



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – JUNE 1, 2022

Members Present

Mr. Jerry Sleeper – Chair	Safety Insurance Company
Mr. Thomas Bird ⁽¹⁾	Acadia Insurance Company
Ms. Kara Boehm	Allstate Insurance Company
Ms. Erin Cummings	Norfolk & Dedham Group
Mr. Thomas Harris	Quincy Mutual Group
Ms. Annmarie Hassan	Arbella Insurance Group
Mr. Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Mr. Henry Risman	Risman Insurance Agency, Inc.
Mr. Barry Tagen	Pilgrim Insurance Company
Mr. Christopher Taylor	The Hanover Insurance Company
Ms. Brenda Williams	MAPFRE U.S.A. Corporation

Substituted for:

⁽¹⁾Ms. Sharon Murphy

Not in Attendance:

N/A

22.01 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 April 6, 2022. The Records have been distributed and are on file.

22.04 Informational Items

Ms. Wendy Browne informed the members that updates to Chapter VII – Participation, Chapter VIII – Data Reporting, Accounting Edit and Correction Procedures of the Manual of Administrative Procedures (MAP), and Chapter III – Assigned Risk Company (ARC) Responsibilities of the ARC Procedures Manual were approved by the Governing Committee at its April 13, 2022 meeting. Ms. Browne noted that the updates have been incorporated into the MAP and the ARC Procedures Manual and are available for viewing on CAR's website.

22.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for Arbella Mutual Insurance Company. The Arbella Hybrid Audit scope included \$762,000 in written premium and associated loss dollars,

including paid losses and allocated loss adjustment expenses, totaled \$1,376,000. Mr. Hirsh noted five recurring statistical reporting issues not in compliance with the Statistical Plan. He also referenced that Arbella indicated that four of the five overall recurring data quality issues have either been corrected or are being reviewed to ensure that its data reporting is accurate. In accordance with the traffic Light assessment rating system described in the ARC Procedures Manual, staff recommends a green light assessment of Arbella's audit results, indicating that no further auditing is required, and the ARC remains in the five-year Hybrid Audit schedule.

On a roll call vote, the Committee voted unanimously to accept the audit report without further consideration.

Ms. Browne then provided a status report on companies that have recently been brought to the Committee's attention due to statistical reporting issues in need of corrective action. Ms. Browne stated that both PURE and Esurance have made significant progress to correct reporting problems identified in follow-up focus audits. While some issues remain, staff continues to work with both companies as correction efforts continue.

Ms. Browne advised that the deadline established for Foremost Insurance of Grand Rapids Michigan to correct its reporting issues was the March 2022 monthly accounting submissions due at CAR in mid-May. She noted that, after review, Foremost remains noncompliant with two reporting issues identified including invalid merit rating reporting and incorrect exposure amounts on endorsement records. Ms. Browne indicated that because of continued non-compliance, CAR will begin the penalty assessment process, with penalties accruing until Foremost provides corrected data.

Ms. Browne also noted that staff is working with both Berkley Insurance and Foremost Property and Casualty Insurance to resolve problems identified in their quota share focus audits before each company begins statistical reporting.

22.08 Updates to the ARC Procedures Manual

Mr. Mark Alves stated that staff has proposed a fee pertaining to audit procedures necessary to determine if an audited company is rating in accordance with its rates and rules on file with the Division of Insurance. He explained that staff received direction from the Division of Insurance at the outset of the Hybrid Audit in 2010 to accept the rating attributes and discounts as provided by the audited company and to calculate premium using those values. To satisfy this directive, staff audit procedures include requesting the applicable rates and rules from the audited company, identifying each applicable rating attribute necessary to calculate premium, and then developing a data request to send to the company for completion. Once returned to CAR, staff inserts the data into an Excel workbook that is automated to calculate premium at the transaction and policy level for auditor use.

Mr. Alves stated that the issue impacting the audit schedule is that the data requests are frequently not returned in a timely manner. In some instances, it is not returned until three months or more after distribution. To further complicate the process, the returned data sometimes contains incorrect rating attributes making it impossible to rate in accordance with the Division directive without substantial rework. This can considerably impact the length of time needed to complete an audit. Mr. Alves explained that staff has to date been hesitant to provide a deadline as some companies find it more complicated to extract the necessary rating attributes from their systems than others. However, the increasing frequency of late rating data has impacted the audit schedule more significantly than system access problems. Thus, staff has proposed a fee of \$1,000 per week be assessed when the requested data is not compiled and returned within 30 days of receipt by the audited company of the data request.

On a roll call vote, the Committee voted unanimously to recommend to the Governing Committee adoption of the updates to Chapter XI – Compliance Audit of ARC Procedures Manual.

22.09 Merit Rating Reporting

Mr. Hirsh provided a brief report relative to the status of the focus audit of reported merit rating values. He summarized audit procedures, noting that companies are required only to populate an operator request list, which will then be uploaded to a batch-RMV query for staff to obtain the operator information needed for auditing. Mr. Hirsh advised that audit notices, including the operator request lists, were distributed to each of the 36 ARCs on May 16th. Companies have been directed to return the requested data by June 17th in order for staff to conduct its review of the reported statistics. Mr. Hirsh reported that several ARCs have returned completed data requests ahead of schedule and auditing is underway.

22.11 Potential Private Passenger and Commercial Statistical Plans Changes

Ms. Browne reviewed potential Statistical Plan changes for consideration. She noted that the list for discussion was divided into three sections to identify issues relating to private passenger, commercial and commercial ceded data. She noted that staff is requesting that the Committee provide feedback to determine which issues warrant reporting changes. Based on the Committee discussion, CAR staff will prepare updated pages to the Statistical Plans for consideration. The effective dates for the changes will be discussed at the same time.

Private Passenger Statistical Plan Changes for Consideration

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

Ms. Browne indicated that, since the start of competitive rating, a large number of companies have introduced company-specific enhancements for additional physical damage coverages. The most common are higher limits for towing and labor, substitute transportation, and roadside assistance coverage. She noted that these additional coverages are currently reported using “all other” coverage codes. Because the coverages are becoming widespread, Ms. Browne requested that the Committee consider the addition of new coverage codes to specifically identify this data. After discussion, the Committee supported the introduction of new coverage codes, noting that these coverages represent the more popular programs with the largest premium volume.

2. Limited Use Vehicles

Ms. Browne discussed limited use vehicles. She noted that the MAIP Steering Committee will consider amendments to the MAIP rating manual to allow for a separate designation for limited use vehicles, consistent with definitions for this class of vehicle adopted by the Registry of Motor Vehicles. Ms. Browne advised that staff would provide additional information relative to limited use vehicles, including recommended new class codes, at the next meeting.

Commercial Statistical Plan Changes for Consideration

Ms. Browne provided a summary of seven new coverages adopted by the Automobile Insurers Bureau (AIB) and requested feedback from the Committee relative to corresponding Statistical Plan changes. She noted that these new coverages apply to the voluntary market; however, the Commercial Auto Committee has identified some endorsements that may be appropriate for the residual market. Ms. Browne acknowledged that staff is unsure whether to anticipate widespread adoption in voluntary market, and is

thus requesting direction regarding the use of separate coverage codes or the use of the “all other” code. She further noted that the volume of data reported with the “all other” code will be monitored and, should a sufficient increase occur, the Committee will be notified for discussion and consideration future reporting changes.

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

Ms. Browne noted that staff is also recommending new codes for these coverages in the commercial automobile market as a large amount of data is now reported in the “all other” category. The development of new codes will give CAR the ability to separately identify these coverages. The Committee supported the introduction of new coverage codes to identify these coverages.

2. ATVs/UTVs

Ms. Browne noted that the AIB has developed new rates and rules for ATVs and UTVs. She clarified that these risks are not eligible for the residual market but are statistically reportable for the voluntary market. She asked the Committee to consider if a new class code should be introduced. The Committee agreed that this type of risk is not prevalent in Massachusetts at this time and advised that the “all other” special types class code of 70400 is appropriate.

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

Ms. Browne informed the Committee that the AIB has broadened the definition of a volunteer eligible for non-owned coverage to include categories other than social services. She asked for input as to whether new classification codes should be introduced for the expanded categories. The Committee indicated that the volume of risks outside of the current social service designation should be small and thus the consensus was to introduce new codes for all volunteers other than social services risks.

4. Replacement Cost Coverage – Private Passenger Types

The Committee considered a new coverage code relative to replacement cost coverage and agreed that an additional code was not necessary at this time.

5. On Hook Coverage

CAR’s recommendation to introduce a new coverage code to identify on hook coverage was considered and agreed to by the Committee. Ms. Browne noted this coverage is currently available in the voluntary market and is being considered by the Commercial Auto Committee for the residual market.

6. Mobile Home Contents

The Committee considered a new coverage code relative to mobile home contents and agreed that no additional code was necessary at this time.

7. Original Cost New

Ms. Browne asked the Committee to discuss and consider a change in reporting of original cost new values. She outlined current disadvantages to reporting methodology relative to symbol and motorcycle values. Ms. Browne acknowledged potential system challenges resulting from the implementation of a change but indicated the Committee could consider flexible implementation dates to mitigate any processing concerns. In response to a question, Ms. Browne noted that CAR would not dictate how member companies calculate original cost new. Several Committee members noted that phasing out the reporting

of symbol and motorcycle value and transition to reporting original cost new for all eligible vehicles would result in more efficient reporting and processes. Accordingly, the committee members were in favor of pursuing this item and staff advised that draft Statistical Plan updates and effective date recommendations would be discussed at the next meeting.

Commercial Statistical Plan Changes for Consideration for Ceded Data

1. Zone Rated Classifications

Ms. Browne reported that CAR's rate filing, currently under review by the Division of Insurance, introduced an out of state differential for zone rated vehicles. She advised that if the changes are placed on file by the Division of Insurance, reporting changes will be required. Ms. Browne indicated that the statistical plan pages relative to zone rated vehicles would be applicable to commercial Servicing Carriers and ceded data only.

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

Ms. Browne advised that the Joint Actuarial Commercial Lines Committee will consider separate rating procedures for stand-alone non-owned and hired auto coverage. If adopted, Statistical Plan changes will include new class codes for ceded policies.

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

Ms. Browne advised that the Committee will need to consider a type of loss code to identify TNC losses. Ms. Browne noted a new type of loss code for these types of losses would allow CAR to capture paid losses as excess coverage for mixed use vehicles engaged in TNC activity.

22.12 Commercial Audit Program

Mr. Alves provided an overview of proposed changes to the Commercial Audit Program that incorporate all commercial compliance audit responsibilities. He began by identifying each biennial component of the current audit program including audit of statistical reporting, review of commercial underwriting to verify compliance with the rules, rates, and rating procedures, evaluation of adherence to the Claims Performance Standards, audit of SIU performance, and evaluation of ceded statistical loss data for potential duplicate payments or reporting. He noted that audits of voluntary-only Member Companies were suspended in 2009.

Mr. Alves discussed changes in the commercial residual market that required consideration of the proposed audit plan, as well as the need to incorporate future sampling flexibility. These changes include the consolidation of the Taxi/Limousine/Car Service program into the full Commercial Servicing Carrier Program, the modifications recently codified in CAR manuals that pertain to public autos and transportation network companies, and the concentration on adherence to updated Servicing Carrier underwriting standards.

Staff's proposed commercial audit plan maintains the frequency and types of audits from the prior program. However, sample selection would change from record-level to policy-level and claim-level sample that is consistent to the Hybrid Audit. Development of a new audit system would include the ability to select representative samples based on the statistically reported classes of business and would have the flexibility to include any other specific class or coverage of interest. Additionally, enhanced procedures for adherence to underwriting requirements would be maintained using reduced samples of risks to ensure

continued oversight. Consistent with the previously approved private passenger audit program changes, the traffic light assessment rating system is also recommended for use to evaluate overall findings. If the result of the statistical audit components determine that no significant issues exist, the Servicing Carrier's next audit would exclude the statistical testing component.

Mr. Alves stated that if the Committee conceptually approved the proposal, staff would begin system development targeting Servicing Carrier audits in March 2023. Staff would also prepare modifications to the MAP for Committee consideration.

Mr. Jerry Sleeper commented that the proposal attempts to moderate the overall increased audit functions using risk assessment and stop-lighting methods to meet internal and external responsibilities.

The Committee unanimously voted to approve the changes to the Commercial Audit Program in concept as presented and directed staff to draft applicable amendments to the Manual of Administrative Procedures.

MATTHEW HIRSH
Compliance Audit Supervisor

Boston, Massachusetts
June 8, 2022

ATTACHMENT LISTING

Docket #COPC22.02, Exhibit #3

Attendance Listing

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING
MEETING ATTENDEES
JUNE 1, 2022**

Individual's Name

Company / Agency

PLEASE PRINT

Jerry Sleeper	Safety Insurance Company
Kara Boehm	Allstate Insurance Group
Erin Cummings	Norfolk and Dedham Group
Thomas Harris	Quincy Mutual Group
Annmarie Hassan	Arbella Insurance Group
Thomas Bird	Acadia Insurance Company
Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Henry Risman	Risman Insurance Agency, Inc.
Christopher Taylor	The Hanover Insurance Company
Brenda Williams	MAPFRE U. S. A. Corporation
Barry Tagen	Pilgrim Insurance Company
Nicole Huggins	State Farm Mutual Auto Insurance Company
Tyler Dowd	State Farm Mutual Auto Insurance Company
Christopher Lawler	Lawler Insurance Agency
Mark Alves	CAR Staff
Wendy Browne	CAR Staff
Peter Bertoni	CAR Staff
Shannon Chiu	CAR Staff
Timothy Galligan	CAR Staff
Matthew Hirsh	CAR Staff
Tiffany Manning	CAR Staff

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING
MEETING ATTENDEES
JUNE 1, 2022**

Individual's Name

Company / Agency

PLEASE PRINT

Virginia Plasse	CAR Staff
Katy Proctor	CAR Staff
James Robery	CAR Staff
Lynne Rosenburg	CAR Staff
Alison Ruggiero	CAR Staff
Robin Tigges	CAR Staff