



NATALIE A. HUBLEY  
PRESIDENT

## COMMONWEALTH AUTOMOBILE REINSURERS

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### NOTICE OF MEETING

#### AD HOC REDISTRIBUTION COMMITTEE

A meeting of the Ad Hoc Redistribution Committee will be held virtually via Zoom video conferencing software, on

**THURSDAY, APRIL 8, 2021 AT 10:00 A.M.**

If you plan to attend this meeting and are not a member of this Committee, please RSVP by completing the Visitor Security Form located in the Contact Us/Visitor Information section of CAR's website. CAR will then forward to you, via email, meeting access information. Please do not share access information provided by CAR, but refer others wishing to attend the meeting to CAR's Visitor Security Form.

#### MEMBERS OF THE COMMITTEE

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

Mr. John Kelly  
Ms. Mary McConnell  
Mr. Thomas Skelly  
Mr. Barry Tagen  
Mr. David Zawilinski

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

#### AGENDA

##### AHRC

##### 21.01 Records of Previous Meeting

The Records of the Ad Hoc Redistribution Committee meeting of March 18, 2021 should be read and approved.

##### AHRC

##### 21.03 CAR Conflict of Interest Policy

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

**AHRC**

**21.04 Commercial Program Evaluation – 2021 Request for Proposal**

At its last meeting, the Committee discussed measures that could be taken to minimize the frequency of and the negative impacts of book of business redistributions. The attached Statement of Intent addresses and prioritizes the issues considered by the Committee. To further assist the Committee, also attached is an exhibit that models various parameters under which a redistribution may be requested by a Servicing Carrier. (Docket #AHRC21.04, Exhibits #3 and #4)

The Committee should be prepared to discuss the Statement of Intent and present a recommendation to the Commercial Program Oversight Committee for adoption.

**Other Business**

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

**Executive Session**

The Ad Hoc Redistribution Committee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

JOHN METCALFE  
Director – Residual Market Services

Attachments

Boston, Massachusetts  
March 25, 2021

Ad Hoc Redistribution Committee  
Recommendation to Commercial Program Oversight Committee  
Minimize Impacts of Ceded Book of Business Redistributions

Statement of Intent

The Ad Hoc Redistribution Committee recognizes the disruptive impact to producers and insureds when the need for equity among Servicing Carriers results in a need to redistribute the ceded books of business. In order to maintain reasonable equity with the objective to minimize the disruptive impacts of a redistribution, the Ad Hoc Redistribution Committee recommends that the Commercial Program Oversight Committee adopt a Statement of Intent that addresses and prioritizes the following considerations, for recommendation to the Governing Committee:

- Limit redistributions to one per appointment term
- Maintain the safe harbor provision enabling a Servicing Carrier to demonstrate undue burden associated with continued or renewed inequity
- Employ a threshold approach to consider redistribution based on the financial impact to a Servicing Carrier
- Address producer concerns with reassignment  
Staff to develop a reporting procedure to advise the Commercial Program Oversight Committee subsequent to a redistribution of concerns expressed by reassigned agencies with specific issues that may be addressed or referred for Committee consideration

The Ad Hoc Redistribution Committee recommends a threshold approach that balances equity and stability:

Option 1: Threshold of  $\pm 4.0\%$

Option 2: Threshold of  $\pm 2.5\%$ , with a limit of 1 redistribution per term

The Ad Hoc Redistribution Committee recommends a process to evaluate Servicing Carrier requests for redistribution:

1. Servicing Carrier redistribution requests
  - a. Threshold has been exceeded (i.e. one SC with 2.5% of their ought to have premium volume)
  - b. Demonstrate hardship resulting from inequity
  - c. Demonstrate positive performance warranting rebalancing
2. Committee evaluation of request
  - a. Cause of imbalance
  - b. Scope of required redistribution

**CAR Ad Hoc Redistribution Committee**  
**Threshold Alternatives for Evaluation of Distribution Equity**  
Four Servicing Carriers (Ought To Have = 25% of Total Premium)

	PY 2020 Current Premium	Varying Residual Market Size (Written Premium)					
		75,000,000	125,000,000	175,000,000	225,000,000	275,000,000	325,000,000
Total Residual Market Premium	177,000,000	75,000,000	125,000,000	175,000,000	225,000,000	275,000,000	325,000,000
Premium Per Servicing Carrier	44,250,000	18,750,000	31,250,000	43,750,000	56,250,000	68,750,000	81,250,000
Variance From Ought To Have Share (25%)		Premium Difference from Ought to Have					
±1.0%	1,770,000	750,000	1,250,000	1,750,000	2,250,000	2,750,000	3,250,000
±1.5%	2,655,000	1,125,000	1,875,000	2,625,000	3,375,000	4,125,000	4,875,000
±2.0%	3,540,000	1,500,000	2,500,000	3,500,000	4,500,000	5,500,000	6,500,000
±2.5%	4,425,000	1,875,000	3,125,000	4,375,000	5,625,000	6,875,000	8,125,000
±3.0%	5,310,000	2,250,000	3,750,000	5,250,000	6,750,000	8,250,000	9,750,000
±3.5%	6,195,000	2,625,000	4,375,000	6,125,000	7,875,000	9,625,000	11,375,000
±4.0%	7,080,000	3,000,000	5,000,000	7,000,000	9,000,000	11,000,000	13,000,000
±4.5%	7,965,000	3,375,000	5,625,000	7,875,000	10,125,000	12,375,000	14,625,000
±5.0%	8,850,000	3,750,000	6,250,000	8,750,000	11,250,000	13,750,000	16,250,000
ULAE/Company Expense Allowance Per Company (11%)	4,867,500	2,062,500	3,437,500	4,812,500	6,187,500	7,562,500	8,937,500
Percent Difference Ought To Have Share (25%)		Expense Reimbursement Difference from Ought to Have					
4.0%	194,700	82,500	137,500	192,500	247,500	302,500	357,500
6.0%	292,050	123,750	206,250	288,750	371,250	453,750	536,250
8.0%	389,400	165,000	275,000	385,000	495,000	605,000	715,000
10.0%	486,750	206,250	343,750	481,250	618,750	756,250	893,750
12.0%	584,100	247,500	412,500	577,500	742,500	907,500	1,072,500
14.0%	681,450	288,750	481,250	673,750	866,250	1,058,750	1,251,250
16.0%	778,800	330,000	550,000	770,000	990,000	1,210,000	1,430,000
18.0%	876,150	371,250	618,750	866,250	1,113,750	1,361,250	1,608,750
20.0%	973,500	412,500	687,500	962,500	1,237,500	1,512,500	1,787,500

This ULAE/Company Expense Per Company assumes a percentage of premium of 11%.

**CAR Ad Hoc Redistribution Committee**  
**Threshold Alternatives for Evaluating Distribution Equity**  
Examples Using 4.0% Variance Threshold, Residual Market Size of \$177.0 Million WP

**Example 1: Threshold +/- 4.0%, One Carrier Exceeds Threshold, Three Others Below Ought to Have But Do Not Exceed Threshold**

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over/(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 51,700,000	29.2%	\$ 7,450,000	4.2%	YES	\$ 819,500	16.8%
Servicing Carrier B	42,500,000	24.0%	\$ (1,750,000)	-1.0%	NO	(192,500)	-4.0%
Servicing Carrier C	42,500,000	24.0%	\$ (1,750,000)	-1.0%	NO	(192,500)	-4.0%
Servicing Carrier D	40,300,000	22.8%	\$ (3,950,000)	-2.2%	NO	(434,500)	-8.9%
<b>Total</b>	<b>\$ 177,000,000</b>	<b>100.0%</b>					

Span of Premium Variance: 6.4% (Difference from High to Low Premium)

Span of Expenses: \$1,254,000 (Difference from High to Low Expenses)

Servicing Carrier A has exceeded the +/- 4.0% Threshold and is eligible to request a redistribution.

**Example 2: Threshold +/- 4.0%, No Carrier Exceeds Threshold**

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over/(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 51,000,000	28.8%	\$ 6,750,000	3.8%	NO	\$ 742,500	15.3%
Servicing Carrier B	40,675,000	23.0%	\$ (3,575,000)	-2.0%	NO	(393,250)	-8.1%
Servicing Carrier C	40,675,000	23.0%	\$ (3,575,000)	-2.0%	NO	(393,250)	-8.1%
Servicing Carrier D	44,650,000	25.2%	\$ 400,000	0.2%	NO	44,000	0.9%
<b>Total</b>	<b>\$ 177,000,000</b>	<b>100.0%</b>					

Span of Premium Variance: 5.8% (Difference from High to Low Premium)

Span of Expenses: \$ 1,135,750 (Difference from High to Low Expenses)

No Servicing Carriers have exceeded the +/- 4.0% Threshold and none are eligible to request a redistribution.

**CAR Ad Hoc Redistribution Committee**  
**Threshold Alternatives for Evaluating Distribution Equity**  
Examples Using 2.5% Variance Threshold, Residual Market Size of \$177.0 Million WP

**Example 3: Threshold +/- 2.5%, One Carrier Exceeds Threshold, Three Others Above Ought to Have But Do Not Exceed Threshold**

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over/(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 39,400,000	22.3%	\$ (4,850,000)	-2.7%	YES	\$ (533,500)	-11.0%
Servicing Carrier B	45,866,667	25.9%	\$ 1,616,667	0.9%	NO	177,833	3.7%
Servicing Carrier C	45,866,667	25.9%	\$ 1,616,667	0.9%	NO	177,833	3.7%
Servicing Carrier D	45,866,667	25.9%	\$ 1,616,667	0.9%	NO	177,833	3.7%
<b>Total</b>	<b>\$ 177,000,000</b>	<b>100.0%</b>					

Span of Premium Variance: 3.7% (Difference from High to Low Premium)

Span of Expenses: \$711,333 (Difference from High to Low Expenses)

Servicing Carrier A has exceeded the +/- 2.5% Threshold and is eligible to request a redistribution.

**Example 4: Threshold +/- 2.5%, No Carrier Exceeds Threshold**

	<u>12-Month WP</u>	<u>Share of 12-Month WP</u>	<u>Over/Under Ought-to-Have Premium</u>	<u>Variance</u>	<u>Over/(Under) Threshold</u>	<u>Over/Under Expenses</u>	<u>% Difference Ought to Have Expenses</u>
Servicing Carrier A	\$ 40,000,000	22.6%	\$ (4,250,000)	-2.4%	NO	\$ (467,500)	-9.6%
Servicing Carrier B	44,250,000	25.0%	\$ -	0.0%	NO	-	0.0%
Servicing Carrier C	44,250,000	25.0%	\$ -	0.0%	NO	-	0.0%
Servicing Carrier D	48,500,000	27.4%	\$ 4,250,000	2.4%	NO	467,500	9.6%
<b>Total</b>	<b>\$ 177,000,000</b>	<b>100.0%</b>					

Span of Premium Variance: 4.8% (Difference from High to Low Premium)

Span of Expenses: \$ 935,000 (Difference from High to Low Expenses)

No Servicing Carriers have exceeded the +/- 2.5% Threshold and none are eligible to request a redistribution.