the claim itself.

We did and were asked to look at aspects of Canadian law and the Mass. auto policy and how they could come into play in CAR losses and CAR risks. We note that there are differences among the provinces in Canada and that the law varies from place to place and that there's requirements that carriers become signatories to Canadian law requirements. But I just want to be clear, we didn't make a determination and didn't appear at the Loss Reserving Committee to say that any particular loss or any particular claimant – because we haven't looked at any particular claimant – could be eligible for up to a million dollars. I just wanted to mention that we hadn't given that opinion.

Mr. DePaulo: To John's point – and I know what you're saying, to have more details on the claim –where do we get to the place where – I mean, while it's an active claim there's only so much a carrier can really put out there, right?

Mr. Torres: That's absolutely the case. I think that the carriers who are assessing or investigating coverage and retain counsel to do so I think there may be certain limitations upon the Servicing Carriers and what they can disclose certainly in the course in an open meeting. It could compromise their investigation and it could put their counsel in a difficult spot if their coverage opinion were discussed in an open meeting. That doesn't mean that there isn't certain information about losses that can be shared because of course it can. But there may be limitations and I'll leave it to the Servicing Carriers specifically to share instances where they're subject to attorney/client and attorney work product issues. But I would expect those types of things to come up and they're a factor for the Committee to consider and what you can request or expect a Servicing Carrier to disclose about an ongoing claim.

Mr. DePaulo: That's being established with the Commercial Auto Committee as far as a template about what would be disclosed in that pre-reporting?

Mr. Torres: My understanding is that is being considered in the parameters of what can be shared or what's expected to be shared is being developed.

Mr. Kelly: I just think that we're missing the boat here a little bit. If the way it was written up in the records, it implies there's a huge exposure out there for Member Companies and CAR. It indicated that there is this million dollars per passenger potential limit out there. I'm not sure how many passengers were on this bus but it's significant for a number. That's a real exposure that we, as an organization, should have an opinion on as to either – and maybe we don't have enough information now, but we should be publishing our financials that reflects the appropriate potential exposure and limit there.

As a Member Company we have to book those results. I feel uncomfortable that we're not booking the appropriate number right now because I don't know enough. I understand what counsel's comments were, but I think that if we don't have that information now CAR should have conversations and the Loss Reserving Committee should have conversations with the Servicing Carrier to understand this issue better and make any appropriate adjustments to the reserves or statement out there so that the right financial results can be booked by the Member Companies.

Mr. DePaulo: Any other further comments? John?

Mr. Kelly: The significance here, I mean, the deficit projections for the latest years and the $30 million, if you have 20 passengers on that bus that could be a $20 million claim. So, this is a significant issue that has been raised in the records.

Mr. DePaulo: I totally agree with you.

Ms. Hubley: I just wanted to comment that I think I hear your comments that as you read the records that we are indicating that this is a huge exposure. So, I think what we're trying to do is balance providing the information to you but what this is supposed to communicate is there are things that we don't know. So, we don't know that that's a huge exposure. We don't know that it isn't a huge exposure. But a lot of discussion has taken place about providing information. That's what was intended in the record and we will carefully review how that is included.

Mr. Hyatt: Well, maybe we just request the Loss Reserving Committee to make an inquiry and report at the next meeting about where that stands. John is absolutely right. If there is much more that needs to be reserved here that needs to happen.

Ms. Thibodeau: I was just going to add, at least in speaking with the folks on our Committee, my understanding was that we followed – CAR followed – there's always unknown exposure but in the setting of reserves at the end of the year you had your best estimate and the appropriate level of conservatism around it, understanding that there's uncertainty for this claim like you would in normal practice. So, from a reserve perspective, if you followed your standards then it should be your best estimate for the booking of the reserves as in any other period. That's sort of our understanding in booking on that basis our view of our exposure. That's my understanding of the practice then you learn as you go and you react to it as appropriate. I don't know if that's accurate but that's my understanding of the decision.

Mr. Galligan: I would say that's accurate. I would say the difference between this claim is possibly the number of claimants and what we know and don't know about the Canadian law right now. I would say it falls into a little bit of an unusual category.

Ms. Thibodeau: You have a certainty view around it, right?

Mr. Galligan: Yes.

Mr. DePaulo: Any other comments or questions? Natalie?

Ms. Hubley: I would say that the Loss Reserving Committee establishes reserves with the best information that they have at the time. I think that I would have to have staff do some research into the difference between your reserving and your financial disclosure. The readers of that information have to use that information in whatever way they see fit on their own financials. I think there's a balance we need to strike. We need to continue to research this issue and continue to report back to at the Committee. The one question that I have relating to John's comments on the large loss report, he asked for some additional information. In the past, CAR has kept the information specific to company off of the reports that are publicly – and out of even the information that's included to the Loss Reserving Committee. This has been a longstanding practice before my time and well before this commercial auto program. I just want to be clear as to if this Committee feels that that information should be included on the report we'd be happy to do that. I just want to be clear about making sure that I know what this Committee's – concurs with that request and wants that information.

Mr. DePaulo: Liz?

Ms. Brodeur: I think one of the other suggestions was to identify the producer. I'm not sure if it is appropriate to identify the producer or the Servicing Carrier if that previously hasn't been done, which is not to say that CAR should not be tracking patterns or trends or what have you on a Servicing Carrier-to-Servicing Carrier basis because they do have that information. But I'm not sure if it's appropriate to relay that information in a public report.

Mr. Harris: I think we all know that Servicing Carriers have different reserving processes. So, to me, that would be a valuable piece of the puzzle. I don't know, John, what the producer adds to it. I think the Committee could do a better job with the Servicing Carrier. If there's a compelling reasons not to have it, fine, but if there's not a compelling reason I think it ought to be added.

Mr. Kelly: My thought processes is, in our company, we see trends looking at producers. There is activity that can happen through a producer that is different from one producer versus another. I think that it's meaningful to us in that analysis. We're a Servicing Carrier. I have no problems with getting our name on that list. If something is happening with the ceded business that we're writing, that's coming through our carrier, I think that's something that I don't have a problem at all with publicizing that and identifying it and then working to correct it. What we do should all be meaningful. We find meaning in those two data elements. I think it's something that – I don't know of any issue why we couldn't publish that information but if there's some law that says you can't do that then we shouldn't do it. But I don't know of any concern, really, on that front. But I agree with you Tom. It should be meaningful information that will help us analyze the market and we think it is.

Mr. Torres: I just wonder if the respective claim personnel at the Servicing Carrier companies would have real concern about a reserve for a specific claim being included in an open meeting report. Lots of times plaintiffs' lawyers try to get reserving information. My understanding is carriers typically resist providing that. So especially if you're talking about large losses, if there's a reserve posted and associated with a specific claim that's available I would think that information could be strategically and tactically useful to a plaintiff lawyer pursuing a claim. So I don't know that the companies would necessarily want to make that information available but if each of the Servicing Carriers has considered it and doesn't have a problem with it then I just raise it as an issue to consider.

Mr. DePaulo: That's a good point you're raising. Liz?

Ms. Brodeur: I think it would be wise to not decide this question right now and go back to the Servicing Carriers and have the appropriate staff consider whether or not there are concerns about relaying both Servicing Carrier information and producer-specific information so that it can be a more informed decision.

Ms. Bodenstab-Krynicki: I, as a producer, would have a problem with the producer information being out there in public. I'm saying it from my agency standpoint, obviously. But I deal with a company. We have a contract. There's a lot of privacy within that. When it comes to Servicing Carriers, what they want to share is, again, not something I'm aware of but they have to sort that out.

Ms. Brodeur: I guess I would say as to the producers, each ERP associated with one of these particular claims is assigned only to that Servicing Carrier so the producers are associated with that Servicing Carrier. So, the Servicing Carrier associated with the claim knows who that producer is. The other Servicing Carriers presumably aren't dealing with that producer for ceded business because you're only assigned to one carrier. So, I'm not exactly sure how that information is helpful.

Mr. DePaulo: What I think is not public is who is assigned to what carrier.

Ms. Brodeur: I don't know if that's public actually.

Mr. DePaulo: No? Assignments aren't public?

Ms. Hubley: No, not right now.

Ms. Thibodeau: I was just going to add I agree that first and foremost the Servicing Carriers whose names would be out there should be consulted. I totally agree that the themes and the trends embedded in producer or Servicing Carrier are relevant. I would certainly trust that the respective groups would be doing that detailed analysis in distilling the findings and sharing that here at a minimum. I'm not sure how much the Governing Committee should, in and of itself, be looking for those trends. We should see that the work is being done and have an appropriate level report to say that there is or isn't a trend being advised. To determine a trend can seem – it can be a little bit anecdotal. So, I think you just want the right people to be digging into those levels of the data to ascertain source.

Mr. Harris: I think the Governing Committee should give the Loss Reserving Committee all the tools that it can expose to do their job as well as possible unless there's a reason not to. I completely agree with Liz's proposal that we vet this internally and not try to resolve it now. To me, the more tools the better. We do have issue with reserving right now.

Mr. DePaulo: I think John raises some very good points. We're not getting a general consensus around this table. Not to prolong it, I would recommend that we send this back to the Loss Reserving to do a little more research, yes?

Ms. Hubley: I would suggest that we consider this in the large loss review portion of the Commercial Auto Committee. We'll solicit some information from the Servicing Carriers and counsel.

Mr. Hyatt: I just wanted to make one last comment and then we're going to move on. If we decide that we don't – including the producer on this particular report, there's not a ton – I'm mean, they're horrible claims – but there's not a ton of them. Maybe we should think a little bit differently about the next time the RFPs come around. Is there a different requirement of the producers to do the producer analysis that John is talking about around frequency and severity to just look at producers relative to the mean and does that tell us anything? That may be a different way to go about it if this is not the right spot to do it.

Mr. DePaulo: John?

Mr. Kelly: I know you're trying to move the meeting along but I think this is great conversation. I think, you know, I always look at this. This is not the voluntary market that we're talking about. This is the residual market that we're talking about in this process. I think there should be requirements and responsibilities of the Servicing Carrier like Jim just described. I think that we should ensure, as the governing board, that those requirements are fulfilled out there in the marketplace. We basically have a contract. We are one so I don't have a problem with doing this. I think, in the past, we haven't been proactive enough to ensure that the Servicing Carriers are adhering to the things that we had in the RFP. So, I think you need data reports to ensure that that happens. How we do that, if it's through some other report that we require the Servicing Carrier to do, that's fine with me too. But it's all about managing the residual market. I hope that we're not saying that we're not committed to managing the residual market out there for better results because we don't have very good results right now in this past two-year period.

Mr. DePaulo: I think the audit process will also speak to this as far as making sure that the Servicing Carriers are living up to what they agreed to in that RFP. Any other comments before we conclude this report? All set?

Mr. Galligan: Okay.

Mr. DePaulo: Thank you, Tim.

GC
18.16 Market Review Committee

Mr. DePaulo: Moving on to the next agenda item will be the Market Review Committee report by John Metcalfe.

Mr. Metcalfe: Good morning. I'm reporting on the December 19th meeting of the Market Review Committee. There was one item on their agenda involving the Shannon Insurance Agency and Commerce Insurance Company.

The Shannon Insurance Agency requested relief of the termination of the agency's commercial automobile Exclusive Representative Producer appointment by the Commerce Insurance Company for violation of CAR Rule 14.B.1.d., e., g., j., x. and y. Those sections require the producer to submit, for all applicants, a new business application for insurance completed in their entirety, a signed premium finance agreement with the application within two business days to provide a reasonable and good faith effort to verify the information provided by the applicants, including licensing and rating data, to verify that the applicant has not been in default of premium payments of any motor vehicle insurance premium in the past 24 months, to forward all premium payments to the Servicing Carrier within two business days of receipt, to comply with all of the conditions set forth in its Limited Servicing Carrier Agreement, and to comply with all of the provisions of the Rules of Operation and the Manual of Administrative Procedures.

Commerce's termination of the agency was by letter dated September 11, 2018, but the agency had taken the position that it never received the termination letter and was not aware of the termination until November 2018.

CAR counsel provided the Committee with procedural information to assist in its consideration of the appeal advising that the Committee should initially consider whether or not the termination should be upheld on the procedural ground that CAR received the Shannon Agency's Request for Review on November 6, 2018 rather than within 30 calendar days of the date on which Commerce alleged the termination letter was delivered to the agency. Counsel further advised that irrespective of how the Committee rules on that procedural matter, the Committee should then determine whether Commerce's termination should be upheld based on any or all of the specific grounds stated in the notice of termination.

Ms. Sarah Clemens, representing Commerce, addressed the 30-day appeal requirement contained in Rule 20 and noted that they had complied with the method of termination specified in Rule 13.B.6.b. indicating that the termination document letter was mailed in compliance with CAR Rules, including proof of mailing to the agent's principal place of business and that a confirmed receipt to the agency's front door in Attleboro was received.

Following discussion, the Committee agreed and voted to take up the appeal on the merits of the termination despite the lateness of the appeal.

Mr. Paul Shannon of the Shannon Insurance Agency presented the agency appeal stating that he was assigned to Commerce in 2012 and in 2017 a new Commerce underwriter was assigned to his agency. In the past, he indicated he never encountered any issues with the company, but beginning in December 2017 many of the agency's policies that included large risks such as buses, sand and gravel haulers and van pools were being non-renewed by Commerce. Additionally, the company was no longer accepting any new business policies written by the agency. He stated that risks that had been on his books for many years and renewed by Commerce each year without issue were now being scrutinized and additional reports such as quarterly fuel tax records and trip logs were being requested at renewal. If this documentation was not received Commerce would non-renew the policies. However, Mr. Shannon pointed out the Commerce was then rewriting the same policies with another Commerce agent without requesting the documentation previously requested from the Shannon Agency. In his opinion, he felt that this inconsistency in underwriting requirements demonstrates a clear bias against his agency. He further noted that although he did not have a large amount of business with Commerce, he averaged approximately $35,000-$40,000 in commissions yearly over the past six years, a substantial loss of income for his agency.

Ms. Clemens acknowledged that in December 2017 a new individual took over as the agency's underwriter stating that the actions of Commerce's underwriter, however, were consistent with the obligations of the Limited Servicing Carrier Agreement and the requests for additional reports were to validate eligibility, proper classification and rating of the risk. She further noted that over the past year, CAR's committees have approved standards to create consistency among Servicing Carriers' handling of the risk in the commercial marketplace, as well as Rule modifications to further define principal place of business and confirm Massachusetts operation. Therefore, increased scrutiny on the risk is to be expected for all Servicing Carriers.

Ms. Clemens stated that on June 5, 2018, Commerce issued a warning letter to Mr. Shannon identifying the areas of the agency's non-compliance and inconsistencies with CAR Rules. Mr. Shannon was given sufficient opportunity to communicate with Commerce's underwriting team relative to the issues contained in the letter, however, no communication was ever made and identified concerns were never addressed.

Ms. Clemens then addressed the information contained in Commerce's termination letter detailing several examples of the Rule 14 violations cited.

In response to questions from the Committee members, Mr. Shannon acknowledged that he was in receipt of the June letter from Commerce which identified a number of concerns that the carrier requested the agency to address. He noted that as a result of the numerous issues that he was having with Commerce, he had communicated with CAR staff to request reassignment to another carrier. He also indicated that throughout the years he had never been visited by a Commerce marketing rep and while he had many conversations with his new underwriter, his requests to speak with an underwriting manager went unheeded. He noted that at the present time, the agency's current book of business with Commerce is approximately 8 to 10 policies with most of the larger accounts already non-renewed.

Significant Committee discussion ensued relative to several specific examples and policies that were cited as being in violation of CAR Rules. The Committee then considered the sections of Rule 14 that formed the basis of Commerce's termination notice. In each case, the Committee determined that the company had established that Shannon Insurance had violated the cited section of the Rule and that the violation of each individually was a valid basis for termination. The Committee voted separately on each to uphold the termination.

Finally, the records of the December 19, 2018 meeting of the Market Review Committee are on file. That concludes my report.

Mr. DePaulo: Any comments or questions?

GC
19.06 Commercial Program Oversight Committee

Mr. DePaulo: Seeing none, we'll move on to our next agenda item, which will be the Commercial Program Oversight Committee. Again, it will be reported by John Metcalfe.

Mr. Metcalfe: I'm reporting on the Commercial Program Oversight Committee meetings of December 18, 2018 and January 22, 2019. There are no action items, simply the report.

The Committee was presented with and reviewed a draft of a template for Servicing Carriers to use for preparing their 2018 Annual Reports. The Committee discussed and recommended changes that would be helpful in the collection of the information from the Servicing Carriers for their review and requested that staff update the Annual Report template in advance of their next meeting.

The Committee also discussed whether or not Servicing Carriers would be required to make a report presentation. They agreed that although a presentation would not be required, Servicing Carriers should be available at the Committee meeting to review and discuss the completed Annual Reports in order to respond to potential questions by the Committee members. They also agreed that it would be important to advise the Servicing Carriers that the information included in their reports and discussed at a future Committee meeting will be made available to the general public in accordance with the Open Meeting Law. CAR counsel stated that they would review the issue further, especially as it may relate to the potential for the inclusion of proprietary information that might be included in the Servicing Carrier's Annual Report and would provide comment at the next meeting of the Committee.

The second agenda item on the meeting of the 18th included the request for reimbursement of extraordinary expenses by the Arbella Protection Insurance Company, which involved efforts by the company in managing concerns involving the Point Insurance Agency.

As its previous meeting on this matter, in November 2018, the Committee requested that Arbella and CAR staff provided further clarification of the dollar amounts being requested by Arbella prior to any Committee approval of a reimbursement amount. CAR advised the Committee that staff had confirmed the dollar amounts included in Arbella's current expense reimbursement request, noting that the original submission to the Commercial Automobile Committee inadvertently double-counted the prorating of employee expenses allocated to the Point matter. In addition, Arbella has submitted additional information relative to the derivation of employee expenses.

Before addressing the specifics of Arbella's request, the Committee discussed the precedential consequence of recommending the reimbursement. The members recognized that in the current market environment, additional requests may follow. After discussion, some Committee members suggested that it would be more appropriate to address the current request on its merits.

The Committee then considered the information submitted by Arbella relative to the derivation of employee expenses. Arbella noted that as a standard operating procedure, most Arbella employees track their time in order to measure productivity. These logs were used to calculate time spent specifically on the Point matter. Special investigatory resources were measured not by time but by the number of investigations.

Following discussion and questions, the Committee requested further explanation of the determination of the cost/hour figures, asked for sample activity logs used to track employee hours, and agreed to continue discussion at its next meeting with the intention to prepare a recommendation for the February Governing Committee.

Reporting on the January 22, 2019 meeting, at its meeting, the Committee reviewed the changes made to the Annual Report template based on the input from the Committee's previous meeting. The Committee was advised that CAR expects to distribute the commercial automobile residual market historical and reference data to the four Servicing Carriers in April of this year, with 2018 Annual Reports due to CAR in mid-May and that the Committee should anticipate reviewing the reports in early June with a recommendation presented to the Governing Committee at its June 2019 meeting. CAR counsel noted that under the Open Meeting Law, any reports circulated and deliberated upon by a CAR committee must be shared more broadly and made available to the general public. Staff then noted that the information in the Annual Reports received by CAR from the four Servicing Carriers would subsequently be summarized by staff and shared with the Committee in an organized manner for review. It was the Committee's consensus that the Annual Report template, as provided, should be distributed in accordance with 2018 report schedule.

Relative to the request for reimbursement of extraordinary expenses by Arbella, the Committee continued its discussion from their last meeting relative to Arbella's request for reimbursement. Some Committee members felt that the submitted information addressed the Committee's concerns, while others indicated that while Arbella had clarified the methodology used to determine the expense dollars, they were unclear as to whether those numbers were appropriate. The Committee questioned whether their charge was to determine the reasonableness of the dollar amounts requests by Arbella or to understand and verify Arbella's methodology for determining its requested reimbursement amount. CAR counsel stated that in reviewing Arbella's request, the language in the Manual of Administrative Procedures contemplates that the burden is on the Servicing Carrier to produce sufficient evidence that it has incurred an extraordinary expense. He therefore suggested that the Committee may want to focus on the evidence Arbella has presented and work within the framework of the documentation that Arbella has provided rather than trying to validate hourly numbers.

Significant discussion ensued with the Committee noting that when a company is appointed as a Servicing Carrier an expectation exists that there will be a certain level of expenses associated with servicing the commercial residual market business. However, while a Servicing Carrier should anticipate incurring these expenses in addition to the norm in specific situations, the Committee agreed that Arbella's investigation of the Point Insurance Agency was certainly extraordinary in nature, not to be anticipated at the time of the RFP process, and that an objective way to analyze the information presented by Arbella is needed as it may establish a precedent for future reimbursement requests.

Some Committee members suggested that if Arbella is able to determine how much effort it expends on a typical ERP policy and the associated dollar amounts built into its RFP numbers, these dollars could potentially be backed out of its requested expense reimbursement figures as it would provide the Committee with an idea of the extra expense incurred over and above what should have been anticipated in the RFP process.

In response to the Committee's request, Arbella agreed to provide the Committee with additional information identifying how much time and dollars is spent on a typical ERP policy in order that the Committee may consider whether these amounts should be back out of the Arbella extraordinary expense request. The Committee agreed that this information would be helpful for discussion at its next meeting in order to provide the Governing Committee with an informed recommendation.

Finally, the records of the December 18, 2018 and the January 22, 2019 meetings of the Commercial Program Oversight Committee are on file.

Mr. DePaulo: Thank you, John. John?

Mr. Kelly: Two good topics here, especially on the expense reimbursement issue from Arbella. I would commend the Committee for the time it's taking to try to work through this issue. I think they're getting to the point that I think is – we'll probably see a recommendation coming. But their latest discussions over trying to identify really the added expense that Arbella incurred over and above what they were paid for, you know, through the expense allowance for this agent, you know, as well as for the whole program is really the key issue for me kind of going forward. That's the piece that is difficult, so the Committee's input into how to kind of measure that I think would be very helpful in this process. You could look at it and say, well, this was a bad experience through this producer, but if all of their other producers were ones that didn't generate as much expenses as what's in the expense allowance – which we do as an organization – or you could look at it specifically for this producer too. That's the piece that I wrestle with here is how to evaluate that so I think the Committee's input would be very helpful.

Mr. DePaulo: Any other comments or suggestions based on John's comments? Thank you.

GC
19.07 Commercial Automobile Committee

Mr. DePaulo: Moving to our next agenda item, which will be the Commercial Auto Committee report, which will be presented by John Olivieri.

Mr. Olivieri: I'll be giving the report on our last Committee meeting of January 22nd of this year. There will be three action items. Just as a note, the reason you have another set of minutes in front of you is there is a correction that I will point out when we get to that portion of my report.

The first area has to do with the Standards for the Verification of Application Driver's Licenses.

Based on previous discussions, the Committee reviewed the updated Servicing Carrier and Exclusive Representative Producer Standards. The Committee agreed that the Operator Exclusion Endorsement be used in instances where a listed operator does not hold a valid license rather than rejecting the risk as ineligible. Relative to the issue of license validation requirements for renewal business, some members expressed concerns whether the review of renewal business should be limited to non-fleet private passenger risks due to concerns that a significant effort would be required by carriers to evaluate eligibility at renewal for all risks. Other members noted that the legal requirements regarding licensing have the potential to affect eligibility for each risk at each renewal. The Committee members agreed that in order to comply with the legal licensing requirements and to ensure consistent Servicing Carrier procedures, all risks must be reviewed to validate licensing at inception and at renewal regardless of the classification.

The Committee unanimously voted to approve the Standards as amended, modifications to Rule 2 – Definitions of CAR's Rules of Operation and modifications to Rule 31 – Operator Exclusion Form of CAR's Commercial Automobile Insurance Manual. It's included at Exhibit 1, Page 4 through 8, of the first Additional Information notice. This is an action item for the Governing Committee's consideration.

Mr. DePaulo: Any comments?

Mr. Hyatt: I just wanted to make one comment. The Committee continues to work incredibly hard on these ongoing topics. I wanted, again, to thank them and to say that we appreciate the work. One of the things that I know that was under discussion quite a bit at this past meeting had to do with just how much and how deep do the Servicing Carriers – should they be required to go to review the licensing of both the PPT non-fleet, as well as the rest of the program. It seemed, from our perspective, that the issue was predominantly centered on the PPT non-fleet side of the book. That's where we feel most – an urgent need exists to dig in on that side of the house. I would suggest that the – potentially, the Committee consider, do we have a problem in the other areas of the book from a valid licensing perspective? There's a substantially large book of business for the four Servicing Carriers. It would be an incredible amount of work to go through to do a full review of every single policy in a 12-month period of time.

One of the things we might suggest – and I'd maybe ask Roberta Fitzpatrick to comment on – is a slightly different amendment or approach to the procedures and how we might go about that. So, if the

Committee would entertain or have Roberta make a comment, I would appreciate that.

Ms. Fitzpatrick: First, I know that the Commercial Auto Committee and the Subcommittee has spent a great deal of time and went back and forth a lot on this issue. Following the Commercial Auto Committee meeting, Arbella had internal conversations. The feeling of Arbella was that we know we have a problem with validating licenses of non-fleet PPT book of business. We know we want consistency. So, what really Jim is getting at is, is there a need to validate, on renewal, drivers' licenses and other classes of risks or is it really the non-fleet PPT book of business where we're all seeing the problem with non-valid drivers' licenses.

Mindful of not wanting to send this back to the Commercial Auto Committee and delay it, what Arbella wanted to propose for your consideration and if there's an inclination is to consider immediately implementing the procedure for validating foreign drivers' licenses – or validating drivers' licenses on both new and renewal business for non-fleet PPT. For all other classes of business, of course, validate drivers' licenses on new business, and then let CAR staff work with the Committee to determine is there a problem across other classes of business. If there is a problem then we can implement it for all classes. But, for now, it certainly could be implemented for non-fleet PPT on new and renewal. It should certainly be implemented on all classes for new business, but do we want to consider holding off on implementing for renewal of all classes unless and until we see that there's a problem with other classes of business. Again, because we didn't want to delay it we did prepare a brief redline which, if it's okay with the Committee, I'm going to circulate it. It's very brief. If there's an inclination to do it, we can use this as a guide.

Mr. Hyatt: Just one final comment. To reiterate one thing that Roberta said, this is the area where there is definite agreement among the Servicing Carriers and among the Committee that the PPT non-fleet is the area that we're most concerned about. Rather than, again, remanded this right back to the Committee to reconsider, we'd ask the Governing Committee to consider this as a procedural change for the Manual to potentially have us move along and get this going.

Mr. DePaulo: John?

Mr. Olivieri: To Jim's point, we did spend a lot of time – and Arbella sits on the Committee as well – going back and forth. I may ask counsel to comment. I do remember we had a – part of the conversation had to do with whether we could require it just for one specific area versus another area, is there any issue with doing that. My second comment is, I remember a big part of what drives this Committee and these specific areas has to do with consistency. If we were to go forward with this revision, I would want to make sure – because I do believe – I'm not sure if it's at least one carrier or more than one carrier does review all licenses on all policies that are submitted to them. That carrier, in my opinion, would not be in a position to say we're going to require that of the producer. That carrier should stop doing that. We want to be consistent. Either all carriers require or no carriers require, whether it's overall for every type of risk or whether we going to segment it out for private passenger versus other areas too. I encourage everyone to consider that aspect of it and then if counsel has any comments on just kind of line item one specific class of business.

Mr. Torres: We did look at that and didn't find any regulatory issue that we were aware of or that we came across that would prohibit limiting it to just one specific class for the non-fleet PPT. At the Commercial Auto, we were asked to review the changes and if we had thoughts about that. At the time, there were other provisions that were included in the Standards that we thought were a little clunky that were ultimately removed and are not being proposed to be reinstated in this iteration. But to your point, at the Commercial Auto Committee, there was discussion about consistency. We were asked to opine and said that the way that it had concluded and was presented now was the clearest way to get uniformity and consistency. But that doesn't mean that other changes couldn't be proposed if the Committee were so inclined as has been suggested here.

Mr. Hyatt: I kind of feel like this actually is going to be as consistent as possible among the four Servicing Carrier because there was agreement around PPT non-fleet as the main issue. So, if we can move forward today with putting this and modifying the procedures and continue to ask the Subcommittee to go through the rest of the non-non fleet PPT side of the book to see if we need to also go down that path to verify licenses on that side, we will have consistency then once we have full input from the Committee. I think, again, this is a minimum standard of performance, right, or expectation.

Mr. DePaulo: That's my comment, too. The comment that your making, John, you're saying that some carriers are doing a review on every renewal and new business on every class.

Mr. Olivieri: That's my understanding.

Mr. DePaulo: And if that's the case, I don't know if this is suggesting that they should stop doing because this is setting a minimum standard which should be done. I just want to make that clear if that's the point here.

Ms. Brodeur: I think, to your point, John, I think it would be problematic if we're suggesting that a carrier cannot verify if they feel it's appropriate. I just wanted to clarify that that's not the intention of this. Outside of the non-fleet PPT, if there were reasons why a Servicing Carrier felt the need to verify in a particular instance or instances that that would still be appropriate because fundamentally – I want to back up a little. Fundamentally, the Rule change means or the change to definition of Eligible Risk means that it would still be a requirement that the license be present. Whether or not the Servicing Carrier is seeking some kind of verification of its presence, it is still required for eligibility. So, we're not suggesting that renewals of non-non fleet PPTs don't need to have valid drivers' licenses. We are only suggesting that a Servicing Carrier does not need to go through that verification process on a renewal. I just want to make sure that we all agree on that.

Mr. DePaulo: Right. I think that's the understanding.

Mr. Harris: So, could we get counsel's opinion on John's point that a company that wanted to review all could continue to do so?

Mr. Hincks: What's written here does not prohibit that. I agree with that. It's, again, really for the province for the Governing Committee to discuss that sort of initial threshold criteria on attempting to create procedures that generate the most consistency among Servicing Carriers. I just want to add one other piece of that just for everyone's edification. Another criterion that was raised was not so much that the law requires CAR to go through with these procedures to validate foreign licensing, that the province of foreign licensing is within the Registry of Motor vehicles, but really to work in a manner in which CAR is being as consistent with the laws and policies set forth by the Registry. I think that's what this undertaking has been. That does not mean there's a law that, again, requires the Program and the Servicing Carriers to undercover, overturn every stone, to possibly validate at every year, every renewal. So, there's nothing that prohibits, that we could see, delineating one class from others. Just with those two points, I'll leave it back to you.

Mr. DePaulo: I do have a question, though. I get the class component to this. What I'm just concerned about is the unintended consequence here that in the event that we've seen many things around the table where one party can claim that they been aggrieved because we've been singled out kind of thing. My question is, I know we're setting a minimum standard but let's say there was something that was found and they tried to use that saying, well, I'm on the hot spot because you did this but no other carrier was doing that. Could that come back and create a problem for CAR?

Mr. Hincks: My view is I could see that argument being made. I think the defense to that would depend on that facts of the circumstances, but again could go back to the legal requirements that are set in Massachusetts by the Registry of Motor Vehicles on foreign licensing. Ultimately, that determination would prevail on the facts that this is not an inappropriate exercise by the Servicing Carrier to have gone outside of non-fleet PPT on renewal to validate a foreign licensing issue. Yes, the argument could be made that there's an inconsistent treatment but I'm not sure to what avail. Again, it's really for the Governing Committee to decide what level of consistency it wants because certainly the way it's written here it would not prevent one Servicing Carrier from going above and beyond the minimum threshold.

Mr. DePaulo: John?

Mr. Kelly: MAPFRE supports the suggestion. I think it's a good approach. I think what Roberta and Jim identified was – they weren't suggesting that we never do this but that we just start off with focusing on the non-fleet PPTs on the renewal book and taking a look at it going forward. I think that's a prudent approach. Throughout this process, I think it's been a good process. You have the four Servicing Carriers stepping to the table to try to standardize procedures that are used in the industry. Some of those things are causing us to spend more money on this program than what we originally bought into in the RFP process. I think we, as the Governing Committee, should be sensitive to the issue. If there's something comes up that says the Servicing Carriers are saying this is going to cost us a lot of money to go do, we're not sure of the benefit yet, so we should walk slowly down that path and make sure that we really will see a benefit before we talk about forcing the Servicing Carriers to do that work.

Mr. Harris: I'd like to make a motion to support the proposal as presented.

Mr. DePaulo: Okay. Do we have to define in the motion the new language from what it was originally?

Ms. Hubley: As amended.

Mr. DePaulo: As amended. Okay.

Mr. Hincks: It'll be made part of the record. This would be replacing the first paragraph of Exhibit 1 of the current materials, 19.07, Exhibit 1, Servicing Carrier and Exclusive Representative Producer Standards for Verification of Applicant Drivers' Licenses.

Ms. Brodeur: Can I ask a question? Is this – I just want to clarify that we're not voting on the whole kit and caboodle right now. There are other issues that I think should be discussed. I just want to clarify, are we only voting about amending that one paragraph or are now proposing to vote on the Rule change and the guidance document?

Mr. Hincks: I thought we were voting on everything.

Mr. DePaulo: On everything.

Ms. Brodeur: Then can I bring something up? I wanted to take a step back. I thought it would be appropriate to raise something that hasn't really been talked about in detail in all the underlying Committee/Subcommittee meetings. I apologize for those of you who have heard me say this multiple times already in these meetings. I thought it would be wise to raise the public policy issue here that this Rule change is making, in fact, a significant change to how CAR is viewing the requirements of 175, Section 113H, CAR's enabling statute which currently provides that no insurance company shall be required to issue a policy if any person who usually drives the motor vehicle does not hold or is not eligible to obtain an operator's license. So, the current requirement in the law said a Servicing Carrier cannot be forced to issue that policy. That is very different than saying a Servicing Carrier cannot issue that policy, which is what this Rule change will mean. I thought it would be appropriate to at least have the discussion that that is a change to how CAR's interpreting 113H, to ensure there's consensus that that is the change we're intending to make, and also touch upon the fact that this will likely or could, and I think likely will, lead to an increase in uninsured drivers. If these policies are no longer available then there will uninsured people driving who previously may have had coverage in the commercial market. I think that's a consequence of this change. I think it should at least be discussed so that when this Rule and all these documents go to the Division it's clear that this issue was considered by the Governing Committee.

Mr. DePaulo: Before we go forward, we have a motion on the table to bring up this discussion. Do we have to remove this motion?

Mr. Harris: It was not seconded.

Mr. Olivieri: There was no second.

Mr. DePaulo: Oh, it wasn't seconded. I thought it was. I'm sorry.

Ms. Fitzpatrick: I don't want to belabor the point, but I just want to clarify something so we're all on the same page about this. In 2016, the legislature changed the laws under Chapter 90. The law, by the legislature in Massachusetts, is clear. You must now have a lawful presence in the United States in order to be eligible for a Massachusetts driver's license. So, the law has been very clear 2016. You cannot get a valid driver's license if you don't have lawful presence in the United States. So, CAR's procedures for ensuring consistency under the Standards may be clarified now. But the law is that you're not eligible for a driver's license and if you're not eligible to legally drive on the roads of the Commonwealth – for example if you're an unlicensed minor, if you're license has been suspended or revoked or if you can't get a valid driver's license, you can't drive. If you can't drive, you can't be insured. So, the fact that maybe people who didn't have a lawful presence here found a loophole and the way to get insurance, by getting commercial policies, doesn't change the law or really the way CAR viewed it. The issue hadn't come up before. I just want to be clear. The law is you're not eligible to drive on the roads of the Commonwealth if you don't have a lawful presence in the United States. Whether we agree with the policy or not is not for discussion. That's what the legislature has said. I just wanted to clarify that.

Mr. DePaulo: Thank you, Roberta. Any other comments regarding the issue that Liz is bringing before us, the impact of the language? Hearing none then I say we go forward with the…

Mr. Hyatt: I'll second the motion that's been made.

Ms. Gold: Which is the amended language that's been suggested?

Mr. DePaulo: The amended language, yes.

Mr. Kelly: Just a question. I thought Liz brought up a good point in that first I was thinking the definition of Eligible Risk was changed to include this, so that would apply to everyone. So, we're clarifying that, that it does apply to everyone and we're not changing that Rule language to say that it's only for non-fleet PPT type classes. That's how we're going to go forward with this, yes?

Mr. DePaulo: Yes.

Mr. Kelly: Very good.

Mr. DePaulo: Any other discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries.

Mr. Olivieri: Producer requirements: The Subcommittee had previously directed staff to draft a market need concept proposal for the appointment of new commercial residual market Exclusive Representative Producers without a voluntary contract. The Committee reviewed the components of the proposal noting that an applicant with a voluntary commercial automobile contract will be appointed to a Servicing Carrier when the eligibility requirements of Rule 14.A.4. have been satisfied. If the applicant does not have a voluntary commercial contract with an active Massachusetts commercial auto writer, the Governing Committee will assess whether a market need exists. If it is determined that a market need does not exist then no new appointment for applicants without a current voluntary appointment will be made. The applicant may petition for a review of its appointment before a CAR committee in order to demonstrate that a market need exists that would be uniquely satisfied by the appointment of the applicant. The determination of whether or not a market need exists will be based upon a review of the current residual market data in order to evaluate access to producers servicing the commercial market.

It was noted that applicants purchasing a book of business from a current ERP or former ERP who has been terminated or withdrawn from an appointment where grounds for termination were previously issued regardless of whether a voluntary contract exist must also petition the committee for a Servicing Carrier appointment. The applicant must satisfy the committee that the conditions for termination are not present in the purchase and must demonstrate that a market need exists that would be uniquely served by the appointment.

The Committee agreed that the draft proposal effectively addressed the issues discussed by the Committee and unanimously voted to approve the market need concept as presented. The Committee unanimously voted to approve the updated language of Rule 14.A.4., Eligibility Requirements, to require that an applicant meet the conditions for addressing a market need as determined by the criteria established by CAR's Governing Committee. This is also an action item for your consideration.

Mr. Kelly: I'll move the adoption of the recommendation.

Mr. Hyatt: I'll second it.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Okay. Motion carries.

Mr. Olivieri: The final topic from our January meeting has to do with Radius of Operation and Rating Territory. The Committee continued its discussion relative to updates to Rule 72 – Public Automobile Classifications, Section III – Trucks, Tractors and Trailers. Additional modifications were incorporated into the Rule to specify that the highest-rated Mass. territory should be used for those non-zoned rated vehicles with operations outside of Massachusetts. The Committee reviewed updates made to the Servicing Carrier and Exclusive Representative Producer standards for the determination of radius class and rating territory. Standards include instruction on how radius and geographic class is to be determined when the risk is unable or fails to provide credible documentation to validate its garaging and/or operations. In this situation, the automobile's radius class will default to intermediate radius and the rating territory will default to Territory 10.

The Committee agreed that if the risk has been in operation for more than one year and credible documentation is provided to validate a different radius and/or geographic class then the rating change would be applied prospectively from the date the documentation is provided. The Committee also agreed that if the risk has been in operation for less than one year, if the documentation is provided at least 90 days prior to the policy expiration date, then the rating change would be applied as of the effective date of the policy. Note that's the change in the minutes that I pointed out before in the addendum. If the documentation is provided within 90 days of the expiration date, the rating change would be applied as of the effective date of the renewal.

The Committee unanimously voted to adopt the modifications with the suggested modifications made to Section III – Trucks, Tractors and Trailers, Rule 72 – Public Automobile Classifications and Zone Rating Tables of the Commercial Automobile Insurance Manual, and the Servicing Carrier and Exclusive Representative Producer Standards for Determining and Validating Radius and Geographic Classification. This is an action item for our consideration.

Mr. DePaulo: John?

Mr. Kelly: I'll make the motion based on the Committee's recommendation.

Ms. Thibodeau: I second that.

Mr. DePaulo: Any other discussion? John?

Mr. Kelly: I didn't see an effective date for this. Was there an effective date?

Mr. Olivieri: I don't believe we have – did we…

Ms. Hubley: We would make the rule effective upon approval. However, we did not talk about an effective date for implementing these tables.

Mr. DePaulo: Liz?

Ms. Brodeur: Wouldn't it become effective upon approval by the Division absent some other proposed date by CAR that was approved by the Division?

Mr. Kelly: I just think the Servicing Carriers may need a little lead time on this one.

Mr. Olivieri: Do you have a preference, Mr. Kelly?

Mr. Kelly: You know, like, 60 days out, I think would be fine for us.

Ms. Brodeur: You mean 60 days after approval?

Mr. Hyatt: Approval from the Division.

Mr. Olivieri: Sixty days upon approval from the Division. Does that make sense to the other carriers?

Mr. DePaulo: We have a motion and a second. Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Okay. Motion carries.

Mr. Olivieri: That concludes my report. We actually were very productive and moved everything along at the last meeting. We have another Commercial Auto Committee meeting, I believe, on March 5th.

Mr. DePaulo: Thank you, John. John, I know you're doing a tremendous amount of work on that Committee.

Mr. Olivieri: The Committee members are and staff is as well.

GC
19.08 CAR Commercial Automobile Rate Need Study

Mr. DePaulo: Moving to our next agenda item, the CAR Commercial Auto Rate Need Study which will be presented by Natalie Hubley.

Ms. Hubley: As CAR has presented these numerous Rule changes and rate proposals, we've had a quite a few discussions with the Division of Insurance relating to the issues surrounding the commercial residual market and the issues that are impacting the commercial deficit and the rate need.

During the review of our most recent filing, prior to those rates being placed on file, the Division had noted that – they recognized that there's a substantial rate need. There's a substantial rate need among a number of different classes. Because of that, any rate need is not going to be approved in one single filing. CAR staff and the AIB actuaries have kind of taken it from a perspective of we recognize there are a number of issues we need to address. But we kind of filed what we believed would get us moving forward in the most productive way and in a manner that would be acceptable to the Division. But the Division does recognize that there's additional rate need. As they continue to be receiving filings from CAR I think they'd like to understand the big picture and how we ultimately plan to get there over time. So, they've recommended that this Committee undertake a – or hire an independent consulting firm to work with this Committee as well as CAR staff and the actuaries at the AIB to do a thorough study of the Rating Manual and the rate indication data and help us develop a long range plan that identifies the full need and a plan to implement that rate need over time.

There was a somewhat similar suggestion that we undertake such a study in the discussions of our budget. So, we had included a provision, a $50,000 provision, in the fiscal year '19 budget. That was intended for this Committee to discuss and talk about moving forward. I'm not yet sure that as this engagement takes place what the cost might be but we have a start. I think this is an engagement that will take some time. So, if this Committee directs us to move forward we would likely incur expenses in more than one fiscal year. So, I think the budget would be appropriately funded at this time. It was an informal discussion I would say but a strong recommendation so we would need direction from this Committee to move forward.

As I envision it, it would be a process that we'd work with the Committee Chairman to establish a committee to work on this effort from development of an RFP to selecting a firm to reviewing the scope of the engagement, a schedule, and working with that contracted firm along the way as certain deliverables are prepared. Hopefully, at the end of the project, we'll be able to make some kind of presentation to get a nod that we're all comfortable, and the Division of Insurance is as well, to forward with plan. There was discussion also that this is a substantial undertaking I think and may take some time. I don't know how long until we kind of have more information from proposals. That does not preclude that we continue looking at our annual indications and make filings but to keep them basic to the indicated rate need and keep in mind that we're developing a long-term process for things. I'll just throw out a few examples such as how we would need to be dealing with zone rates over time and perhaps increased limit factors over time and perhaps addressing operations outside of Massachusetts. There are, I'm sure, a dozen issues or more that will be reviewed by such a project. With that, I'm not sure if that's clear.

Mr. Hyatt: That's very clear. A couple of comments. One, one of the things, Natalie, that you said is we've got to deal with this over the long term. I just want to – not nitpick the words. I guess I do want to nitpick the words a little bit.

Last year, we did reach out to the North Carolina commercial auto residual market. Their challenges, a number of years ago, were very, very similar to ours from both a rate and eligibility perspective and faced many of the same things that we're facing here. There was a very strong working relationship, as there is here with the Division of Insurance, and through changes as we're doing now to eligibility, as well as to rates, they were able to get it done over a couple of years of time. It was very, very effective in depopulating the residual market in the state of North Carolina. I think that there's urgency with the Division. There's urgency with the carriers and with CAR to get this to happen. Again, I just don't want to see it take years and years and years to work itself out.

The second piece, again, as I very much support, the contracting of an independent actuarial firm to help us through this process and help us think about how to get this accomplished over a period of time. The only question, I guess, I have is how are we structurally going to do that through – is this through the Actuarial Committee – is this through a subcommittee – not the RFP piece but the actual ongoing work with a contracted firm. How are we going to do that? One of the things that I know has been brought up at the Governing Committee by John, I think, over the last couple of years is a number of years ago there was – was it a subcommittee to the Actuarial Committee?

Mr. Kelly: It was a joint commercial and actuarial committee.

Mr. Hyatt: There was an opportunity for the actuaries – at the carriers – not just the Servicing Carriers – at the carriers – to offer peer review, not approval. They're not preparing it but there was peer review brought. I think it's important for us to revisit that topic because I think the time has come especially with an independent firm that we need to get one of the best thinking and the best firm possible hired but the best thinking around the table from the actuaries from the companies in Massachusetts, I think, would be very helpful, potentially with people from the Commercial Auto Committee.

Mr. Kelly: I support that approach. I think this is a great move on our part. I think that that committee should be very active in defining this process. We all probably deal with consultants and they'll spend your money quickly, but we should have a game plan designed and approved before we go out and contract the outside consultant. I would think that plan would be developed by this Committee. We're not asking the consultant to develop that plan. Maybe they can confirm it once it's created. I think there's a lot of expertise in the industry that we can bring to this group that is out there that could help us define an overall game plan.

I do think that a part of that has to be clear objectives as to what we're trying to accomplish. In my mind, they're clear. The deficit has to go down. It has to be adequate. We should have a process that can continue into the future with the prospect of having low deficits and looking at the size of the residual market as to what size we think we should be projecting to and what we should do towards that. I think this is a great idea. I look forward to getting going with it.

Mr. DePaulo: Any other comments around the table? So, we'll give the directive to CAR to at least move forward with the efforts to get this whole program started. We'll talk about committee structure and who should be on that committee, where it should go. That would be followed up and we'll give the report back on that.

Ms. Hubley: I would anticipate getting it moving. Once you establish the committee, we'll reach out to find out from the carriers and the producer community how to put together the right committee balance, the actuarial with the commercial lines experience as well, as we did before. I would think we'd kick that effort off before the next Governing Committee meeting so that we're starting to develop a project plan and an RFP.

Mr. Hyatt: Do you need a motion for this?

Ms. Hubley: I don't necessarily think you need a motion.

Mr. DePaulo: I think this is just a directive.

Mr. Hyatt: It's in the budget, right?

Ms. Hubley: Yes, it is. We just wanted to make sure that we had direction and move forward.

Mr. DePaulo: Okay. Thank you.

GC
19.09 Compliance and Operations Committee

Mr. DePaulo: The next agenda item will be the Compliance and Operations Committee report. That will be presented by Wendy Browne.

Ms. Browne: Good morning. I'll be reporting on the actions taken at the Compliance and Operations Committee meeting on Wednesday, January 30th.

The Committee reviewed the Hybrid Audit results for the Integon National Insurance Company. As this was the first Hybrid Audit for Integon, a new company in 2016, several reporting and data quality issues were identified resulting in a greater than acceptable error rate for both the quota share and rate making data analyses. Furthermore, Integon's SIU program was not compliant to both the statutory SIU requirements and CAR Rules. The Integon response letter indicated that several of the data issues noted in the report have already or will be corrected shortly. However, based on the audit results, CAR staff recommended a future Focus Audit to retest the quota share and rate-making data, verify that the systems corrections have been completed, and that Integon has become compliant to the specific findings included in the report.

The Committee unanimously accepted the audit report as written and directed CAR staff to conduct a Focus Audit of Integon data in the first quarter of 2020. Additionally, Integon must begin providing sufficient SIU quarterly logs in 2019 in accordance with the Performance Standards prior to that scheduled Focus Audit.

At the request of the Governing Committee, the Performance Standards were remanded to the Claims Subcommittee with the directive to enhance the record to address the concern raised by the Compliance and Operations Committee relative to the inclusion of medical fee databases in Standard III. The Committee was provided with an overview of the explanatory memorandum requested of staff that referenced the requirement of cost containment as central to the Performance Standards. Massachusetts General Law, Section 175, 11H and 113B 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. It was noted that the Claims Subcommittee addressed each of the concerns voiced by the Compliance and Operations Committee during the meeting. The Claims Subcommittee also reviewed the questions asked by the hearing officer at the 2016 public hearing and viewed the use of medical fee databases as an opportunity to reduce cost considered in excess of usual and customary. Not only does this assist in cost containment, but it is also of benefit to the policyholder as it enhances the ability of the insured to obtain the maximum benefit that would otherwise be exhausted prematurely.

Finally, it was noted that the majority of the states have a fee structure tool in place that assists in the evaluation of overbilling medical services fees and that is the Subcommittee's role to review the standards biennially including the responsibility to reflect the current claims environment in its recommendations.

After consideration 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 to forward those to the Commissioner of Insurance for approval. Attached to the second Additional Information Notice that was distributed on Friday is the complete set of updated Performance Standards, which is pages 5 through 62. That does include the inclusion of the medical fee databases in the language. That is an action item for your consideration.

Mr. Kelly: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries.

Ms. Browne: Next, we're going to go over the cession backdate request. The MAPFRE Insurance Company requested approval of cession backdates for 46 policies effective December 1, 2018 through December 3, 2018. The cessions were submitted late due to a processing problem experienced by its vendor. It was noted that MAPFRE provided copies of the 46 DEC pages, which clearly demonstrated the intent to cede the policies prior to the effective date. 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 cession FTP Transmission Report which would have allowed for an earlier identification of the problem.

MAPFRE agreed that it was the intent of the company to cede these policies as indicated by the DEC pages and that to date none of the policies have incurred any losses.

MAPFRE indicated that it had been working with its vendor to implement new controls and has been using all the reports available through CAR's website.

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. Concerns were also expressed about granting the appeal and setting a precedent that would have future ramifications. The Committee voted to approve the backdate request by a vote of 6 to 2.

The Committee was next presented with a status report on the system development effort related to the conversion of CAR's mainframe cession reporting and correction system to an online application available through CAR's website. The new system is now in parallel testing with an expected release date in mid-March. CAR will provide instructional materials for use of the application and will offer technical support with the release.

In conjunction with the move to production, the Committee was provided with proposed updates to the Manual of Administrative Procedures. These changes include updates to Chapter IV – Cession Rules and Procedures to clarify the current procedures, delete obsolete language, and to provide screenshots of the new online systems. There were no basic edit, timeliness or reporting requirement changes. This was just a new system with improved functionality. The Committee voted unanimously to accept the changes to the MAP and to recommend approval to the Governing Committee. These were pages 63 through 108 of that large packet. This is an action item for your consideration.

Mr. Kelly: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Do I have a second, did I hear? We did. Okay. Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries.

Ms. Browne: Finally, the Committee was provided with an update on the data quality issues related to the migration of the Mass. Registry of Motor Vehicles ALARS system to the new ATLAS System, which occurred in late-March 2018. Since that conversion, 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. The Committee was informed that the Registry is unable to provide data to CAR for those operators and consequently credit data is being erroneous flagged in error. While the Rule 29 credit error rate has been held constant since the February 2018 cycle, CAR is now proposing to unfreeze the error rate moving forward but to negate the impact of the out-of-state operators by excluding April 2018 forward effective date records flagged with Error Code 1, which is the No Match condition. Since the Registry does not have a timetable for the resolution of this issue, this process will remain in place until the Registry is able to update its systems and provide the necessary data to CAR. The Committee unanimously voted to approve CAR's recommendation. That concludes my report unless anyone has any questions.

Mr. DePaulo: Thank you, Wendy.

GC
19.10 Personnel Committee

Mr. DePaulo: The next agenda item is the Personnel Committee report from the meeting of February 11th, which I will present to you all now. We have several items that we need to take a vote on today.

The first item is the Annual Merit Increase. The Personnel Committee reviewed an annual merit increase survey of member companies and industry-funded peer organizations. The Committee acknowledged the efforts by CAR staff throughout 2018 to develop and implement solutions to address the commercial market deficit. Following discussion, the Committee agreed to the merit increased proposed by staff. It was a great conversation. I will tell you this at this point, it kind of changed how the Personnel Committee will meet going forward. Natalie did a terrific job presenting to us not only a merit rate increase but breaking it down to how she'd like to move forward. The proposal was for a 3.50 merit rate increase but broke that down to a 3.25 merit increase with a .25 discretionary component. So, the 3.25 plus the .25 to equal the 3.50. That .25 will be a discretionary management tool for her to use or staff to use to reward those employees that go above and beyond and do far beyond the expectations of their job.

The Committee unanimously voted to recommend to the Governing Committee to adopt the 2019 merit increase as stated, the 3.25 merit increase with the .25 for additional discretionary compensation. That is an action item for today.

Mr. Olivieri: So moved.

Mr. Hyatt: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you. That motion will go through.

The next item is the Annual Range Movement. The Committee reviewed salary range survey information of member companies and industry-funded organizations as well. Based on the survey information, staff has recommended a range increase for 2019 as a 2.2 percent range movement. The Committee unanimously voted to recommend to the Governing Committee today a 2019 salary range increase of 2.2 percent. That is an action item for today.

Mr. Hyatt: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you. Motion carries.

The third item that was presented to us is the retirement savings plan. Staff provided a recommendation to amend CAR's retirement savings plan, 401K, for employees hired after April 1, 2010. Just one bit of detail, those folks hired after April 1, 2010 are not eligible or have access to the pension plan. They're in a non-contributory 401K plan. The proposal is intended to allow CAR to remain competitive in hiring and retain newer employees excluded from CAR's pension plan, as well as encouraging more personal savings in support of financial wellness.

The Committee agree conceptually with this proposal, but would like more information to determine an appropriate level of adjustment to the savings plan. The Committee will consider the matter further at its next meeting. I will actually interject here and say even from the discussion with the Annual Merit Increase, including the 401K, there will be a follow-up. Typically, we have one Personnel Committee meeting a year, but there's going to be a follow-up meeting probably very late summer, early part of September to see what options are out there for this 401K and also to – the Committee has also asked on that merit increase to see how staff has actually used the discretionary piece and give us some feedback on how that rolls out.

The next item for discussion was the Officer Salary Recommendations. I will do this separately. For the officers, it's Peter McCabe and Wendy Browne.

Natalie Hubley provided current salary level and range information for Peter McCabe, Vice President of Technical Operations. She informed the Committee that Mr. McCabe has performed at a very high level throughout 2018 and proposed a 2019 salary increase for Mr. McCabe. That would be in line with the 3.25 merit rate increase with the .25 discretionary management piece. The Committee unanimously voted to recommend to the Governing Committee the 2019 salary increase for Peter McCabe. That is an action item today.

Mr. Kelly: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries for a total of 3.5 for Peter McCabe.

The next item, Ms. Natalie Hubley provided current salary level and range information for Ms. Wendy Browne, Vice President of Business Operations. Natalie provided highlights of Ms. Browne's performance during 2018 and proposed a 2019 salary increase, again, a 3.25 merit increase with a .25 discretionary increase for a total of 3.5. The Committee unanimously voted to recommend to the Governing Committee the 2019 salary increase for Wendy Browne. That is an action item for today.

Mr. Olivieri: So moved.

Mr. Kelly: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Salary recommendation for Ms. Browne passes.

The last agenda item for the Committee is the President's salary recommendation. The Committee reviewed the 2018 job performance of

Natalie Hubley. Comments were positive regarding Ms. Hubley's performance in 2018, particularly with respect to her leadership in confronting commercial market issues and directing staff's efforts to develop and implement solutions to curb the commercial residual market deficit. Again, the recommendation was a 3.25 percent merit rate increase with a .25 percent discretionary. The Committee felt it was our obligation that we would address the merit piece and recommended a 3.25 plus the .25 discretionary piece. The Committee unanimously voted to recommend to the Committee a 2019 salary increase for Ms. Hubley as the 3.25 and .25. That is an action item for today.

Mr. Olivieri: So moved.

Mr. Harris: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries. That concludes my Personnel report.

GC
19.11 Financial Audit Committee

Mr. DePaulo: The next agenda item will be the Financial Audit Committee report.

Mr. Alves: Mark Alves of CAR staff reporting on the records of the February 7, 2019 Financial Audit Committee meeting.

The first item for consideration today is the Annual Audit of CAR for Fiscal Year ending 2018. Mr. Peter Brennan of PwC provided a detailed overview emphasizing the reduction in scope between a traditional audit in accordance with generally accepted auditing standards and those procedures conducted by PwC to perform CAR's engagement. He advised that, based on the Agreed Upon Procedures performed in accordance with the standards established by the American Institute of Certified Public Accountants, and its review of CAR's financial statements, that PwC will issue a clean, unqualified review report as of and for the year ending September 30, 2018. Mr. Brennan discussed the completed procedures and stated that no management letter items are noted.

Note that, if approved, the financial statements and the review report will be available upon request to CAR management. The AUP report is intended for CAR's Governing Committee and Member Companies only. For this purpose, a copy of the required acknowledgement form has been included with the Financial Audit Committee communications.

After a brief discussion, the Committee unanimously voted to recommend Governing Committee approval of CAR's financial statements for fiscal year ending September 30, 2018. This is an action item for your consideration today.

Mr. Kelly: So moved.

Mr. Harris: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries.

Mr. Alves: The next item for consideration today is the independent auditor contract review. Mr. Steve Gautieri with CAR staff provided an overview to the Committee of CAR's contract review policy that was adopted by the Governing Committee in 2015. This policy recommends that CAR conduct an RFP for accounting services every five years but with the discretion to extend. Last year, the Committee extended the current contract with PwC for a sixth year. Mr. Gautieri described the current dual engagement involving a review of the financial statements supplemented with the Agreed Upon Procedures. Given the scope of the review, he suggested that an opportunity for cost savings may exist by considering a regional firm for these purposes.

The Committee discussion focused on the need to perform an RFP at five-year intervals with one Committee member suggesting that ten-year intervals would be sufficient. However, most agreed that the scope of the engagement may currently allow for cost savings. The Committee also suggested adding a cyber risk component to those Agreed Upon Procedures. After a brief discussion, the Committee voted with four members in favor and one opposed to recommend to the Governing Committee that CAR perform the RFP. This is also an action item for your consideration today.

Mr. Kelly: So moved.

Mr. Harris: Second.

Mr. DePaulo: Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries.

Other Business

Mr. DePaulo: For the last agenda item, we do have something to bring up under Other Business. At this point, I'll turn it over to Tom Harris.

Mr. Harris: Acutely aware of the time, I apologize about this. I will cut to the chase. A week ago, I became President and Chief Operating Officer of Quincy Mutual and, as such, I don't think I can do justice to my role as Vice Chair. I would like to step down as Vice Chair. What we would need at this point is two-thirds majority vote of the Committee to add an agenda item to consider a new vice chairman.

Mr. Kelly: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Any further discussion? We need two-thirds, so I guess we need a show of hands to make sure we have two-thirds. All in favor? It looks unanimous. Any opposed? Motion carries to add that agenda item today.

Having said that, as Tom alluded to, in the last few days, it's come to my attention that we need to replace the Vice Chair. Again, there's a lot happening on the Governing Committee and the committees altogether. I feel, to move forward with this as quickly as possible, it would be great to get a Vice Chair ramped up for our April Committtee meeting. In doing so, I had to step back. I asked for a couple of days to look at the board to see how I can put a quick plan together that would make sense to me and would be best for the board. I looked around the table. Everybody is a candidate. There's a lot of contributors around the table. But I did a lot of thinking and I came up with the recommendation to you folks that I'd like to recommend Liz Brodeur from Safety as the Vice Chair.

Just to give you some background, Liz is not new to CAR. She has extensive experience working on committees. She has Division experience and I think could easily fill this role and be a real asset as the Vice Chair. Having said that, I would need a nomination for Liz to be Vice Chair.

Ms. Gold: I nominate Liz to be Vice Chair.

Mr. Hyatt: Second.

Mr. DePaulo: Any further nominations today besides Liz? Any further discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? That motions carries. Liz will be our new Vice Chair.

Ms. Brodeur: Thank you.

Mr. DePaulo: We'll be working to get Liz ramped up. The intention right now is that she would also step into the Personnel Committee and the Budget Committee, which are committee seats that the Vice Chair, Tom Harris, had sat on. There are two meetings left in the year for those. So, Liz will assume those responsibilities. Any other business to bring before the board.

Mr. Harris: Can I just clarify? For those of you that know Doug Briggs, he is still our CEO and is very active. I've had the same boss for 28 years. That doesn't change.

Mr. DePaulo: Tom, you'll retain some of your committee…

Mr. Harris: I'll stay on the Operations Committee.

Mr. DePaulo: So, we're not losing you altogether, which is great.

Mr. Olivieri: You're staying on the Governing Committee, too?

Mr. Harris: Yes.

Mr. Hyatt: You're in Sumner's seat so you should make the next motion.

Mr. Olivieri: I'll make the motion that we adjourn.

Mr. Hyatt: I'll second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Meeting adjourned.

(Meeting ended at 12:38 p.m.)

NATALIE A. HUBLEY
President

Note: This Transcript has not been approved. It will be considered for approval at the next meeting of the Governing Committee.

Attachment

Boston, Massachusetts
March 1, 2019

The above proceedings have been transcribed in accordance with CAR's guidelines for producing quality transcripts, which provide for the elimination of insignificant material that does not alter the substance of the Committee's discussions, such as sidebar comments, the use of verbal fillers (i.e., uhm's and ah's), and commentary (i.e., "laughter" and "coughing").

ATTACHMENT LISTING

Docket #GC19.02, Exhibit #1	Attendance Listing

GOVERNING COMMITTEE MEETING
SIGN-IN SHEET
WEDNESDAY, FEBRUARY 13, 2019

Individual's Name PLEASE PRINT	Company / Agency
Mary Ellen Thompson	DOI
[illegible]	Plymouth Rock
M. John Olivieri	agent
Kellie Thibodeau	Hanover Ins.
Elizabeth Brodeur	Safety
Chris Dupill	EM Freedman Insurance
John Kelly	MAPFRE USA
PAM BODENSTAB-KRYNICKI	P.L. KRYNICKI INS.
Meredith Woodcock	Liberty Mutual
Jim Hyatt	Arbella
Ben Hincks	CAR Counsel TSH&D
Steve Torres	" " "
Natalie Hubley	CAR
Thom Dilando	CABOT RISK STRATEGIES
Tom Harris	Quincy Mutual

GOVERNING COMMITTEE MEETING
SIGN-IN SHEET
WEDNESDAY, FEBRUARY 13, 2019

Individual's Name PLEASE PRINT	Company / Agency
Geoffrey Arnold	Plymouth Rock Assurance
Ken Willis	" " "
Barry Tagen	Pilgrim Insurance
Peter Chung	LOS
Bill Scully	AIB
Roberta Fitzpatrick	Arbella
Kathy Cormier	MAIA
Marie-Armel Theodat	R. Theodat Ins. Agcy.
Joshua Damico	GEICO
Wendy Browne	CAR
Mike Alves	CAR
Steve Gagutis	CAR
Tim Galligan	CAR Staff
Leandro Rodrigues	Point Ins
Dana E. Cashen	Point Ins
PETER McCABE	CAR
Robin Tigges	C.A.R
Jim Costain	CAR
JOHN METCALFE	CAR
Maria Adgate	CAR