



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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ADDITIONAL INFORMATION

TO MEMBERS OF THE GOVERNING COMMITTEE

FOR THE MEETING OF:

Wednesday, April 13, 2022, at 10:30 a.m.

**GC
22.06 Compliance and Operations Committee**

The Records of the Compliance and Operations Committee meeting of April 6, 2022 are attached.
(Docket #GC22.06, Exhibit #2)

The Records of the Compliance and Operations Committee meeting of April 6, 2022 have been distributed and are on file.

NATALIE A. HUBLEY
President

Attachment

Boston, Massachusetts
April 11, 2022



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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – APRIL 6, 2022

Members Present

Mr. Jerry Sleeper – Chair	Safety Insurance Company
Ms. Erin Cummings	Norfolk & Dedham Group
Mr. Thomas Harris	Quincy Mutual Group
Ms. Annmarie Hassan	Arbella Insurance Group
Ms. Sharon Murphy	Acadia Insurance Company
Mr. Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Mr. Henry Risman	Risman Insurance Agency, Inc.
Ms. Kelsey Thraem ⁽¹⁾	Allstate Insurance Company
Ms. Brenda Williams	MAPFRE U.S.A. Corporation

Substituted for:

⁽¹⁾Ms. Kara Boehm

Not in Attendance:

Mr. Barry Tagen, Pilgrim Insurance Company

Mr. Christopher Taylor, The Hanover Insurance Company

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 February 2, 2022. The Records have been distributed and are on file.

22.04 Informational Items

Ms. Wendy Browne informed the members that updates to Chapter IX – Compliance Audit of the Manual of Administrative Procedures (MAP) and Chapter XI – Compliance Audit of the Assigned Risk Company (ARC) Procedures Manual were approved by the Governing Committee at its February 16th, 2022 meeting. She noted that the updates strengthened documentation requirements, include traffic light audit assessments and other procedural language. Ms. Browne noted that the updates have been incorporated into the MAP and the ARC Procedures Manual available on CAR's website.

22.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for GEICO, and two informational only reports on the quota share data quality audits of Berkley Insurance Company and Foremost Property and Casualty Insurance Company.

The GEICO Hybrid Audit scope included \$443,000 in written premium. Associated loss dollars, including paid losses and allocated loss adjustment expenses, totaled \$1,178,000. Mr. Hirsh noted six recurring statistical reporting issues not in compliance with the Statistical Plan. He also referenced that GEICO's response letter indicated that four of the six 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 in the Assigned Risk Company Procedures Manual, staff assessed a green light value to GEICO's audit results indicating that no further auditing should be 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.

The Committee next considered GEICO's request in its response letter to waive the \$24,000 fee for not providing system access to CAR auditors. Mr. Mark Alves began by acknowledging that GEICO eventually provided the necessary documentation required to complete testing of all Hybrid Audit components, and that the process to provide the documentation was certainly time consuming for GEICO. However, the Assigned Risk Company Procedures Manual requires that companies not granting direct access to the premium, claim, or adjunct systems used to access source documents be assessed a fee of \$24,000, and that if system access is not established timely resulting in delays to the audit, the fee be assessed in consideration of the additional time needed to complete testing. GEICO decided to have staff access a remote server and transfer documentation individually for the entire sample of 400 policies and 270 claims. This process was significantly more time consuming than direct system access and required additional steps for policies and claims that were missing documentation. The notice of audit was distributed on March 23, 2021 with a start date of April 19th. GEICO did not inform staff until June 18th that system access would not be granted, with or without a signed non-disclosure agreement. GEICO submitted the required documentation in several separate submissions, with its final submission received on July 26th, more than three months after the scheduled April 19th audit start date. The documentation was not provided via direct system access, but rather staff was required to access a server and download the reports.

Ms. Samantha Freedman spoke on behalf of GEICO. She noted that GEICO had recently completed a new policy system implementation and that most of the sampled policies were already archived. GEICO investigated whether remote system access to the archived system was possible. After taking some time to decide the best approach, GEICO determined that using its staff to manually obtain and load documentation to a remote server, with CAR staff then accessing and storing documentation to its server was the fastest approach. Ms. Freedman also noted that GEICO does not provide direct access for any audits and will work proactively with CAR for future audits. She asked that given the effort exercised by GEICO, and that it didn't ultimately impact the ability to conduct the audit, that the Committee reconsider all or a portion of the fee.

Mr. Jerry Sleeper reviewed the ARC Procedures Manual language with the Committee. He noted the reference to the need for system access as of the start date of the audit, and that staff had acknowledged that GEICO's efforts were eventually sufficient but not timely.

Mr. Henry Risman commented that he was in support of the fee assessment, noting that staff resources are limited, and that GEICO has resources available to it to fulfill its responsibility for timely access to the required documentation.

On a roll call vote, the Committee voted unanimously to deny GEICO's appeal and uphold the \$24,000 system access fee. Ms. Wendy Browne of CAR staff informed Ms. Freedman that GEICO has the right to appeal this decision and should notify CAR within 30 days if it chooses to pursue this option.

Mr. Hirsh then provided an overview of quota share focus audit reports of Berkley Insurance Company and Foremost Property and Casualty Insurance Company. Both reports were distributed informationally to the Committee.

Ms. Sharon Murphy, referencing the relationship between Berkley and Acadia Insurance Company, recused herself from participating in the discussion regarding the Berkley results.

Mr. Hirsh explained that both are newly writing companies that CAR's Actuarial and Statistical Services Department requested be audited to test the accuracy of quota share data. The Berkley audit sampled reported statistical data and the Foremost audit tested interim summary data. Both companies were audited using procedures that were consistent to the Hybrid Audit procedures. Mr. Hirsh noted relatively high error rates for both companies and that both would be eligible to undergo Hybrid Audit procedures within one complete year of statistical reporting.

Ms. Wendy 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. Both PURE and Esurance were given deadlines of the January 2022 monthly accounting submissions to correct issues detailed in recent focus audit results. Ms. Browne indicated that both companies have made significant progress to correct the identified reporting problems. While some issues remain open, staff continues to work with both as correction efforts continue. Ms. Browne advised that, as both companies have demonstrated good faith efforts, staff will delay potential penalty assessments due to the significant progress and the anticipation of continued correction efforts.

Ms. Browne advised that the deadline established for Foremost Insurance of Grand Rapids Michigan to correct its reporting issues is the March 2022 monthly accounting submissions due at CAR by mid-May. The company has indicated that system correction efforts are ongoing with the goal of meeting the deadline.

Ms. Browne also noted that staff is working with both Berkley and Foremost to resolve problems identified in their quota share focus audits. Staff has also identified statistical reporting issues with Berkley's data and has communicated those issues to the company. Berkley has indicated that corrective action has been taken and anticipates improved data reporting soon. However, Foremost has not yet begun to report statistical data.

22.09 Merit Rating Reporting

Mr. Hirsh provided an update relative to the industry audit of merit rating values. As a result of ongoing discussions, the Committee directed CAR to conduct an industry-wide focus audit of reported merit rating values. Mr. Hirsh noted that because this will result in auditing nearly 40 ARCs, CAR has developed procedures to conduct each audit consistently and accurately, while also minimizing the impact to the audit schedule. Mr. Hirsh noted that the procedures CAR has developed are an extension of procedures currently in use when conducting a Hybrid Audit. That is, CAR will request a license number for every operator listed on each sampled policy. In addition, CAR will include the sampled VIN, class code, and merit rating, and CAR will request that the company populate a reported operator indicator. This indicator will allow CAR to make an accurate comparison of audited and reported class code and merit rating values. When returned to CAR, the file will be uploaded to the RMV batch-query, exported, and incorporated into a class code calculator spreadsheet which will generate class codes for all operators included in the list and automatically compare the audited class codes and merit rating values to those values reported.

Mr. Hirsh concluded by stating that currently, the class code calculator spreadsheet and audit control spreadsheets are built and ready for use, that the process of taking samples for each ARC is underway, and that when samples are finalized, CAR will begin to contact the ARCs and commence work on the audits.

22.10 Procedures Manuals Updates

Ms. Wendy Browne presented the Committee with modifications to Chapter VII – Participation of the Manual of Administrative Procedures, Chapter VIII – Data Reporting, Accounting Edit and Correction Procedures of the Manual of Administrative Procedures, and Chapter III – Assigned Risk Company Responsibilities of the Assigned Risk Company Procedures Manual. Ms. Browne noted that references to the run-off of private passenger pool and associated calculations were removed, and updates were made to document current procedures for sharing in CAR’s statistical agent-related administrative expenses. In addition, changes were also made to improve readability, terminology, and remove obsolete language.

On a roll call vote, the Committee voted unanimously to recommend to the Governing Committee adoption of the updates to Chapter VII – Participation of the Manual of Administrative Procedures, Chapter VIII – Data Reporting, Accounting Edit and Correction Procedures of the Manual of Administrative Procedures, and Chapter III – Assigned Risk Company Responsibilities of the Assigned Risk Company Procedures Manual.

21.09 Special Investigative Unit System Development

Mr. Alves stated that CAR and the industry have focused on improving the quality and completeness of the industry Special Investigative Unit (SIU) data reported to CAR. Over the two previous biennial review cycles of the Claims Performance Standards (the Standards), changes have been implemented to require standardization in the reporting to CAR of referrals to the SIU for investigation. Changes occurred in April 2021 that improved the standardization of data and the ability to measure industry compliance to two separate requirements.

The first modification allowed for the reporting of underwriting referrals investigated by the company’s SIU due to suspicious circumstances surrounding underwriting, rating, and premium issues. These could now be combined with the preexisting claims referrals eligible towards the minimum sample of 25 at the time of an SIU audit.

The second change requires that companies transmit to CAR an example of the SIU completed representative sample audit reports verifying garaging and policy facts in accordance with CAR Rule 10.C.2 and 32.C.2. This change allows for determining industry compliance with CAR Rule 10.C.2 or 32.C.2 annually.

Mr. Alves noted that the Committee received an informational-only report based on the partial reporting of 2021 SIU data. The report identifies industry compliance with the minimum requirement of 25 referrals to the SIU for investigation and adherence to the Rule 10.C.2 or 32.C.2. requirement. CAR’s intention is to distribute this report annually to the Division of Insurance beginning in February 2023.

Ms. Alison Ruggiero of CAR staff provided an overview of steps taken to work with the industry and improve awareness at the SIU level to the updated requirements. She advised that staff communicated with 34 companies and provided all relevant material, including Bulletins, CAR Rules, and the applicable appendices of the Standards. CAR and company staff frequently met virtually to discuss the changes. Commonly asked questions included understanding the difference between underwriting referrals to the

SIU for investigation and Rule 10.C.2 and 32.C.2 SIU completed audits, and the obligations of Newly Writing Companies with Limited Assignment Distribution Agreements.

Ms. Ruggiero noted that staff has completed efforts to develop standardized procedures to monitor the SIU data provided by the industry and create automated reports with SIU referral counts for each company. Beginning next year, staff intends to distribute an annual report to the Division that identifies compliance with these new reporting requirements.

20.12 Ceded Commercial Reporting Issues

Ms. Browne informed the Committee that the CAR's commercial rate filing is currently under review by the Division of Insurance. She also noted that the Commercial Automobile Committee is in the process of evaluating several new endorsements and other changes recently adopted by the AIB to determine if these changes are appropriate for the residual market. Ms. Browne stated that while discussions are ongoing, more information will be provided to the Committee for consideration at a future meeting including potential changes that could impact not only the reporting of ceded commercial data, but also the reporting of voluntary commercial and private passenger data.

MATTHEW HIRSH
Compliance Audit Supervisor

Boston, Massachusetts
April 11, 2022

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Chapter VIII | **Data Reporting, Accounting Edit and Correction Procedures**
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chapter and CAR's Policy Edit Package, which are both available on CAR's website under the Manuals tab.

B. Accounting Verification

1. General Information

All acceptable ceded premium and paid loss records are loaded to CAR's Accounting System on a weekly basis, and outstanding loss records are loaded on a quarterly basis, regardless of the completeness of the monthly submission. That is, if a Servicing Carrier submits its monthly accounting shipment and CAR rejects one or more lines of business due to reporting errors, CAR will still load the ceded data contained in the other acceptable lines of business to its accounting system. CAR will verify that the Servicing Carrier resubmits the rejected line(s) of business in a timely manner. To ensure that the pool is not adversely impacted by the missing data, CAR ~~will~~ may take further action as outlined in Chapter VII – Participation of this manual. assess a loss of investment income as appropriate. For additional information relative to loss of investment income, refer to Section B.6. of Chapter VII – Participation of this Manual.

Using company number, policy number and policy effective year as a key, reported cession records are linked to the corresponding premium and loss records.

Each policy is run through four accounting edits which verify that proper relationships exist between the cession, premium and loss records reported on the policy. These edits are described in Section B.2. of this Chapter. CAR's Policy Edit Package, which is available on CAR's website under the Manuals tab, contains a complete description of each of the accounting error edits.

Additionally, each policy with an active in-force cession is edited to ensure that positive policy premium has been reported. Likewise, each policy with ceded premium is edited to ensure that an active in-force cession exists. Also, each policy with a ceded loss is edited to ensure that an active in-force cession and positive policy premium exists. The Cession/No Premium editing process, including available online screens, penalty program and write-off procedures are described in Chapter V – Premium of this Manual and in the Policy Edit Package, which is available on CAR's website under the Manuals tab.

2. Accounting Errors

Accounting errors are those errors that identify that CAR coverage does not exist on a policy or that there is a problem with the reported premium relating to proper transactions codes and transaction dates or related to reinstatement premium transactions. A Servicing Carrier is required to correct every error identified.

CAR Compliance and Operations Committee – April 6, 2022
Memorandum of Changes
Assigned Risk Carrier Procedures Manual Modifications
Chapter III - Assigned Risk Carrier Responsibilities

Section B.7 of Chapter III – Assigned Risk Carrier Responsibilities of the Assigned Risk Carrier Procedures Manual has been modified to include a reference to Chapter VII - Participation of the Manual of Administrative Procedures in order to provide Assigned Risk Companies with a more detailed and accurate description of CAR's administrative expense assessment procedures.

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- e. For all other Miscellaneous Vehicle Types such as motor homes, low speed vehicles and campers, if merit rating status applies, use the MAIP commission schedule. If merit rating status is not applicable to the vehicle type, a commission rate of 11.7% applies.

(2) Voluntary Writing of Former MAIP Risks

An ARC who writes a policy on a voluntary basis that it previously insured through the MAIP must pay a commission to the producer of record in accordance with its commission structure for business written at voluntary rates in the voluntary market, regardless of whether there is a contract between the ARC and the producer of record.

6. Quota Share Responsibilities

A Quota Share is developed for each Member appointed as an ARC in accordance with Rule 29 – Assignment Process of CAR’s Rules of Operation. Applications will be assigned to the most undersubscribed Member based on the most recent Quota Share calculation. For assignment purposes, a Member that has executed a LADA with an ARC will maintain its own Quota Share. Quota Share is adjusted after each MAIP assignment.

For additional information relative to the development of a Member’s Quota Share, refer to Rule 29, Chapter VIII – Assignment Process and Chapter X – Quota Share and Credit Programs of this Manual.

7. Responsibilities Relative to Sharing in MAIP Operating Costs

On a quarterly basis or as frequently as the Governing Committee deems necessary, ARCs will share in MAIP expenses as defined in Rule 35 – Assessments of CAR’s Rules of Operation. ~~based upon the proportion that the private passenger premiums reported on each company’s Statutory Page 14 for Massachusetts for the most recent calendar year, bear to the total of such premiums for all companies. Note that premium from those classifications and/or coverages that are not statistically reportable to CAR (those classes or coverages not specified in the Massachusetts Private Passenger Automobile Statistical Plan) and premium from Antique Vehicles (reported as Classification Code 0483) is excluded from this calculation.~~ These expenses will be included on the company’s quarterly Settlement of

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Balances Report. ~~To verify this information, companies should apply their calculated expense ratios to the industry fiscal year to date operating expenses for both the current and prior quarters. The difference between these totals will be reflected on the Settlement of Balances Report. A detailed explanation of the calculation of each Member's share in CAR's operating expenses, including its expenses relating to CAR's statistical agent function, may be found in Chapter VII – Participation of CAR's Manual of Administrative Procedures on the Manuals page of CAR's website under the Administrative Procedures link.~~

8. ARC Performance Standards Responsibilities

ARCs must adhere to all practices and procedures as required by the established ARC Performance Standards. ARPs will report an ARC's alleged non-compliance with the ARC Performance Standards to CAR and CAR will review the complaint to determine the validity of the reported violation and what course of remedial action may be necessary. For additional details regarding the ARC Performance Standards, including CAR's violation review process and applicable non-compliance penalties, refer to Chapter V – Assigned Risk Company Performance Standards Compliance of this Manual.

C. Take-Out/Credits

At policy expiration, an ARC may choose to voluntarily write a policy that is currently in the MAIP, subject to specific requirements in accordance with Rule 29 – Assignment Process of CAR's Rules of Operation and identified in this Section. The policy may currently be assigned to the ARC or may be written by another ARC. If the voluntary policy has been in effect for at least 90 days, the policy may qualify for a take-out credit as further defined in Chapter IX – MAIP Placement Record Reporting Requirements and Chapter X – Quota Share and Credit Programs of this Manual.

1. Offer to Write

The kinds and amounts of coverage to be offered for the voluntary policy must be at least equal to those afforded by the MAIP policy being replaced and the premium for such coverage must be provided at the company's voluntary rate for which the risk qualifies.

2. Notification to the Producer of Record