



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

NOTICE OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE

A meeting of the Compliance and Operations Committee will be held virtually via Zoom video conferencing software, on

WEDNESDAY, JUNE 1, 2022, 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. Jerry Sleeper – Chair
Safety Insurance Company

Ms. Kara Boehm
Ms. Erin Cummings
Mr. Thomas Harris
Ms. Annmarie Hassan
Ms. Sharon Murphy
Mr. Kenneth Olivieri
Mr. Henry Risman
Mr. Barry Tagen
Mr. Christopher Taylor
Ms. Brenda Williams

Allstate Insurance Group
Norfolk and Dedham Group
Quincy Mutual Group
Arbella Insurance Group
Acadia Insurance Company
J.K. Olivieri Insurance Agency, Inc.
Risman Insurance Agency, Inc.
Pilgrim Insurance Company
The Hanover Insurance Company
MAPFRE U.S.A. Corporation

AGENDA

COPC

22.01 Records of Previous Meeting

The Records of the Compliance and Operations Committee meeting of April 6, 2022 should be read and approved.

COPC

22.03 CAR Conflict of Interest Policy

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

COPC

22.04 Informational Items

The Chair will report on any Governing Committee actions that impact the Compliance and Operations Committee.

COPC

22.05 Compliance Audit Program

Staff will present an overview of the most recent private passenger Hybrid Audit results conducted in accordance with the Compliance Audit Program.

COPC

22.06 Operational Reports

The 4th Quarter 2021 Operational Reports were posted to CAR's website in March 2022. Questions or comments relative to these reports will be discussed at the meeting.

COPC

22.08 Updates to the ARC Procedures Manual

Attached are draft amendments to Chapter XI – Compliance Audit of the ARC Procedures Manual in which staff proposes to introduce a fee to be assessed in instances where rating data is not provided for the audit in a timely manner. Staff will review its proposal with the Committee at the meeting. (Docket #COPC22.08, Exhibit #2)

COPC

22.09 Merit Rating Reporting

Staff will provide a status update relative to the ongoing merit rating audits.

COPC

22.11 Potential Private Passenger and Commercial Statistical Plans Changes

Staff will present several potential updates to the Private Passenger and Commercial Statistical Plans for discussion. Private passenger topics include roadside assistance, towing and labor limits, substitute transportation and limited use vehicles. Commercial topics address a number of rule amendments

recently adopted by AIB for the voluntary market. A summary of the potential changes will be distributed as Additional Information prior to the meeting.

COPC

22.12 Commercial Audit Program

Staff will provide an overview of proposed changes to the Commercial Audit Program. A summary of the proposed changes will be distributed as Additional Information prior to the meeting.

Other Business

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

Executive Session

The Compliance and Operations Committee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

MATTHEW HIRSH
Compliance Audit Supervisor

Attachment

Boston, Massachusetts
May 20, 2022

**Assigned Risk Company Procedures Manual Updates
Chapter XI – Compliance Audit**

Memorandum of Changes – June 1, 2022

Modifications

The following modifications to the Assigned Risk Company Procedures Manual are proposed:

Chapter XI – Compliance Audit

Section C.3. has been updated to include a proposed fee of \$1,000 per week to be assessed when the data request necessary to complete reperformance of rates is not compiled and returned to CAR staff within the allotted minimum of 30 days upon receipt. The proposed fee is in consideration of the additional time needed to complete the audit and the resulting delay to the audit schedule.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 1 of 10**

A. Assigned Risk Company and Assigned Risk Producer Responsibilities

1. Each Assigned Risk Company (ARC), including those Members that have executed a Limited Assignment Distribution Agreement (LADA) with another ARC, and each Assigned Risk Producer (ARP) must ensure that its own internal control and review procedures are sufficient to detect irregularities in the handling of Massachusetts Automobile Insurance Plan (MAIP) business. These procedures include, but are not limited to the following:
 - a. Ensuring that all MAIP Placement Records, premiums, and claims are accurately and promptly reported to the Commonwealth Automobile Reinsurers (CAR);
 - b. Ensuring that all reports, including those requested by special call, are completed accurately and promptly;
 - c. Ensuring that policies retained as voluntary or assigned through the MAIP are rated accurately, consistent with reported statistical coding and that voluntary or MAIP assigned claims are properly reported to CAR;
 - d. Ensuring full compliance with CAR's Plan and Rules of Operation.

Any internal irregularities identified must be immediately corrected.
2. Each Member, ARC or ARP is subject to audit by CAR. For additional information relative to the audits performed in accordance with CAR's Compliance Audit Program, refer to Sections C. and D. of this Chapter.
3. All motor vehicle insurance policies are subject to review and audit in a manner and time approved by the Governing Committee. Statistical data subject to audit will include but shall not be limited to private passenger business retained as voluntary and private passenger business assigned through the MAIP, including premium and claim statistical data. Members or ARCs are required to maintain all records for policies assigned through the MAIP for at least three calendar years following the last calendar year in which activity has occurred.
4. Each Member or ARC and ARP authorizes CAR to audit any portion of its motor vehicle insurance business that has a bearing on any credits,

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 2 of 10**

penalties, determination of Quota Share, payment of claims, or any other issue relating to such business.

B. Commonwealth Automobile Reinsurers' Procedures

1. Internal Procedures

CAR shall maintain records of all identified errors or violations of CAR's Plan or Rules of Operation. Any significant errors or violations will be reported to CAR's Compliance and Operations Committee.

2. Audits of the Commonwealth Automobile Reinsurers

a. Internal Audits

Internal quality control reviews may be conducted by CAR's Compliance Audit Department. These audits may include reviews of operational, financial, and information technology transactions, procedures and controls. CAR's Compliance Audit Department may also oversee or assist external auditors or consultants retained by CAR for CAR-specific projects.

b. Independent Audits

An independent audit of CAR will be conducted annually by a public accounting firm recommended by CAR's Financial Audit Committee and approved by CAR's Governing Committee, with the scope of the engagement recommended by the Financial Audit Committee. At the conclusion of the audit engagement, a report from the public accounting firm and the complete financial statements will be presented to the Financial Audit Committee for approval. A copy of the financial statements is available upon written request to CAR.

C. Audits of Assigned Risk Companies

To fulfill its industry responsibilities as the Residual Market Administrator and Statistical Agent for motor vehicle insurance in the Commonwealth of Massachusetts, CAR conducts audits of reported statistical data as prescribed by the Compliance Audit Program approved by CAR's Governing Committee. The Hybrid Audit Plan is CAR's primary examination of private passenger data and is scheduled

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 3 of 10**

for all ARCs at least once every five years. Refer to Section C.8 of this chapter for further information relative to scheduling of audits.

Audited ARCs, including those Members that have executed a LADA with an ARC, that write or service private passenger automobile insurance policies in Massachusetts and report statistical data to CAR must make available to CAR all documentation needed to verify the accuracy of reported data.

1. Hybrid Audit Plan

The Hybrid Audit Plan reviews and tests the accuracy of a company's reported premium and loss data and examines the underlying data utilized in Quota Share determination and for rate making. The Hybrid Audit Plan also verifies company compliance with the key statutory requirements of G.L. c. 175, § 113H and CAR's Rules of Operation. Accordingly, the Hybrid Audit Plan assures that policies that have been assigned through the MAIP are receiving the same level of service as those which are voluntarily written by a Member or ARC, tests the underwriting procedures and claim practices of the audited Member or ARC to ensure consistency within the voluntary and residual markets and monitors company fraud control efforts.

Each of the components of a Member's or ARC's audit is conducted using a structured random sample of premium and claim data selected from both MAIP and voluntary policies. The sample is verified at a 90% confidence level with a standard error rate of +/- 5%. The sample will consist of 400 policies and 270 of the policies have at least one claim.

Prior to the start of an audit, the Member or ARC to be audited must complete a Compliance Audit Claim Questionnaire that provides background information on its claims handling programs. Submission of the Compliance Audit Claim Questionnaire will certify that the company's claims handling practices comply at a minimum with the approved Private Passenger Claims Performance Standards. For additional information relative to the Compliance Audit Claim Questionnaire, refer to Appendix K – Compliance Audit Claim Questionnaire of the Private Passenger Claims Performance Standards which is available on CAR's website under the Manuals tab.

Refer to Section C. 4. of this Chapter for specific details relative to the components of the Hybrid Audit Plan.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 4 of 10**

2. Documentation and System Access Requirements

Upon request, a company must make documentation and system access available to CAR as of the audit start date included in the Notice of Audit. Documentation may include original documents, copies of scanned documents, or other reasonable facsimiles as required for audit completion. System access provides direct access to the company's computer systems on a read-only basis, to view information necessary to complete the audit. CAR will respect the level of supervision, confidentiality, and security that each Member or ARC is willing to provide relative to the access of company documents and its computer systems.

Documentation and system access requirements for the Hybrid Audit Plan shall include but are not limited to the following:

- a) Access to the premium underwriting system which shows all necessary information involved in declarations and endorsements for premium determination, including coverages, limits, deductibles, classification and territory, etc.

However, if the company only provides or allows CAR partial or no system access, the following shall be substituted:

- (1) Access to an imaging system which shows all declarations and endorsements.
- (2) Hardcopies of declarations and endorsements.
- (3) A print-out of data stored in a computer, provided it includes all information found on the declaration page.
- (4) Primary underwriting documentation, including, new business applications, anti-theft documentation, pre-insurance inspection forms, cancellation forms, and underwriter's notes.

This documentation may be provided through access to an imaging system or as an original hardcopy or a photocopy of the original document.

- (5) Printouts from the Registry of Motor Vehicles or access to the Registry of Motor Vehicles.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 5 of 10**

- b) Documentation and system access necessary to perform the claim statistical, Claims Performance Standards and SIU evaluation portions of the Hybrid Audit Plan, includes but is not limited to the following:
 - (1) Access to all source documentation within the claim system including check and payee information
 - (2) Access to the claim file details including police reports, ACORD forms, appraisals and adjuster's running notes
 - (3) Access to all source documentation related to legal, medical and all other expense details including explanation of expenses and costs
 - (4) Salvage/subrogation recovery records
 - (5) Access to all total loss source documentation including salvage facility invoices, actual cash value figures, and title of vehicle
- c) The audited Member or ARC is required to supply its voluntary rates on file with the Division of Insurance within the accounting dates of the audit scope, including all applicable rules and discounts. The ARC shall timely populate a data request developed by CAR that identifies each of the rating attributes noted in the applicable rate filings. Rate reperformance is then completed using the rating attributes as provided by the ARC as of the new business or renewal.

3. System Access-Compliance Audit Fees

a) System Access Fees

If the ARC determines that system access will not be made available to CAR, a fee will be assessed in consideration of the additional time and resources to be incurred by CAR in obtaining the documentation necessary to conduct the audit. The level of the fee is commensurate with the level of system access provided or allowed by the ARC.

Partial system access is defined as the ARC granting access to only the premium or claim, or any adjunct systems used to access source documents. The fee assessed will be \$12,000.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date 2022.02.16
Page Page 6 of 10

No system access is defined as the ARC not granting any direct access to the premium, claim, or any adjunct systems used to access source documents. The fee assessed will be \$24,000.

b) Late Access Fees

CAR will provide a minimum of 30 days between the Notice of Audit and the planned audit start date. If system access is not established timely, thus delaying the audit, a fee will be assessed in consideration of the additional time needed to complete testing. Delayed or late system access is defined as access that is not fully established and functioning as of the scheduled start date included in the Notice of Audit. The fee assessed will be \$1,000 per week.

c) Late Rate Data Fees

CAR will provide a minimum of 30 days between the date of distribution of the data request to the ARC and the due date for receipt of the populated data request. If the data request is not returned by the due date thus delaying the ability to rate the sampled policies, a fee of \$1,000 per week will be assessed in consideration of the additional time needed to complete testing.

Assessed fees will be processed as bulk adjustments to a company's Settlement of Balances and Member Participation Reports in the quarter subsequent to audit completion. Income generated by such assessments is dispersed to Member Companies through the Settlement of Balances as miscellaneous income using the administrative expense participation ratios.

4. Components of the Hybrid Audit Plan

The components of the Hybrid Audit Plan provide measurable results pertaining to:

a) Quota Share Data Quality

Fields from voluntary data that impact Quota Share will be analyzed to determine impact to market share and MAIP credit premium. Fields from MAIP data that impact Quota Share will be analyzed to determine impact to MAIP premium.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 7 of 10**

b) Rate Making Data Quality

Statistical data elements impacting rate making will be audited to identify recurring errors and evaluate accuracy within relevant exposures. In addition, any loss dollars (Indemnity or Allocated Loss Adjustment Expenses) reported in association with those errors will be identified.

c) Adherence to Statutory Requirements and CAR's Rules of Operation

(1) Lane-Bolling and Rate Verification

(2) Claims Performance Standards

For specific information relative to the Claims Performance Standards component of the Hybrid Audit Plan, refer to Appendix I – CAR Compliance Audit Claim Review Process of the Private Passenger Performance Standards which is available on CAR's website under the Manuals tab.

(3) Special Investigative Unit

In accordance with G.L. c. 175, § 113H, every Servicing Carrier is required to maintain a SIU to investigate suspicious claims and underwriting concerns on both voluntary policies and policies assigned through the MAIP. CAR, under the authority of Article III – Special Investigative Unit of CAR's Plan of Operation, monitors a Servicing Carrier's fraud control efforts and adherence to the established Claims Performance Standards and provides assistance to Members upon request. The Claims Performance Standards and CAR Rule 32 include requirements that encourage each Servicing Carrier to strongly support the activities of its own SIU department to resist the payment of fraudulent claims, establish fraud deterrents, and reduce losses. The SIU also must investigate suspicious circumstances surrounding underwriting, rating, and premium issues, and to annually conduct an audit of voluntary and MAIP policies to verify garaging and policy facts. An example of the completed audit report shall be annually emailed as an attachment to siulog@commauto.com.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date 2022.02.16
Page Page 8 of 10

ARC's are also required to maintain SIU Quarterly Activity Logs of claims and underwriting cases referred to the ARC's SIU department for investigation. The ARC shall upload all the referral activity into CAR's SIU System on a quarterly basis.

For additional information, refer to Appendix A – SIU Standards and Appendix J – CAR SIU File Review Process – MAIP Policies of the Private Passenger Performance Standards which are available on CAR's website under the Manuals tab.

5. Audit Conclusion Procedures

At various intervals during the Hybrid Audit Plan process, CAR provides the Member or ARC with a Status Report that details the audit exceptions identified. Once the audit is complete, the audited company and CAR will review the issues identified and when possible, reach agreement on the results. The Status Report is modified as needed, based upon additional source documentation provided and communication between the company and CAR. All unresolved issues will be clearly identified. Every error identified will be included in the company's final Status Report.

6. Hybrid Audit Plan Report

A report detailing Hybrid Audit Plan findings will be provided to the audited Member or ARC. Remedial action required will be identified. CAR will provide the audited company with a period of time to review the report and to provide a response letter. In order to improve future reporting or claim handling practices, the response letter must outline the company's prospective plan of action to correct any identified irregularities. In addition, the response letter should address recurring errors resulting from a corporate decision not in agreement with the Massachusetts Private Passenger Automobile Statistical Plan, or the company filed voluntary rates, rules, and discounts.

The Compliance and Operations Committee will review and consider the results of the Hybrid Audit Plan report including any applicable remedial action required by CAR and the response provided by the audited company. The Committee will determine whether to accept the audit findings, direct CAR to develop a Corrective Action Plan for the audited company (refer to Section C.

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date 2022.02.16
Page Page 9 of 10

7. of this Chapter), or recommend potential punitive considerations to the Governing Committee.

The Hybrid Audit Plan report, including the company response letter, will be provided to the Division of Insurance

7. Corrective Action Plan

If recommended by the Compliance and Operations Committee, CAR will develop and conduct further focus audits of a company specific to the areas of concern identified in the Hybrid Audit Plan report. Results of the focus audits will be provided to the Compliance and Operations Committee.

8. Traffic Light Assessment Rating System

Audit results will be considered using a tiered approach:

A green light evaluation is assigned if no significant quota share or ratemaking data issues are identified, and the ARC is compliant with all measured statutory requirements and CAR Rules. No further auditing is required, and the ARC remains in the five-year Hybrid Audit schedule.

A yellow light evaluation may be assigned if quota share and/or ratemaking results are 2% greater than the current industry average error rate, and/or any statutory requirement or CAR Rule measured during the audit is determined as noncompliant. Further focus auditing within 12 to 18 months of the Hybrid Audit completion may be recommended to the Compliance and Operations Committee. Potential future penalties would also be included in the recommendation.

A red light evaluation is assigned if continued noncompliance with the Statistical Plan and/or statutory requirements exists after the follow-up focus audit. The ARC is then subject to future monthly accounting statistical data penalties in accordance with the Private Passenger Statistical Plan (VII: 7) until a monthly submission with accurate data is reported. Also, the ARC is moved to three-year Hybrid Audit schedule.

9. Interim Summary Audits

MAIP | **Assigned Risk Company Procedures Manual**
Chapter XI | **Compliance Audit**
Revision Date | **2022.02.16**
Page | **Page 10 of 10**

Newly Writing Companies reporting interim summary data pursuant to Rule 29 of CAR's Rules of Operation to determine Quota Share will be audited upon receipt of sufficient exposures for sampling.

10. Focus Audits and Data Quality Reviews

Operational or statistical focus audits data quality reviews specifically target Member or ARC data quality issues that have an impact on rate making or Quota Share. The audits and reviews may apply to both voluntary and MAIP business and focus on identified areas of concern which have a bearing on credits, penalties, determination of Quota Share or any other issue relating to such business.

CAR may design and implement focus audits or data quality reviews in accordance with a Division of Insurance or CAR Committee directive, or as determined necessary by CAR.

The same documentation and system access requirements as described in Section C.2. of this Chapter apply.

D. Audits of Assigned Risk Producers

To ensure the integrity of the residual market mechanism and reported statistical data, additional audits or data quality summary reviews of ARPs will be conducted as determined necessary by CAR or as directed by the Division of Insurance or CAR committee.

The same documentation and system access requirements as described in Section C.2. of this Chapter apply.