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PRESIDENT

# COMMONWEALTH AUTOMOBILE REINSURERS

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## NOTICE OF MEETING

### COMMERCIAL AUTOMOBILE RESIDUAL MARKET STANDARDS SUBCOMMITTEE

A meeting of the Commercial Automobile Residual Market Standards Subcommittee will be held at the Automobile Insurers Bureau Conference Center at 101 Arch Street, 7<sup>th</sup> Floor, Boston, on

**WEDNESDAY, APRIL 25, 2018 AT 10:30 A.M.**

#### MEMBERS OF THE SUBCOMMITTEE

Mr. John Olivieri, Jr. – Chair  
J.K. Olivieri Insurance Agency, Inc.

Ms. Sarah Clemens  
Ms. Sheila Doherty  
Ms. Mayre Hammond  
Mr. Coleman Johnson  
Mr. Brian Lam  
Mr. Thomas Skelley, Jr.  
Mr. Barry Tagen

MAPFRE U.S.A. Corporation  
Doherty Insurance Agency, Inc.  
Arbella Insurance Group  
The Hanover Insurance Company  
Safety Insurance Company  
Deland, Gibson Insurance Associates, Inc.  
Pilgrim Insurance Company

#### AGENDA

##### CRMS

##### 18.01 Records of Previous Meeting

The Records of the Commercial Automobile Residual Market Standards Subcommittee meeting of March 29, 2018 should be read and approved.

##### CRMS

##### 18.03 CAR Conflict of Interest Policy

The Chair will read a statement relative to CAR's Conflict of Interest Policy.

**CRMS**

**18.04 Commercial Residual Market Issues**

Staff will provide a status report on current efforts. The list of issues has been updated to reflect the Subcommittee's discussions. (Docket #CRMS18.04, Exhibit #4)

**CRMS**

**18.06 Standards for Validating the Principal Place of Business**

Staff will distribute updated documentation relative to Standards for Servicing Carriers and Exclusive Representative Producers to use in validating principal place of business. This exhibit will be distributed as additional information prior to the meeting.

**CRMS**

**18.08 Standards for Validating Non-Fleet Private Passenger Type Risks**

Staff will distribute documentation relative to Standards for Servicing Carriers and Exclusive Representative Producers in validating Non-Fleet Private Passenger Type risks for the Subcommittee's consideration. This exhibit will be distributed as additional information prior to the meeting.

**CRMS**

**18.09 Producer Requirements**

The Subcommittee should review the provisions of Rule 14 – Exclusive Representative Producer Requirements of CAR's Rules of Operations in order to consider whether amendments are warranted. Additionally, the Subcommittee should be prepared to discuss potential enhancements to CAR's Producer Management System that could assist Staff and Servicing Carriers in identifying questionable practices, including:

- The development of a producer profile that shows the distribution of the agency's book by classification
- Reports that highlight those producers with significant volumes of any classification or those with significant increases in any classification.

**CRMS**

**18.10 Information Sharing**

The Subcommittee has discussed opportunities to share information that may not be proprietary in nature or in conflict with statute and/or regulation, but that would be beneficial to the administration of the program (such as previous underwriting actions by a Servicing Carrier relative to cancellation for ineligibility, etc.). The Subcommittee should be prepared to discuss this concept, including potential data elements and the collection process.

**Other Business**

To transact any other business that may properly come before this Subcommittee.

**Executive Session**

The Commercial Automobile Residual Market Standards Subcommittee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

WENDY BROWNE  
Vice President – Business Operations

Attachment

Boston, Massachusetts  
April 12, 2018

## Commonwealth Automobile Reinsurers

### Commercial Automobile Residual Market Standards Subcommittee

#### Commercial Residual Market Issues – Status as of April 12, 2018

The Subcommittee has compiled and prioritized a list of issues identified in its deliberations for continued discussion. The Subcommittee will formulate recommendations to the Commercial Automobile Committee for each item.

#### 1. Standards for Determining and Substantiating Principal Place of Business

At the December, 2017 and February 2018 meetings, discussion took place relative to the determination or substantiation of a risk's Principal Place of Business in order to confirm eligibility for placement in the MA commercial residual market. To address difficulties in substantiating Principal Place of Business arising from technological advances in today's marketplace, the Subcommittee recommended changes to Rule 2 - Definitions of CAR's Rules of Operation to include the nerve center test. The Subcommittee will next consider developing standards for substantiating the principal place of business for companies and producers to utilize.

**STATUS:** The changes to Rule 2 – Definitions were deemed approved by the Division of Insurance on March 29, 2018 and a notification of this approval was furnished to the industry on that day as well.

The Subcommittee will continue its discussions at the April 25, 2018 meeting to develop standards for use by Servicing Carriers and Exclusive Representative Producers. Staff has updated the draft standards to incorporate certification requirements as directed by the Subcommittee. (separate attachment).

#### 2. Non-Fleet Private Passenger Types

The Subcommittee has discussed difficulties in confirming eligibility for risks classified as non-fleet private passenger types. The Subcommittee will continue discussing potential enhancements including, but not limited to:

- Improvement of underwriting standards to encourage consistency among Servicing Carriers
- Validation of business entity
- Collection of Business Owner/Operator Information
- Sharing of Information

**STATUS:** As directed by the Subcommittee, staff will distribute, under separate cover, draft standards for Servicing Carriers and Exclusive Representative Producers to use in validating eligibility for non-fleet private passenger type risks. Additionally, staff is researching the feasibility of an operator exclusion endorsement and corresponding amendments to the manual rules for Subcommittee consideration in order to allow for the exclusion of a business owner not listed as an operator. In addition, staff is researching possible amendments to the manual rules that may provide further guidance relative to risks more appropriately written in the private passenger residual market with a business use classification.

### 3. Program Oversight and Auditing

At its March 29, 2018 meeting, the Subcommittee recommended approval of CAR's Focus Audit plan that will gather information to assist in the development of underwriting standards for use by Servicing Carriers to determine eligibility, classification, and rating of commercial residual market risks.

**STATUS:** At the April 2018 meetings, the Commercial Automobile and Governing Committees approved the focus audit plan. CAR has begun working on developing the sample of policies to be selected from each Servicing Carrier for review. The results of the focus audit will be provided to the Commercial Automobile and Compliance and Operations Committees at later meetings.

### 4. Producer Requirements

The Subcommittee should review the provisions of Rule 14 – Exclusive Representative Producer Requirements of CAR's Rules of Operations in order to consider whether amendments are warranted. In addition, the Subcommittee has suggested potential enhancements to CAR's Producer Management System, including:

- The development of a producer profile that shows the distribution of the agency's book by classification.
- Reports that highlight those producers with significant volumes of any classifications or those with significant increases in any of the classifications.
- Using these reports, CAR may direct a Servicing Carrier to perform an audit of a producer's book of business to determine if any questionable practices were occurring.

**STATUS:** At its April 25, 2018 meeting, the Subcommittee will begin discussion of this item.

### 5. Information Sharing

The Subcommittee has discussed opportunities to share information that may not be proprietary in nature or in conflict with statute and/or regulation, but that would be beneficial to the administration of the program (such as previous underwriting actions by a Servicing Carrier relative to cancellation for ineligibility, etc.). The Subcommittee will compile a list of data elements and collection methods.

**STATUS:** At its April 25, 2018 meeting, the Subcommittee will begin discussion of this item.

### 6. Radius of Operations for Truck and Bus Classifications

The Subcommittee noted that the radius of operation for truck and bus classes are not consistent. Pursuant to Rules 52 and 72 of CAR's Commercial Automobile Manual, radius for trucks is determined using the street address of principal garaging, and for buses using the motor vehicle's registration. The Subcommittee should discuss whether a change to either manual rule should be recommended.

**STATUS:** Staff is in the process of researching the genesis of revisions to the determination of radius class for bus classes, as well as the procedures of other states' residual markets, and will report on its research at a future meeting. In addition, staff is researching Servicing Carrier procedures for determining and documentation accepted to substantiate radius class, including the application of the 80/20 rule for intermediate radius classes, in order to draft standard procedures for Subcommittee consideration.

#### 7. Rating Territory for Non-Zone Rated Public Classes

The Subcommittee noted that Rule 72.C.2. sets forth the determination of rating territory for public automobile classes. For non-zone rated risks, the rating territory is defined as the highest rated territory through or in which the public vehicle operates. However, the language does not specifically address the determination of territory for those risks that travel outside of Massachusetts. The Subcommittee should discuss whether an amendment to the determination of rating territory is recommended.

**STATUS:** Staff is researching the plans of other states to develop amendments for Subcommittee consideration at a future meeting.

#### 8. Covered Automobiles

In order to protect against duplicate exposure within the commercial residual market, the Subcommittee should discuss whether limitations of certain ISO symbols are appropriate for the commercial residual market.

**STATUS:** Staff is researching FMCSA requirements to ascertain under what circumstances restrictions regarding the use of symbol 1 coverage would be appropriate and feasible.

#### 9. Miscellaneous Risk Classification Issues

At a future meeting, the Subcommittee will discuss whether the language in the rating manual should be clarified to ensure consistency among Servicing Carriers in classification of risks. Examples raised to date include:

- Buses – Social Service vs. School vs. NOC
- Garage – Dealer Risk with some Repair vs. Repair Risk with some Dealer

#### 10. Cancelled Risks being placed on other policies to avoid owed premium

The Subcommittee should further discuss this issue to determine whether strengthened controls are feasible and beneficial to the residual market.

#### 11. Zone Rating for Truck and Bus Classifications

Subcommittee members noted that the use of garaging and/or registration location in the determination of radius class has enabled some risks to qualify for zone rating, even if the vehicles rarely, if ever, travel to that location. In addition, the Subcommittee noted that there are different rating methodologies for the physical damage coverages of the intermediate and long distance radius classes.

**STATUS:** In conjunction with its next rate filing, staff is in the process of a thorough analysis of zone rates, including primary rating factors and physical damage rating procedures. The Subcommittee will postpone its discussions of this topic until staff has completed its efforts in this regard.