



NATALIE A. HUBLEY  
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COMMONWEALTH AUTOMOBILE REINSURERS

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## RECORDS OF MEETING

### COMPLIANCE AND OPERATIONS COMMITTEE – NOVEMBER 4, 2021

#### Members Present

Mr. Jerry Sleeper – Chair  
Ms. Kara Boehm  
Ms. Kerri Boutin <sup>(1)</sup>  
Ms. Erin Cummings  
Ms. Annmarie Hassan <sup>(2)</sup>  
Mr. Todd Lehmann <sup>(3)</sup>  
Mr. Kenneth Olivieri  
Mr. Barry Tagen  
Mr. Christopher Taylor  
Ms. Brenda Williams

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

#### Substituted for:

Mr. Henry Risman <sup>(1)</sup>  
Mr. Robert Littlewood <sup>(2)</sup>  
Mr. Thomas Harris <sup>(3)</sup>

#### Not in Attendance:

Ms. Sharon Murphy, Acadia Insurance Company

#### 21.01 Records of Previous Meeting

On a roll call vote, the Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of September 1, 2021. The Records have been distributed and are on file.

#### 21.04 Informational Items

Ms. Wendy Browne informed the members that the updates to Chapters IV – Cession Rules and Procedures, V - Premium, and VIII – Data Reporting, Account Edit and Corrections Procedures of the Manual of Administrative Procedures (MAP) relative to the rewrite of CAR's Accounting System were approved by the Governing Committee at its September 8<sup>th</sup>, 2021 meeting and have been incorporated into the MAP that is available on CAR's website.

## 21.05 Compliance Audit Program

Mr. Mark Alves noted that the Esurance and PURE focus audit reports that are the subject of the Committee's discussions today are intended to establish a standardized methodology for reporting the results of such focus audits and setting forth staff recommendations relative to further review and/or initiating penalty provisions. Mr. Alves summarized the events leading to the issuance of the reports under consideration. He explained that staff conducted Hybrid Audit procedures on both Esurance and PURE with report findings issued in 2017. Subsequent focus audits were conducted to review the status of the companies' corrective action to address reporting issues identified in the Hybrid Audit reports. The focus audit reports issued in 2020 advised the companies that the correction of prioritized statistical reporting issues was required in order to avoid penalty recommendations. The most recent reports set forth the findings with respect to the second focus audit of each company.

Ms. Kara Boehm, referencing the relationship between Esurance and Allstate, recused herself from participating in the discussion regarding the Esurance focus audit.

Mr. Matthew Hirsh reviewed the latest focus audit results of Esurance by providing the Committee with a comparison to the Hybrid Audit to 2021 focus audit results specific to the recurring data quality issues identified. He noted that Esurance demonstrated improvement by correcting several statistical reporting issues identified in the 2017 Hybrid Audit. However, the focus of the 2021 audit was the prioritized list of eight recurring statistical reporting errors. The results determined that seven of the eight issues remained uncorrected and one was mostly corrected. He noted that most of these errors were originally identified in the 2017 Hybrid Audit and remain mostly uncorrected.

Ms. Browne then reviewed procedures for the Committee to consider in their deliberations on the audit findings. She noted that the Committee could direct staff to notify the company that data reporting issues must be corrected no later than the due date for the January 2022 monthly data submission. If corrections are not completed, the company's submissions would be considered late and unacceptable in accordance with the Statistical Plan (page VIII:8) until monthly submissions with accurate data are reported. Further, the company would be notified that penalties would accumulate quarterly, becoming more significant if reporting corrections are not completed. Ms. Browne described the potential range of the penalty amounts that could be assessed if this course of action is adopted and if the company's reporting issues remain uncorrected through the close of the 2022 reporting year.

After discussion of the audit results and of the potential actions available to the Committee, on a roll call vote the Committee voted unanimously, with one recusal, to direct staff to begin the process of assessing statistical data quality penalties for late and unacceptable shipments until monthly submissions with accurate data are reported for each of the remaining statistical reporting issues.

Mr. Barry Tagen, indicating that his company served as a Limited Assignment Distribution Agreement (LADA) for PURE recused himself from participating in the discussion regarding the PURE focus audit.

Mr. Hirsh then reported on the results of PURE's second focus audit, noting that while the company demonstrated improvement by correcting several statistical reporting issues identified in the 2017 Hybrid Audit, six of the recurring issues prioritized with the 2020 audit report remain uncorrected.

The Committee noted that the PURE report findings were similar in nature to the Esurance audit findings and therefore, on a roll call vote, voted unanimously, with one recusal, to direct staff to begin the process of pursuing statistical data quality penalties for late and unacceptable shipments until monthly submissions with accurate data are reported for each of the remaining statistical reporting issues.

Ms. Browne noted that the two focus audit reports summarized the audit findings into two categories. Statistical reporting issues that could be modified by the company through system corrections, were identified in the audit report as Group One issues and are the issues for which the Committee is recommending penalties pursuant to the Statistical Plan. However, she explained that the Group Two topics identified in the reports are procedural in nature and require further discussion by the Committee.

Ms. Browne addressed the frequency of merit rating value errors identified in compliance audits since the inception of the Hybrid Audit Plan. Ms. Browne referenced the Private Passenger Statistical Plan that requires that the reported Classification Code must indicate the merit rating status of the operator used to rate the vehicle and must agree to the value imputed by the Merit Rating Board to ensure the consistency of the quota share calculation. However, numerous companies report the merit rating value as calculated using their own merit rating plan. Audit findings frequently recognize that this practice results in understated credit premium with impact only to the audited company. The Committee has accepted this as sufficient because the MAIP assignments are not impacted. However, she remarked that the situation could be different at any time. Ms. Browne suggested that due to the growing number of companies with reporting issues of this nature, it would be appropriate for discussion at a future meeting to consider whether the reporting requirements defined in the Statistical Plan should be more strictly enforced. The committee members agreed that further discussion concentrating on the relevant factors would be beneficial. Ms. Browne concluded indicating that staff would prepare material for the next Committee meeting.

Continuing, Mr. Alves discussed a current and recurring finding of recent audits that involves insufficient documentation furnished by the audited company. He provided an example in which the audited company utilizes a third-party national vendor that establishes a set price for towing services. He explained that the Statistical Plan requires that expenses such as towing services be reported at the claim level.

Mr. Alves noted that this issue arose in the Esurance audits. That is, the company provided limited documentation in the initial review, but that documentation was determined to be insufficient to validate the expense reporting. However, no supports were provided to verify tow payments for the two most recent focus audits. Mr. Alves advised that staff is looking for guidance relative to acceptable documentation for such aggregated expenses. After discussion, the Committee agreed that source documentation was necessary to complete claims statistical auditing and directed that the issue be referred to the Claims Subcommittee for consideration.

Finally, Ms. Browne provided the Committee with a status report on the review of the Foremost Insurance statistical reporting. Staff reported on the results of a focus audit conducted on the company's interim summary data in 2020. Foremost began reporting statistical data in January 2021. Ms. Browne noted that staff's review of Foremost's reported data identifies obvious reporting problems that require correction. She noted that the two issues include Foremost's reporting of unusually high merit rating values and the reporting of endorsement transactions not in accordance with the Statistical Plan. Both issues have potential impact to the MAIP quota share calculation. While Foremost was notified in writing of the reporting issues and the company indicated that it had taken corrective action, CAR has not noted any progress. Ms. Browne advised that because the obvious statistical reporting errors have remained unchanged, CAR will notify Foremost that if clear progress is not evident, subsequent data submissions will be considered incomplete and unacceptable and eligible for Statistical Plan penalties beginning with the March 2022 data submission.

## **20.07 CAR Accounting System Rewrite**

Ms. Lynne Rosenberg provided the Committee with an update on the rewrite of the CAR Accounting System. Ms. Rosenberg indicated that the system has been in production for two months

without issue. A Bulletin was distributed in mid-September announcing the new application and training sessions were subsequently conducted for the four Servicing Carriers.

Ms. Rosenberg noted that the final component of the implementation is to develop procedures for monitoring and notifying the Servicing Carriers when liability loss payments exceed the liability limits written on the policy. She expects that these procedures will be completed within the next month.

Ms. Rosenberg concluded that CAR is in the process of updating the Policy Edit Package to reflect the changes to the system and the application, and that those changes should be posted to the Manuals page of CAR's website in December.

## **20.12 Ceded Commercial Reporting Issues**

Ms. Browne informed the Committee that CAR is continuing work on the commercial rate filing including evaluating options to address out-of-state garaging. Ms. Browne noted that when revised rating procedures are placed on file, recommended changes to the Statistical Plan will be presented to the Committee for consideration.

MATTHEW HIRSH  
Compliance Audit Supervisor

Boston, Massachusetts  
November 12, 2021

**ATTACHMENT LISTING**

Docket #COPC21.02, Exhibit #4

Attendance Listing

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING  
 MEETING ATTENDEES  
 NOVEMBER 4, 2021**

Individual's Name

Company / Agency

PLEASE PRINT

Jerry Sleeper	Safety Insurance Company
Kara Boehm	Allstate Insurance Group
Erin Cummings	Norfolk and Dedham Group
Todd Lehmann	Quincy Mutual Group
Annmarie Hassan	Arbella Insurance Group
Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Kerri Boutin	Risman Insurance Agency, Inc.
Barry Tagen	Pilgrim Insurance Company
Christopher Taylor	The Hanover Insurance Company
Brenda Williams	MAPFRE U. S. A. Corporation
Edith Wendell	AIB
Nicole Huggins	State Farm Mutual Auto Insurance Company
Mark Alves	CAR Staff
Wendy Browne	CAR Staff
Peter Bertoni	CAR Staff
Shannon Chiu	CAR Staff
Matthew Hirsh	CAR Staff
Daniel Mason	CAR Staff
Katy Proctor	CAR Staff
James Robery	CAR Staff
Lynne Rosenberg	CAR Staff
Alison Ruggiero	CAR Staff
Robin Tigges	CAR Staff