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ADDITIONAL INFORMATION

TO MEMBERS OF THE ACTUARIAL COMMITTEE

FOR THE MEETING OF:

Tuesday, June 25, 2019 at 10:30 a.m.

AC

19.04 Quota Share Credits for Policies Effective April 1, 2020 and Later

Attached for Committee consideration is correspondence from Ms. Paula Gold, Plymouth Rock Assurance Corporation (PRAC), relative to proposed Rule 29 changes. (Docket #AC19.04, Exhibit #5)

PRAC recognizes that the attached proposed rule amendments address edits already recommended by the MAIP Steering Committee and approved by the Governing Committee to eliminate obsolete references. Therefore, PRAC suggests that the Actuarial Committee members focus on proposed amendments to the revised Section D.

SHANNON CHIU
Actuarial/Statistical Analyst

Attachment

Boston, Massachusetts
June 20, 2019

Plymouth Rock Assurance Corporation

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June 18, 2019

By Email

Natalie Hubley, President
Commonwealth Automobile Reinsurers
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Boston, MA 02110

Re: CAR Actuarial Committee Meeting on June 25, 2019
AC 19.04 - Quota Share Credits Effective April 1, 2020 and later

Dear Natalie:

In light of the recent Decision by Commissioner Anderson regarding the MAIP credit offer for the current year, and the prior Decision by Commissioner Judson in 2016, I would like to request that the Actuarial Committee consider amending CAR Rule 29.E.2, as it is clear that the Rule no longer works as written. The indications provided to the Actuarial Committee by CAR Staff on May 30, 2019 for the year starting April 1, 2020, which are in accordance with the Rule, would eliminate approximately 84% of available credits and 77% of potential credit premium. That type of dramatic reduction in credits was just rejected by Commissioner Anderson in April (an 80% reduction of credits over 5 years with a 15.5% reduction of potential credit premium in the first year). Commissioner Judson also disapproved a dramatic reduction in credits in 2016 (a 22.6% reduction in available credits for the year starting April 1, 2016). It is time for CAR to update the Rule so that it will provide the Actuarial Committee with a starting point each year that complies with the CAR enabling statute and the guidance from the Division of Insurance. The rule should be written in a way that will satisfy the twin objectives stated in the statute, as echoed by Commissioner Anderson in his recent Decision, specifically: (1) controlling the absolute size of the MAIP, and (2) enhancing the prospect that no classification or territory is disproportionately represented in the MAIP.

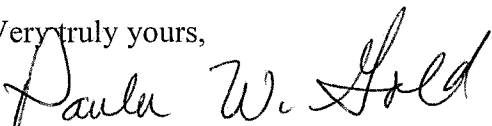
Plymouth Rock would like to suggest edits to Rule 29 that are designed to satisfy those twin goals. Attached are clean and redlined copies of Rule 29 showing our suggested changes to Rule 29.E.2. In addition, the attached mark-up includes edits that will update other portions of Rule 29 by eliminating provisions related to the transition to the MAIP that are no longer applicable.

The current rule fails to address disproportionate representation in the MAIP by class and territory when the MAIP is small, notwithstanding the requirement of the statute. The Attorney General has made it clear that CAR's obligation to design a credit system to enhance the prospect that no classification or territory is disproportionately represented in the MAIP is equally applicable to a small MAIP as it is to a large MAIP. Our proposed changes to Rule 29.E.2 (which would be re-designated as Rule 29.D.2 if the "clean-up" edits are accepted) would require that credits be available to class and territory cells that are disproportionately represented in the MAIP at a rate that is 1.8 or more times the statewide average. This standard should work regardless of the size of the MAIP. The 1.8 standard is based on Commissioner Murphy's December 19, 2011 Decision that was issued when the MAIP was more than twice its current size. When the 5% threshold in the current rule was established by Commissioner Murphy in 2011, 2.8% of state-wide exposures were written in the MAIP. The 5% threshold required a cell to be represented in the MAIP at a rate that was 1.8 times the statewide average to qualify for one credit [$2.8\% \text{ statewide average} \times 1.8 = 5.0\%$]. That is the basis for our proposed 1.8 standard.

The attached rule changes use the term "disproportionate representation" but do not define it, as we believe it would be more appropriate to include the definition in the Assigned Risk Company Procedures Manual. We suggest that the term be defined as the percentage of exposures in a given class and territory combination that are written in the MAIP divided by the percentage of exposures statewide that are written in the MAIP.

I would appreciate your adding this letter and our proposed rule changes to the docket for the June 25 Actuarial Committee Meeting and request that the Committee consider our proposal. Thank you.

Very truly yours,


Paula W. Gold
Chief Regulatory Counsel
(617) 951-1003

CAR Rules of Operation
Rule 29 Assignment Process
Revision Date 2016.12.15

A. Calculation of Initial Quota Share

~~For the purposes of calculating a Member's initial Quota Share, the Member's voluntary market share will be the ratio of each Member's written property damage liability exposures for the 12-month period ending June 30, 2007 with CAR ID codes 0 or 1 over the industry written exposures for the 12-month period ending June 30, 2007 with CAR ID 0 or 1. Exposures for motorcycles, snowmobiles, and electric motor vehicles will be adjusted by a factor of 0.33.~~

B.A. Calculation of Quota Share and Assignment of Applications

The MAIP shall randomly assign applications that are eligible for coverage based on each Member's individual Quota Share. A Member's Quota Share shall reflect that Member's proportion of Private Passenger Motor Vehicle MAIP premiums that its respective voluntary private passenger property damage liability direct written exposures bears to the statewide total of voluntary private passenger property damage liability direct written exposures of all companies in the state.

1. For the purpose of such distribution as described above: (1) voluntary private passenger property damage liability direct written exposures; and (2) private passenger MAIP premiums shall be defined as below:
 - a. Voluntary private passenger property damage liability direct written exposures shall be the number of private passenger property damage liability car years written by the company for the most recent 12 months, regardless of the type of Motor Vehicle Insurance policy under which such property damage liability car years are written, excluding private passenger liability car years written through the MAIP. Exposures for motorcycles, snowmobiles, and electric motor vehicles will be adjusted by a factor of 0.33.

~~Exposures of a Clean in Three Risk as defined in Rule 22 as of the effective date of its current Private Passenger Motor Vehicle Insurance policy and pursuant to the provisions of Rule 21.D. will be adjusted by a factor of 0.0 provided the following conditions are met:~~

- ~~(1) The operator was insured by a Member under a Private Passenger Motor Vehicle Insurance policy with an effective date between April 1, 2008 and March 31, 2009 and the producer of record was exclusively assigned to the Member by CAR;~~

~~(2) The producer of record for the operator has not changed since March 31, 2009.~~

- b. For the purpose of establishing the Quota Share of a Newly Writing Company that becomes eligible for appointment as an ARC pursuant to Rule 30 before that Member is required to submit detailed statistical data under the provisions of the Massachusetts Private Passenger Automobile Statistical Plan, the Member is required to report interim summary data pursuant to Section ~~CB~~.
 - c. Private Passenger Motor Vehicle MAIP premiums shall be developed from the MAIP rates and rating plan and shall include the total of: 20/40 bodily injury (including guest), \$100,000 property damage liability, and \$8,000 personal injury protection manual premiums excluding subsidies calculated using MAIP cost-based rates and adjusted for the MAIP merit rating plan for Private Passenger Motor Vehicle MAIP insureds and any risk voluntarily insured that is eligible for premium credits allowed pursuant to this Rule.
2. MAIP will assign applications to the most undersubscribed Member as defined by the ratio of the Member's assigned MAIP premium to the Member's credit-adjusted Quota Share. In the event this ratio is the same for two or more Members, MAIP will assign the application to the most undersubscribed of those Members based upon the difference between each Member's assigned MAIP premium and its credit-adjusted Quota Share. All assignments are subject to the distribution restrictions relative to the assignment process pursuant to Section ~~FE~~. After assignment, MAIP will update the accumulated assigned MAIP premium and recalculate each Member's ratio of assigned MAIP premium to credit-adjusted Quota Share.

~~CB~~. **Quota Share Adjustment**

The MAIP shall adjust the assigned premium Quota Share of each Member monthly, in order to correct for the amount of previously assigned MAIP premium which was less than or in excess of each Member's appropriate share of total MAIP premium, for the amount of premium connected with reversed assignments due to non-payment or insufficient funds, and for the amount of premium associated with MAIP risks moving to the voluntary market or adjustments for any applicable credits. On a monthly basis, the MAIP shall notify each Member of its market share and premium Quota Share adjustments.

1. To determine the current premium Quota Share of a Newly Writing Company that becomes eligible for appointment as an ARC pursuant to Rule 30.A.1. before that Member is required to submit detailed statistical data under the provisions of the Massachusetts Private Passenger Automobile Statistical Plan, the Member is required to report interim summary data to CAR beginning no later than the 23-month anniversary of the calendar date on which the Member's initial Private Passenger Motor Vehicle

Insurance rates and manual become effective. The Member will be required to report private passenger property damage liability car months of exposure by CAR identification code, policy effective month, premium town, classification, and merit rating status as defined in the Massachusetts Private Passenger Automobile Statistical Plan. The initial report will include the 12 consecutive policy effective months that will be used to determine the Member's initial Quota Share. Monthly data will be reported thereafter until the Member commences reporting detailed statistical data to CAR.

An additional adjustment shall be made to the latest rolling 12-month voluntary exposure based market share that is used to determine the current premium Quota Share of a Member(s) when that Member(s) is part of an insurer group that includes any other insurance company that qualifies as a Newly Writing Company, and that Newly Writing Company has elected to be treated as a Member separate from the current Member(s) under these Rules. This adjustment shall continue until the Newly Writing Company become eligible for appointment as an ARC pursuant to Rule 30.

The latest rolling 12-month voluntary exposure based market share used to determine such Member(s) current premium Quota Share shall not be adjusted to reflect any reduction in vehicle exposures that were insured under a Private Passenger Motor Vehicle Insurance policy issued voluntarily by such Member(s) immediately prior to the vehicle's initial policy inception date with such Newly Writing Company.

This adjustment will apply regardless of whether the initial policy inception date with the Newly Writing Company pre-dates the calendar months underlying the latest rolling 12-month voluntary exposure based market share used to determine the Member(s) current premium Quota Share.

2. To determine the current premium Quota Share of a Newly Writing Company that becomes eligible for appointment as an ARC pursuant to Rule 30.A.2 before that Member is required to submit detailed statistical data under the provisions of the Massachusetts Private Passenger Automobile Statistical Plan, the Member is required to report interim summary data to CAR. The Member shall begin reporting summary data no later than 45 days after the close of the month of the Member's initial Private Passenger Motor Vehicle Insurance rates and rate manual effective date. The Member will be required to report written private passenger property damage liability car months of exposure by CAR identification code, policy effective month, territory, classification, and merit rating status as defined in the Massachusetts Private Passenger Automobile Statistical Plan. Monthly summary data will be reported thereafter until the Member commences reporting detailed statistical data to CAR.

D-C. Assignment Period

1. An Eligible Risk shall be insured by a designated ARC for a period of three consecutive years.

At the expiration of the three year assignment period, the designated ARC may offer to write the policy on a voluntary basis, or may non-renew the policy.

2. If the designated ARC intends to non-renew the policy at the end of the three year assignment period the following procedures shall apply.

On or about the first business day of the month, the designated ARC will distribute to the ARP a list of policies that the ARC does not intend to renew and which will expire during the month at least 120 days from the distribution date, thereby providing the ARP an opportunity to seek replacement coverage in the voluntary market. If replacement coverage is obtained for the risk, the ARP shall submit a Notice of Transfer of Insurer to the former ARC identifying the new carrier.

No less than 60 days prior to the expiration date, if replacement coverage is not obtained for the Eligible Risk, the ARP shall submit an application to the MAIP. The application will be assigned to a Member such that the designated ARC is different than the former ARC. Upon receiving the assignment, the ARP shall submit a Notice of Transfer of Insurer to the former ARC identifying the newly designated ARC. A down payment is not required and upon receipt of the application, the newly designated ARC will bill the applicant for 20% of the premium to be charged, which shall be the lower of the MAIP premium or the voluntary premium for which the applicant qualifies. The pre-inspection requirement shall be waived provided that the vehicle(s) to be insured is the same as the vehicle(s) insured under the previous policy.

If a Notice of Transfer of Insurer is not received, the designated ARC will issue a Notice of Expiration of Policy Assignment to the named insured at least 45 days prior to the expiration date with a copy sent to the ARP.

Upon receipt of the Notice of Expiration of Policy Assignment, the Eligible Risk may reapply for coverage through the MAIP. Such reapplication shall be considered a new business application and the Eligible Risk shall be assigned to a different Member such that the designated ARC is different than the former ARC.

3. In the case of a non-resident military person, pursuant to Rule 26.A.1.c., the designated ARC need not renew if at the time of the renewal the policyholder is stationed in another state and his motor vehicle is not registered in Massachusetts.

E.D. Credit Programs

Credits shall be reviewed annually and the indicated changes, if any, shall be submitted to the Commissioner for approval. Any premium credited under this Rule that in aggregate exceeds 100% of the overall Quota Share may not be credited against the Quota Share.

1. Voluntary Credit

- a. For policies with effective dates of April 1, 2015 and subsequent, a Member shall receive a credit for any exposure that it insures voluntarily in the territory and operator classes pursuant to Sections ~~ED~~.2. and ~~ED~~.3.
- b. Credit shall be applied to the Member's Quota Share pursuant to Section ~~EB~~. for the appropriate premiums pursuant to Sections ~~ED~~.2. and ~~ED~~.3.

2. Amount of Credits

Members shall receive credit for each exposure written voluntarily pursuant to Section ~~ED~~.1.b. in the territory and operator classes listed in Section ~~ED~~.3. The amount of credit shall equal the annual Private Passenger Motor Vehicle MAIP premium for the risk as if it has been insured through the MAIP, multiplied by the appropriate factor as displayed in the policy effective date tables.

~~For policies with effective dates of April 1, 2013 and subsequent, t~~The credit factors will be determined annually based on a review of the three most recent prior years of residual market share data, by territory and operator class, and they will be set so as to address the twin statutory objectives of controlling the absolute size of the MAIP and enhancing the prospect that no classification or territory suring that no class or territory is disproportionately represented in the MAIP. Credit eligible groups will be defined by ranges of ~~residual market shares~~disproportional representation, and credit factors will be established in accordance with the following criteria:

<u>Residual Market Credit Eligibility Group</u>	<u>Residual Market Share Disproportionate Representation Range</u>	<u>Voluntary Credit Factor</u>
0	0.0%—4.9% <u>< 1.8</u>	0.00
1	5.0%—7.9% <u>1.8 - 6.0</u>	1.00
2	8.0%—10.9%	1.00
3	11.0%—16.9%	1.00
4 <u>2</u>	17.0%—22.9% <u>6.1 - 8.1</u>	1.25
5 <u>3</u>	23.0%— <u>8.2 -</u>	1.50

	28.9% <u>10.3</u>	
64	29.0% <u>10.4</u> - 34.9% <u>12.4</u>	1.75
75	35.0% <u>12.5</u> - 40.9% <u>14.5</u>	2.00
86	41.0% <u>14.6</u> - 46.9% <u>16.7</u>	2.25
97	47.0% - 100.0% <u>≥16.8</u>	2.50

3. Credit Factors

The following factors are applicable for policies with effective dates of April 1, 2015 and subsequent.

Operator Class										
Territory	10	15	17	18	20	21	25	26	30	M/M*
01										
02					1.00					
03					1.00					
04					1.00					
05					1.00					
06					1.00					
07			1.00		1.00					
08			1.00		1.00					
09			1.00		1.00	1.00				
10			1.00		1.00	1.00				
11					1.00					
12			1.00		1.00					
13			1.00		1.00	1.00				1.00
14			1.00		1.00	1.00	1.00			1.00
15			1.00		1.25	1.00	1.00		1.00	1.00
16	1.00		1.00		1.50	1.00	1.00		1.00	1.00
17			1.00		1.25					
18	1.00		1.00	1.00	1.25	1.00	1.00			1.00
19			1.00		1.00	1.00				
20	1.00		1.00		1.50	1.00	1.00			
21	1.00	1.00	1.00		1.75	1.00	1.00			1.00
22	1.00	1.00	1.00	1.00	1.75	1.00	1.00	1.00	1.00	1.00
23			1.00		1.25		1.00			1.00
24					1.00	1.00	1.00			1.00
25			1.00		1.00		1.00			
26			1.00		1.50	1.00	1.00			1.00
27					1.00					
40	1.00		1.00	1.00	1.50	1.00				1.00
41	1.00		1.00	1.00	1.00	1.00				1.00
42	1.00		1.00		1.25	1.00				1.00
43	1.00		1.00		1.25	1.00	1.00			1.00
44	1.00		1.00		1.50	1.00	1.00			1.00
45	1.00		1.00		1.25	1.00	1.00	1.00		1.00
99										

* Motorcycle and Miscellaneous Classes

4. Take-Out Credit

For policies with effective dates on or after April 1, 2009, a Member shall receive credit for each exposure previously insured through the MAIP or that had been ceded to CAR (CAR ID Codes 4 and 5) that it writes voluntarily at the expiration of that policy. A Member may receive a credit for the first year in which an Eligible Risk is written voluntarily after the expiration of the policy previously issued through the residual market.

The value of a take-out credit shall equal the annual Private Passenger Motor Vehicle MAIP premium pursuant to Section ~~B.A.1.b.c.~~, that the risk would have been charged if he had been insured through the MAIP, multiplied by a factor of 1.0. Take-out credits are applied in addition to any voluntary credit(s) pursuant to Section ~~E.D.~~

To qualify for take-out credit, all of the following requirements must be met:

- a. The Member must provide proper notification prior to the expiration of the policy;
- b. The voluntary policy must be in effect for at least 90 days;
- c. The kinds and amounts of coverage to be offered to a voluntary risk shall at least equal those in the policy being replaced;
- d. The Member shall be required to submit an approved monthly reporting form to the MAIP for all policies qualifying for credit during the month and to submit supporting data to the MAIP upon request; and
- e. The Member shall, if requested by the MAIP, agree to a physical audit of its records to substantiate the credits and exposures stated in the monthly report. The executed request for credit form must be submitted to the MAIP by the last day of the fourth month following the effective date of the policy.

~~F.E.~~ **Distribution Restrictions**

Distribution shall be made on the basis that any applicant eligible for assignment under the MAIP Rules shall be assigned or reassigned to any Member with a Quota Share, subject to the following restrictions:

1. No risk shall be assigned to more than one Member.
2. Reassignment to Prior Member

In the case where an applicant or policyholder has been cancelled for non-payment of premium, or has an outstanding premium balance due a Member and is otherwise eligible for placement through the MAIP pursuant to G.L. c. 175, § 113H, the applicant or

policyholder is ineligible for assignment to another Member, and will be assigned to that same Member such that the policy premium deposit will be applied first to the outstanding premium due, and any remaining deposit balance will be applied to the new policy.

G.F. Accruing, Buying, Selling or Transferring Credits

1. Eligibility

- a. Assigned Risk Companies may accrue excess credits.
- b. As of April 1, 2008, ARCs may sell, transfer, or buy excess credits to or from other ARCs in accordance with the procedures below.

2. Operational Procedures

CAR will calculate the volume of excess credit premium eligible for transfer, if any, for each ARC on a monthly basis. Such calculation will be made in conjunction with updates to the statistical base data.

3. Notification of Intent to Transfer Credits

Assigned Risk Companies shall report to CAR within 30 days the execution of any agreement by the ARC to purchase, sell or transfer excess credits. An ARC shall notify CAR by submitting the prescribed authorization form to CAR. The terms of any such agreement must be reviewed by CAR and found to be consistent with CAR Rules.