

COMMONWEALTH AUTOMOBILE REINSURERS
MASSACHUSETTS AUTOMOBILE INSURANCE PLAN

2011 FISCAL YEAR BUSINESS PLAN

Mission

Manage CAR's responsibilities in a manner that meets industry and regulatory policy objectives, while continuing to introduce enhancements that support current operations, and where warranted, exploit processing economies.

Background

The Ad Hoc Budget Subcommittee undertook a comprehensive review of CAR's four primary areas of responsibility culminating in a comprehensive report released on November 11, 2009. The Subcommittee was tasked with assessing the impacts to CAR's operations resulting from the transition to an assigned risk plan coupled with the introduction of managed competition for private passenger automobile coverages. The evaluation of the Statistical Agent, Private Passenger Pool Run-off, Commercial Automobile, and MAIP functions, were completed and recommendations delivered to the Governing Committee for approval. The management team has, as a result, developed a restructuring strategy, and aggressively reviewed existing cost structures. Business Plan activity for 2011 is concentrated around integrating changes made into ongoing operations, with many of the efforts focused on the most effective deployment of staff and minimizing industry impacts.

This new staffing model and schedule of events eliminates any allowance for unanticipated events. Deviations from the Business Plan due to changes to CAR Rules or operational methods by regulatory bodies, advisory committees, or others, who influence CAR's workload, could require a postponement or cancellation of planned activities.

Objectives

- ◆ Implement recommendations resulting from the evaluation of the feasibility of current business functions as they relate to long-term plans.
- ◆ Assign employee resources in a way that is cost effective and meets all business needs.
- ◆ Develop an approach that uses outside resources where cost efficiencies are possible.
- ◆ Continue to improve all facets of data quality and protection initiatives based on changing business directions.
- ◆ Utilize shared staffing across departments to support changing workloads.

MASSACHUSETTS AUTOMOBILE INSURANCE PLAN

Statement of Direction

Enhance baseline MAIP processing and administration in response to an evolving marketplace.

Background

Since its inception in 2008 CAR has implemented processing systems and administrative procedures to support the MAIP. CAR will continue to develop improvements and enhanced features to the MAIP as the plan and market activity evolve. Expectations are that the current rate of evolution will continue through FY11.

During the past year, a number of significant modifications to administrative procedures have evolved resulting in the development of new systems and major modifications to the existing process. Primarily as a result of actions recommended by the MAIP Steering Committee, staff made 33 significant modifications to MAIP process systems. To ensure the availability of the MAIP Policy Application for Assigned Risk Producers, the majority of these changes were put into production during off-hours. A parallel number of modifications to administrative procedures have accompanied this evolution.

STATUS REPORT – FISCAL YEAR 2010

Conduct MAIP Operational Assessment

- Assigned Risk Producers Procedures Manual is complete.
- Assigned Risk Company Performance Standards were implemented.
- The MAIP Placement Record was enhanced to improve accuracy and efficiency.

Newly Writing Company Orientation Program

- Formalized program/document has not been developed due to other priorities.

Develop/Implement Clean-in-Three Strategy

- Actuarial Committee discussions are ongoing.

Standardize MAIP Data Transfers on the XML Format

- All Assigned Risk Companies are required to receive data transfers in XML format.

Enhance Report Development Process

- All new applications utilize a CAR developed object within the ASPReporter product.

MASSACHUSETTS AUTOMOBILE INSURANCE PLAN

BENCHMARKS – FISCAL YEAR 2011

OPERATIONAL ASSESSMENT

Efforts continue on identifying and removing any remaining transition procedures, completing oversight tools development, revising manuals, and modifying internal support activities. Within the year, all manuals will be redesigned for easier reference and placed on the web support site.

CLEAN-IN-THREE REVIEW

Staff will work with appropriate committees as they develop solutions to address Clean-in-Three Risks. Manual of Administrative Procedures or Rule changes will be addressed and following acceptance, systems development will be initiated.

CLAIMS PERFORMANCE STANDARDS

The incorporation of the Claims Performance Standards reviews into the Hybrid Audit Plan necessitates submitting modifications to the Standards for the Commissioner of Insurance's approval. Staff will present proposed changes to Committees in Q1.

MANAGEMENT TOOLS AND REPORTS

During FY10, CAR developed the applications necessary to report ARP infractions. Automated management and control reports are being developed to effectively monitor ARP compliance. Additional web-based reports, including producer profiles, will also be developed during this fiscal period.

Management reports and automated procedures will be developed in order to monitor ARC compliance with the Performance Standards.

STATISTICAL AGENT FUNCTION

Statement of Direction

Implement improvements to the Statistical Process in a manner that provides operational efficiency and integration with company process models, while transforming mandated requirements into strategic business tools.

Background

CAR is the designated Statistical Agent for motor vehicle insurance written in Massachusetts. This role encompasses all aspects of data collection, and management within policies defined by the Division of Insurance. Enhancements and reporting changes are generally introduced annually. Central to this process is ensuring the integrity and quality of the data. Over the past eighteen months, thirty specific tasks relating to Data Collection, Data Verification, or Information movement were reviewed by the Ad Hoc Budget Subcommittee. This review forms, in part, the basis for modifications or improvements that will be addressed over the next few years.

STATUS REPORT – FISCAL YEAR 2010

Develop Strategy to Address Proposed Changes to Vehicle Symbols

- The Decision to utilize MA Vehicle Rating Group (VRG) has been finalized and will be implemented with the April 1, 2011 filing date.

Statistical Agent Expense Allocation

- The initial Statistical Agent Expense Assessment was included in the Q4/09 Settlement of Balances.
- Quarterly Assessments, including Statistical Agent Fee and Market Share allocations are ongoing with Settlement of Balances.

Assess Current Data Quality Penalty Programs

- Governing Committee approved the Operations Committee recommendations on November 18, 2009. New penalty amounts were implemented with Q1/10 accounting/statistical submissions.

Statistical Reporting Process

- The process was modified to include the addition of two new edits.
- All changes were approved in December 2009 and placed into production prior to start of data collection in March 2010.

Transition to New Audit Program

- Changes in the program were approved by the Governing Committee and forwarded to the Division of Insurance.
- The Hybrid Audit system was developed in preparation for the May 2010 inaugural audit.

STATISTICAL AGENT FUNCTION

BENCHMARKS – FISCAL YEAR 2011

IMPLEMENT PROPOSED CHANGES TO VEHICLE SYMBOLS

Staff will modify methods of capturing data provided by current symbol codes. Integration into processing systems is scheduled for this year.

STATISTICAL AGENT EXPENSE ALLOCATION

Development efforts, initiated in FY10 will continue through the first half of FY11. Implementation in final form is expected during the fourth quarter.

ASSESS DATA MANAGEMENT PROGRAMS

The collection of data is one of CAR's primary responsibilities. Considerable effort is made to ensure that the data is of the highest quality within CAR's processing systems. Security and access controls remain a high priority. Emerging technologies and business requirements dictate an expanded review of potential exposures to assure quality and maintain security. Results are expected during Q2.

COMMERCIAL AUTOMOBILE PROGRAM

Statement of Direction

Continue to provide processing enhancements that facilitate company operations within this mature market segment.

Background

The commercial residual market continues to operate through a pooling mechanism serviced by a limited number of Servicing Carriers. CAR directs its efforts to provide a series of operational improvements across all facets of the market. Recent activity has centered on the introduction of enhanced management tools and more efficient delivery methods.

STATUS REPORT – FISCAL YEAR 2010

Taxi/Limousine and Commercial Servicing Carriers Selection Process

- RFPs were distributed to service the Commercial and Taxi/Limousine Programs on March 1, 2010.
- The existing two carriers were selected to continue servicing the Taxi/Limousine Program.
- The Governing Committee disapproved the Selection Committee's recommendation concerning the Commercial Program and referred the matter back to the Committee for further deliberation.

Residual Market Rate Filing

- CAR's commercial rate filing was submitted to the Division of Insurance on July 1, 2009, with an effective date of November 1, 2009.
- The rates were placed on file by the Division of Insurance on September 29, 2009.

Rewrite Experience Rating Application

- Efforts to modify this application were initiated in Q3/10 and will continue into FY11.

COMMERCIAL AUTOMOBILE PROGRAM

BENCHMARKS – FISCAL YEAR 2011

RESIDUAL MARKET RATE FILING

Staff continually reviews residual market results. Rate requests as needed are submitted to the Division of Insurance through the prescribed process. Outside resources are utilized at selected points in the process.

ENHANCEMENTS TO MANAGEMENT PROCEDURES AND REPORTS

Develop and implement a series of management and profile reports to monitor Servicing Carrier compliance with CAR Rules and procedures, including a quarterly review of depopulation efforts and an analysis on the premium equity among the Carriers. Review and update the Commercial Automobile Manual, as needed.

REWRITE EXPERIENCE RATING APPLICATION

To provide increased efficiencies, the mainframe portions of this system have been rewritten to a web-based application. Staff will develop and implement a comprehensive training program for Commercial and Taxi/Limousine Servicing Carriers. Implementation is expected during Q2.

COMMERCIAL SERVICING CARRIER SELECTION PROCESS

The Selection Committee will continue deliberations to develop a recommendation for the appointment of Commercial Servicing Carriers.

PRIVATE PASSENGER RESIDUAL MARKET

Statement of Direction

Manage the concentration of the Private Passenger Residual Market pools in the current environment. Establish an effective horizon for the allocation of resources and support consistent with industry and regulatory goals for the run-off of existing private passenger pools.

Background

The full implementation of MAIP during FY09 ends the ability to populate the private passenger residual market. The nature of the market, however, leaves in place significant pools to be managed through the run-off and eventual termination. This process, while annually declining in scope, is still projected to last through 2019.

STATUS REPORT – FISCAL YEAR 2010

Run-Off Process

- At the September 1, 2010 Compliance Audit Committee meeting, staff presented a two-fold proposal for reviewing ceded claims as the pool runs down. The Committee agreed and will review the volume of ceded claims and the review process annually.

Loss Reserve Opinion/Unqualified Financial Audit

- The Compliance Audit Committee voted unanimously to have CAR's auditors provide an unqualified financial and reserve opinion for the fiscal year ending September 30, 2010.

Define Loss Reserving Methods to Accommodate Run-off Status

- The Loss Reserving Committee early in Q1 recommended that no action be taken in light of the financial and ratemaking impacts of an early close.

BENCHMARK – FISCAL YEAR 2011

MONITOR RUN-OFF PROCESS

Staff quantified the activity and timeline for the Private Passenger Run-off based on past practice. Quarterly key indicators will be reviewed to determine the feasibility of accelerating components of the run-off.

BUSINESS OPERATIONS

Statement of Direction

Manage the resources of CAR to meet Governing Committee objectives in a manner that maximizes resource utilization and minimizes ongoing expenses.

Background

The Ad Hoc Budget Subcommittee was formed to review the functions performed by CAR in light of the introduction of managed competition to the private passenger automobile market, and the transition to an assigned risk model for the private passenger residual market. This review generated several efforts to reduce costs that were implemented in the short term. Reductions to staff and funding coupled with meeting ongoing service levels required staff to reexamine all facets of service delivery. Reengineering efforts will start to have an impact this year and extend through FY13. Parallel efforts will result in modifications to specific functional components in order to implement the Subcommittee's initiatives.

BENCHMARKS – FISCAL YEAR 2011

UNQUALIFIED OPINION

CAR's external auditors will again provide an unqualified financial and reserve opinion for the fiscal year ending September 30, 2010. Staff will continue to be leveraged for conducting audits of company premium, loss, and reserve data to achieve cost reductions in completion of audit scope. The unqualified opinion audits are to be completed by the end Q1.

HYBRID AUDIT PROGRAM

The Hybrid Audit Program was developed in preparation for the May 2010 inaugural audit. Continued improvements to the system are anticipated to occur through Q1. Phase II is the development of an audit report that provides measurable results of quota share, ratemaking data, and adherence to statutory requirements. The development of the report is projected for completion by the end of Q2.

PRODUCER MATRIX

The current configuration of CAR's Producer Matrix System will be evaluated with private passenger and commercial needs identified separately in light of changing market conditions.

TECHNOLOGY ENHANCEMENTS

CAR's office systems are approaching nine years of use, well past the three-year life cycle. Improvements to hardware and software are expected to produce operational efficiencies. Replacement personal computer and office print sub-systems will be installed during Q1 & Q2. Installation of new hardware will trigger a conversion to the newer operating systems starting in the fourth quarter and continuing into next year.

CAR utilizes it's website as both an information source and processing platform. Improvements to design, content, navigation, and utility are scheduled throughout the year.

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BUSINESS CONTINUITY

CAR's Business Continuity Plan designates specific individuals to assume defined roles should the plan be activated. The restructure and staff reductions have rendered the current version of this document in need of revision. Efforts to review and bring current will be completed in Q2.

Record retention if left un-tethered can consume significant overhead. Staff has initiated a review of data and policies to reduce any unproductive practices. Final guidelines will be completed Q1. Purging will be completed during Q3.

Replication of CAR's data processing facility at a remote location in response to a localized disaster continues to be an area of ongoing improvement. Implementing a minimized LAN-based solution will be analyzed. Feasibility results are expected during Q2.

Open meeting requirements were the driving force behind CAR's Docket System. Opportunities may be realized by leveraging this system to provide enhanced services to the industry. The review of potential enhancements will be completed during Q2. Enhancements, if warranted, will be introduced in Q4 and continuing into FY12.

HUMAN RESOURCES AND BENEFIT MODIFICATIONS

Staff reductions have required that every aspect of employee management be assessed. Organizational structures, position descriptions, compensation strategies, and management practices are being evaluated and changes will be implemented.

Modifications to the retiree health plan are required to be in place by March 31, 2011. Introduction of a Health Reimbursement Account program is scheduled for Q2.

Re-establishment of the Flexible Spending Account program will be completed in time for a January 1, 2011 implementation.

A new system of managing employee leave is in development. Implementation is planned to coincide with the start of calendar year 2011.