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NATALIE A. HUBLEY
PRESIDENT

ADDITIONAL INFORMATION

TO MEMBERS OF THE JOINT ACTUARIAL COMMERCIAL LINES COMMITTEE

FOR THE MEETING OF:

Wednesday, August 25, 2021, at 1:00 p.m.

JACL
21.04 CAR Commercial Rate Need Review

The Joint Actuarial Commercial Lines Committee directed Staff to file amendments to its rates to implement, over a period of two years, the proposed rating modifications described in the rate adequacy white paper developed in 2020. Staff, with its actuarial consultant, is in the process of developing an updated filing and is seeking input from the Committee relative to rating options as described in the attachment for zone rated vehicles with a principal garaging location outside of Massachusetts. (Docket #JACL21.04, Exhibit #1)

In addition, CAR is seeking input relative to the rating options on non-owned rates for delivery services and stand-alone policies as described in the attachment. (Docket #JACL21.04, Exhibit #2)

KATY PROCTOR
Actuarial/Statistical Analyst

Attachments

Boston, Massachusetts
August 19, 2021

CAR Joint Actuarial Commercial Lines Committee
Overview and Alternatives for
Out of State Garaging Differential

Background:

As noted in the white paper documenting the commercial residual market rate need, MA has seen a significant migration of multi-state operations seeking coverage in the MA commercial residual market in order to benefit from lower rates. The problem of attractive rates is exacerbated by a deficiency within CAR's rating plan. Consistent with other states' residual markets, applicants with multi-state operations whose principal place of business is located in MA are written in the MA residual market. However, unlike other states' plans, CAR's current rating methodology does not have a provision for rating vehicles principally garaged in other states.

CAR has proposed to raise rates for vehicles which mainly operate from and between terminals located outside of Northern New England by introducing a rating differential to anticipate the expected loss experience based on country-wide residual market results. However, there are different rating methodologies that could be adopted to accomplish this goal. Accordingly, the committee should consider the following rating alternatives, including the benefits, drawbacks, and associated statistical reporting changes in order to provide direction to staff and other committees with respect to a recommended approach for further development.

Alternative Approaches to Implement a Differential for Out-of-State Garaging:

1. Modify the Zone Rating Tables to identify Zone of Principal Garaging within Northern New England or Outside of Northern New England

   The current Zone Rating tables (attached) designate base rates for vehicles principally garaged either in a metropolitan zone or a regional zone. That is, one set of base rates is designed for vehicles principally garaged in Zone 03 (Boston) **or Other Metropolitan Zones** and another set of base rates is designated for vehicles principally garaged in Zone 49 (New England) **or Other Regional Zones**. In its most recent filing, which was subsequently withdrawn, CAR had proposed to replace these sets of base rates with newly defined tables. That is, one set of base rates would be designated for vehicles principally garaged in Northern New England and another set of base rates would be designated for vehicles principally garaged outside of Northern New England. The latter set of rates would be determined by applying a rating differential reflective of the higher out-of-state rates as indicated in the AIPSO study.

   Benefits: The introduction of this option may initially involve no rating system changes. Rather it requires procedural changes for the underwriting staff to understand and apply the new zone combination definitions. Further, this model offers flexibility in that it would allow for additional sets of base rates to accommodate additional out-of-state differentials if warranted in the future.

   Drawbacks: While initial implementation of this approach may not involve rating system changes, future system updates would be required if CAR were to adopt additional sets of base rates to introduce separate rating differentials dependent upon the state of principal garaging. Further, the current and revised zone combination code values have different meanings depending upon whether the vehicle is ceded or voluntary. Correcting this data reporting discrepancy will require rating system changes and statistical reporting changes for Servicing Carriers.

Statistical Reporting Impacts: To correct for the discrepancy between reported ceded and voluntary zone combination values, CAR may introduce additional tables of base rates and zone combination codes. In addition, future reporting changes will be needed if new out-of-state differentials are introduced.

2. Apply an out of state rating factor(s) to vehicles principally garaged outside of Northern New England

   Under this option, CAR would introduce an out of state rating factor to be applied to vehicles principally garaged outside of Northern New England. To accommodate this rating change, CAR would redefine its base rate tables to designate one set of base rates for vehicles principally garaged in a metropolitan zone, and another set of base rates designated for vehicles principally garaged in a regional zone. An out-of-state rating factor of 1.00 would be applied to vehicles garaged in Northern New England and a factor of 1.XX would be applied to vehicles principally garaged outside of Northern New England.

   Benefits: This option appears to be the least complex and it allows for the most flexibility to introduce additional out of state differentials as needed. In addition, it eliminates the discrepancy in data reported for ceded and voluntary business.

   Drawbacks: Resources would be required initially to incorporate the additional rating factor into Servicing Carrier rating systems. Furthermore, resources would also be required to respond to statistical reporting changes to identify vehicles subject to the additional rating factor(s).

   Statistical Reporting Impacts: Modify the reporting requirements to capture garaging location for zone rated vehicles in the premium town and zip code fields. These two data elements currently exist on the statistical record layouts and Servicing Carriers report these fields for most other classes. Therefore, the required reporting system changes would be minimized.

Note that both rating alternatives will require that Servicing Carriers capture and store principal garaging location for all zone rated vehicles.

CAR Joint Actuarial and Commercial Lines Committee
Non-Ownership Liability Coverages in the Residual Market

During recent years, CAR has experienced negative financial results relating to non-ownership liability coverage afforded in the MA commercial residual market. The non-owned class, although having a small premium impact, has experienced a higher loss ratio for several years, as illustrated in the table below.

	Written Premiums	Incurred Losses	LR	Cess Rate	Reported Deficit*
2013	1,983,861	5,143,693	259%	13.8%	-3,695,474
2014	2,194,797	4,424,972	202%	15.1%	-2,803,017
2015	2,376,140	2,458,506	103%	16.0%	-690,658
2016	2,587,571	4,976,444	192%	16.2%	-3,048,704
2017	2,598,118	2,905,545	112%	17.3%	-954,358
2018	2,799,782	3,890,220	139%	17.8%	-1,745,587
2019	3,009,676	2,179,957	72%	17.8%	176,619

*Reported Deficit = Premium - Loss - Expense. Losses are undeveloped with no IBNR.

CAR committees have discussed the growth in the delivery services industry in recent years. This includes food, groceries, alcohol, dry cleaning, cannabis, and other products from various-sized business operations. These businesses rely on non-ownership liability coverage (CAR Manual Rule 27) as their employees deliver products using their employee-owned vehicles. As this market trend has grown, staff has observed a significant volume of non-ownership liability coverage in the residual market being afforded on a stand-alone basis. Specifically, for policy year 2020, approximately 42% of the non-ownership liability premium was reported as a stand-alone policy.

Consistent with recommendations included in AIPSO's report to CAR, staff anticipates introducing non-owned delivery service rates, on both an extended coverage basis and a stand-alone basis to address the rate need indicated by the financial results. In addition, CAR will expand the non-owned classes to add more detailed rating based on the number of employees engaged in delivery services. The table below identifies the recommended approach, which would include additional classifications for the addition of stand- alone coverage and the addition of delivery services for both the extended and stand-alone coverages. Note that these changes will require modifications to rating systems and statistical reporting.

As staff evaluates the nature of the non-ownership liability coverage in preparation for a filing, such as the primary or excess nature of the coverage, the Committee is requested to comment on the recommended expanded class plan and the practical administration of the non-ownership coverage.

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<tr><th></th><th colspan="3">Delivery Services</th><th colspan="3">All Other Non-Ownership Liability</th></tr>
<tr><th>Total Number of Employees</th><th>Class Code</th><th>Bodily Injury Limits $20/40</th><th>Property Damage Limit $5,000</th><th>Class Code</th><th>Bodily Injury Limits $20/40</th><th>Property Damage Limit $5,000</th></tr>
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<tr><td>over 1,000</td><td>Tbd</td><td>Tbd</td><td>66050</td></tr>
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