



NATALIE A. HUBLEY  
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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## RECORDS OF MEETING

### COMPLIANCE AND OPERATIONS COMMITTEE – SEPTEMBER 6, 2023

#### Members Present

Ms. Erin Cummings– Chair	Norfolk and Dedham Group
Ms. Kara Boehm	Allstate Insurance Company
Ms. Kerri Boutin <sup>(1)</sup>	Risman Insurance Agency, Inc.
Mr. Thomas Harris	Quincy Mutual Group
Ms. Annmarie Hassan	Arbella Insurance Group
Ms. Nicole Martorana	FBInsure, LLC
Mr. Barry Tagen	Pilgrim Insurance Company
Mr. Christopher Taylor	The Hanover Insurance Company
Ms. Brenda Williams	MAPFRE U.S.A. Corporation

Substituted for:

<sup>(1)</sup> Mr. Henry Risman

Not in Attendance:

Ms. Sharon Murphy, Acadia Insurance Company

Mr. Kenneth Olivieri, J.K. Olivieri Insurance Agency, Inc.

#### 23.01 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 June 7, 2023. The Records have been distributed and are on file.

#### 23.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for The Hanover Insurance Company. Mr. Christopher Taylor of Hanover recused himself from participating in the consideration of the Hanover report. The Hanover Hybrid Audit scope included \$790,000 in written premium, and associated loss dollars, including paid losses and allocated loss adjustment expenses, totaled to \$1,378,000. Mr. Hirsh noted five recurring statistical premium reporting issues and two recurring statistical claims reporting issues not in compliance with the Statistical Plan. Mr. Hirsh noted that while Hanover did have several recurring issues identified, including unverifiable Towing & Labor losses due to the insufficient level of documentation provided, overall quota share and ratemaking results did not meet the benchmark to be moved into the yellow light value of the traffic light assessment rating system described in the ARC Procedures Manual. Staff therefore recommended a green light assessment of Hanover's audit results, indicating that no further auditing is required, and that the ARC remain in the five-year Hybrid Audit schedule. Mr. Hirsh advised that staff would reevaluate the validity of Hanover's Towing & Labor documentation by reviewing a minor sample of towing losses in September of 2024. On a roll call vote, the Committee voted unanimously, with

one recusal, to accept the audit report with no further auditing, and directed staff to retest Hanover's unverifiable Towing & Labor losses in September of 2024 to determine if the level of documentation is sufficient.

Mr. Mark Alves then provided a status report of two companies that are working to correct data quality issues identified in prior HAP or focus audits. He noted that Farm Family has a late and unacceptable shipment statistical penalty pending. Staff previously prioritized seven recurring reporting errors that required correction to avoid penalty assessment. Farm Family met with CAR staff virtually in July and have since provided a detailed plan to address each of the seven issues. Multiple test files intended to document system corrections were subsequently transmitted to CAR. CAR reviewed the data and provided a response that five of the seven issues were corrected. He also noted that the two open claim issues could not be assessed without system access or further documentation. Once established, CAR will make a final determination and anticipates notifying the Committee of an outcome at the November meeting.

Mr. Alves continued by noting that Allstate does not have pending penalties but has continued to address several reporting issues identified in the Hybrid Audit report distributed earlier this year. Since closing the audit, Allstate has corrected the reporting of underinsured limits for coverage code 06 and continues to work on coding logic for other limits as well. Additionally, Allstate provided a detailed explanation of its roadside service procedures, suggesting that it supports validation of tow payments in accordance with the Statistical Plan and the ARC Procedures Manual. Upon review, CAR staff agreed that this process would allow for validation of tow payments if supporting documentation exists confirming that the amount paid to the vendor agrees to the amount statistically reported to CAR. Allstate acknowledged that the described documentation would exist for 95% of tow payments. In conclusion, Allstate indicated that the workload and available resources will continue to be prioritized while communicating future correction efforts to CAR.

Ms. Wendy Browne then provided an update on the two remaining reporting issues identified through CAR's statistical & data quality program for Foremost of Grand Rapids, including incorrect reporting of exposures on endorsement records and invalid reporting of merit rating values. Ms. Browne reported that Foremost's 1<sup>st</sup> Quarter 2023 data was evaluated and that the error rates for these issues have improved but remain slightly above the industry average. In addition, Ms. Browne noted that Foremost has continued to make efforts toward correcting the identified issues, and that Foremost is scheduled to undergo a HAP audit in the latter half of 2024. She indicated that rather than performing yet another focus audit, the HAP audit will include a review of merit rating and endorsement data to determine if further progress has resulted in the error rates for these two issues approaching industry averages. Ms. Browne stated that CAR will continue to evaluate Foremost's data and provide the Committee with additional status updates.

## **22.09 Merit Rating Reporting**

Mr. Hirsh presented the results of the follow-up private passenger merit rating focus audits. He stated that in 2022, CAR conducted an industry-wide audit of statistically reported merit rating values to verify if each Assigned Risk Company (ARC) was accurately imputing merit rating values from the Massachusetts Registry of Motor Vehicles. Results identified five ARCs with error rates that exceeded the industry average of 8.7%. At its September 2022 meeting, the Committee directed CAR staff to conduct follow-up audits retesting the merit rating data for each of the five outlier companies and provided a deadline of the January 2024 submission for each ARC to have their merit rating data corrected.

Mr. Hirsh noted that at the conclusion of last year's audits, each of the five outlier ARCs provided CAR with a corrective action plan, and CAR allowed time for each plan to impact statistical reporting before taking follow-up samples. Audits were then conducted utilizing the same procedures as the preceding 2022 merit rating audits.

Results noted one ARC's error rate decreased to below the industry average, and as such, that ARC is now considered compliant with merit rating reporting requirements.

Two ARCs improved but remained above the industry benchmark. Mr. Hirsh explained that both ARCs are scheduled to undergo Hybrid Audits in 2024, at which point, a final audit on each ARC's merit rating data will be conducted by CAR staff.

One ARC was scheduled for a Hybrid Audit in 2023 and thus, did not undergo a follow-up merit rating audit. However, this ARC's Hybrid Audit has recently been delayed to 2024. Mr. Hirsh explained that, like the two prior ARCs, CAR will also conduct a merit rating audit on this ARC when the Hybrid Audit is conducted in 2024.

Lastly, one ARC's results weakened from last year's to this year's merit rating audit. This ARC underwent a Hybrid Audit in 2023 and, as such, will have its merit rating data evaluated for a third time in the spring of 2024, after the January 2024 data submission, before considering penalty options.

### **23.10 Interim Summary Data Penalty Program**

Ms. Browne presented for the Committee's review proposed changes to the Assigned Risk Company Procedures Manual to include a new penalty program to enforce the timely reporting of Interim Summary data. Ms. Browne provided the Committee with a brief overview of the importance of receiving timely Interim Summary data for non-reporting Newly Writing Companies. She noted that late submissions of Interim Summary data require CAR to use old data or to make approximations for the Quota Share determination. She stated that, until recently, most companies had complied. However, one new entrant had timeliness issues where six submissions from the prior 12 months were considered late. Ms. Browne stated that having a penalty program in place provides incentive, allowing companies to avoid the penalty when data is reported timely.

Ms. Browne indicated that the proposed changes to Chapter III - B.4 of the Assigned Risk Company Procedures Manual included an outline of the penalty program for non-compliant companies. She noted that this proposed penalty program was developed to mimic the penalty program for late statistical submissions, while focusing on the frequency of each late Interim Summary submission. Continuing, Ms. Browne stated that proposed changes to Chapter X – D.2 of the Assigned Risk Company Procedures Manual were also included to reference updated wording regarding the proposed Interim Summary penalty program.

**On a roll call vote, the Committee voted unanimously to recommend to the Governing Committee the proposed new penalty program for the late submission of Interim Summary data and the updates to the Assigned Risk Company Procedures Manual.**

MATTHEW HIRSH  
Compliance Audit Supervisor

Boston, Massachusetts  
September 11, 2023

**ATTACHMENT LISTING**

Docket #COPC23.02, Exhibit #3

Attendance Listing

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING  
MEETING ATTENDEES  
SEPTEMBER 6, 2023**

Individual's Name

Company / Agency

PLEASE PRINT

Kara Boehm	Allstate Insurance Group
Erin Cummings	Norfolk and Dedham Group
Thomas Harris	Quincy Mutual Group
Annmarie Hassan	Arbella Insurance Group
Nicole Martorana	FBInsure, LLC
Kenneth Olivieri – connection issues	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
Hannah Walker	Farmers Insurance Company
Steven Torres	TSH & D – CAR Counsel
Mary Ellen Thompson	Division of Insurance
Mark Alves	CAR Staff
Wendy Browne	CAR Staff
Peter Bertoni	CAR Staff
Shannon Chiu	CAR Staff
Timothy Galligan	CAR Staff
Steven Gautieri	CAR Staff
Matthew Hirsh	CAR Staff
Tiffany Manning	CAR Staff
Katy Proctor	CAR Staff
Jim Robery	CAR Staff
Lynne Rosenburg	CAR Staff
Robin Tigges	CAR Staff