CAR
COMMONWEALTH AUTOMOBILE REINSURERS
101 Arch Street, Suite 400 Boston, Massachusetts 02110
www.commauto.com 617-338-4000
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 12, 2020 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. Gail Eagan	Arbella Insurance Group
Ms. Paula W. Gold	Plymouth Rock Assurance Corporation
Mr. Thomas A. Harris	Quincy Mutual 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 folks. Welcome to the Governing Committee meeting of February 12th. Before we get started, we have one housekeeping item. We have a substitution, Ms. Mindy Merow Rubin – I apologize if I didn't pronounce it correctly – who will be representing the Division of Insurance this morning.

GC 19.01 Transcript of Previous Meeting

Mr. DePaulo: The first item on our agenda is the transcript from the previous meeting has been distributed and needs to be approved. Do I have a motion?

Mr. Olivieri: So moved.

Mr. DePaulo: Second?

Ms. Bodenstab-Krynicki: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you. The motion carries and the transcript is approved.

GC 20.04 President's Report

Mr. DePaulo: The next agenda item will be the President's Report by Natalie Hubley.

Ms. Hubley: I do have just a couple of housekeeping items for you.

At your last meeting, you might remember that I had reported about a handful of Statistical Plan changes that this Committee had proposed that were pending at the Division of Insurance. I can report to you today that all proposed Stat Plan changes have been approved. We have notified the industry by a bulletin of some adjustments to effective dates in order to accommodate the lead times that the companies would require.

Next, you'll also remember that I had reported that CAR had made a MAIP rate filing. We filed in early-November and had proposed an effective date of May 1st. The filing had proposed a 6.9 percent increase effective May 1. We have fielded a number of questions from the State Rating Bureau in their actuarial review. We are very close. We've just received a couple of final questions. We do expect that we'll be responding to those questions next week. I do believe that I can say that I think we'll be able to place those on file by the end of the month. So, we'll be able to get information out to the companies. Given that companies have requested that we have a 90-day implementation period, while it really gives companies 30 days to comply with the 60-day renewal notice requirements, we have received a number of questions from Member Companies so we do expect that when those are placed on file that we will move the effective date to June 1, to give everybody time to implement those changes.

I will then turn to the current efforts that are ongoing relating to the commercial market, as we have discussed in many meetings. As you know, the Loss Reserving Committee last met in early-December to review the September deficit projections so I imagine many of you are aware of those results. They did estimate, for the first time, the policy year 2019 deficit in excess of $41 million. After a number of quarters of stable results for 2018, the Loss Reserving Committee did adjust their estimates for that year as well. They're currently projecting a $42 million deficit. As we have reported for a couple of years now, our efforts in that regard continue to be very concerted to keep moving forward with improvements there. You will be hearing some reports from the various commercial committees. I don't really need to repeat what they'll be saying, but the Commercial Auto Committee will be making some recommendations to you today relating to the additional insured endorsement. They will be continuing their discussion of the MAIA's request for review of the commission calculations. Their next meeting is scheduled for early-March and their efforts will be ongoing.

The Joint Actuarial Commercial Lines Committee will also be providing a report today. You will remember that at your last meeting you authorized that Committee to enter into an engagement with an actuarial firm to assist them in their review of the rate need and our classification plan as compared to other states. The Committee did direct CAR to contract with AIPSO. They selected that firm. They have a couple of really strong benefits. That firm has direct knowledge of all the other states' residual markets and will be able to provide us some good information as to how they have handled some of the same issues that we're addressing today. Also, because of the nature of that organization, they were able to provide a very competitive bid. So, they were well within the budget that this Committee approved. They've been very helpful in providing their support and interest in providing us information relating to certain other things that we have been reviewing such as commissions and other things within the other states' residual markets. That's moving forward. AIPSO did ask for some data in order to get their efforts underway. We expect that the AIB will be able to provide that data. Some of it will be supplemented with CAR data, but the AIB is expecting to have that data to them – I think they said by the 21st. So, they'll then be able to get moving on their review at that time. We expect that we will be able to hear some recommendations from AIPSO later in March, maybe early-April. Then we'll be able to coordinate those recommendations with the ongoing work of the Joint

Actuarial Commercial Lines Committee and hopefully have some recommendations for you in the April or June timeframe.

The Compliance and Operations Committee will be providing a report relating to CAR's first phase of its expanded commercial audits. As those audits have completed, our audit staff is now getting busy working on the next phase where they'll be looking at the private passenger type non-fleet risks and the Servicing Carriers' review of those eligibility and standards around the handling of that business.

The Oversight Committee will be meeting also in early-March. They'll be considering specifications for the 2019 Servicing Carrier Annual Reports that they'll be reviewing later this spring/early summer. They'll also be beginning to look at some of the requirements of the program as they begin to develop the components for the RFP for the next appointment term, which will be coming up effective 1/1/22.

Finally, I did report also that CAR made a rate filing. We filed late in October. We had proposed a 6.3 percent rate increase effective May 1st. That filing did include a substantial rate impact for those zone rated classes that we've been discussing. We've had a number of questions from the State Rating Bureau and their actuarial review. That review is ongoing. I have less confidence in being able to tell you that that will be approved by the end of the month. Again, we continue to look at the effective date of that filing and we would make an adjustment accordingly when we have more of a sense of when those rate changes would be placed on file.

That would conclude my report if I don't have any questions.

Ms. Thibodeau: I just have a quick question for my understanding. On the effective dates for the filing, have we explored the ability to have a split effective date where new business would be effective prior to – like, you could have a 5/1 new business date and a 6/1 renewal to allow for the lead time on renewals but allow new rates to get in as soon as possible? Is that something that we've explored, if it's achievable?

Ms. Hubley: We have not but I would certainly do that. We'll talk to Tim and some of the Servicing Carriers and see if that makes sense for implementation.

Mr. DePaulo: John?

Mr. Kelly: Could you provide a little more information on the discussions or concerns of the State Rating Bureau over the commercial filing? I mean, the data in the reports that you sent out is pretty dramatic in that there's a real rate need for the zone rated and the like. Was the discussion around data or other issues? What are the main points that are being discussed?

Ms. Hubley: I think the main points that are discussed have to do with quantifying exactly what the impact will be of our proposed change, in combination with – we filed a base rate change, as you know. The Division certainly had an understanding that the Joint Actuarial Commercial Lines

Committee was doing a more thorough review of the rate need. So, until they have a full picture as to what our need is and what our plan would be to achieve that, I think they will be continuing to have CAR work within the limitations that they have typically had to restrain any individual class to about a 30 percent rate change. I'm not speaking officially on that. I'm not really sure where the result of this review is going to be. But that seems to be where they're focused and understanding how the base rate changes, the proposed increased limit factor changes, and the proposed changes to the Experience Rating Plan, in combination, will affect that classification. What the result of that review will be, I don't yet know, but that's the nature of their questions and really making sure that they understand completely what that impact will be.

Mr. Kelly: Is there any concern over providing that information to them? It seems like that's information that's readily available and we provided, yes?

Ms. Hubley: We've been able to provide everything that they've asked for.

Mr. Kelly: I think it's in the Joint Actuarial Committee records, but there's a graph in there showing the growth of the zone rated exposures going from 100-something to 1,200 with price differences between, you know – that are dramatically different for those classes. So, I would think there's a lot of ammunition out there to provide and have this conversation with them. It's one thing if they don't want to make the decision but if they're saying they just want this data, I'm hoping we're doing everything we can to respond to that.

Ms. Hubley: We have certainly had periodic meetings with the State Rating Bureau and with the Commissioner to demonstrate for them that need. I think everybody certainly understands that. Yes, we're able to provide them with any information that they need, but we've had ongoing discussions.

Ms. Thibodeau: The only thing on my mind kind of relates to my question about new business versus renewal – and I realize there's probably systems limitations – but just to say it out loud, it would be great if there could be a way to get new business pricing for any incoming on a different rate level than the renewals that we're trying to mitigate disruption on. I don't know what the options are, but that would be spirit of stemming the issue at least.

Ms. Hubley: I imagine that that would something we would be able to do with this filing. When we know what they're going to do with those rates, that's usually when we then finalize the issue of the effective date. I imagine we would be able to split that effective date.

Mr. DePaulo: Natalie, when do you think you'll get results from that review?

Ms. Hubley: It's really hard for me to speak on the record to that. I understand they are in the final phases of their review. They've asked a number of questions. We've responded to a number of those – or all of them. I don't have official word, but I believe they're very close to completing their actuarial review and then they will be presenting that recommendation to the Commissioner for his consideration.

Mr. DePaulo: Thank you. Any further questions for Natalie? Thank you for your report, Natalie.

GC
20.05 Counsel's Report

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

Mr. Hincks: Good morning, everyone. There are six items on today's Counsel's Report, the first five of which are for information only and the last of which is an action item, a new LAD Agreement for the Committee's consideration.

The first item relates to the Calianos Insurance Agency appeal to the Division of Insurance. The Calianos Insurance Agency appeal has been fully briefed and argued and we're currently awaiting a decision from the hearing officer at the Division.

The second item is in three parts relating to the various Point Insurance appeals. The Point I appeal in Superior Court is the first. Point is pursuing an administrative appeal in Suffolk Superior Court of the Division's ruling in March 2019 upholding a determination at CAR by its Market Review Committee and Governing Committee Review Panel that certain conduct by Arbella was not unfair, unreasonable or improper. That appeal has now been fully briefed and the parties' cross-motions for judgment on the pleadings is scheduled for a hearing to occur on April 9, 2020. The Point II appeal, Point's appeal challenging Arbella's termination is fully briefed and pending before the Division. We currently await a decision from the hearing officer. Finally, on this item, Point III appeal, Point's other challenge of certain practices by Arbella as unfair, improper or unreasonable, what we call the Point III appeal in these reports, was dismissed by the Division last fall. Point did not pursue any further appeals so we will exclude this matter from any future reports.

The third item on the report relates to the Rule 31 amendment. The Governing Committee's Rule 31 amendment is also pending at the Division and we await a decision or ruling on that as well.

The fourth item relates to further information on the American Family Group. At our last meeting, counsel reported on a number of transactions involving the American Family Group of insurance companies, as well as the withdrawal of Occidental Fire and the rollover of its renewal book to American Family Group company, Permanent General. We update that prior report for your information only as there is no action item for your consideration. As further background, American Family Group includes the following companies: American Family Connect P&C Insurance Company, which was formerly known as IDS, Main Street America Protection Insurance Company, Midvale Indemnity Co., National Grange Mutual Company, Permanent General Assurance Corp., and Permanent General Assurance Corp. of Ohio. The current LAD Agreement between American Family Connect and Pilgrim will expire on March 31, 2020. Beginning on April 1st, American Family Connect will be merged into the current American Family Group with National Grange as the designated MAIP ARC for that group. The rate filing for The Permanent General Assurance Corp. was approved in mid-December with a mid-December 2019 effective date. It is our understanding that The General began writing auto policies in January. CAR has been notified that The General will not be seeking separate treatment and thus will also be included in the American Family Group subsequent to the reporting of the January 2020 submission due at CAR on March 16th.

The fifth item in today's report is a further update on the withdrawal of Occidental and the rollover of its renewal book to Permanent General. As reported previously, the Occidental withdrawal plan calls for renewal business to start rolling over to Permanent General beginning with February 1, 2020 policies.

Finally, and this is the action item I referred to earlier, a new LAD Agreement between Pilgrim Insurance and Foremost Insurance Company of Grand Rapids, Michigan. We reviewed the LAD Agreement between Pilgrim and Foremost and find the terms to be consistent with the CAR Rules, including CAR Rule 36. Moreover, the terms are similar to and consistent with the terms of other LADAs that have been previously approved by the Governing Committee. Therefore, we see no issue from a legal perspective to prevent approval of this agreement and note that CAR staff have confirmed that there is no issue from a premium volume perspective to prevent the adoption of this agreement. Again, this is an action item that the Governing Committee may consider if so inclined. So, you could entertain a motion if anyone is so inclined.

Mr. Harris: So moved.

Mr. Olivieri: Second.

Ms. Gold: Please note my recusal.

Mr. DePaulo: Okay. Paula Gold will recuse from this. Any further discussion? All in favor?

Most Committee Members: Aye.

Mr. DePaulo: Any opposed? The motion carries, the LAD Agreement between Pilgrim and Foremost Insurance.

Mr. Hincks: Unless there are any questions, that concludes today's counsel report.

Mr. DePaulo: Thank you.

GC
19.12 Loss Reserving Committee

Mr. DePaulo: Moving to our next agenda item, we will have the Loss Reserving Committee report by Timothy Galligan.

Mr. Galligan: Good morning. I will be reporting on the December 4th Loss Reserving Committee meeting. A summary of that meeting was included in your agenda, Docket #GC19.12, Exhibit #4. The Records from that meeting are on file.

First, the Committee discussed ongoing data reporting and data quality concerns. The Committee was advised of nine bodily injury large loss claims and one for property damage that were referred to CAR's Compliance Audit Department for additional information and verification of the reported statistics.

The Committee then reviewed the large loss reports showing losses greater than $1 million for the last ten years. These exhibits are attached on Pages 5 through 9. During the current quarter, there were five new large loss claims added to this report, including one bus loss that was reported at the full $5 million Combined Single Limit. The Committee also reviewed a summary report of 14 large losses that were reported using the new Large Loss Notification form. This form was established to notify CAR of significant accidents that have occurred and may not yet be reported to CAR. The Committee discussed the report and agreed to monitor it on a quarterly basis incorporating any relevant information into the ultimate loss projections when necessary. This report is attached as Page 10.

Next, the Committee set loss reserves using data from September 2019. The Committee established a policy year 2017 commercial deficit of $26.7 million with a loss ratio of 89.6 percent. These results were similar to the prior quarter. The Committee estimated a policy year 2018 commercial deficit of $42.3 million with a loss ratio of 98.2 percent. This represented a $6.8 million deterioration from the prior quarter. This change includes the impact of the new bus claim that came in at that $5 million CSL and an additional two other claims that were at the $1 million CSL level. The Committee estimated a policy year 2019 commercial deficit of $41.2 million with a loss ratio of 97.9 percent. This was the first ultimate deficit projection for policy year 2019. Finally, ultimate loss ratio and deficit projections for policy years 2017 to 2019 are attached to your agenda.

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

Mr. DePaulo: Thank you, Tim.

GC
19.17 Joint Actuarial Commercial Lines Committee

Mr. DePaulo: Moving to our next agenda item, we will have the report of the Joint Actuarial Commercial Lines Committee by Glenn Hiltpold.

Mr. Hiltpold: Thank you. I would like to read in the report from the December 18th Joint Actuarial Commercial Lines Committee meeting. The Committee reviewed the revised proposals from Willis Towers Watson, Pinnacle and AIPSO relative to CAR's Request for Proposal to provide actuarial services for a limited Commercial Residual Market Rate Study that includes the review of CAR's existing rate analysis and other states' rating plans.

The Committee agreed to eliminate the Pinnacle proposal based in part on its cost estimate that exceeded the approved $60,000 budget. Additionally, members noted that their overall proposal, including the market review section, was not consistent to the Committee's expectations.

The Committee then evaluated the Willis, Towers, Watson and AIPSO proposals. During the discussion, the Committee noted that this project will require a lot of data, which AIPSO has readily available, and there was a concern with the data that Willis, Towers, Watson would have available to them. Some members were concerned that Willis, Towers, Watson would have to gather data from an outside source which would require more hours and potentially add cost to the project.

The Committee also expressed concern with the amount of specified hours Willis, Towers, Watson provided and if they would be able to accomplish the scope of the project in that timeframe. The Committee acknowledged that while both proposals were similar, AIPSO's proposal stands out because of their expertise with other states' commercial residual markets, the data they have at their disposal, and their proposed cost of the proposal. After continued discussion, the Committee unanimously voted to direct staff to engage with AIPSO in accordance with the provisions outlined in their proposal.

One track is partnering with AIPSO. AIPSO is sort of performing a gap study. Another track we're pursuing is, you know, we're not putting the rate reviews aside, we're in parallel. We're also pursuing that.

The Joint Actuarial Commercial Lines Committee began discussions to review existing areas of rate need in an effort to develop a strategy to achieve rate adequacy through an effective transition plan.

Mr. William Scully, from the Automobile Insurers Bureau (AIB), presented the attached overview of CAR's 2020 filing currently under review by the DOI. Mr. Scully discussed the significant areas of the filing, including changes to increased limits factors and CAR's experience rating plan. In addition, he noted that the current filing also included an indicated base rate change for zone rated vehicles using residual market zone rated data.

Mr. Scully then described four significant areas of additional rate need relating to zone rated vehicles that have been discussed among CAR staff and AIB to be addressed in future filings. Those include realignment of the underlying zone relativities embedded in the base rates, physical damage cost increments for vehicle values greater than $90K, introduction of ILFs specific to zone rate vehicles, and a transition to ISO primary rating factors to align class relativities. In addition, Mr. Scully discussed the potential to address out-of-state garaging through approaches that are used in other states such as North Carolina.

To illustrate the maximum impact of the various areas of rate need, Mr. Scully reviewed indicated rate calculations for the sample risk representing the most extreme area of rate need (i.e. zone rated charter bus written at a $5 million limit traveling between Zone 49 (New England) and Zone 26 (New York City)). To add additional perspective, he also provided sample rate calculations for the same risks rated in neighboring states' plans, as well as similar calculations for a sample TTT risk.

After considerable discussion, the Committee agreed that the initial phase of its transition plan would focus on developing a plan to achieve rate adequacy for zone rated vehicles. The Committee discussed developing a white paper for presentation to the rate filing reviewers identifying and quantifying the areas of rate need, proposing a transition plan to address each of the components discussed today, and listing implementation components such as required rating manual rule changes, statistical reporting requirements, and work flow modifications need to implement a revised rate structure.

The Committee directed staff to work with AIB to begin preparation of the white paper based on today's discussions, and noted that any recommendations presented by AIPSO as part of its study would be incorporated into the white paper as appropriate.

Included as additional information were some overview exhibits. That concludes my report. I'd be happy to answer any questions.

Mr. DePaulo: Thank you. Any questions? John?

Mr. Kelly: Thank you, Glenn. Some very good data in the package. One of the things that I noticed in the filing that Natalie reviewed with us, there's almost a $10 million premium impact from that. But with us running $40 million deficits, there's other things that are contributing to the deficit numbers out there. One of those is the non-fleet PPT issue. CAR doesn't file that rate. I don't believe that's in your white paper review. Are you guys going to address the non-fleet PPT issue also or come up with ideas to try to address the deficit coming from that class of business?

Mr. Hiltpold: We can attempt to, but it's a stickier topic in that the Servicing Carriers have to go with their voluntary filed rate. We can certainly discuss it, but I believe the goal of the Committee was more talking about the rating elements that we can file and control directly.

Mr. Kelly: Mr. Chairman, could we discuss maybe placing that issue with another committee? Is that going to go to the Oversight Committee, no?

Ms. Hubley: I'm going to address the first question you had and then this one. The Joint Actuarial Commercial Lines Committee did talk about whether they ought to include the PPT non-fleet rate issue within the scope of its study. At that time, they had determined that it wasn't appropriate for this particular study. They had reported that at a previous Governing Committee meeting. At your last Governing Committee meeting, I think John raised the question as to whether the Oversight Committee should take a look at Servicing Carriers' efforts to review the PPT non-fleet rates with their ceded book of business. I'm not sure that we got consensus from this Committee as to how that should be addressed, but we did intend to have some discussion at the committee level as they're considering the annual reports and the requirements for the next RFP.

Mr. Kelly: That's still not quite clear to me. I think we, as a group, should be clear on what we're planning to do with this topic. I mean, it clearly is, as Glenn indicated, a touchy issue because the four Servicing Carriers file rates for this. I understand that. But to not address something that's driving the deficit is, I think, an issue for us. I think that we should charge this Committee to look at the issue and see what alternatives that may be out there to help resolve this. It could be anything from sharing of information to, in the next RFP, requiring companies to file adequate rates. There's a broad spectrum of things, but I think we've kind of talked around this for a while. But somehow we have to look at it and make a decision on what we want to do because it is driving the deficit, a portion of the deficit today.

Mr. Harris: John may be a bit ahead of me but, Glenn, this exhibit represents - \$6 million of the almost \$10 million increase relates to zone rated. Of the \$40 million deficit, can you break that down by zone rated versus PPT?

Mr. Hiltpold: One exhibit in the Additional Information packet, Page 7 of 8, which shows activity, impact and notes performed by the AIB, it was kind of broadly trying to get at, you know, where is this \$40 million deficit coming from or what do we need to do to get that deficit back up to break even.

Mr. Harris: Can you interpret this for me?

Mr. Hiltpold: Sure. The impacts of the 2020 rate filing, new ILFs and zone based rates, the estimated impact on premium for that change is the plus \$9.8 million. Part of that filing is also re-balancing the Experience Rating Plan. It's been credit-heavy for a long time, so it's making the debited risks offset the credited risks and put that back to zero. That's estimated to add \$6.7 million of premium to the system. There were base rate changes filed in 2020. That's about $6 million. So, that's included in the $9.8 million above. So, I guess, the ILFs and the zone rated base rates is actually more like $3.8 million. But what's left to go, quote-unquote, are the items in the gray boxes, to get to what other states are doing or what we're targeting for the zone rated increased limit factors. We need to develop a plan and communicate that with the Division through a white paper but there's $29 million left to go. We need to come up with a plan, how are we going to do that step-by-step, how many years or filings is that going to take to get us at our perceived adequacy level. There are other rating factors we want to look at over time but the impact of that is going to be revenue neutral. There's an out-of-state rate differential that we want to talk about filing. It might be filed on a revenue neutral basis, i.e. businesses that we can show are existing in Massachusetts and doing business in Massachusetts may get a credit whereas the pure out-of-state businesses would get a debit. That still needs to be looked at and filed. You add up the $9.8 plus the $6.7, that's about $16 million. We've got $29 million left to go on zone rated ILFs, but the estimate contribution to the deficit is the minus $14.6 million. So, this speaks to the PPT non-fleet issue that John Kelly brings up.

In conclusion, just to wrap it up, the rate filing was for $9.8 million. Also in that rate filing is a rebalancing of the Experience Rating Plan, which should have a premium impact of $6.7 million. In the future, changes to zone rated ILFs should bring in an additional $29 million but that will be over time and that will be in future filings. The deficit issue still on the table is the PPT non-fleet imbalance. Right now, the estimate on that is the minus $15 million on the bottom.

Mr. Harris: I'm struggling with the math here because the $14.6 million at the bottom has a different sign on it but that is a deficit.

Mr. Hiltpold: There's a negative in front of that, yes. It's a dollar loss, it's a deficit.

Mr. Harris: It seems to me that John is bringing up a good point. We're talking about a third of the total deficit, more than a third.

Mr. Kelly: It's not that we're going to solve that here, but we should have someone look at that issue to try to come up with an idea. I believe that we should understand what's driving that among the four Servicing Carriers and it may be a criteria in picking a Servicing Carrier in the future if it's causing that much deficit out there. We've never looked at that before, but it clearly is a huge financial impact to the deficit so we should try to address that issue.

Mr. DePaulo: So, to respond to you, John – and maybe, Natalie, you can comment on this – it's the non-fleet PPT. Just as a cautionary thing, we need to be careful having that discussion and maybe that goes to an ad hoc committee or we put this to a subcommittee that they can discuss this, to John's point.

Ms. Hubley: I think that we can add to the Oversight Committee's discussions, have them begin to discuss how can we look at this issue in the context of the Annual Statements perhaps and requirements for the Annual Report – excuse me, for the RFP. I have had some questions since the last Governing Committee meeting, where this was first discussed, from certain Governing Committee members about the issue of anti-trust and CAR's authority and jurisdiction to be discussing the voluntary rates. There's been some discussion about taking a step back, looking at what some of the anti-trust policies that some of the companies currently have in place, the Federation, I think, is one that has been – an example that's been discussed. The AIB has an anti-trust policy that they read. So, we were starting to take a look at this issue with counsel and Thom has suggested that we may, at some point, want to set up an ad hoc committee like the committee that discussed the Conflict of Interest Policy and put that together and see if – just a separate discussion about what the roles and responsibilities of the committee should be and what would be appropriate. We'll also keep that review and that effort moving forward. Does that help?

Mr. DePaulo: Yes. Thank you.

Mr. Kelly: My comments would be, I think that you can have the conversation around things that don't fall into the anti-trust topics. Clearly, we can talk about the deficit, what's driving the deficit. We can talk about, you know, I guess, filed rates that are out there, that are public information, as long as you're not talking about setting rates. I think that's appropriate work to be done. I'm not sure why we, as a group, aren't focused more aggressively on something that's driving the deficit this much. I think that we should give it to Tom's committee to look at and come up with ideas and give them the guidance as to what they can talk about and not talk about. But it seems we need to take some action here to try to address this issue.

Mr. DePaulo: Why don't we move that to the Committee? We'll put that on their agenda and actually get that conversation started in lieu of the ad hoc committee that we've discussed already. I just think, to your comment, I think it's a sensible conversation. I think we need to have it. I just don't think we've known how to approach it appropriately. That will happen, I think, best on the committee level, and we'll put it to Tom's committee, if that makes sense.

Ms. Hubley: The Oversight Committee?

Mr. DePaulo: Yes.

Ms. Hubley: Bill Cahill is the Chair.

Mr. DePaulo: Oh, I'm sorry.

Mr. Kelly: I'm sorry.

Mr. Olivieri: That's not a bad place for it to start, in my opinion, because of those committee members, none are Servicing Carriers. So we can skate a little more freely and not have to worry about some of the issues as far as anti-trust and whatnot. Hopefully we can kick something out with a recommendation, whether it's an ad hoc committee or whether it's something we can address.

Mr. DePaulo: Thank you. Any further comments or questions for Glenn? Thank you.

GC
20.06 Commercial Automobile Committee

Mr. DePaulo: Moving to our next agenda item, we will have the Commercial Automobile Committee report by John Olivieri.

Mr. Olivieri: I will be doing a combination report for our last two meetings since the Governing Committee last met, of December 5th and January 9th.

The first items which is going to be an action item that we discussed and, to some degree, wrapped up a little bit is a review of the additional insureds.

The Committee continued to work with staff to determine what endorsements relating to Additional Insured coverage are appropriate for the residual market. The Committee had previously agreed that the waiver of subrogation and primary and noncontributory endorsements should not be adopted for use in the residual market as the use of either would have a negative impact on the pool. The Committee also determined that the Notice of Cancellation was not appropriate for the residual market as this endorsement is not widely available in the voluntary market. Furthermore, it was noted that substantial costs would be incurred along with significant lead time in order to implement such a change.

The Committee did agree to move forward with amending the Additional Insured Endorsement form MM 99 50 to add language that a contract is required to exist between the scheduled insured and the risk and it must be in place prior to the occurrence of a loss in order for coverage to be afforded. The Committee also determined that language should be added to indicate that the loss must have also occurred before operations performed for the insured are complete and to identify the address of the additional insured. It was agreed that the effective date of the implementation of the endorsement should be 90 days subsequent to the date the endorsement is placed on file with the Division of Insurance. Finally, modifications to Rule 37 of Section II – Common Coverages and Rating Procedures of the Commercial Automobile Insurance Manual will include the additional insured endorsement CR 99 02 and instructions for its use. The Commercial Auto Committee unanimously voted to recommend to the Governing Committee approval of the changes to Rule 37, including the modifications discussed and agreed upon during the meeting. It should be noted that the new endorsement form CR 99 02 is based on the existing MM 99 50 form which has been redlined to highlight the changes and is attached to your agenda. This is an action item for the Governing Committee's consideration.

Mr. Kelly: So moved.

Ms. Eagan: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries to approve Additional Insured Endorsement CR 99 02.

Mr. Olivieri: The next action item has to do with the Common Application. The Committee continued its discussion at both meetings relative to the development of a supplemental application form that could be used to collect information for determining risk eligibility, ownership, and other useful information. Draft supplemental application forms developed by Pilgrim Insurance Company, with input from the other carriers on the Committee, were provided to the Committee for its review, including a form for general risk information for all commercial risks and two specific forms for public automobiles and trucker/motor carrier risks. The Committee recommended adding a signature/date section to the final page of the application in order for the producer and risk to sign. Staff is currently working on a project to convert all forms on its website to a writable format and the supplemental application will be included in this effort. Electronic signature capability will be evaluated after that effort has been completed. Staff informed the Committee that updates to the Manual of Administrative Procedures relative to the addition of the supplemental application and the corresponding procedures and requirements for usage will be presented to the Committee at a future meeting. The Committee unanimously voted to recommend to the Governing Committee approval of the supplemental application as presented with the addition of the signature/date section. The updated form is attached to your agenda. This is also an action item for your consideration.

I would like to add an addition. Although it was pointed out in my comments, I would like to thank Pilgrim Insurance and Barry. He's here somewhere. They did a lion's share of the work on prepping the application. So, just for the record, thank you.

Mr. DePaulo: Do I have a motion?

Mr. Kelly: So moved.

Mr. Harris: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

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

Ms. Hubley: Can I ask a question? John, I just want to, for the record, clarify. Your motion to approve the Additional Insured Endorsement also included the amendment to Manual Rule 37?

Mr. Olivieri: Yes. Do I need to revise my motion?

Ms. Hubley: You clarified that. We will file that.

Mr. Olivieri: The last item is not an action item. It's just more of an update to agent commissions, which was brought forward to the Committee by Nick Fyntrilakis, who is the President of the state agent association.

The Committee continued its discussion relative to considering a new approach for the determination of agent commissions. The Committee was provided with information detailing the comparison by class of the CAR and AIPSO commission schedules in order to quantify the potential impact of a change in methodology, particularly to those classes with significant rate need. The Committee will continue its discussion at subsequent meetings. Our next meeting is scheduled for some day in March. I can't think of it off the top of my head. Any questions?

Mr. DePaulo: Thank you, John.

GC
20.07 Compliance and Operations Committee

Mr. DePaulo: Moving to our next agenda item, we will have the report on the Compliance and Operations Committee by Ms. Wendy Browne.

Ms. Browne: Good morning. I will be reporting on the actions taken at the Compliance and Operations Committee meeting on Wednesday, January 29th. There are no action items. This is just information for you.

The Committee was provided with an overview of the recent audits of the Commercial Servicing Carrier Program. The reports provided to the Committee are the initial findings from phase one of the enhanced audit procedures for the commercial residual market. This phase specifically considered residual market eligibility related to the principal place of business and nerve center test for certain bus risks. The samples focused on policies with multi-state buses, however, other bus classifications were used if the volume of multi-state buses was not sufficient. To capture all supports and avoid incomplete findings, the Servicing Carriers were required to provide all documentation relevant to the determination of eligibility. Draft reports were provided to each carrier that included an outcome determined by staff based on the review of policy documentation. The outcome was limited to either staff agreed that sufficient documentation existed to support the eligibility decision or another recommendation or comment was noted. The Servicing Carrier was then provided with an opportunity to comment or provide further clarification. Staff either modified the outcome or included the carrier's comments in the report, but all outcomes in the final report were determined by CAR staff.

In general, overall results demonstrated that all four Servicing Carriers responded to the requirements outlined in the standards for the validation of principal place of business. In most instances, documentation included the Principal Place of Business Certification was provided as well as the use of SIU investigations.

More specifically, staff outcome noted agreement that sufficient documentation existed to support the eligibility decisions for all 15 sampled policies for Arbella Insurance Company. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

Staff outcome noted agreement that sufficient documentation existed to support the eligibility decisions for 13 of the 15 sampled policies for MAPFRE U.S.A. Corporation. MAPFRE agreed with the recommendation but noted a current Principal Place of Business Certification had been provided for one of the two policies. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

Staff outcome noted agreement that sufficient documentation existed to support the eligibility decisions for all 15 sampled policies for the Pilgrim Insurance Company. The Committee voted unanimously, with one recusal, to accept the audit report without further consideration.

Staff outcome noted agreement that sufficient documentation existed to support the eligibility decisions for 8 of the 15 sampled policies for Safety Insurance Company. Seven policies included a recommendation that the company reconfirm eligibility and obtain an updated Principal Place of Business Certification upon renewal. Safety disagreed on two of staff's recommendations indicating that they believed that the risk had provided sufficient documentation to support eligibility. Staff noted that some policies included conflicting documentation that both supported and raised red flags. In these instances, staff recommended reevaluating eligibility and obtaining an updated Principal Place of Business Certification upon renewal. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

Continuing, MAPFRE was found to be compliant with all Performance Standards as measured by coverage with each of the Best Practices and with all three distribution tests to determine consistency with claims handling. MAPFRE exceeded the 80 percent minimum benchmark on ceded claims within all coverages and the SIU testing resulted in 100 percent compliance with each measured Best Practice. The Committee voted unanimously, with two recusals, to accept the audit report without further consideration.

Are there any questions in regards to the audits?

Continuing, the Committee was informed that the re-write of the mainframe CAR Accounting System to an online application available through CAR's website is in the initial stages of development and that more information will be provided as the development progresses.

Finally, the Committee was informed that there are a number of approaches that could be considered in modifying the reporting of classification code in light of the RMV's implementation of the Gender X designation. These alternatives range from the adoption of new codes to identify Gender X to a redefinition of all class codes to eliminate gender distinction. This would be an appropriate time to allow the Actuarial Committee to consider whether a more complex redefinition of class codes to gather risk characteristics, such as years driving experience, and the number of accidents and incidents, would benefit the MAIP, quota share and rate making requirements. Accordingly, this issue will be presented to the Actuarial Committee for discussion at their next meeting prior to any information being provided to the Compliance and Operations Committee relative to recommended Stat Plan changes and then the Committee would then be able to further discuss this issue at their next meeting in April.

That would conclude my report unless there are any questions?

Mr. DePaulo: Thank you, Wendy.

GC
20.08 Financial Audit Committee

Mr. DePaulo: Moving to our next agenda item, we will have a report on the Financial Audit Committee by Mark Alves.

Mr. Alves: Mark Alves, reporting on the Records of the February 4th Financial Audit Committee meeting. The only item for consideration today is the annual audit of CAR for fiscal year ending 2019.

Mr. John Buckley, representing AAFCPA, provided an overview describing the reduction in scope between a traditional audit in accordance with generally accepted auditing standards and those procedures conducted by AAFCPA to perform CAR's engagement. Mr. Buckley advised that, based on the agreed upon procedures performed in accordance with standards established by the American Institute of Certified Public Accountants, and its review of CAR's financial statements, AAFCPA will issue a clean, unqualified review report as of and for the year ended September 30, 2019. Mr. Thomas Perruna, representing AAFCPA, discussed the procedures performed and stated that no management letter items are noted. After a brief discussion, the Committee unanimously voted to recommend Governing Committee approval of CAR's financial statements for the fiscal year ending September 30, 2019. This is an action item for your consideration today.

Mr. DePaulo: Do I have a motion?

Mr. Harris: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

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

Mr. Alves: This concludes my report today.

Mr. DePaulo: Thank you, Mark.

GC
20.09 Personnel Committee

Mr. DePaulo: Moving to, I believe, will be our last agenda item, I will be reporting on the Personnel Committee meeting of February 4th. I have several action items for our consideration today.

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

President Hubley provided the information that the Committee requested and offered a detailed explanation of proposed amendments to CAR's 401k plan and the potential financial impacts based on the anticipated plan participation by newer employees who have no defined benefit. It was indicated that the proposal had three primary objectives. The first being a competitive benefit package to fortify recruitment efforts and fuel greater employee retention levels within the context of succession planning in anticipation of extensive turnover during the next decade. The second would be to promote employee financial wellness by encouraging increased employee participation in retirement savings and, lastly, to realize long-term overall organizational expense reductions as CAR transitions staffing during the next decade. Natalie also mentioned that the proposed plan changes would result in increased employer matching obligations. CAR would realize a significant overall savings due to the anticipated retirement of long-term higher-compensated employees with lower salary level replacements.

Natalie reviewed a 2010 survey of member company retirement savings plans conducted by an outside firm and noted that when compared to plan offerings today, no change has occurred insofar as CAR remains below the average of what is offered in a combined 401k and profit sharing plan. Natalie further explained that the proposed plan changes encourage greater employee participation than plan offerings of both member companies and industry-funded organizations.

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

The Committee unanimously voted to recommend to the Governing Committee approval of this change to the 401k. This is an action item for your consideration. Any questions?

Mr. Olivieri: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you. Motion carries to approve the 401k plan changes for employees hired after June 1, 2010.

The next item would be the annual merit increase. This is going to be an action item for your consideration.

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

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

President Hubley opined that she was proposing a 2020 merit increase taking into consideration the dedication and hard work of CAR staff throughout 2019 to develop solutions focused on reducing the commercial residual market deficit. She added that her proposed increase tracks to industry-funded peer organizations as historically target by committee direction. She requested a total merit increase percentage, a portion of which shall be allocated as discretionary for performance in 2019 as deserving by individuals who were achieving at a much higher level.

Following discussion, the Committee unanimously voted to recommend to the Governing Committee adoption of a merit increase as proposed by Natalie, which would be a 3.25 percentage overall merit increase for 2020. That would require a motion from the board.

Ms. Eagan: So moved.

Mr. Kelly: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you. Motion carries to approve an annual merit increase of 3.25 percent.

The next item would be the annual range movement. Again, Mr. Costain reviewed salary range survey information compiled by CAR among member companies and industry-funded peer organizations. He identified the average 2020 salary range increases among participating member companies for reference and peer organizations for more targeted alignment. Based on the survey information, a recommendation was made for a salary range increase for 2020. That was for a 2 percent increase for the range.

Following discussion, the Committee unanimously voted to recommend to the Governing Committee a salary range increase of 2 percent for calendar year 2020. That's an action item for your consideration. Could I have a motion for the merit range?

Mr. Kelly: So moved.

Ms. Eagan: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you.

The next agenda item is the officer salary recommendations. This will take into account Ms. Wendy Browne, who is Vice President of Business Operations, and Mr. Peter McCabe, who is Vice President of Technical Operations. We will kind of put these two together.

President Hubley provided a review of the 2019 performance of both Wendy Browne, Vice President of Business Operations, and Peter McCabe, Vice President of Technical Operations.

It was pointed out that Ms. Browne's 2019 performance included numerous aspects of staff's efforts to address the commercial residual market deficit, including managing a large staff and directing efforts with several advisory committees to develop and implement changes to eligibility criteria, an eligible risk database, a large loss pre-notice process and a new Servicing Carrier audit process to standardize the procedures. Natalie noted that in spite of all of the focus on finding solutions to the commercial market deficit growth, day-to-day business operations continued to function smoothly under Ms. Browne's direction.

Natalie also explained with regards to Mr. Peter McCabe, Vice President of Technical Operations, that he oversees CAR's entire technical operations work behind the scenes which keeps CAR mainframe and server-based systems operating efficiently and effectively. Peter also saw the conversion of numerous mainframe applications to web-based programs to provide a better member company user experience and more effective cost-management in the future. Peter completed a comprehensive study of CAR's system architecture for strategic planning purposes and directed the replacement of CAR's mainframe hardware.

Ms. Hubley recommended that both Peter McCabe and Wendy Browne get a merit increase that would be in line with the annual merit increase of 3.25 percent. That would be an action item for your consideration.

Mr. Kelly: So moved.

Mr. Olivieri: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Motion carries for a 3.25 percent merit increase for Wendy Browne and Peter McCabe.

The last agenda item is we discussed the President's salary recommendation. I started off the conversation with thoughts and offered that Natalie's performance, through my interaction, working with her, as the Governing Committee Chair, has been extraordinary. I noted that Natalie is very dedicated and hardworking, sharply focused on meeting her performance objectives and deeply committed to CAR staff. I added that bottom line results of her hard work during the last year will take some time to materialize, but her efforts have CAR effectively addressing the challenges that it faces. Comments from committee members focused on Natalie's transparency and willingness to build strong working relationships with committee members and industry representatives to meet those challenges and move CAR forward. It was also noted that assessment of the President's job performance should remain focused on the overall performance of the company as well as personal interactions and observations. Based on the review of Natalie's performance over the last year, the Committee universally supported a performance review and a general consensus of a recommended merit increase in line with the annual merit increase of 3.25 percent. That is an action item for your consideration.

Mr. Olivieri: So moved.

Ms. Eagan: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Any opposed? Thank you. Motion carries for Natalie's merit increase of 3.25 percent.

Lastly, I just want to mention to the Committee that there was a brief discussion at the end of our committee meeting. What we discussed was the level of President Hubley's salary with several members questioning whether she is being adequately compensated as CAR President given that she's held the position for five years now and is performing at a high level. The Committee agreed that we're going to reconvene probably sometime in March to take up that discussion and pursue that further. That's just information for you. That concludes my report.

Before I conclude the meeting, is there any further business to bring to the Governing Committee today? Having said that, do I have a motion to adjourn?

Mr. Olivieri: So moved.

Ms. Bodenstab-Krynicki: Second.

Mr. DePaulo: Any discussion? All in favor?

All Committee Members: Aye.

Mr. DePaulo: Motion carriers. We are adjourned. Thank you.

(Meeting ended at 11:38 a.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
February 25, 2020

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 #GC20.02, Exhibit #1	Attendance Listing

GOVERNING COMMITTEE MEETING
SIGN-IN SHEET
WEDNESDAY, FEBRUARY 12, 2020

PLEASE PRINT

Individual's Name	Company / Agency
Mindy Merow Bybun	Division of Insurance
Paula Gold	Division of Insurance
M. John Olivieri	agent
Kellie Thibodeau	Hanover Insurance
Tom Harris	Quincy
Chris Durell	EM Freedman Insurance
Jon Kelly	MAPFRE USA
Pam Bodenstab-Krynicki	P.L. Krynicki Ins. Agcy.
Meredith Woodcock	Liberty Mutual
Gail Eagan	Arbella Insurance
Ben Hricks	TSH&D - CAR Counsel
Steve Torres	" "
Natalie Huber	CAR
Thom DelPaulo	Cabot Risk Strategies
Elizabeth B. Brodeur	Safety Insurance
Regina Nagle	CAR

GOVERNING COMMITTEE MEETING
SIGN-IN SHEET
WEDNESDAY, FEBRUARY 12, 2020

Individual's Name	Company / Agency
PLEASE PRINT	
Glenn Hiltpold	Safety Insurance
Peter Chung	N + D
Barry Tagen	Pilgrim
Tim Costain	CAR
Nick Fyntrilakis	MAIA
Richard Doran	CAR
John Metcalfe	CAR
Wendy Browne	CAR
Mark Alves	CAR
Marian Padgate	CAR
Steve Gautieri	CAR
Robin Tigges	CAR
Peter McCabe	CAR
Jason Calianos	MAAA
Leandro Rodrigues	Point Ins
Alison Ruggiero	CAR
James Roberry	CAR
Tim Galligan	CAR