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PRESIDENT

ADDITIONAL INFORMATION

TO MEMBERS OF THE COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

FOR THE MEETING OF:

Thursday, June 6, 2019 at 10:30 a.m.

CPOC
19.04 2018 Servicing Carrier Annual Report Review

Attached are the 2018 Annual Reports submitted by the four commercial automobile Servicing Carriers, and a summary of the reports as prepared by CAR staff.

- 2018 Servicing Carrier Annual Report Summary (Docket #CPOC19.04, Exhibit #1)
- 2018 Annual Report – Arbella Protection Insurance Company (Docket #CPOC19.04, Exhibit #2)
- 2018 Annual Report – MAPFRE Insurance (Docket #CPOC19.04, Exhibit #3)
- 2018 Annual Report – Pilgrim Insurance Company (Docket #CPOC19.04, Exhibit #4)
- 2018 Annual Report – Safety Insurance Company (Docket #CPOC19.04, Exhibit #5)

Reports profiling commercial residual market data will be distributed as additional information prior to the meeting.

JOHN METCALFE
Director – Residual Market Services

Attachments

Boston, Massachusetts
May 31, 2019

May 31, 2019

2018 Servicing Carrier Annual Report Summary

1. Efforts to Reduce the Cession Rate for all Classes of Commercial Auto Business

Arbella	MAPFRE	Pilgrim	Safety
New underwriting and rating platform; all ceded policies are evaluated on renewal.	All new and renewal business is put through decision models. If producer recommends cession, then underwriting reviews. Each producer is assigned a single underwriter for both voluntary and ceded business.	All new and renewal business is reviewed manually for eligibility and classification. Voluntary appetite and competitive ceded rates impact depopulation potential. Much depopulation results from identifying ineligible risks.	All new and renewal business is reviewed for voluntary placement.

2. Efforts to Manage and Control Cession Growth of Non-Fleet Private Passenger Types (NFPPT) and Bus Classes

Arbella	MAPFRE	Pilgrim	Safety
For each piece of new business, underwriter uses guidelines and checklists consistent with the standards put in place by CAR. For buses and trucks, focus is on PPoB and garaging.	Uses standards implemented by CAR to validate business entity and eligibility. Utilizes rating and underwriting to control cession growth. For NFPPT: implemented a significant rate increase with 12/18 filing. For Buses/Trucks: focus on PPoB, garaging and zone rating; Analyze by agency to ID potential fraud or training needs.	NFPPT: Evaluates business entity, validates license status, rate adequacy. Buses: Aggressive review of eligibility and classification.	NFPPT: Implemented standards in 2018; also implemented a rating plan based on experience. Buses: PPoB standards implemented for multi-state risks, employs SIU for all new and renewal business. Holds ERPs accountable to secure certification forms for both.

2018 Servicing Carrier Annual Report Summary

3. Integration of Claims, Underwriting and Loss Control Functions

Arbella	MAPFRE	Pilgrim	Safety
Renewal Reviews and Class Audits: SIU involved upon request of underwriter.	Policy (new and renewal) Reviews and Class Audits: Conducted by underwriting, internal QA audits of underwriting for consistency; specific audits conducted periodically (e.g. in 2018 completed a full audit of all federally regulated trucking risks and a public auto audit is in process).	Policy (new and renewal) Reviews and Audits: Loss prevention and control begins with agent training on program eligibility; audit success achieved by focusing on producers with a high concentration of certain risks to identify ineligibility; underwriters review information and refer questionable circumstances to SIU; Claims Department handles claims and refers red flags to SIU; underwriter is alerted of investigations resulting in potential impact to the policy.	Policy Reviews (new and renewal) and Class Audits: Collaboration through automated methods allows for exchange of information to ensure class and premium; verified issues result in premium adjustment or cancellation; material misrepresentation can trigger claim denial. Underwriting works with SIU to comply with CAR standards; additional risks referred to SIU if underwriting determines potential fraud; numerous risks have been cancelled or non-renewed.
Class Validation: New business underwriting reviews; renewals referred to SIU if a claim review identifies questionable circumstances.	Class Validation: Underwriting responsibility.	Class Validation: Claims reps confirm vehicle use and accident location are consistent with use class, radius, and rating territory; Claims will refer to underwriting to reclassify; example given.	Class Validation: Utilization of tools consistent with CAR standards.

2018 Servicing Carrier Annual Report Summary

3. Integration of Claims, Underwriting and Loss Control Functions (continued)

Arbella	MAPFRE	Pilgrim	Safety
Rate Validation: Underwriting works with producer; if further info needed refers to SIU.	Rate Validation: Underwriting verifies information for new business and renewals; cognizant of issues causing premium leakage; refers issues to SIU; in 2018 over 50 SIU reviews done at request of underwriting to validate garaging and PPoB.	Rate Validation: Claims reps refer issues to underwriting; example given relating to scheduling of long term leased vehicles.	Rate Validation: Systems are tested thoroughly with each rate change.
Large Losses: Monthly claims department meetings often attended by underwriting; results of discussions and lessons learned shared with underwriting.	Large Losses: All commercial claims reviewed by specialized claims handling staff; claims with fraud indicators are referred to SIU, losses over $100K referred to Examining Department; Compliance Department reviews quality and timeliness of settlement process; underwriting notified of questionable circumstances; underwriting reviews all risks with loss occurrences of $250K or greater.	Large Losses: SIU investigates all suspicious claims, including large losses.	Large Losses: Assigned to experienced adjusters; severe/catastrophic losses assigned to field adjusters for investigation; engage independent adjustment vendor for field work outside of field adjuster's geographic location; may retain experts to assist in defense and mitigation where needed; reserves per company's internal policies and procedures.

2018 Servicing Carrier Annual Report Summary

4. Describe and Quantify Efforts Pursuant to Rule 10

Arbella	MAPFRE	Pilgrim	Safety
Internal Audit team reviews processes and procedures of Loss Control and Claims, reviews adjuster notes to ensure appropriate consideration of garaging and other policy facts.	Claims adjusters bring suspected fraud to SIU attention and questionable policy facts to underwriting. 200 claim files reviewed in 2018; 98% determined to be appropriate.	Underwriting referred 141 policies to SIU for investigation; 41 were bus risks comprising 279 vehicles: 30 resulted in cancellation nonrenewal or denial, 7 went elsewhere, 4 were validated.	Internal Audit samples new and renewal policies to ensure underwriting accuracy; all risks with large premium are audited by management to verify policy facts.

5. Describe and Quantify Efforts to Implement Standards for Principal Place of Business (PPoB)

Arbella	MAPFRE	Pilgrim	Safety
Sept – Dec 2018: 24% compliance in returning certification forms; 2019 to date: 39% compliance.	Standard procedures have been used even prior to formal implementation; require certification forms since adoption in September; 14 risks non-renewed for insufficient validation.	Standards and certification forms implemented 9/1 as directed; notice of intent to cancel issued if noncompliant; 24% of underwriting initiated cancellations were due to PPoB not in MA; and 23% of non-renewals.	Careful research and analysis of PPoB on all new business risks; procedures updated in July 2018 for additional nerve center standards; underwriting refers questionable risks to SIU; cancellations and non-renewals are reported to Ineligible Risk Database; certification requirements 9/1 with 94% ERP compliance.

2018 Servicing Carrier Annual Report Summary

6. Describe and Quantify Efforts to Implement Standards for Non-Fleet Private Passenger Types

Arbella	MAPFRE	Pilgrim	Safety
Validation of business entity and licensing performed on 100% of policies; rates recognize driver experience.	Validation of business entity on 100% of policies; also review newly assigned agents' books; approximately 223 risks non-renewed for lack of proof of valid business entity; license validated on 100% of policies; company enforces 1 year requirement to obtain a MA license; rates indirectly reflect driving records in tiering; research and analysis has been conducted for additional rate justification with plan to implement rates recognizing driver experience in future.	70 risks removed from pool based on no business entity prior to Standards due to company UW new risks; Since Standards implemented in September, 29% of underwriting initiated cancellations and 11% of non-renewals that took effect were due to determination that risk should be written on a private passenger policy. Rates recognize driver experience.	Careful research and analysis of all new business applications to determine eligibility. Since Sept 2018, company requires at least 1 of the 6 documents noted in the Standards as proof of business entity; questionable circumstances are referred to SIU; Sept – Dec: 75% compliance with certification forms; underwriting validates licenses for all listed operators on new business applications; rates recognizing driver experience approved effective 6/1/19.

7. Comment on Information Sharing Including Ineligible Risk Database

Arbella	MAPFRE	Pilgrim	Safety
The database is a great source of information for screening new business.	Database is a strong resource and indicator for need for additional due diligence; company submitted over 50 risks in 2018 and 150 to date in 2019.	Database accessed for all new and renewal business; company reports a large number of items; producers with large volume of multi-state risks are encouraged to refer questionable risks to underwriting before binding, resulting in several declinations at agency.	Company strongly supports information sharing through the database as well as directly among Servicing Carriers.

2018 Servicing Carrier Annual Report Summary

8. Describe Other Successes and Challenges

Arbella	MAPFRE	Pilgrim	Safety
Successes: CAR rate increases have helped but additional rate relief is needed, particularly hired/non-owned and zone rated classes.	Successes: Strong committee participation; NFPPT rate approval; agency oversight and training.	Successes: Major focus on multi-state risks; strong producer oversight; example cited of success with one agent. Aggressive research of invalid PPoB and reclassification of risks has increased complaints to DOI, 7 Board of Appeal Hearings, and 2 Superior Court civil actions – none have found company to have acted inappropriately.	Successes: Company is pleased with CAR actions to improve consistency among Servicing Carriers and supports ongoing efforts, particularly with regard to foreign licensed drivers. Company works closely with assigned ERPs to ensure compliance with CAR Rules, procedures, and guidelines.
Challenges: Significant additional resources have been needed to implement Standards. Efforts of risks to circumvent PPoB; operations outside of MA; garaging locations not consistent with registrations.	Challenges: Additional agency training and learning curve for agents with the new Standards.		Challenges: Multistate risks continue to be a significant issue; company continues to investigate to ensure eligibility.

2018 Servicing Carrier Annual Report Summary

9. Recommendations

Arbella	MAPFRE	Pilgrim	Safety
Expand upon data to be shared among Servicing Carriers. Improve the interface between Servicing Carriers and CAR to gather prior loss information used for experience rating. Provide additional guidance as to the definition of a completed application including all documentation required before a risk can be determined eligible.	Servicing Carriers continue to enhance NFPPT pricing. Continued focus on risks with operations outside of MA from a rating and underwriting perspective. Review potential premium leakage in the social service class. Review payment methods between insureds, agents, and Servicing Carriers to encourage current technologies and improve customer service.	Consider issues with short term rentals added to policies to secure physical damage coverage. Develop a comprehensive new business application capturing data elements required for new forms. Company supports Joint Actuarial Commercial Lines Committee plans for comprehensive rate study, including efforts directed at hired and non-owned policies, zone rated physical damage premiums and vehicle operations in Massachusetts requirements.	Continued diligence in evaluating eligibility of the multi-state risks. Company supports Joint Actuarial Commercial Lines Committee plans for comprehensive rate study, emphasis should be placed on the multi-state risk and operations outside of MA. Research potential issue relating to risks engaging in ride sharing that are pursuing other business use classes. Develop guidelines to improve consistency among Servicing Carriers relative to stated amount coverage and the issuance of pollution liability forms.

Arbella Protection Insurance Company's
Commercial Servicing Carrier Annual Report
2018 Review
Redacted Version

A. Introduction

The purpose of the Commercial Servicing Carrier Annual Report is to provide Servicing Carriers a framework to report annually to CAR their efforts in managing the commercial automobile residual market. The Servicing Carriers will provide a self-assessment of their performance in addressing past commercial market concerns and the results of those efforts, including depopulation efforts. The Servicing Carriers will outline their objectives to maintain current levels of achievement in dealing with the issues identified in the marketplace over the past years and strategies for maintaining or exceeding those expectations in upcoming years.

B. Specific Areas for Servicing Carrier Comment

I. Describe what efforts were employed in 2018 that sought to reduce the cession rate for all classes of commercial auto business (Response would address all areas of depopulation efforts i.e. voluntary writing, eligibility determination, renewal reviews, etc.):

In 2018, Arbella implemented a new commercial auto rating platform for all assigned agents, ceded and voluntary. This underwriting and rating platform is used for all ceded commercial auto business. The model evaluates all risks, regardless of their origin, LSC assigned agents included. The model assists in the determination of writing a risk voluntarily or ceding that risk.
Upon renewal, ceded policies are run through the model and opportunities for depopulation are explored. Arbella relies on eligibility requirements such as loss history, MVR reviews and exposure to determine the appropriate placement of its commercial auto business.

2. Describe what efforts were employed in 2018 that sought to manage and control the cession growth in the non-fleet private passenger types and bus classes.

Prior to the newly issued CAR certification forms, Arbella was already taking a closer look at these types of businesses (bus, trucking companies and non-fleet PPT's) as we developed our own requirements and requested the information when reviewing our accounts.

3. Describe how the claims, underwriting and loss control functions integrate to address the following (provide detail and/or examples):

a. Renewal reviews and audits (by class)

Upon request from our Underwriting department, our Claim Department SIU (Special Investigative Unit) conducts an independent Underwriting investigation. This includes confirming place of business (nerve center), operators (run lic.#) and garaging/location.
Also, if during the handling of any claim, the Claim department discovers a problem with any of the above issues, Underwriting is notified in writing using a DOR (Desirability of Risk) form.

b. Claim handling for large losses and resulting audit process.

Our claim team conducts monthly large loss review meetings. Underwriting management often attends those meetings. Discussions include underlying facts of large losses, any trends being seen as it relates to large losses and u/w lessons that can be gleaned from the discussion. When appropriate, claim submits DOR (Desirability of Risk) forms. Discussions and lessons learned from these meetings are shared with the Commercial Lines underwriting team by U/W management.

CAR recently issued Bulletin 1080 which stipulates amendments to the performance standards for claims handling and payment of CAR Claims. Our Claim Dept. is aware of these amendments and will continue compliance.

c. Class determination

For new business, underwriting reviews the submission and does the following:

1. Classifies each vehicle correctly by confirming the appropriate garaging, radius of operation and correct coverage so that the proper premium is charged for the exposure presented.
2. For renewals, when there are DOR's in a term, there is an underwriting review of the policy and a possible SIU investigation at which time a classification correction is done.

d. Rate development

Underwriting works with the agent to collect the appropriate information to determine the correct rating by class for the exposure. If further information is necessary, the account may be referred to SIU for further investigation.

4. Describe efforts and quantify results pursuant to compliance with Rule 10- Claims of CAR's Rules of Operation which requires a Servicing Carrier to conduct audits on representative samples of policies to verify garaging and policy facts.

Arbella has done the following to verify garaging and policy facts:

- 1) <u>Commercial Lines Loss Control Audit</u> – Our Internal Audit team audited the processes and procedures followed by the Loss Control Department to perform surveys of commercial lines insureds (both voluntary and ceded) and these surveys would include the assessment of commercial auto for garaging and policy facts.
- 2) <u>Branch Claim Office Audit</u> –Our Internal Audit team also audited claim handling procedures at the branch claim offices which included commercial auto claim handling (for both voluntary and ceded). As part of this audit, they would have considered garaging and policy facts as follows:
- a. **Garaging** – Internal Audit reviewed claim notes to ensure the Adjuster considered garaging issues and properly addressed any issues through investigation, use of the SIU, or issuance of a DOR.
- b. **Policy Facts** – Internal Audit reviewed claim notes and policy documents to ensure the Adjuster accurately captured policy information in the claim notes and properly considered it when adjusting the claim.

5. Describe efforts and quantify results relating to the implementation of standards in 2018 for validation of a risk's principal place of business.

Workflow was established immediately for the implementation of "principal place of business". If the required forms are missing an email is sent out upon receiving the submission. If the completed forms are not submitted, we will decline or cancel coverage.

We started tracking missing required CAR forms for Principal Place of Business and Non-Fleet Private Passenger Certification form. Since 9/4/18 we have received 1264 Ceded submissions.

- From 9/4/18 – 1/8/19 we did not break out which specific forms were missing.
- From 9/4/18 – 1/8/19 we received 583 Ceded submissions.
  - 441 out of these 583 were missing at least 1 of the required CAR forms (76%).
  - Of those 583, we received missing documents on 115 after we followed up with the agent (20%).

We expanded the detail being captured by our tracking log on 1/9/19. Since then we have received 680 Ceded submissions.

- Of those 680, the Principal Place of Business form was missing on 418 (61%).
- Of the 418 that were missing a Principal Place of Business form, the form was received on only 75 of them after we followed up with the agent (18%).

6. Describe efforts and quantify results relating to the implementation of standards for non-fleet private passenger type risks relative to:

a. The validation of the business entity

Secretary of State review, Registry review, and Google search on 100% of policies. We use the FMCSA portal for all of buses and trucking business.

b. The validation of operator licenses

Registry review, Choice Point and request license record information from agent on 100% of policies.

c. The process in filing and obtaining approval for rates recognizing driver experience. We use our own filed rates which include a tier rating rule that takes into account driver experience. For all other classes, we use CAR rates and rating methodology.

7. Comment on the impact of information sharing efforts in 2018, including use of the Ineligible Risk Data Base.

This has been a positive impact for reviewing our new business submissions. Communication with the 3 other servicing carries has been open and helpful. Arbella finds the database to be a great resource for screening new business.

8. Describe other successes and/or challenges in 2018, including agency management and compliance issues as well as significant residual market activities:

Successes

The CAR rate increase is helping to achieve more appropriate rates for the ceded business. However, we believe further rate increases should be considered by CAR to address the substantial rate inadequacy in some classes. We also see areas for improvement that are currently in discussion at CAR meetings – e.g. Hired/non-owned and zone rating.

Challenges

We are expending significant additional underwriting resources to effectively underwrite CAR business. Areas of concern include:

- Implementation of the Nerve Center as well as the standards for non-fleet PPT's that need to be investigated.
- Methods of handling mobile nerve centers and non-resident Agency appointments
- Addressing Buses, Auto Haulers and leased trucks to stem efforts to circumvent place of business requirements. Confirming bus location/nerve centers and areas of travel to establish a consistent basis for rating purposes.
- Allowing the LSC to change the Garage location for a vehicle once discovered by the LSC. Currently, the rules preclude any action until the agent changes the location at the registry. This allows indefinite garaging (and incorrect rating) indefinitely.

9. Servicing Carrier Program Recommendations for 2019:

a. Provide input on any market concerns and/or identify any new conditions not currently being addressed by the Committee and provide recommendations to focus on these issues.

- Create a process of sharing information that can be used by all carriers consistently. The ineligible risk database is a good start. We should also share trends we are seeing in the marketplace as they relate to high risk segments including buses and auto haulers—and new, emerging areas of concern. We should also share best practices for investigating submitted business to make sure the submission is validated and confirm that underwriting eligibility is factual. Provide more guidance as to the definition of a completed application including a list of all documentation required before a risk can be determined eligible by an LSC, specific triggers that make SIU investigation mandatory, so all LSC's have more precise direction to ensure that only eligible business is underwritten in CAR. This will help address the u/w losses and deficit within the CAR commercial market.

b. Provide suggestions, recommendations and/or solutions that would further control claims and service costs for 2019:

- Scrutinize new business submissions for Buses, Auto Haulers and leased trucks to prevent circumventing place of business requirements.

- Confirm bus location/nerve centers and where they are traveling on a consistent basis for rating purposes.
- CAR should work toward introducing an interface between servicing carriers and CAR in order to retrieve loss information and experience rating modifications systematically. This would reduce costs by eliminating the manual labor effort.

C. General Topics to be Addressed by the Servicing Carrier in the Annual Report

Servicing Carriers are expected to comment on market conditions and experience both relative to the industry and specific to their company in the handling of commercial automobile residual market business during the 20I8 policy year. Comment on the industry and your company's efforts, challenges and successes in handling business. (CAR has provided industry and company data report information to assist you in your evaluation and comments.)

I. Residual Market - Industry (Observed Trends and Issues)

a. Market Conditions (general observations and comments)

1) Deficit trending —over the past 3 years, the deficit has been: $49M, 33M and 39M (2016-18). With increased rates and better clarification of underwriting criteria, this should improve going forward.
2) Cession rate trending — difficult to measure due to reallocation of CAR book in 2018.
3) Classification and rating issues—See above.

b. Concerns (comments)

I) Rates — See above
2) Classifications — See
3) Rating: — See Above
4) Eligibility — See above.
5) Underwriting — See above.
6) Rules — See above.

Concerns are enforcement of new rules going forward.

2. Servicing Carrier Performance and Results - Company

a. Quantitative:

I) Number, and percent of total, of policies taken voluntary over the year

2) Written premium taken voluntary during 2018

3) Classification and rating efforts and results:

4) We review all applications, including renewals, at the beginning of submission process to determine whether an account can be considered for voluntary placement. Where appropriate, we will try and place the qualifying account in the voluntary market. Provide year to year company results on trending classifications to indicate the effect of your depopulation efforts on those class types.

*Part of our depopulation efforts are evidenced by our efforts to ensure that only eligible non-fleet ppt business is written in the commercial residual market as evidenced by the scrutiny undertaken by Arbella relative to the pattern of fraud in the Point Insurance Agency book of business.

b. Qualitative: (Comment on efforts)

1. Exclusive Representative Producer management (Identify number of ERPs with and without voluntary commercial auto contracts including number with a voluntary contract with your company):

   We have 33 ERP's with voluntary contracts and 108 ERP's without voluntary contracts with our company.

2) Actions undertaken to address developing market issues or specific classification and/or rating issues.

   SIU involvement in all buses and auto vehicle haulers application review/verification.

3) Residual market losses (loss ratios/large losses/loss control)

   Arbella recently provided an example of claim reporting language that could be used to report large losses to CAR (see attached). CAR also approved the large loss notification procedures proposed by Arbella (attached).

Completed Annual Report responses for 2018 will be due to CAR by Wednesday, May 15, 2019. The Commercial Program Oversight Committee will hold a meeting to discuss their review of the reports in late May or early June of 2019. Servicing Carriers are expected to be present at that meeting to respond to any questions from Committee members.

<u>Note: Servicing Carriers should also provide a copy of their Annual Report to CAR that will be included in the distribution of the Commercial Program Oversight Committee's Notice of Meeting. That copy may include the redaction of any report details that the Servicing Carrier deems to be proprietary or sensitive in nature relative to its publication.</u>

Commercial Servicing Carrier Annual Report
2018 Review

MAPFRE Insurance

A. Introduction

The purpose of the Commercial Servicing Carrier Annual Report is to provide Servicing Carriers a framework to report annually to CAR their efforts in managing the commercial automobile residual market. The Servicing Carriers will provide a self-assessment of their performance in addressing past commercial market concerns and the results of those efforts, including depopulation efforts. The Servicing Carriers will outline their objectives to maintain current levels of achievement in dealing with the issues identified in the marketplace over the past years and strategies for maintaining or exceeding those expectations in upcoming years.

B. Specific Areas for Servicing Carrier Comment

1. **Describe what efforts were employed in 2018 that sought to reduce the cession rate for all classes of commercial auto business (Response would address all areas of depopulation efforts i.e. voluntary writing, eligibility determination, renewal reviews, etc.):**

   MAPFRE utilizes various touchpoints to help depopulate all classes of commercial auto business.

   For new business applications, we have a front end quoting system, which includes an automated application and referral process. The referral system will identify policies that are recommended to be ceded by the agent but may be eligible to be written voluntarily. Underwriting reviews these policies in detail including the operations, loss experience, and driver/vehicle information to decide whether voluntary placement is available for the risk.

   At renewal, a decision calculation tool reviews all renewal policies for potential voluntary placement. This tool involves identification of class and eligibility within our voluntary treaties, review of updated driver information, and loss and payment history. Underwriters review these policies for changes in exposure that may make them eligible for voluntary placement, including a favorable loss trend or implementation of loss control measures.

   Lastly, MAPFRE writes voluntary commercial automobile policies from voluntary contracted agents as well as agents assigned to us as a Limited Servicing Carrier agency. We maximize voluntary writings by having one underwriter manage the voluntary and ceded business for their assigned agencies.

   Additionally, as described throughout the remainder of the report, MAPFRE is using various approaches to prevent and/or remove ineligible risks from the ceded pool.

2. **Describe what efforts were employed in 2018 that sought to manage and control the cession growth in the non-fleet private passenger types and bus classes.**

Consistent with the other servicing carriers, MAPFRE utilized the new tools and processes that were implemented by the CAR Committees to help manage the growth of the non-fleet private passenger types and bus classes. This includes the collection of the Principal Place of Business forms and the Non-Fleet PPT forms where applicable, as well as being an active contributor to the ineligible risk database.

In addition to these efforts, MAPFRE has utilizes rating and underwriting to control the cession growth in these classes.

Particular to the Non-Fleet PPTs, MAPFRE implemented a 35% rate increase that is applicable to all Ceded (Select Tier) Non-Fleet PPTs with our 12/1/2018 rate filing. As a result, this discourages risks from moving from Personal Lines to Commercial Lines due to a lower price point. For underwriting, we go through extensive efforts to validate the risk is a valid commercial entity. These include the collection of documentation including Worker's Compensation; General Liability policies and Tax filings, to be used for validation purposes.

Regarding bus classes, even prior to the implementation of CAR's Principal Place of Business form, much of our efforts have focused on verifying that the Principal Place of Business is within MA. This is done through internet searches of the operations and owners, collection of support such as a lease, as well as physical audits. Lastly, ensuring the correct zone rating and garaging on these policies helps ensure the appropriate rate is being charged.

Agency analysis and management has been utilized to identify agencies where there is potential fraud or training issues. Agents with a high mix of business in these concentrations or additional cause for concern are assigned to underwriters who focus primarily on CAR to ensure the rules are being followed.

3. Describe how the claims, underwriting and loss control functions integrate to address the following: (provide detail and/or examples):

Regular meetings are conducted on a bi-weekly basis including Claims, Underwriting and Loss Control Management to coordinate and integrate our efforts.

a. Policy (new and renewal) reviews and audits (by class)

Policy reviews and class audits are conducted within our Underwriting team. The underwriters handling CAR business are expected to handle these risks with the consistency and diligence used across all of our risks. Quality Assurance audits are done within our team as well as by Audit and Home Office MAPFRE management to ensure the data collection, validations, and documentation are consistent, appropriate and timely.

In addition, specific class audits are conducted on a regular basis. In 2018, MAPFRE completed a full audit of federally regulated trucking risks. During these reviews, the underwriting team reviewed each risk for accuracy in classifying/rating/garaging, as well as looking for possible inconsistencies such as driver-to-vehicle ratios. Validations tools included IFTA reports, Cost of Hire Audits, and SMS inspections.

MAPFRE is in the preliminary stages of a public auto audit, which will include validation of garaging, territory of insured operations, as well as class validation. Tools include trip logs, MART validation, and additional contracts.

b. Claim and SIU handling for large losses and resulting review process

Commercial Claims are primarily handled within a specialized unit within the claims department that focuses on Commercial and complex/large exposure claims, staffed with experienced adjustors. Upon first notice of loss, or through any investigation, any claim that is thought to have a fraud indicator is transferred to the Special Investigation Unit. This unit will investigate the claim until all concerns/issues are resolved. Further large losses over $100,000 are automatically referred to the Examining Department for review and guidance. A separate Compliance Department reviews the quality and timeliness of the claims settlement process.

Coordination between the claims and underwriting team occurs when the Claims team will alert the underwriting team to items such as unlisted operators, fraud indicators, etc. In addition, the two teams coordinate on their reviews of large losses.

The Underwriting team reviews large losses with a reserve over $250,000 or greater. These are reviewed for accuracy and quality of underwriting including program eligibility, appropriate classing and garaging.

c. Class Validation

The underwriting team at MAPFRE verifies proper classification in a variety of ways, using information on the application, review of websites, DOT filings, contracts (such as MART) and claim information to verify the operations of the insured.

Additional validations for zone rated risks include quarterly fuel tax reports or trip logs for public auto, to ensure the proper class code.

d. Rate validation

The underwriting department verifies information at new business and renewals to ensure the correct premium is charged for the risk. The underwriting team is cognizant of items that may cause premium leakage and as a result verify the rating attributes on the policies. These include garaging and proper zone rating.

Underwriting coordinates with SIU to confirm garaging and Principal Place of business. In 2018, SUI conducted over 50 inspections ordered by underwriting as a means to validate underwriting information such as garaging; MA domiciled and excluded drivers operating listed vehicles.

4. Describe efforts and quantify results pursuant to compliance with Rule 10 – Claims of CAR's Rules of Operation that requires a Servicing Carrier to conduct audits on representative samples of policies to verify garaging and policy facts. Identify the number of audits conducted and the number of exposures and policies audited.

As part of our normal procedures, Claims personnel are trained to address garaging issues and various policy facts as part of their initial coverage investigation. Front line adjusters will refer any claim to SIU that is suspected of having a premium avoidance issue such as improper garaging, unlisted operators, etc. Underwriting is notified of the SIU findings upon completion of the investigation.

In addition, routine quality control audits are conducted to assure appropriate coverage issues are being identified, inclusive of issues that would affect premium. In 2018, there were approximately 200 claim files reviewed associated with MA commercial policies of which 98% determined coverage investigation to be appropriate.

5. **Describe efforts and quantify results relating to the implementation of standards in 2018 for validation of a risk's principal place of business.**

MAPFRE was a large proponent in implementing the concept/definition of Principal Place of Business requirement for the CAR risks.

Prior and subsequent to the standard in 2018, MAPFRE required documentation to prevent non-MA domiciled companies from receiving a policy from CAR. These efforts included in person and virtual inspections, collection of lease/rental agreements, utility bills and bank statements, to confirm that there was a physical location in this state.

In addition, we have implemented the procedure of requiring Principal place of business forms as required by CAR effective 9/1/2018 on all new business. This form and tools are being utilized on renewals, as well, when appropriate.

During, 2018, we have non-renewed approximately 14 risks for insufficient validation of a Principal Place of Business within MA. This includes winning three Division of Insurance appeals for bus companies that were non-renewed because of not having a Principal Place of Business in MA. The amount of declinations/lack of writing is not able to be quantified.

6. **Describe efforts and quantify results relating to the implementation of standards for non-fleet private passenger type risks relative to:**

a. The validation of the business entity

MAPFRE continues to focus efforts to validate business entities, in order to prevent the creation of insuring fictitious corporations within CAR. This is done at new business, renewals, as well as reviewing newly assigned LSC agents' book of business.

The tools used to do this include collection of documentation such as Worker's Compensation, General Liability, and Tax Schedule C requirements. In addition, MAPFRE has identified underwriters that focus on agents commonly producing these type of risks, to monitor for trends and potential fraud.

Approximately 223 risks have been non-renewed for lack of proof of a valid business entity. The amount of denials/lack of writing cannot be quantified.

b. The validation of operator licenses

MAPFRE validates current operator licenses using the Massachusetts Registry of Motor vehicles. In the case of an out-of-state license, Lexis Nexis is used for validation. In a situation where there is a foreign license, our Revenue Assurance unit manually validates these licenses, including requiring the photo documentation of the license, and driving record from the respective country.

Additional scrutiny is used on policies where the owner of the corporation does not have a valid MA license. Actions include potential SIU investigations to determine if the owner is driving the vehicle, and driver exclusion forms being used when appropriate.

MAPFRE monitors the length of time a policyholder takes prior to getting a MA license, and enforces the one-year requirement to obtain a MA license.

c. The process in filing and obtaining approval for rates recognizing driver experience

MAPFRE does not currently have rates that reflect individual driving records, but is indirectly reflected in our tiering. We have conducted the research and analysis needed, and plan to implement in the future.

7. Comment on the impact of information sharing efforts in 2018, including use of the Ineligible Risk Data Base.

MAPFRE values the ability to share individual account information made possible by the Ineligible Risk Data Base. This has provided the servicing carriers a strong resource and indicator to do additional due diligence on a risk. MAPFRE submitted over 50 risks in 2018, and over 150 year to date in 2019.

In addition, through the development of the new standards, carriers have been able to share best practices, which help ensure consistency and improve profitability of the pool.

8. Describe other successes and/or challenges in 2018, including agency management and compliance issues as well as significant residual market activities:

MAPFRE is proud of the contribution to the commercial market it has made as a servicing carrier in 2018. Being a strong voice on the CAR committees, we feel as though many of the strategies implemented will go a long way to improve the profitability of the CAR pool. We consider the approval of our 12/1/2018 rate filing, with focus on the Non-Fleet PPT rates to be a success to appropriately rate these risks.

MAPFRE continues to monitor agencies that are not complying with the CAR rules, and we are utilizing tools much as additional training, warning letters and termination in rare and extreme cases. As mentioned elsewhere, we have assigned underwriters to closely monitor this business, to quickly and efficiently catch trends and address any issues.

Additional challenges in 2018 include the additional training and learning curve with agents concerning the new procedures and forms, especially on policies that are straight through processed. A formal process is now in place including the appropriate follow-up.

We continue to monitor new trends/challenges in the market.

9. Servicing Carrier Program Recommendations for 2019:

a. Provide input on any market concerns and/or identify any new conditions not currently being addressed by the Committee and provide recommendations to focus on these issues.

It is worth noting and commending CAR Staff and Committees on the large volume of issues that were addressed during the 2018 calendar year. With that being said, additional items that MAPFRE feels could be addressed include:

1. Limited Servicing Carriers should continue to enhance their Private Passenger Non-Fleet Rating plans to adequately price all risk types.

2. Focus on risks where the vehicles do not have a connection to MA (for example, Bus risks that may be headquartered in MA, but no scheduled routes ever enter the state) with Rating, Underwriting or Eligibility implications.

3. Continued work on the Zone Rating pricing and rules.

4. Review of potential premium leakage regarding social service class of business.

5. Review the payment methods between insureds, agents and servicing carriers to encourage the use of latest payment technologies and to improve customer service.

b. Provide suggestions, recommendations and/or solutions that would further control claims and service costs for 2019:

In order to control claims and service costs, we feel as though the following items would be useful:

1. Review of Ceded Large losses to ensure that the risks would have been eligible and that they were properly underwritten.

2. We support early notification of CAR of catastrophic events that may lead to large loss reserves in the future.

C. <u>General Topics to be Addressed by the Servicing Carrier in the Annual Report</u>

Servicing Carriers are expected to comment on market conditions and experience both relative to the industry and specific to their company in the handling of commercial automobile residual market business during the 2018 policy year. Comment on the industry and your company's efforts, challenges and successes in handling business. (CAR has provided industry and company data report information to assist you in your evaluation and comments.)

1. **Residual Market – Industry (Observed Trends and Issues)**

   a. **Market Conditions (general observations and comments)**
      1) **Deficit trending**
      2) **Cession rate trending**
      3) **Classification and rating issues**

The Massachusetts Commercial Automobile Residual Market is the largest in the United States. The size of the market implies that risks eligible for the voluntary market are not receiving the benefits of the voluntary market. CAR should continue to work on improving the efficiency of the Massachusetts Commercial Automobile Market by investigating with the intent to further depopulate.

The calendar year of 2018, produced a large deficit, in part due to prior year development and IBNR. As a result, the assessments felt by the industry had a strong negative impact on the profitability of commercial lines across the state. This further enforced the need for rate, eligibility, and underwriting actions to improve the results of the ceded pool.

Reviewing the ultimate policy year projections reviewing within the CAR Loss Reserving Committee, the Policy Year of 2018 projection is showing a slight increase in the loss ratio, with a slight decrease in the expense ratio. The projected underwriting result of -$35.6 Million still demonstrates a need for improved results.

Specifically referring to MAPFRE results, MAPFRE maintains a lower loss ratio than industry across policy years 2016 through 2018, with a three year average of 81.2% of the industry loss ratio. A positive trend is the ratio of MAPFRE loss ratio to Industry loss ratio for Non-Fleet PPTs, with a reduction from 104.2% of industry in 2016, down to 83.6% of industry in 2018.

Concerning the cession rate of exposures for the industry, this has increased slightly from prior years. For MAPFRE, we saw a similar result, with much of the increase coming from the Non-PPT classes, likely based on our voluntary risk appetite.

   b. **Concerns (comments)**
      1) **Rates**
      2) **Classifications**
      3) **Rating**
      4) **Eligibility**
      5) **Underwriting**
      6) **Rules**

MAPFRE strongly supports the Actuarial review of CAR rates, as suggested by the DOI. In addition, servicing carriers, including MAPFRE, should continue to try to enhance their Non-Fleet PPT class plans, which apply to the CAR risks.

In addition, the CAR Committee should continue to review opportunities for clarification of rules,which would lead to more consistency amongst the various LSC's. The committees and serving carriers should focus on those classifications that are driving the largest portions of the deficient.

MAPFRE continues to supports efforts related to agency management, both on the appointment and monitoring their performance as related to the applicable of CAR rules.

2. Servicing Carrier Performance and Results – Company

a. Quantitative:

1) Number, and percent of total, of policies taken voluntary over the year

In 2018, MAPFRE in the renewal process took 36 policies out of CAR, which is 0.89% of our renewal policy count. MAPFRE has significantly depopulated the residual market in the many years it has been a Limited Servicing Carrier. Because our ceded book has been depopulated over the years, the number of policies taken from the residual market in 2018 is relatively small compared to the size of our overall book.

2) **Written premium taken voluntary during 2018**

The total renewal premium taken out of CAR was $181,433.

3) **Classification and rating efforts and results**

As mentioned previously, MAPFRE has focused efforts on the Non-Fleet PPT classification. In 2016 we incurred a higher loss ratio than the industry. This focus has improved our results and in 2017 and 2018 our loss ratio is lower than the industry, and for 2018 is now at 83.6% of the industry. Although the rate increase on Non-Fleet PPTs in December did not have a large impact in 2018, we expect this to continue to improve our results in 2019.

Further, MAPFRE new business results reflect success in our efforts to prevent ineligible business from being issued in CAR. Overall policies and premium ceded to CAR have decreased from prior years. In 2017, the total number of policies ceded were 2,541 while 2018 reflects only 1,645 polices were ceded, which was a reduction of 896 policies.

4) **Provide year-to-year company results on trending classifications to indicate the effect of your depopulation efforts on those class types.**

During 2018, our depopulation efforts, including both voluntary writing as well as denials, have resulted in some positive results by class type. For example, the Non-Fleet PPT ceding percentage dropped from 23% in 2017 down to 19% in 2018. The movement in the other classes as a percent were not significant. We are evaluating advanced strategies for voluntary writing during 2019.

b. Qualitative: (Comment on efforts)

1) **Exclusive Representative Producer management (Identify number of ERPs with and without voluntary commercial auto contracts including number with a voluntary contract with your company)**

   MAPFRE has 480 ERPs, of which 376 of these have a voluntary contract.

   MAPFRE has taken several actions related to the ERPs. This includes creating a dedicated team to focus on those agents with primarily Ceded books only, or those agents that are demonstrating difficultly adhering to the CAR rules. This allows MAPFRE to focus on consistent training and underwriting practices, to ensure the proper handling of the risks. Various tracking tools have been developed to monitor the production, distributions and performance of the ERPs.

2) **Actions undertaken to address developing market issues or specific classification and/or rating issues.**

   Many actions have been noted previously in the report to address developing market issues. These items have included focused re-underwriting on the trucking class of business, strict validations for bus risks for Principal Place of Business, and strong new business and renewal validation of actual business entity for Non-Fleet PPTs. With regards to social service transportation risks, MAPFRE has conducted financial audits as well as increased communications with MART. We also have conducted agency training and developed procedures including supplemental new and renewal questionnaires where needed.

3) **Residual market losses (loss ratios/large losses/loss control)**

   MAFPFRE's residual market loss ratios are better than the industry in 2018. This applies to 9 of the 12 classes. Reviewing the frequency and severity exhibits, this seems to be driven by lower frequency ratios in most coverages than the industry.

   We attribute some of this to our loss control efforts. Every renewal policy has the availability of Loss Control Services including access to Safetyadvisor, which is a website tool that provides information on various loss control programs. We conducted inspections on seven in 2018 for those that expressed interest.

Completed Annual Report responses for 2018 will be due to CAR by Wednesday, May 15, 2019. The Commercial Program Oversight Committee will hold a meeting to discuss their review of the reports in late May or early June of 2019. Servicing Carriers are expected to be present at that meeting to respond to any questions from Committee members.

<u>Note: Servicing Carriers should also provide a copy of their Annual Report to CAR that will be included in the distribution of the Commercial Program Oversight Committee's Notice of Meeting. That copy may include the redaction of any report details that the Servicing Carrier deems to be proprietary or sensitive in nature relative to its publication.</u>

2018 Annual Report Schedule

April 1-15, 2019	**CAR data and cover document sent to Servicing Carriers**
May 15, 2019	**Servicing Carrier Annual Reports due to CAR**
Late May/Early June 2019	**Oversight Committee Review of Annual Reports**
June 19, 2019	**Governing Committee meeting**

PILGRIM

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PILGRIM INSURANCE COMPANY
695 ATLANTIC AVENUE
BOSTON, MA 02111

2018 ANNUAL REPORT FOR MASSACHUSETTS RESIDUAL MARKET COMMERCIAL SERVICING CARRIER PROGRAM

SUBMITTED TO:

COMMONWEALTH AUTOMOBILE REINSURERS
101 ARCH STREET
BOSTON, MA 02110

MAY 15, 2019

A. Introduction

The purpose of the Commercial Servicing Carrier Annual Report is to provide Servicing Carriers a framework to report annually to CAR their efforts in managing the commercial automobile residual market. The Servicing Carriers will provide a self-assessment of their performance in addressing past commercial market concerns and the results of those efforts, including depopulation efforts. The Servicing Carriers will outline their objectives to maintain current levels of achievement in dealing with the issues identified in the marketplace over the past years and strategies for maintaining or exceeding those expectations in upcoming years.

Pilgrim Insurance Company is pleased to present a 2018 overview as it pertains to our participation as a servicing carrier with CAR's Commercial Servicing Carrier program. Our focus has always been to control the size of the commercial residual market and to improve the results of the pool. Company and industry data provided by CAR in the email of April 3, 2019, as well as data pulled from CAR's Cession Volume Analysis report, illustrates that we have been successful in both aspects. While the residual market grew by over 10% from 2017 to 2018, the ceded premium managed by Pilgrim grew by less than 4%.

PY 2017 Data

	Retained Premium		Ceded Premium			
	Voluntary Agent	ERP	Voluntary Agent	ERP	Total Ceded	% of Industry Ceded
Commerce	$83,931,822	$2,056,620	$32,830,729	$11,781,400	$44,612,129	25.69%
Safety	$66,820,569	$2,939,838	$29,326,024	$24,742,532	$54,068,556	31.13%
Arbella	$54,740,391	$143,084	$19,844,465	$13,955,999	$33,800,464	19.46%
Pilgrim	$12,658,316	$145,421	$17,565,939	$23,624,232	$41,190,171	23.72%
Industry	$218,151,098	$5,284,963	$99,567,157	$74,104,163	$173,671,320	100.00%

PY 2018 Data

	Retained Premuium		Ceded Premium				
	Voluntary Agent	ERP	Voluntary Agent	ERP	Total Ceded	% of Industry Ceded	Y-o-Y Ceded Premium Change
Commerce	$88,050,344	$1,820,017	$36,187,396	$11,890,650	$48,078,046	25.03%	7.77%
Safety	$69,079,362	$1,991,057	$34,708,681	$27,027,744	$61,736,425	32.14%	14.18%
Arbella	$54,913,228	$197,790	$21,753,864	$17,745,694	$39,499,558	20.56%	16.86%
Pilgrim	$11,352,149	$143,549	$18,420,801	$24,341,481	$42,762,282	22.26%	3.82%
Industry	$223,395,083	$4,152,413	$111,070,742	$81,005,569	$192,076,311	100.00%	10.60%

*Data from CAR Cession Volume Analysis – PY Data reported to CAR through December of each PY

The written exposures associated with Pilgrim's share of the pool decreased by 1.1% year-over-year while the industry grew by 2.3% and the other three carriers collectively grew by 3.2%.

Total Exposures

	Pilgrim	Industry	Industry w/o Pilgrim
2017	11,032	53,846	42,814
2018	10,913	55,099	44,186
% Change	-1.1%	2.3%	3.2%

Lastly, the loss ratio associated with the business we manage is over 20 points better than the industry for both 2017 and 2018 as of December 31, 2018, and is even better when compared to just the average of the other three carriers excluding Pilgrim.

Loss Ratio

	Pilgrim	Industry	Industry w/o Pilgrim
2017	52.4%	72.5%	78.6%
2018	40.6%	61.6%	67.1%

B. Specific Areas for Servicing Carrier Comment

1. Describe what efforts were employed in 2018 that sought to reduce the cession rate for all classes of commercial auto business (Response would address all areas of depopulation efforts i.e. voluntary writing, eligibility determination, renewal reviews, etc.):

Each new business submission and renewal is reviewed by an underwriter to determine initial or continued eligibility for the commercial residual market. Pilgrim purposely has not configured automatic renewal functionality, as we believe that it is essential to manually review all policies as they come up for renewal. As mentioned in last year's report, we made significant progress in correctly reclassifying a large volume of risks rolling over from the prior Servicing Carrier during 2017, which resulted in them being removed from the program. As we reviewed all policies during 2018 on first renewal with Pilgrim, we continued to validate eligibility, classification, and rating.

Multiple uniform tools to assist Servicing Carriers in the determination of eligibility for placement in the commercial automobile residual market were implemented during the second half of 2018. We comment further on these in subsequent sections of this report, but we are actively utilizing the Principal Place of Business Certification Form, Non-Fleet Private Passenger Type Certification Form, Operator Exclusion Form, and Ineligible Risk Database.

As we will also discuss in more detail later in this report, as part of our integrated loss control efforts and procedures, our Underwriting team will forward SIU Referrals to our Claims Department for risks that need investigation. Additionally, our Claims Department will forward to the Underwriting team a Claims Underwriting Notice to advise of discrepancies or issues identified while handling a claim.

We continue to review both new submissions and renewals for voluntary consideration. Plymouth Rock's voluntary underwriting appetite does not span as wide a class type range as some of the other carriers. This, along with our voluntary rate plan utilizing a Driver Class Factor that often results in a voluntary rate that is higher than the ceded rate, limits our volume of retained business. It is worth noting that the premium that Plymouth Rock takes voluntarily through ERPs (CID 1) is down just 1.3% from 2017 to 2018, while the volume was down 21% for all four carriers (page 2 data).

Again, our focus has always been to control the size of the commercial residual market and work to improve its results. The data on page 2 illustrates that we are effectively managing the size of the pool, while the CAR loss ratio data illustrates that the residual market business managed by Pilgrim performs significantly better than then industry.

2. Describe what efforts were employed in 2018 that sought to manage and control the cession growth in the non-fleet private passenger types and bus classes.

Non-Fleet PPT

Pilgrim's volume of non-fleet PPT exposures remains very low as compared to other carriers, despite the July 1, 2018 effective redistribution of producers that was intended to result in a significant volume of non-fleet PPT exposures moving to Pilgrim. There are three reasons why we have not realized any measurable volume increase of this exposure type:

1) **Eligibility as a Business Entity -** We continue to review each submitted risk to ensure it is, in fact, a business entity. The first step towards reducing the cession rate is to weed out the risks that are not eligible for coverage in the pool.

2) **Eligibility with Massachusetts Driver's License -** We adhere to Massachusetts licensing eligibility rules, which has not been a consistent practice across carriers. Subsequent to the July 2018 producer reassignment, multiple producers appealed their reassignment to Pilgrim because a majority of their customers had foreign licenses and they knew that Pilgrim would enforce the rules. Although the producers eventually did accept their assignment to Pilgrim, we have not realized any measurable increase in our volume of non-fleet PPT exposures.

3) **Rate Adequacy -** We have historically had more appropriate rates for this business. The industry's loss ratios for non-fleet PPT business with data through December 2018 are 132% and 113% for 2017 and 2018, respectively. Pilgrim's loss ratio results on this business are 84% for 2017 and 49% for 2018. While we are clearly pricing this business more adequately than other carriers, the use of voluntary rates for this class of business – rather than a standard ceded industry rate – ultimately drives the risks to agents assigned to one of the other three servicing carriers. Pilgrim effectively gets punished for its excellent results by not receiving its fair share of the program's volume due to the inconsistency in rate plans across servicing carriers. We are encouraged that a second carrier has recently adopted a similar rating methodology by introducing a Vehicle Tier Factor.

The July 2018 redistribution should have resulted in more than $4 million of additional non-fleet PPT premium being assigned to Pilgrim, which would equate to over 2,000 additional exposures; however, we grew by fewer than 100 exposures year-over-year.

Bus Classes

We continue to invest considerable effort to verify eligibility, as well as to properly classify and rate all eligible risks. Data provided by CAR reveals that we continue to make significant strides in reducing the overall volume of bus classes we manage. As the chart below illustrates, our written bus exposures have decreased by almost 10% while the collective volume for the other three carriers has increased over 6%.

Total Bus Exposures

	Pilgrim	Industry	Industry w/o Pilgrim
2017	4,275	9,724	5,449
2018	3,854	9,646	5,792
% Change	-9.8%	-0.8%	6.3%

A significant factor in the recent increases in the program's deficit is large losses associated with public autos and, specifically, multi-state risks that can be required to carry a $5 million liability limit. The population of Zone Rated bus risks exploded during the second term of the program from 2011 through 2016. From the start of the current CSC program term in 2017, Pilgrim has aggressively investigated these risks, successfully identified a significant population that is ineligible for a Massachusetts commercial residual market policy, and taken corrective action. As the data below illustrates, Pilgrim has been extremely successful in our depopulation efforts with this class of business.

Zone Rated Bus Exposures

	Pilgrim	Industry	Industry w/o Pilgrim
2017	651	1,176	525
2018	485	1,185	700
% Change	-25.5%	0.8%	33.3%

We also continue to have success in properly classifying and rating buses that are not Zone Rated. Requesting and analyzing the pertinent information results in our amending classification and rating factors. One example is a large (in excess of $800,000 written premium) bus risk comprised of both Charter Buses and Inter-City Buses. The prior servicing carrier had all of the vehicles classified as Long-Distance Charter Buses, while a significant number were actually Inter-City Buses making commuter runs in Boston. We appropriately re-classified these as Inter-City Buses with an intermediate radius and applied the appropriate rating territory. Rating this risk correctly increased the premium dramatically, which caused the agent to aggressively market the risk to its voluntary carriers. They were eventually successful in finding a carrier willing to write the risk on a voluntary basis for less than the corrected ceded premium, but still significantly more than the risk had been paying through the pool with the prior servicing carrier.

We also write a significant amount of Bus PPT types contracted with social service agencies to provide transportation. The largest of these social service agencies is the public/not-for-profit Montachusett Regional Transit Authority ("MART"). Pilgrim recently participated in a conference call, set up by MAPFRE Insurance, with representatives from MART to discuss ways MART could assist us in verifying the accuracy of information we receive from agents and insureds. We are currently working with MART to verify that risks are actually contracted with them and also that the trip logs/documentation we receive from the insured accurately represents the assignments made by MART to the drivers. Our goal is to weed out risks that are not providing legitimate contracts with MART and ensure proper rating for those risks that are providing legitimate transportation services on their behalf.

3. Describe how the claims, underwriting and loss control functions integrate to address the following: (provide detail and/or examples):
   a. Policy (new and renewal) reviews and audits (by class)

Loss prevention and control are handled through an on-going team effort involving representatives from Underwriting, Agency Management, Claims and SIU. All teams are co-located on the same floor, which enables regular cross-functional collaboration.

Loss prevention and control start with educating agents on program eligibility. Significant time and effort has been expended to develop and deliver effective communication with agents. This along with a defined, focused approach to audits has allowed us to identify and address potential problem areas. As we detail elsewhere in this report, we have had significant success in identifying bus risks that are not eligible for a Massachusetts residual market policy. By focusing on the producers that had a high concentration of those class types, we have been able to systematically audit risks to identify action items. In addition, we have educated producers on the Ineligible Risk Database and have advised them to run questionable risks by us prior to binding.

Our underwriters carefully review information collected through both paper submissions and our online agency interface to ensure that applications are complete and to verify that information is accurate as to classification, garaging, registration, radius, use, vehicle description, driver license validity, etc. Should the review indicate that further information is required or that an investigation or audit is warranted, the referral is sent to the SIU Supervisor for action.

Pilgrim's Claims team reviews all claim files and is skilled in identifying "red flags" that indicate the potential presence of fraud. The Claims team conducts full investigations to properly document the factual evidence of a loss to ensure the appropriate disposition of the claim with the investigation process continuing throughout the life of the claim. The investigation process includes reviewing all policy information, verifying all parties involved in the accident, and gathering a complete picture of the accident history. If fraud flags are noted, the file is referred to the SIU for review to determine whether a special investigation is warranted. Should a claims investigation result in a potential impact to a policy, an alert is sent to the Underwriting team for potential action.

   b. Claim and SIU handling for large losses and resulting review process

SIU conducts investigations on suspicious claims that may involve potential fraud, including large losses. The claim will continue to be handled by the Claim Representative while SIU investigates the suspected fraud issue. All potential payments are withheld until the investigation is concluded.

Upon referral and as part of our ongoing review process, the SIU Supervisor assigns the case to the Investigator and all assignments are acknowledged within two business days. The SIU Supervisor and Investigator communicate on a regular basis, with the Investigator reporting on the status of the investigation within fifteen days of assignment and every 30 days thereafter until the investigation is completed. Each report summarizes the focus and status of the investigation, the coverages impacted, and the remaining action items needed in order to complete the investigation.

At the conclusion of the investigation, a full and final report is prepared with all recommendations including routine handling, claim reductions or denials. The SIU Supervisor will then review the final report and provide input, including whether the recommendation is approved or disapproved, and the outcome is communicated to the referring Claim Representative and Supervisor. If there is agreement among all parties on the recommendation, the Claim Representative will ensure all necessary steps are taken to resolve the claim.

Pilgrim is encouraged by and strongly supportive of the Commercial Automobile Committee's work on development of consistent notification and reporting procedures for large losses.

c. Class validation

Our Claim Representatives are vigilant in confirming that the vehicle use and accident location are consistent with the vehicle use class, radius and rating territory as indicated on the policy. One example of this is a risk that is headquartered in Cambridge, MA but, through a claims investigation, was found to have out-of-state exposures. This was brought to the attention of the Underwriting department, which worked with the agent to reclassify those vehicles and collect the appropriate premium.

d. Rate validation

In addition to class validation mentioned above, our Claim Representatives bring any potential rating issue to the Underwriting Manager for discussion. For example, it was discovered through a claims investigation that an agent was not properly scheduling long-term leased vehicles on the policy because they thought they were covered under the Hired Automobile coverage. The agent was directed to add all of the vehicles to the policy, which correctly added over $100,000 in premium for this exposure.

4. Describe efforts and quantify results pursuant to compliance with Rule 10 – Claims of CAR's Rules of Operation which requires a Servicing Carrier to conduct audits on representative samples of policies to verify garaging and policy facts. Identify the number of audits conducted and the number of exposures and policies audited.

During the course of 2018, our Underwriting team forwarded to our SIU team a total of 141 policy referrals for investigation. Forty-one of these, or 29%, were bus risks that were comprised of a total of 279 vehicles. The results of our investigations of these bus risks were as follows:

Action / Result	**Volume**
Cancelled / Non-Renewed as Principal Place of Business not in MA	29
Risk moved to other servicing carrier prior to completion of investigation	2
No action as risk determined to be eligible for MA policy	4
Risk Declined - never issued	1
Producer reassigned to other servicing carrier prior to completion of investigation	5
	41

5. Describe efforts and quantify results relating to the implementation of standards in 2018 for validation of a risk's principal place of business.

For new business submissions effective September 1, 2018 and later, and for renewals of multi-state bus and truck renewals, we require a completed Principal Place of Business Certification form. As the form is an extension of the application, we issue a Notice of Intent to Cancel if it is not submitted. If we find an agency to be a habitual offender, an agency violation is processed.

In addition to the risk eligibility tools outlined in the Servicing Carrier Standards for Validating the "Nerve Center" Principal Place of Business, we have had success using the following additional steps to ensure that the risk is headquartered in Massachusetts:

- Refer all "New to Massachusetts" risks to SIU for investigation
- Review business and garaging locations in Google Maps to determine plausibility
- Review city assessor database to verify property ownership when possible
- Review the prior insurance state's corporate database, if known

For policies effective September 1, 2018 through March 31, 2019, 24% of our Underwriter Initiated Cancellations that ultimately took effect were due to the determination that the risk did not have its Principal Place of Business in Massachusetts. Additionally, 23% of non-renewals of policies with 2018 renewal effective dates were for the same reason.

6. Describe efforts and quantify results relating to the implementation of standards for non-fleet private passenger type risks relative to:

   a. The validation of the business entity

   For new business submissions effective September 1, 2018 and later, we require a completed Non-Fleet Private Passenger Type Certification Form. As with the Principal Place of Business form, we issue a Notice of Intent to Cancel if it is not submitted and will issue agency violations if we find an agency to be a habitual offender.

   Pilgrim utilizes the various tools outlined in the Servicing Carrier Standards for Non-Fleet Private Passenger Type Classifications to validate the existence of a business entity. We are most excited about the inclusion within the Certification Form of language explaining to the applicant that there may be coverage issues should they be found responsible for fraud or material misrepresentation. This has served to add teeth to the consequences of misrepresenting the risk on the form.

   Even prior to the implementation of new standards and forms, we had been successful in validating the existence of a business entity and taking corrective action as we removed over 70 risks from the pool upon our initial re-underwriting of the business that was converting from the prior servicing carrier. For policies effective September 1, 2018 through March 31, 2019, 29% of our Underwriter Initiated Cancellations that ultimately took effect were due to our determination that the risk should have been written as a personal lines automobile policy or our inability to verify actual business use. Additionally, 11% of non-renewals of policies with 2018 renewal effective dates were not renewed for the same reasons.

   b. The validation of operator licenses

   Pilgrim has always adhered to Massachusetts licensing eligibility rules. A risk is not eligible for coverage if any person that regularly drives the vehicle(s) does not have a valid operator's license. Driver licensing status for all new business submissions, as well as all renewals of Non-Fleet PPT business is verified. Drivers that hold either a domestic license from a state other than Massachusetts or a foreign license are not eligible once they have resided in Massachusetts for one year or longer. Twenty percent of our non-renewals of policies with 2018 renewal effective dates were due to a failure to obtain a Massachusetts license.

   Submissions through our Agent Web application require a Massachusetts licensed operators' licensing status and date first licensed. Additionally, data calls are generated to obtain all accidents and violations as this data is used in our rating via a Driver Class Factor. Applicable third party applications are accessed to assure we are able to gather all pertinent driver information.

   Pilgrim's strict enforcement of the Massachusetts licensing eligibility rules relative to other servicing carriers contributes to Pilgrim receiving a smaller than 25% share of the program's exposures. We strongly believe that proper actions need to be taken to ensure that the playing field is level across all four servicing carriers regarding license eligibility validation.

c. The process in filing and obtaining approval for rates recognizing driver experience

For retained commercial automobile business Plymouth Rock/Pilgrim applies a Driver Class Factor when rating a risk. This factor utilizes the years of driving experience and driving records of each driver on the policy to first assign a Driver Level Class Factor. The Driver Level Class Factors are then used, through averaging, to calculate the Policy Level Driver Class Factor. We feel this is a much more accurate method of determining the appropriate rate for a risk. As mentioned above regarding the non-fleet PPT types, when we apply this methodology to other classes of business in an effort to retain the risk, there are cases where the ceded rate is lower and the risk will not take the voluntary offer.

7. Comment on the impact of information sharing efforts in 2018, including use of the Ineligible Risk Data Base.

Pilgrim suggested the concept of a shared database to CAR as we identified that there were different opinions among the Servicing Carriers as to what information regarding SIU investigations was proprietary and could not be shared. Prior to the implementation of the formal process, Pilgrim had established a dialogue with the other carriers through which we discussed processes and procedures and, in some cases, specific risks as they applied to these processes and procedures. CAR's counsel was asked to research the issue and opined that it is acceptable to exchange information among Servicing Carriers for fraud prevention, underwriting and eligibility purposes. Pilgrim had also suggested that the carriers "back-fill" the database with decisions that had been made or actions taken prior to the go-live date in late 2018. Our suggestion was not supported at the Committee level, but we believe the data we would have been able to contribute would have been very valuable to all carriers. Pilgrim's staff accesses the database for each new business and renewal. We continue to report a large number of items notwithstanding our significant re-underwriting and depopulation activity prior to the implementation of the database.

Additionally, those producers assigned to us that specialize in multi-state risks have been educated to run questionable risks by their Pilgrim underwriter prior to binding. This cooperation has resulted in several risks being declined at the agency, as the combination of the producer's vetting process along with the information in the database confirms they are not eligible for the Massachusetts residual market.

8. Describe other successes and/or challenges in 2018, including agency management and compliance issues as well as significant residual market activities:

Again, with a major focus being the multi-state bus risks, we identified those producers that were writing the majority of that risk type. We found that a significant volume was written through a single producer in Brooklyn, NY. We aggressively investigated these risks and continually warned the agent that if risks were not properly vetted, action would be taken. Our Underwriting Manager and an SIU Investigator met with this producer and explained what we were seeing and that we were working closely within the Servicing Carrier program structure to identify participants in what we believed to be an organized effort to fraudulently obtain coverage in the Massachusetts residual market. After our repeated warnings and experiencing our quick investigations that led to policies being cancelled for non-compliance with eligibility rules, the producer decided to turn in his stamp and is no longer writing business in Massachusetts.

The premium incentive for an insured to set up a sham headquarters in Massachusetts has resulted in a significant increase in the volume of both Division of Insurance ("DOI") complaints filed against us and hearings established by the DOI's Board of Appeal. During 2018, our cancellation, reclassification and rating actions related to these risks resulted in seven Board hearings, two subsequent Suffolk Superior Court civil actions, and four complaints that required responses. Pilgrim was not found to have acted inappropriately in any of these cases and none of the risks are currently insured by Pilgrim.

9. Servicing Carrier Program Recommendations for 2019:

   a. Provide input on any market concerns and/or identify any new conditions not currently being addressed by the Committee and provide recommendations to focus on these issues.

We are experiencing an increase in short-term rental vehicles being added to policies in what we believe is an attempt to cover the vehicle for physical damage. Hired auto physical damage coverage is not an available option in the residual market, and after denying to add these vehicles we receive rental agreements that indicate a 6-month rental term whereas it would previously have indicated "daily", "weekly" or "monthly". It has come to our attention from a representative in the rental business that they were advised that the lease term must indicate 6 months in order to gain access to insurance markets. There is no way for us to disprove that the insured's intent is not to keep the vehicle for six months or to deny claims coverage. There is also no penalty to the insured for turning the vehicle in early, like there is for traditional long-term leases.

   b. Provide suggestions, recommendations and/or solutions that would further control claims and service costs for 2019:

The addition of the certification and operator exclusion forms, along with enhanced standards and the Ineligible Risk Database, should help reduce the number of ineligible risks entering the residual market, thus reducing the number of investigations and cancellations that need to be defended. Although much progress has been made, we still believe that it would be beneficial to develop a more comprehensive new business application, one that could incorporate the information required on the new forms, as well as additional information. Similar to the requirement in the Taxi/Limousine Program to use an application designed specifically for the unique aspects of the program, a comprehensive application for the CSC program may lead to efficiencies that could result in reduced expenses. There are multiple examples being used by carriers in other states that we could leverage in our evaluation of this option. Also, we are encouraged by CAR's plan to have a comprehensive study of the rating plan performed to identify and rectify areas of inadequacy. Adequate rates should serve to minimize the incentive for out-of-state risks to attempt to gain access to the Massachusetts residual market.

C. <u>General Topics to be Addressed by the Servicing Carrier in the Annual Report</u>

Servicing Carriers are expected to comment on market conditions and experience both relative to the industry and specific to their company in the handling of commercial automobile residual market business during the 2018 policy year. Comment on the industry and your company's efforts, challenges and successes in handling business. (CAR has provided industry and company data report information to assist you in your evaluation and comments.)

1. Residual Market – Industry (Observed Trends and Issues)

   a. Market Conditions (general observations and comments)
      1) Deficit trending need
      2) Cession rate trending premium vs exposures

3) Classification and rating issues

The deficit has increased dramatically over the past four years. The increase can be attributed to both the increase in size of residual market -- a 64.5% increase in the number of exposures since 2010 -- as well as an increase in larger losses.

As the chart below illustrates, the cession rate decreased steadily during the first term of the CSC program from 2006 to 2011 before reversing over the course of the second term from 2011 to 2016.

Cession Rate as a % of Total Market Premium

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
25.4%	22.3%	19.0%	16.5%	15.1%	14.9%	15.6%	17.0%	18.7%	20.4%	21.8%	22.1%

Cession Rate % Change Year-to-Year (Premium)

'06-07	'07-08	'08-09	'09-10	'10-11	'11-12	'12-13	'13-14	'14-15	'15-16	'16-17
-12.2%	-14.8%	-13.2%	-8.5%	-1.3%	4.7%	9.0%	10.0%	9.1%	6.9%	1.4%

As the impact to the deficit of larger losses ($1 million and greater) is measurable and has been discussed thoroughly at various committee meetings, we will focus on exposure growth by Class Type. The chart below illustrates the increases, by Class Type, from 2010 to 2016 (end of second CSC program term) and then from 2016 to 2018. The data is taken from CAR's Commercial PDL Exposure Ratio report.

		Total Ceded Exposures			% Change	
Class Type	Definition	2010	2016	2018	2010 to 2016	2016 to 2018
21	REG TTT N-FLT	8,801	12,725	13,262	44.59%	4.22%
22	ZR TTT N-FLT	696	1,299	1,600	86.64%	23.17%
23	REG TTT FLT	4,209	7,879	10,359	87.19%	31.48%
24	ZR TTT FLT	1,570	1,636	2,261	4.20%	38.20%
32	COML BUSES N-FLT	1,008	935	794	-7.24%	-15.08%
33	VAN POOLS	132	159	199	20.45%	25.16%
34	ZR BUSES N-FLT	32	176	211	450.00%	19.89%
35	PPT BUSES N-FLT	746	1,519	916	103.62%	-39.70%
37	COML BUSES FLT	1,331	2,374	3,124	78.36%	31.59%
38	ZR BUSES FLT	219	751	973	242.92%	29.56%
39	PPT BUSES FLT	787	2,892	3,627	267.47%	25.41%
41	GARS SUB TO COMP LAW	3,552	3,425	3,518	-3.58%	2.72%
51	SPECIAL TYPES	2,223	2,100	2,005	-5.53%	-4.52%
52	COML MC	98	121	107	23.47%	-11.57%
81	PPT N-FLT	7,204	14,987	10,751	108.04%	-28.26%
82	PPT FLT	869	1,313	1,367	51.09%	4.11%
		33,477	**54,291**	**55,074**	**62.17%**	**1.44%**

Pilgrim brought to CAR's attention in 2017 that an early review of the business we took over from the prior servicing carrier revealed the book was heavy with risks, especially zone-rated buses, that up until a few years earlier were covered by policies written in a state other than Massachusetts. The data contained in the charts above and below illustrates the enormous growth in exposures for this business. The average number of zone-rated bus exposures, which historically have a cession rate approaching 100%, for 2006 through 2009 was 119. In 2010, the volume had more than doubled from that the prior 4-year average as exposures were up to 251 and it continued to grow steadily every year thereafter.

Grouping the Fleet and Non-Fleet data above, and focusing on the larger class types, we get a simplified look at the growth in exposures. The chart below indicates that exposures are up regardless of type.

		Total Ceded Exposures			% Change	
Class Type	Definition	2010	2016	2018	2010 to 2016	2016 to 2018
21,23	TTT N-FLT AND FLT	13,010	20,604	23,621	58.37%	14.64%
22,24	ZR TTT N-FLT AND FLT	2,266	2,935	3,861	29.52%	31.55%
34,38	ZR BUSES N-FLT AND FLT	251	927	1,184	269.32%	27.72%
32,37	COML BUSES N-FLT AND FLT	2,339	3,309	3,918	41.47%	18.40%
35,39	PPT BUSES N-FLT AND FLT	1,533	4,411	4,543	187.74%	2.99%
81	PPT N-FLT	7,204	14,987	10,751	108.04%	-28.26%
		26,603	**47,173**	**47,878**	**77.32%**	**1.49%**

Although much publicity and focus has centered on a few class types for the past two years, eligibility issues are not confined to just bus risks and non-fleet PPT types (which have decreased due to the actions recently taken regarding a producer that grew dramatically over the second term of the program). Our experience is that Massachusetts is an attractive state for risks in general, whether it is due to rate inadequacy or availability of coverages (or both). Continuing to tighten up eligibility should remain a major focus.

b. Concerns (comments)
   1) Rates
   2) Classifications
   3) Rating
   4) Eligibility
   5) Underwriting
   6) Rules

Pilgrim continues to contribute heavily to discussions designed to strengthen procedures and improve industry results. The following are a few issues we have discussed with CAR that we believe need to be addressed further:

- Hired Auto / Non-Owned Stand Alone Policies - CAR offers $1 million CSL coverage for very low premium. Additionally, although mutually exclusive coverages, AIB treats them as linked coverages and the minimum premium rule applies to the combination of the two coverages.

- Zone Rated Physical Damage Premiums - These are effectively capped by applying the "over $90,000" base premiums. In comparison, the non-Zone Rated rates add an additional premium per $1,000 of value. The significant potential premium variance can be an incentive for a risk to assert that they travel over 200 miles.

- Vehicle Operations in Massachusetts Requirement – Basing eligibility for a Massachusetts residual market policy solely on the fact that the Principal Place of Business is here, without an eligibility requirement that to some degree the risk must operate in the state, increases the chance for fraud. We also support the development and application of a rating factor structure to address percentage of operation in, or outside of, Massachusetts.

2. Servicing Carrier Performance and Results – Company

a. Quantitative:

1) Number, and percent of total, of policies taken voluntary over the year
2) Written premium taken voluntary during 2018

For policies effective in 2018, Pilgrim/Plymouth Rock retained a total of just under $323,000 in premium, with 45% of the total written as CAR ID 1 business (retained through ERPs) and 55% written as CAR ID 0 business that was previously ceded but taken voluntary in 2018 through producers that have voluntary appointments.

Business Taken Voluntarily in 2018

	New Business			Renewal			Total		
	Policies	Exposures	Premium	Policies	Exposures	Premium	Policies	Exposures	Premium
CAR ID 1	8	18	$35,183	36	48	$108,366	44	66	$143,549
CAR ID 0	14	26	$36,101	51	80	$143,341	65	106	$179,442
Total	22	44	$71,284	87	128	$251,707	109	172	$322,991

Our voluntary underwriting appetite does not span as wide a class type range as some of the other carriers and our voluntary rate plan, which utilizes a Driver Class Factor, often results in a voluntary rate that is higher than the ceded rate. The results for the business we take out of the residual market are very favorable.

3) Classification and rating efforts and results

As stated previously, we re-underwrite each risk prior to renewal to ensure that no criteria upon which we based the prior classification and rates changed over the past 12 months. Should we find that the current operation, operating territory, or other factor(s) have changed, we will address that prior to issuing the renewal. We endeavor to correctly classify and rate each risk.

Taking CAR's lead, we have focused on multi-state risks to ensure that we have collected the proper documentation to support the classification being applied. We have amended the radius of many multi-state risks from long-distance to intermediate, either due to documentation supporting such a change or due to the lack of requested documentation being provided to support the lower rated long-distance radius class. The increased premium upon renewal can motivate the insured to provide the proper documentation necessary to support the lower long-distance classification.

4) Provide year to year company results on trending classifications to indicate the effect of your depopulation efforts on those class types.

As stated in our opening comments, our focus has always been to control the size of the commercial residual market and to improve the results of the pool. The hot topic for the last couple of years has been the influx of bus risks purportedly moving their operations to Massachusetts to take advantage of our residual market's lower premiums and available coverages. It has been a major focus of ours to identify those risks that do not have their headquarters here and to take appropriate action (i.e. decline, non-renew, or cancel). We have been extremely successful in our efforts.

As the Company and Industry data provided by CAR illustrates, our total written exposures dropped by more than 1% while the remaining carriers collectively grew by 3.2%.

Total Exposures

	Pilgrim	Industry	Industry w/o Pilgrim
2017	11,032	53,846	42,814
2018	10,913	55,099	44,186
% Change	-1.1%	2.3%	3.2%

As mentioned previously, our total bus exposures have decreased by almost 10% while the volume for the balance of the carriers has increased by over 6%. Specific to our efforts as they apply to Zone Rated buses, our written exposures have decreased by 25.5% while the total exposures for the remaining three Servicing Carriers have grown by 33.3%. The total number of industry ceded exposures is not decreasing despite Pilgrim's considerable efforts. An informal review of our cancelled multi-state bus exposures reveals that approximately 50% remain insured in Massachusetts, with either the entire risk being written by another carrier or the vehicles having been added to other policies.

Zone Rated Bus Exposures

	Pilgrim	Industry	Industry w/o Pilgrim
2017	651	1,176	525
2018	485	1,185	700
% Change	-25.5%	0.8%	33.3%

We look at all risks for eligibility, not just bus risks. As summarized on page 2, while the residual market premium grew by over 10% from 2017 to 2018, the ceded premium managed by Pilgrim grew by less than 4%. CAR's 2018 redistribution estimated that Pilgrim could grow by almost 2,500 exposures to reach 25% of the market. The written exposures associated with Pilgrim's share of the pool decreased by 1% year-over-year while the industry grew by 2.3% and the other three carriers collectively grew by 3.2%.

b. Qualitative: (Comment on efforts)

1) Exclusive Representative Producer management (Identify number of ERPs with and without voluntary commercial auto contracts including number with a voluntary contract with your company)

Pilgrim currently has 235 assigned producers and has voluntary contracts in place with 52 of them. Periodically, we run a query to identify growth trends by class type for all producers. If our analysis indicates a major increase in exposure volume or a shift in the mix of class types being written, we can quickly take appropriate action. It also allows us to track the results of our depopulation efforts at a producer level.

2) Actions undertaken to address developing market issues or specific classification and/or rating issues.

We continue to work diligently to ensure that risks that belong in the private passenger automobile market do not stay in the ceded commercial market. Underwriter-generated policy non-renewals and cancellations for the risk being eligible for a private passenger policy represent 9% and 21%, respectively, of the totals issued. Additionally, we continue to take appropriate actions in cases where the overall risk is eligible for the commercial pool but a subset of the vehicles are not.

We focused on the producers that write heavier volumes of PPT vehicles, directing them to provide us with full driver listings as well as documentation to support the existence of a legitimate business operation. We are also now requiring CAR's Non-Fleet PPT Certification Form and Operator Exclusion Form. Our Underwriting Department worked closely with our Claims Department to educate the Claim Representatives on the new forms and how they could potentially impact claim payments.

3) Residual market losses (loss ratios/large losses/loss control)

Pilgrim has, throughout this report, detailed our efforts and quantified our results. We have been extremely successful in controlling both the volume and loss results of the pool. The lack of larger losses on the business we manage has contributed to some extent to our loss ratio results.

The data also reveals that the pool is not equitably divided among the four Servicing Carriers. Reasons for this include our depopulation success as well as inconsistencies among carriers as to risk eligibility enforcement and rating that have prevented the most recent producer redistribution from achieving the intended equity.

As the chart below highlights, Pilgrim's share of the residual market premium for the first two months of 2019 continues to lag considerably behind the desired 25% market share similar to the results observed for 2018.

PY 2019 Data

	Retained Source		Ceded Source			
	Voluntary Agent	ERP	Voluntary Agent	ERP	Total Ceded	% of Industry Ceded
Commerce	$14,953,979	$211,561	$6,045,227	$1,189,587	$7,234,814	27.07%
Safety	$12,738,082	$187,934	$4,535,048	$3,389,643	$7,924,691	29.65%
Arbella	$9,745,474	$24,569	$3,383,318	$3,061,483	$6,444,801	24.11%
Pilgrim	$1,727,182	$30,474	$1,860,048	$3,265,399	$5,125,447	19.18%
Industry	$39,164,717	$454,538	$15,823,641	$10,906,112	$26,729,753	100.00%

*Data from CAR Cession Volume Analysis - 2019 PY Data reported to CAR through February

Comparing the data above for the first two months of 2019 to the same period in 2018 reveals that the volume managed by Pilgrim is down 15.3% year-over year as compared with only a 2.1% decline for the industry and a collective 1.6% increase for the other three servicing carriers.

Additionally, although we do not have CAR data on exposure counts associated with the 2019 premium data above, we can safely assume that our share of the program's exposures is also well below 25% as both CAR data for the first two years of the current term (below) as well as our internal data back this up.

Total Exposures (% of Industry)

	Pilgrim	Industry	Pilgrim's % of Industry
2017	11,032	53,846	20.5%
2018	10,913	55,099	19.8%

Pilgrim has received over $1 million less in revenue in each of the first two years of the current CSC program term relative to our expected 25% share. All signs point to this continuing through year three of the term as we continue to effectively manage our portion of the program. We will be petitioning CAR for a future redistribution to rectify the ongoing revenue discrepancy.

Safety Insurance Company
Commercial Servicing Carrier Annual Report
2018 Review

Following is Safety Insurance Company's ("Safety") Commercial Servicing Carrier Annual Report for the 2018 review period ("Report"). For ease of reference, Safety will title and discuss items in this Report in the order set forth in the report template previously provided by Commonwealth Automobile Reinsurers ("CAR").

Specific Areas for Servicing Carrier Comment

1. Describe what efforts were employed in 2018 that sought to reduce the cession rate for all classes of commercial auto business (Response would address all areas of depopulation efforts i.e. voluntary writing, eligibility determination, renewal reviews, etc.):

   Safety reviews all eligible CAR business for placement in its voluntary commercial automobile program, both at new business and at renewal. Generally, Safety's takeout methodology is as follows:

   > ***New Business:*** Agents may submit new business to Safety for consideration as a voluntary risk. Additionally, all ceded risks are reviewed by Residual Market underwriters for potential voluntary placement.
   >
   > ***Renewal Business:*** All business renewing in the Servicing Carrier Program is reviewed to determine if such policies are eligible to be retained in Safety's voluntary program. In making this determination, underwriters consider the risk's loss ratio, operator MVR's and other voluntary market underwriting criteria.

2. Describe what efforts were employed in 2018 that sought to manage and control the cession growth in the non-fleet private passenger types and bus classes.

   In 2018, Safety implemented CAR-mandated standards for Servicing Carriers to determine whether a non-fleet private passenger type ("NF-PPT") risk is eligible for placement in the commercial automobile residual market and to validate the Principal Place of Business ("PPOB") of risks, particularly bus risks, using the amended definition of PPOB in the CAR rues, which incorporates the "Nerve Center" concept.

   Safety requires its assigned Exclusive Representative Producers ("ERPs") to submit a Non-Fleet Private Passenger Type (NF-PPT) Certification Form on all new business risks covering that vehicle type. The Certification Form must be signed by the insured, attesting that the information relative to the insured's stated business is accurate.

   In addition, Safety implemented in its voluntary commercial automobile insurance rating plan a Driver Experience Program, similar to the merit rating plan that Safety uses for private passenger automobile insurance risks, under which commercial automobile risks with NF-PPT vehicles are charged rates based on the operator's driving record. The purpose of this program is to deter individuals who really belong in the private passenger automobile insurance market from establishing a business for the sole purpose of obtaining a commercial automobile insurance policy, when the business does not truly exist.

Safety also utilizes underwriting tools and opportunities suggested by CAR to determine if a risk's PPOB meets CAR's "Nerve Center" guidelines. Whenever a multi-state bus risk application is received, the underwriter reviews the Secretary of Commonwealth's Corporations Division website to determine if and how the risk is registered in Massachusetts. In addition, the underwriter searches the Internet to determine if the risk has a website indicating Massachusetts operations and/or operations in other states. The underwriter also uses the Massachusetts Registry of Motor Vehicles ("RMV") system and Federal Motor Carrier Safety Administration ("FMCSA") filings to validate the risk's PPOB.

Safety additionally performs SIU investigations on all new and renewal multi-state bus risks to validate a risk's identified PPOB. Whenever Safety determines a multi-state bus risk (or any other risk) has failed to establish that its PPOB is in Massachusetts and, therefore, the risk is not eligible for placement in CAR, Safety cancels or non-renews the policy and shares that information through CAR's Ineligible Risk Database system to notify the other Servicing Carriers of Safety's action.

Safety holds all of its ERPs accountable for ensuring the NF-PPT and PPOB certification forms are submitted. It has created a tracking system to ensure that ERPs comply with CAR's new standards for validating a NF-PPT risk's operations, as well as the PPOB for multi-state bus and other risks placed in CAR.

3. Describe how the claims, underwriting and loss control functions integrate to address the following: (provide detail and/or examples):

   a. Policy (new and renewal) reviews and audits (by class)

Safety's residual market underwriting, claims and SIU teams work collaboratively to minimize losses and to ensure policyholders are not trying to avoid premium through fraud or misrepresentation. Safety's electronic Tip Sheet Program provides a quick and easy method for adjusters and underwriters to communicate issues that may affect policy premium, coverage or classifications. This interactive exchange of information ensures that the proper classification and premium is charged for the corresponding risk. Verified coverage issues result in premium adjustment or policy cancellation, as warranted. When material misrepresentation becomes evident, claim denial results in further cost savings.

Residual market underwriters also work closely with SIU staff to address risk eligibility issues, as dictated by the CAR rules, manuals and procedures, such as verifying a risk's PPOB to ensure it is in the Commonwealth of Massachusetts. All new and renewal multi-state bus risks, as well as all renewal trucker's risks, are subject to a SIU underwriting investigation. Other risk classifications, including NF-PPT risks also may be subject to a SIU underwriting investigation if the underwriter determines there may be potential fraud in the application. Based on these investigations, numerous risks have either been cancelled or non-renewed due to ineligibility.

b. Claim and SIU handling for large losses and resulting review process

Large losses are assigned to Safety's most experienced adjusters, and severe and catastrophic losses are assigned to Safety's staff field adjusters for investigation. If the loss location is outside the geographic region of Safety's staff field adjusters, Safety engages an independent adjustment company vendor to complete all necessary field work at the direction of the Safety adjuster. These high exposure claims are monitored by Safety's Claim Directors. Depending on the facts of loss and exposure, Safety also may retain experts to assist in the defense and mitigation of the claim. Additionally, as warranted, Safety will retain defense counsel to represent the insured and insured operator prior to the initiation of litigation, ensuring that proper defense strategies are employed at the outset. Claim reserves are established based on Safety's internal policies and procedures.

c. Class validation

To ensure a risk is properly classified, Safety uses various underwriting tools and inspections:

- Reviews Secretary of Commonwealth's Corporations Division website to validate the risk's location
- Reviews RMV system to validate the type of vehicle(s) and gross vehicle weight(s)
- Reviews FMCSA/SMS to validate a risk's radius of operations based on states in which the vehicle(s) was/were inspected
- Utilizes FreeMapTools website to validate radius of operations
- Reviews ISO inspections to validate a risk's operations and rating territory
- Conducts SIU underwriting investigation to determine if information provided in the application is accurate, such as, nature of operations and area of operations

d. Rate validation

Safety has procedures in place to ensure accurate rating and employs a manual rating department that solely focuses on determining proper rates. Safety completes comprehensive manual testing whenever rates are changed, including testing both Safety's policy processing vendor's (DXC) rates and EZ-Rater rates by manually comparing the approved rates set forth in CAR's rating manual with the rates that are generated by DXC and EZ-Rater. Safety selects numerous classes, territories, coverages, etc. to test to ensure that rates are correct.

4. Describe efforts and quantify results pursuant to compliance with Rule 10 – Claims of CAR's Rules of Operation which requires a Servicing Carrier to conduct audits on representative samples of policies to verify garaging and policy facts. Identify the number of audits conducted and the number of exposures and policies audited.

   Safety has a quarterly management oversight audit program that samples new business and renewal risks to ensure that underwriters are accurately verifying and applying the correct classifications, garaging and other policy facts. Safety also uses ISO to confirm that a risk's classification and garaging are accurate. Safety audits all multi-state bus and truckers risks to ensure accurate classifications, garaging and experience rating.

   Safety has an ongoing management authority referral program in which all risks with large premiums are audited by management to ensure that classifications, garaging, experience rating and other policy facts are accurate. Before issuing or providing a quote, the underwriter refers the risk to management for review and signoff.

5. Describe efforts and quantify results relating to the implementation of standards in 2018 for validation of a risk's principal place of business.

   Safety carefully researches and analyzes the indicated PPOB on new business risks to determine if the risk is eligible for placement in CAR. In July of 2018, Safety updated its internal procedures to ensure validation of a risk's PPOB as required by CAR's new "Nerve Center" standards.

   Safety utilizes the underwriting tools and opportunities suggested by CAR to determine if a risk's PPOB meets CAR's "Nerve Center" guidelines. Whenever a multi-state bus risk application is received, the underwriter reviews the Secretary of Commonwealth's Corporations Division website to determine if the risk is appropriately registered. In addition, the underwriter searches the Internet to determine if the risk has a website illustrating operations in Massachusetts and/or in other states. The underwriter also uses the RMV system and FMCSA filings to validate the location of the risk's PPOB.

   Whenever the location of a risk's PPOB is questionable, the underwriter requests a SIU investigation to verify whether the risk is headquartered in Massachusetts. Safety requests SIU investigations on all new and renewal multi-state bus risks to validate that the company's "Nerve Center", or PPOB, is located in Massachusetts. Whenever Safety determines that a multi-state bus risk (or any other risk) is not eligible for placement in CAR, the risk is cancelled or non-renewed and Safety shares that information with other Servicing Carriers through CAR's Ineligible Risk Database.

   On August 23, 2018, Safety sent an email to its assigned ERPs notifying them of the upcoming implementation of CAR's new PPOB Certification Form, which went into effect on September 1, 2018. Safety holds its ERPs accountable for ensuring that completed

PPOB Certification forms are submitted. Safety also created a tracking system to ensure that ERPs are in compliance with CAR's new standards for verifying a risk's PPOB.

Safety wrote [Redacted] ceded policies from September 2018 to December 2018, for which it received [Redacted] signed PPOB Certification forms, for an overall compliance rate of [Redacted].

6. Describe efforts and quantify results relating to the implementation of standards for non-fleet private passenger type risks relative to:

   a. The validation of the business entity

   Safety carefully researches and analyzes new business applications with NF-PPT classifications to determine whether the risk is eligible for placement in the commercial automobile residual market. In September of 2018, Safety updated its internal procedures to ensure that, for all new business risks submitted with a NF-PPT classification, it obtains one or more of the six documents identified by CAR to illustrate proof that the risk is a true business entity.

   Underwriters utilize the underwriting tools and opportunities suggested by CAR to determine if a risk is a legitimate business entity. For example, when a risk with a NF-PPT application is received, the underwriter reviews the Secretary of the Commonwealth's Corporations Division website to determine if the business is appropriately registered. In addition, the underwriter uses an Internet search engine to determine if the risk has a business website. The underwriter also reviews the RMV system to verify the risk's Federal Employer Identification Number (FEIN) and confirm the registered business name.

   Whenever the legitimacy of a risk's business operation is questionable, the underwriter requests a SIU investigation to verify that the risk is a true business entity. If the underwriting investigation indicates that the risk is not a true business entity, Safety cancels or non-renews the policy. Safety also shares its findings with other Servicing Carriers through CAR's Ineligible Risk Database.

   On August 23, 2018, Safety sent an email to its assigned ERPs notifying them of the upcoming implementation of CAR's new NF-PPT Certification Form, which went into effect on September 1, 2018. Safety holds its ERP's accountable for ensuring that NF-PPT Certification forms are submitted. Safety also created a tracking system to ensure ERPs are in compliance with CAR's new standards for risks with NF-PPT classifications.

   Safety wrote [Redacted] NF-PPT ceded policies from September 2018 to December 2018, for which it received [Redacted] signed NFPPT Certification forms, for an overall compliance rate of [Redacted].

b. The validation of operator licenses

As part of Safety's ongoing underwriting process, underwriters are responsible to confirm all operators listed on new business applications and endorsements have a valid operator's license. Underwriters have various tools they use to determine if an operator has a valid license. For operators licensed in Massachusetts, Safety uses the RMV system to validate that the operator's license is active. For out-of-state licenses, Safety uses LexisNexis reports to validate license validity. For foreign licensed operators, Safety requests a copy of the foreign operator's license and confirms its validity by comparing the license to specifications in an International I.D. Checking Guide manual purchased by Safety.

c. The process in filing and obtaining approval for rates recognizing driver experience

Changes to Safety's Commercial Automobile Insurance Rating Manual to incorporate a Driver Experience Program were filed with the Massachusetts Division of Insurance on April 24, 2019, and approved effective June 1, 2019.

7. Comment on the impact of information sharing efforts in 2018, including use of the Ineligible Risk Data Base.

Safety strongly supports the sharing of information among Servicing Carriers. In addition to sharing information through the CAR Ineligible Risk Data Base, Safety works directly with other Servicing Carriers to exchange information that is helpful to deter ineligible risks from obtaining coverage in the residual market.

8. Describe other successes and/or challenges in 2018, including agency management and compliance issues as well as significant residual market activities:

Safety is pleased that CAR has addressed some of the most challenging issues that all Servicing Carriers have faced in 2018 and prior years. These include increasing consistency of operations among Servicing Carriers, and the adoption of the PPOB and NF-PPT Certification forms and related verification procedures. Difficult issues remain, such as improving consistency in the underwriting and investigation of business operations among Servicing Carriers and validating operator's licenses, particularly those for foreign licensed drivers.

Safety works closely with its assigned ERPs to ensure they comply with CAR's rules, procedures and guidelines. It has created internal tracking systems and oversight procedures to ensure agents remain in compliance. If compliance issues are identified, Safety staff visits the agency to address the problem. If the compliance issue continues, Safety may pursue termination of the agent's ERP assignment.

Multi-state bus operations continue to be a significant residual market issue. As such, Safety continues to investigate these risks to ensure they are eligible to be placed in the residual market.

9. Servicing Carrier Program Recommendations for 2019:

   a. Provide input on any market concerns and/or identify any new conditions not currently being addressed by the Committee and provide recommendations to focus on these issues.

      Safety believes the Committee has done a good job identifying and addressing valid market concerns such as eligibility issues for multi-state bus risks and non-fleet private passenger type classifications.

      Massachusetts continues to be an attractive marketplace for multi-state bus risks due to relatively inadequate rates for the class, as compared to residual market rates for these risks in other states. Servicing Carriers will have to continue to be diligent in their investigation of all risks of this type to ensure that only eligible risks receive coverage through CAR.

      Safety would like the Committee to revisit the commercial residual market rating structure, particularly as to the multi-state bus class, to determine if there are appropriate mechanisms to increase rates such that they will become consistent with rates for that class in other states' residual markets.

      Through its tip sheet program, Safety has identified certain NF-PPT risks claiming to be a business entity such as a cleaning service or an accountant, but which actually are engaged in ride sharing services. Safety became aware of this situation because of a loss that occurred while the residual market insured was transporting passengers. If CAR determines that it is appropriate to provide coverage for this activity in the commercial residual market (outside of the Taxi, Limousine and Car Service Program), CAR could develop an endorsement to expressly provide such coverage for the appropriate premium, similar to those endorsements that currently exist in the voluntary private passenger automobile insurance market. Alternatively, if CAR determines that such activity should be excluded from coverage in the commercial residual market (outside of the Taxi, Limousine and Car Service Program), it could develop a mandatory exclusion form to make abundantly clear that such activity is not appropriately covered through CAR's Commercial Automobile Program.

   b. Provide suggestions, recommendations and/or solutions that would further control claims and service costs for 2019:

      See above response.

General Topics to be Addressed by the Servicing Carrier in the Annual Report

1. Residual Market – Industry (Observed Trends and Issues)

   a. Market Conditions (general observations and comments)

      1) Deficit trending

         Safety continues to see many new multi-state bus risks that try to enter the market that do not necessarily belong in the Massachusetts residual market. Safety believes this contributes to the growing deficit in the market.

      2) Cession rate trending

         Safety has observed the cession rate trending upward for the NF-PPT class of business. Safety believes this increase is caused by risks that rightfully belong in the private passenger automobile insurance market seeking and obtaining commercial automobile policies, either because they want to avoid higher premiums due to high SDIP points, or because they are not otherwise able to find coverage in the private passenger automobile insurance market. These risks ultimately are paying lower premiums in the commercial automobile insurance market.

      3) Classification and rating issues

         Safety has observed an increase in car hauler submissions and is initiating a SIU investigation for each such risk to confirm that the PPOB of the risk is in Massachusetts.

   b. Concerns (comments)

      1) Rates

         Safety continues to believe that rates for multi-state bus risks are inadequate, thus attracting these risks from nearby states despite their ineligibility. Safety also has concerns that zone rates are not as high as intermediate truck rates, despite the fact that zone rated risks travel greater distances and, thus, are more susceptible to loss.

      2) Classifications

         Issues related to the classifications that cause Safety concern (NF-PPT, truckers and multi-state buses) are being addressed by CAR.

3) Rating

Assigned ERPs can rate a risk by using Safety's upload system, Safety Express, or by requesting a quote from their Safety underwriter, who has several tools available to rate a risk, including Ez-Rater and manual rating through Safety's rating unit.

4) Eligibility

CAR has effectively addressed eligibility issues related to NF-PPT risks and PPOB concerns through the adopted certification forms and verification and documentation procedures. As discussed in detail above, Safety investigates these risks to ensure they are eligible to obtain coverage through CAR.

5) Underwriting

Safety has identified a trend in which multi-state bus risks which previously haven been cancelled or non-renewed for failure to have a PPOB in Massachusetts are selling their buses to another company or are selling/transferring the entire businesses to an employee in an effort to be eligible for coverage through CAR.

6) Rules

Safety suggests guidelines be developed to improve consistency among Servicing Carriers with regards to applying stated amount coverage and the issuance of pollution liability forms on the Motor Carrier Insurance Form (MCS90).

2. Servicing Carrier Performance and Results – Company

a. Quantitative:

1) Number, and percent of total, of policies taken voluntary over the year

[Redacted]

2) Written premium taken voluntary during 2018

[Redacted]

3) Classification and rating efforts and results

Safety conducts periodic audits of classification of vehicles and operations, as well as rating, to ensure accuracy. For example, Safety may audit all Bobtail risks to ensure appropriate classification and rating.

4) Provide year to year company results on trending classifications to indicate the effect of your depopulation efforts on those class types.

   Information not available.

b. Qualitative: (Comment on efforts)

   1) Exclusive Representative Producer management (Identify number of ERPs with and without voluntary commercial auto contracts including number with a voluntary contract with your company)

      [Redacted]

   2) Actions undertaken to address developing market issues or specific classification and/or rating issues.

      Please see comments in response to questions set forth above.

   3) Residual market losses (loss ratios/large losses/loss control)

      Please see comments in response to questions set forth above.