



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110
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**ADDITIONAL INFORMATION
TO MEMBERS OF THE GOVERNING COMMITTEE**

FOR THE MEETING OF:

Wednesday, June 19, 2019 at 10:30 a.m.

GC

19.11 Financial Audit Committee

The Records of the Financial Audit Committee meeting of June 12, 2019 are attached. (Docket #GC19.11 Exhibit #2)

The Records of the Financial Audit Committee meeting of June 12, 2019 have been distributed and are on file.

GC

19.18 IT Advisory Committee

The Records of the IT Advisory Committee meeting of June 13, 2019 are attached. (Docket #GC19.18, Exhibit #1)

The Records of the IT Advisory Committee meeting of June 13, 2019 have been distributed and are on file.

NATALIE A. HUBLEY
President

Attachments

Boston, Massachusetts
June 17, 2019



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RECORDS OF MEETING

FINANCIAL AUDIT COMMITTEE – JUNE 12, 2019

Members Present

Mr. Robert McKenna – Chair	MAPFRE U.S.A. Corporation
Mr. Matthew Anglim	Plymouth Rock Assurance Corporation
Ms. Pamela Bodenstab-Krynicky	P L Krynicky Insurance Agency
Mr. Thomas LaFrancois	Arbella Insurance Group
Mr. David McCormick	McCormick & Sons Insurance Agency, Inc.
Mr. Sean Moone	The Norfolk & Dedham Group

Substituted for:

N/A

Not in Attendance:

N/A

19.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Financial Audit Committee meeting of February 7, 2019. The Records have been distributed and are on file.

19.05 Independent Auditor Contract Review

The Committee evaluated the proposals of Stowe & Degon and AAFCPA to conduct the independent review and perform agreed upon procedures in order to express a review opinion of CAR's fiscal year 2019 Financial Statements. Mr. Robert McKenna advised that CAR's current auditor PricewaterhouseCoopers (PwC) chose to end its relationship with CAR because the engagement parameters no longer fit PwC's business model. He further advised the Committee that the CAR contracting policy requires a five year engagement term. However, Mr. McKenna noted that as CAR is replacing the existing auditor with a new firm, the Committee may recommend a shorter term for the first engagement to enable evaluation of the relationship if deemed appropriate. Finally, he noted that the Committee would review and consider the agreed upon procedures and proposed fee of the selected firm each year in accordance with current practice. For the record, Mr. David McCormick and Mr. Thomas LaFrancois disclosed their current interactions with AAFCPA as Audit Committee members of the Massachusetts Association of Insurance Agents (MAIA) and the Automobile Insurers Bureau of Massachusetts (AIB), respectively.

The evaluation began with an interview of each firm that focused on specific questions designed to highlight attributes that would qualify the firm for CAR's engagement. The interviews were followed by Committee deliberation to compare and contrast the bidder qualifications. The Committee discussed traits that would offer the best value for the CAR engagement including price, service, personnel, residual market experience and technology as crucial elements. The Committee recognized that both bidders are included on the Division of Insurance approved vendor list for financial transactions and are fully qualified to perform the requested services. The members acknowledged the \$30,000 difference in the two FY2019 fee proposals. However, the Committee noted AAFCPA's \$75,000 fee reflects their direct knowledge of pooling mechanisms as they are the current auditor of the Massachusetts Workers Compensation Rating and Inspection Bureau. Additionally, the Committee noted AAFCPA's more robust IT tools accessible for the review, depth of staff resources, and familiarity with the automobile insurance industry. Finally, most Committee members agreed that AAFCPA offered better value despite Stowe & Degon's lower fee proposal because AAFCPA demonstrated stronger expertise and familiarity with the industry.

After considerable discussion, the Chair polled the Committee members and observed that five members favored AAFCPA and one member favored Stowe & Degon. The Committee then voted unanimously to recommend that the Governing Committee appoint AAFCPA as CAR's independent auditor for the fiscal year 2019-2023 engagements.

MARK ALVES
Director – Compliance Audit

Boston, Massachusetts
June 17, 2019



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RECORDS OF MEETING

INFORMATION TECHNOLOGY ADVISORY COMMITTEE – JUNE 13, 2019

Members Present

Mr. Paul Brady – Acting Chair	Arbella Insurance Group
Mr. Paul Luongo	Plymouth Rock Assurance Corporation
Mr. Christopher Smith	Safety Insurance Company
Mr. Angelos Spetseris	MAPFRE U.S.A. Corporation

Substituted for:
N/A

Not in Attendance:
Mr. Steven Aronson, Aronson Insurance Agency, Inc.

17.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Information Technology Advisory Committee meeting of June 13, 2017. The Records have been distributed and are on file.

19.04 Mainframe Equipment Replacement

Mr. Peter McCabe advised the Committee that CAR's mainframe hardware, which was acquired in late 2011, has reached or is soon approaching its end of service date such that hardware maintenance and firmware code updates from the manufacturer will no longer be available. CAR's z114 mainframe processor will no longer be supported after 2020 and staff has temporarily negotiated with the manufacturer to extend the maintenance arrangement through 2019 for the storage component, which went end of service last March. Currently, CAR is not able to update its VM operating system to the latest release, as the newest version will not operate on this hardware. Accordingly, staff has performed an assessment of its current infrastructure model and has evaluated various options to replace the aging equipment.

Mr. McCabe summarized the efforts undertaken by staff to evaluate its mixed platform environment and to consider alternative platforms to serve CAR's business plan objectives to deliver cost effective service with maximum efficiency. Factors considered in evaluating options include hardware and software costs, resource costs for migration, availability of staffing skill sets, reliability of computing tools, and expectations with respect to vendor trends. Mr. McCabe concluded that the current model continues to deliver the most favorable solution for CAR, optimally satisfying its batch processing needs on the mainframe platform, and delivering easy-to-use, interactive website applications accessed by member company and agency users on a distributed(x86) platform.

After considering several alternatives, including third party maintenance on existing equipment and mainframe hosting in the cloud, staff is recommending the replacement of the mainframe components as the most cost effective solution to ensure uninterrupted service of its statistical agent and residual market functions. Staff is therefore requesting that the Committee endorse CAR’s infrastructure model and consider a recommendation to replace CAR’s mainframe equipment in fiscal year 2020. Mr. McCabe advised that, if approved, staff anticipates that the acquisition costs will be somewhat offset by the savings realized from eliminated maintenance costs on the current equipment. The anticipated budget impact is an increase of no more than \$30,000 annually, or 6% over CAR’s current mainframe operations budget.

The Committee members agreed that the proposed mixed-platform model best fits CAR’s current needs. While Mr. Paul Luongo opined that any discussion of computing platforms must consider an alternative cloud solution, he noted, however, that savings in a cloud environment are generated mainly through processing efficiencies. Further, he recognized that CAR’s computing needs are heavily data driven, and therefore a cloud environment would not be a cost effective solution in this case.

The Committee then discussed longer range planning and suggested that with its current model, CAR may face challenges in the future. CAR’s extensive COBOL program library was cited as the main factor. Mr. McCabe advised that CAR’s current programming staff is experienced in both .NET and COBOL development. However, he noted that staff is monitoring the development efforts of commercially available COBOL to C# conversion software products, which would allow future consideration of a migration effort, if warranted. Staff will continue to evaluate such alternatives, as well as the evolving state of technology, such that CAR will be prepared to apprise the Committee as it approaches its next mainframe replacement date.

Mr. Paul Brady then noted that, while staff is anticipating a small increase in its budget allocation as a result of this acquisition, CAR has realized savings as a result of staff extending the life of its current equipment. He estimated that, by maintaining the current equipment for an additional three years on a maintenance-only contract, CAR realized savings of approximately \$100,000 per year. After discussion, the Committee unanimously voted to endorse CAR’s current model and recommend replacement in fiscal year 2020 as proposed. The Committee directed staff to include in the record a tabular accounting of the net savings in mainframe costs since 2016, as reflected below:

	<u>Expenses by Year</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Processor	\$59,000	--	--	--	\$62,000
Storage	\$41,000	--	--	--	38,000
Tape	\$117,000	--	--	\$59,000	59,000
Maintenance		\$107,000	\$107,000	\$52,000	\$0
Software	\$289,100	\$291,500	\$303,500	\$307,500	\$284,800
Total MF Expense	\$506,100	\$398,500	\$410,500	\$418,500	\$443,800
Annual Savings over 2016		(\$107,600)	(\$95,600)	(\$87,600)	(\$62,300)
Cumulative Savings			(\$203,200)	(\$290,800)	(\$353,100)
2021-2024 Budget Increase					\$101,200
Net Savings					(\$251,900)

19.05 Personal Computer Acquisition

Mr. Peter McCabe advised the Committee that CAR's personal computers and laptops will be nine years old in September 2019. He noted that the devices run the Windows 7 operating system, which will no longer be supported by Microsoft in early 2020. Further, the processors in the PCs and laptops are not supported for any recent version of the Windows operating system, such as Windows 10. Accordingly, staff is recommending replacing approximately 85 devices at a cost of approximately \$125,000. This expense will be partially offset by maintenance cost savings on the existing equipment. Therefore, the acquisition will require a budget allocation not to exceed \$110,000. Mr. McCabe indicated that staff is requesting that the Committee recommend approval of the acquisition. If adopted, he noted that staff expects to include a request in its FY2020 budget proposal that FY2019 surplus funds be used for this purchase.

Brief discussion ensued relative to options including a multi-year approach. However, the Committee recognized that the end of support for Windows 7 eliminated that option. The Committee recommended that with this acquisition, CAR consider whether a shorter equipment turnover be considered, that may include staggered replacement in order to enable a level funded budget.

In light of staff's projected budget surplus position, the Committee recommended replacing the equipment all at once. Accordingly, the Committee voted unanimously to recommend Governing Committee approval of the proposed acquisition.

PETER McCABE
Vice President of Technical Operations

Boston, Massachusetts
June 17, 2019