



COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110
www.commauto.com

617-338-4000

ADDITIONAL INFORMATION

**TO MEMBERS OF THE
COMPLIANCE AND OPERATIONS COMMITTEE**

FOR THE MEETING OF:

Wednesday, June 1, 2022, at 10:00 a.m.

COPC

22.11 Potential Private Passenger and Commercial Statistical Plans Changes

Staff has provided an overview of private passenger and commercial Statistical Plan changes for consideration by the Committee. 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. The summary also includes reporting issues that may result in the need of future Statistical Plan changes. (Docket #COPC22.11, Exhibit #1)

COPC

22.12 Commercial Audit Program

Attached for the Committee's consideration is an overview of proposed changes to the Commercial Audit Program. (Docket #COPC22.12, Exhibit #1)

MATTHEW HIRSH
Compliance Audit Supervisor

Attachments

Boston, Massachusetts
May 26, 2022

Compliance and Operations Committee
Overview of Potential Reporting/Statistical Plan Changes
June 1, 2022

Potential Private Passenger Statistical Plan Changes for Consideration

1. Roadside Assistance and Additional Limits for Towing & Labor Coverage

As part of the transition to managed competition in 2008, CAR developed reporting requirements to address company endorsements that offered new or additional coverage to insureds. These instructions provided for the separate reporting of company-specific endorsements with the “all other” classification, type of risk, limit and coverage codes as outlined in Accounting and Statistical Notice No. 483. Over time, many companies have introduced new and enhanced endorsements for the collision and comprehensive coverages, such that a significant volume of data is now reported with the “all other” coverage codes of 089 and 099.

Currently, two of the most popular enhanced coverages are towing and labor amounts in excess of \$100/disablement and roadside assistance (which includes other services in addition to towing). To better identify these coverages from other company-specific endorsements, CAR is proposing to add two new physical damage coverage codes to the Private Passenger Statistical Plan.

2. Substitute Transportation

While not as prevalent as higher coverages for towing and labor, there are some companies offering higher coverages for substitute transportation. Accordingly, the Committee should provide direction as to whether an additional physical damage coverage code should also be added to the Private Passenger Statistical Plan to separately identify higher limits for substitute transportation.

3. Limited Use Vehicles

The MAIP Steering Committee will be considering rule changes to the Massachusetts Private Passenger Residual Market Automobile Insurance Manual to accommodate limited use vehicles. In order to identify these vehicles, CAR is proposing to add a new classification code to the Private Passenger Statistical Plan.

Proposed Commercial Statistical Plan Changes for Consideration

1. Roadside Assistance and additional limits for Towing and Labor coverages

Similar to private passenger, CAR is proposing to add two new physical damage coverage codes to identify these coverages.

2. ATVs/UTVs

The AIB, in its 10/2021 filing, has included new rules and rates for ATVs and UTVs. While the Commercial Automobile Committee has determined that these vehicles are not eligible for the

residual market, both can be written in the voluntary market. Accordingly, the Committee should provide direction as to whether a new classification code should be designated for these vehicle types (which will allow for better loss and rate development) or whether classification code 704000 (Special Types – All Other) should be used.

3. Non-Owned Coverage for Volunteers Not Associated with Social Service Risks

The AIB, in its 10/2021 filing, has broadened the definition of volunteer eligible for non-owned coverage. Currently, CAR provides non-owned coverage only for volunteers that are associated with social service risks, which results in the need to maintain specific classification codes for these risks. Accordingly, CAR is proposing to add two additional classification codes to identify non-owned coverage afforded for volunteers other than social service risks.

4. Replacement Cost Coverage – Private Passenger Types

The AIB, in its 10/2021 filing, has provided rating procedures so that private passenger type vehicles can be written on a replacement cost basis. The Committee should provide direction as to whether a new coverage code should be designated for this coverage option or whether the All Other Coverage Code is sufficient.

5. On Hook Coverage

The AIB, in its 10/2021 filing, has included rating procedures for on hook coverage for insureds who do not have garage or service locations. Coverage is available in the voluntary market and the Commercial Automobile Committee is considering this coverage for the residual market. Accordingly, CAR is proposing to add an additional coverage code to identify this coverage.

6. Mobile Home Contents

The AIB, in its 10/2021 filing, has included a rating procedure for mobile home contents. The Committee should provide direction as to whether a new coverage code should be designated for this coverage option or whether the All Other Coverage Code is sufficient for use.

7. Original Cost New

The ISO Optional Class Plan was introduced in 2015 and implemented in most jurisdictions on an optional basis in 2016. Statistical reporting for the optional plan became mandatory in 2019, and support for the prior plan was discontinued this year. The AIB will file the new ISO Class Plan to enable companies to adopt it for use in MA at their discretion. However, the AIB does not intend to adopt the plan at this time for its advisory filing.

There are a number of components to the ISO Class Plan that would impact statistical reporting, including additional levels for fleet size, additional designations for Age, the application of Cost New for all vehicles and the inclusion of NAICS factors in the classifications, as well as additional classifications for PPTs to include operator driving experience and occasional/principal status. While the Joint Actuarial Commercial Lines Committee agreed that, due to other rating priorities, it would table further discussion of these items at this time, staff requests that the Committee discuss the issue of reporting Original Cost New. There are a number of disadvantages in the current methodology for reporting the value of a vehicle that would be improved using an alternative reporting method.

Currently, three different fields capture the value of a vehicle – Symbol, Motorcycle Value, and Original Cost New Code.

- The cost new of a vehicle is represented by the Symbol Code, which is a two-digit field with 12 codes representing ranges of values (01 = \$0 to \$4,500, 02 = \$4,501 to \$6,000 and so on until 12 = \$90,001 and greater).
- To provide additional clarification, the reporting of Original Cost New is required when the cost new of the vehicle exceeds \$90,000 (i.e. a vehicle cost new at \$321,000 is reported with an Original Cost New value of 321). Original Cost New is not required on records with a cost new of \$90,000 or less.
- The value of the motorcycle is represented by the two-digit Motorcycle Value Code (there are 99 codes for Motorcycle Value ranging from 01 representing \$100 to 99 representing \$9,900).

A considerable volume of motorcycles exceed \$10,000 in vehicle value. As a result, a significant portion of the exposure data is reported with code 99. Furthermore, most of the exposure data for automobiles is clustered in 3 of the 12 Symbol codes. Accordingly, it would be beneficial to phase out the reporting of Symbol and Motorcycle Value and transition to reporting Original Cost New for all eligible vehicles as this field would capture the original cost new value of the vehicle or motorcycle rather than a range.

Potential Future Commercial Statistical Plan Changes for Consideration for Ceded Data

1. Zone Rated Classifications

The CAR commercial rate filing contains the introduction of an out-of-state rating differential for zone rated vehicles garaged outside of Northern New England (which includes MA, ME, NH, and VT). In order to identify those vehicles that are eligible for the differential, the reporting of premium town (which is based on garaging location), including 9 codes that represent states other than MA, would be required for zone rated TTTs and Buses (note that the reporting of premium town for zone rated risks is not required at this time). Clarifications to the Zone Rating Code pages may also be needed.

2. Non-Owned and Hired Automobiles Liability Only Coverage (policies with stand-alone Non-Owned and/or Hired Auto coverage)

Generally, non-owned and hired automobile coverages are supplemental coverages that are added on to a policy with primary coverage for commercial vehicles. However, in certain instances, a risk may purchase only the non-owned and/or hired auto coverages to provide coverage to its employees driving their own vehicles or renting vehicles. In order to identify and properly rate those policies with just non-owned and/or hired auto coverage, CAR is proposing to add two new classification codes.

3. Type of Loss Code value for ceded risks engaging in TNC activities

Coverage for ceded policies with automobiles classed as public automobiles is excess over insurance provided by a transportation network company when the vehicle is engaged in TNC activities. Accordingly, CAR is proposing to add a new Liability Type of Loss Code value to distinguish a loss payment that the Servicing Carrier has made in excess of the coverage provided by the TNC insurance carrier.

Audit Program Redesign
Commercial Auditing
Commercial Audit Program Changes

Overview

The Compliance and Operations Committee (COPC) approved changes to the private passenger audit program in December 2020 that were subsequently codified in the Assigned Risk Company (ARC) Procedures Manual. At that time, Compliance Audit was concentrating department resources on completing a series of enhanced procedures audits of the Commercial Servicing Carrier (CSC) Program that considered eligibility, classification, and rating of certain residual market business. Staff determined that delaying the redefining of the commercial auditing program was necessary to better evaluate the future objectives and anticipated needs. This memorandum outlines the proposed changes to the commercial audit program.

Current Commercial Audit Program

- SCs are audited every other year and the audits include:
 - Premium and claim statistical auditing with data validated from source documents to test adherence to the Commercial Statistical Plan.
 - Structured representative random samples of voluntary and ceded premium and loss statistical data are selected from one complete calendar year of accounting shipments.
 - Samples are selected at the record level for both premium and loss data.
 - Commercial underwriting auditing verifies SC compliance with the rules, rates and rating procedures detailed in the applicable Massachusetts Commercial Automobile Insurance Manuals.
 - Reperformance of rates is completed at the statistical record level and policy level using the voluntary or residual market rates.
 - Claims Performance Standards (the Standards) examination – Statutory Requirement
 - Voluntary and ceded data.
 - Special Investigation Unit (SIU) Evaluation – Statutory Requirement
 - Voluntary and ceded data.
 - Reinsurance Audits
 - Potential duplicate payments and/or reporting on ceded paid losses.

Also of note, prior to May 2009, CAR staff conducted audits of large market share voluntary-only Member Companies. However, due to staffing reductions and a focus on private passenger auditing, the commercial audit program was modified to concentrate only on the four SCs.

Considerations for Improved Audit Process:

In 2018, Compliance Audit paused the overall commercial audit program to complete Claims Performance Standards and SIU evaluations and three separate residual market eligibility and classification enhanced procedure audits of all four SCs. These audits focused on residual market eligibility and SC adherence to the updated underwriting standards for multi-state bus risks, trucks, tractors, and trailers (TTT), and non-fleet private passenger type (NF-PPT) automobiles.

At this time, several changes impacting the commercial residual market require consideration in an updated commercial audit program. These include the introduction of underwriting standards to the CSC Program and the consolidation of the separate taxi/limousine, car service program into the full CSC Program. In addition, recent changes to the MAP and Commercial Statistical Plan regarding consideration of public autos and Transportation Network Company (TNC) coverage have also been adopted. These changes necessitate updates to the audit procedures to ensure continued oversight of CSC Program requirements and targeted sampling procedures to test the accuracy of newly reported data elements. Finally, the elimination of voluntary-only companies from the audits removes assurance of the quality of the rate making database.

Proposed Commercial Auditing:

Staff proposes to retain the frequency and types of audits completed. That is, each SC will be audited every two years and the audits will include statistical reporting, Claims Performance Standards exam, SIU evaluation, and reinsurance audit components. In addition, staff proposes the following enhancements:

1. The record-level audit sample process will be updated to a policy-level and claim-level sample process, consistent with Hybrid Audit procedures.
 - Continue to employ a 90% confidence level with a +/- standard error rate of 5%.
2. Audit sampling will incorporate flexibility to allow for unique representative samples based on the classes of business statistically reported by each carrier. In addition, the sample process will also allow for inclusion of classes identified of particular interest such as:
 - Taxi, limousine, and car service business.
 - Voluntary policies with TNC coverage.
 - Other classes considered annually by the Committee to be of interest.
3. Incorporate the enhanced procedures audits to ensure an on-going oversight component of the commercial audit program.
 - Utilize reduced samples of five policies for each type of risk.
 - Build the ability to review other classes as needed such as those specific to garage policies, while allowing flexibility to consider and conduct enhanced audit procedures to address any future concerns.
4. Introduce a Traffic Light Assessment rating system of audit results that is consistent with private passenger auditing.
 - Green light assessment will indicate no significant issues identified in the audit. The SC's following biennial audit will exclude the statistical reporting component.
 - Yellow light assessment will indicate concern with compliance of one or more portions of the audit.
 - Red light assessment will indicate significant non-compliance with one or more portions of the audit.
5. After the enhanced SC audit program is fully implemented, add voluntary only companies to the audit rotation, excluding the enhanced procedures described in #3, which are specific to SCs.

Benefits of Proposal:

1. Maintains all the objectives approved by the Ad Hoc Statistical Audit Subcommittee in 2009 charged with developing an updated compliance audit program.
2. Maintains all the objectives approved by the Compliance Audit Committee in 2010 to integrate the claims auditing requirements into the commercial claims statistical audits.
3. Maintains the statutory requirement that the plan (CAR) shall complete periodic audits of all members, both voluntary and residual market, as required by the commissioner in accordance with Massachusetts G.L. c. 175 § 113H.
4. Allows for the Compliance Audit department commercial resources to be concentrated on the CSC Program.
5. Allows for the recurring dedication of Compliance Audit resources towards enhanced audit procedures of the residual market CSC Program.
6. Potentially affords the opportunity to return to premium and claim statistical audits of the voluntary-only commercial companies.
 - Staff has not completed an audit of a voluntary-only commercial company since 2009.

Recommendation:

Staff is recommending that the Committee consider this proposal and vote on conceptual approval. If approved, staff will move forward with system development efforts to implement changes, targeting audits starting in March 2023 for accounting year 2022. In addition, staff will draft amendments to the Manual of Administrative Procedures for Committee consideration at a subsequent meeting.