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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, 7th Floor, Boston, on

TUESDAY, JULY 17, 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 May 30, 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 #7)

CRMS

18.09 Producer Requirements

Proposed modifications to Rule 14 – Exclusive Representative Producer Requirements of the Rules of Operation pertaining to the submission of certification forms and required producer work experience were approved by the Governing Committee at the June 20, 2018 meeting and are currently being reviewed by the Division of Insurance. The Subcommittee will continue its review and deliberations of potential enhancements to the existing requirements. More specific information will be distributed as additional information prior to the meeting.

CRMS

18.12 Radius of Operation and Rating Territory

Proposed modifications to Rule 72 – Public Automobile Classifications of the Commercial Automobile Insurance Manual to enhance consistency in the determination of the Radius of Operation and Rating Territory will be distributed as additional information prior to the meeting.

CRMS

18.13 Review of Coverage Limits

At the June 20, 2018 meeting, the Governing Committee requested that the Subcommittee revisit the issues related to the cedeable limits available in Massachusetts. Information that will assist the Subcommittee in its review will be distributed as additional information prior to the meeting.

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
July 2, 2018

Commonwealth Automobile Reinsurers

Commercial Automobile Residual Market Standards Subcommittee

Commercial Residual Market Issues – Status as of June 29, 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

The changes to Rule 2 – Definitions, to include the nerve center test, were approved by the Division of Insurance on March 29, 2018. At the May 9, 2018 meeting, the Subcommittee voted to recommend approval of the standards, including the certification form, for use by the Servicing Carriers and Exclusive Representative Producers in determining and substantiating Principal Place of Business.

STATUS: The Commercial Automobile and Governing Committees approved the recommendations of the Subcommittee at the June 2018 meetings. The Certification Form has been filed and approved by the Division of Insurance and the Standards will be published to the industry via a Bulletin in the near future.

2. Non-Fleet Private Passenger Types

The Subcommittee has discussed difficulties in confirming eligibility for risks classified as non-fleet private passenger types. At the May 30, 2018 meeting, the Subcommittee voted to recommend approval of standards, including a certification form, an operator exclusion endorsement, and proposed changes to the rating manual for use by the Servicing Carriers and Exclusive Representative Producers in verifying eligibility for these risks.

STATUS: The Commercial Automobile and Governing Committees approved the recommendations of the Subcommittee at the June 2018 meetings. The Certification Form, Endorsement and Rating Rule change have been filed for approval with the Division of Insurance and are currently under review. The Standards will be published to the industry via a Bulletin in the near future.

3. Producer Requirements

At the May 2018 meetings, the Subcommittee discussed potential changes to the requirements for Exclusive Representative Producers. The Subcommittee initially recommended changes to the experience requirements, but indicated that it will continue its review of other areas of concern.

STATUS: Proposed changes to Rule 14 – Exclusive Representative Producer Requirements that reflect updated requirements relative to prior work experience as well as requirements related to certification forms were approved by the Commercial Auto and Governing Committees at the June 2018 meetings. The proposed changes have been filed with the Division of Insurance, and the industry has been notified via Bulletin No. 1053. The Subcommittee will continue its discussions of potential enhancements to the existing requirements at the meeting.

4. 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. This was approved by the Commercial Automobile and Governing Committees at the April 2018 meetings.

STATUS: CAR had distributed the sample of policies to be reviewed to each Servicing Carrier in late May and the audit process is currently underway. The review of policy information for all four Servicing Carriers is expected to progress throughout the summer. Upon completion, the results of the focus audit will be provided to the Commercial Program Oversight and Compliance and Operations Committees.

5. Radius of Operations and Rating Territory

The Subcommittee noted that the determination of radius of operation for truck and bus classes is 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.

Furthermore, the Subcommittee noted that language in Rule 72.C.2. defining the determination of non-zone rated risks could be clarified to enhance consistency among Servicing Carriers.

STATUS: Staff will distributed proposed changes to the language in Rule 72 to ensure consistency in determining radius of operation and to better define the process for determining rating territory.

6. 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, particularly as related to declinations, non-renewal, and cancellation for ineligibility. Staff had proposed developing a web-based online system for this function, which was unanimously accepted by the Subcommittee at its May 9, 2018 meeting.

STATUS: The Commercial Automobile and Governing Committees approved the recommendation to develop the Ineligible Risk Database at the June 2018 meetings. Proposed changes to Chapter III - Servicing Carrier Responsibilities of the Manual of Administrative Procedures were also approved at the same time. Staff has begun developing the new system and will publish detailed reporting instruction in a Bulletin prior to the implementation.

7. Covered Automobiles

At the May 2018 meetings, the Subcommittee approved a proposal to limit ceded risks to policies written on a specified car basis only, including modifications to the Rules of Operations, the Commercial Automobile Insurance Manual and the Manual of Administrative Procedures.

STATUS: The Commercial Automobile and Governing Committees accepted the recommendations at the June 2018 meetings. The proposed changes to the Rules of Operation and the proposed have been filed with the Division of Insurance and the industry has been notified via Bulletin No. 1052.

Proposed changes to the Commercial Automobile Insurance Manual will be filed for review and approval by the Division of Insurance once the Rule changes have been approved.

8. Review of Coverage Limits

At its June 2018 meeting, the Governing Committee requested that the Subcommittee revisit the issues related to the cedable limits available in Massachusetts. Information that will assist the Subcommittee in its review will be distributed as additional information prior to the meeting.

9. Non-Ownership Liability Coverage

Staff has observed consistently high loss ratios for the non-ownership liability classifications. The Subcommittee will be asked to review different approaches to improve the residual market results for these risks at a future meeting.

10. 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

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

At a future meeting, the Subcommittee should further discuss this issue to determine whether strengthened controls are feasible and beneficial to the residual market.

12. Supplemental Application

The Subcommittee has discussed the possibility of developing a supplemental application that will incorporate the different certifications, as well as address the need for any other necessary information not presently captured in the policy application. Accordingly, the Subcommittee will discuss at a future meeting, the need for a supplemental application after the various issues have been discussed and concluded.