



COMMONWEALTH AUTOMOBILE REINSURERS

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RALPH A. IANNACO
PRESIDENT

RECORDS OF MEETING

GOVERNING COMMITTEE – JUNE 23, 2010

Members Present

Mr. William F. Hofmann, III – Chairman	Provider Insurance Group, Inc.
Mr. William J. Cahill, Jr.	The Hanover Insurance Company
Mr. Andrew J. Carpentier	Quincy Mutual Fire Insurance Company
Ms. Karen A. Cora	Deland Gibson Insurance Associates, Inc.
Mr. Robert J. Cordner*	OneBeacon Insurance
Ms. Paula W. Gold	Plymouth Rock Assurance Corporation
Mr. Richard P. Jones	Leslie S. Ray Insurance Agency, Inc.
Mr. Raymond A. Lukas	Chase, Clarke, Stewart & Fontana
Mr. James M. MacPhee	Liberty Mutual Group
Mr. Robert P. Suglia	Amica Mutual Insurance Company
Ms. Marie-Armel Theodat	R. Theodat Insurance Agency, Inc.
Mr. Joseph A. Vargas	Vargas & Vargas Insurance

Substituted for:

Mr. John P. Friedman*

USAA Property & Casualty Insurance

Not in Attendance:

N/A

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10.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Special Governing Committee meeting of May 26, 2010. The Records have been distributed and are on file with CAR’s Secretary.

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10.03 President’s Report

Mr. Ralph Iannaco reported that the Governing Committee at its special meeting held on May 26, 2010, approved amendments to Rules 26, 28, 30, and 31. The proposed amendments were filed with the Division of Insurance on May 28, 2010. As of this date, the Division has not rendered an opinion and the 30 days will expire as of June 28, 2010.

Mr. Iannaco advised that CAR conducted four RFPs. The first being for an external auditor, five responses were received with three respondents interviewed by the Auditor Contract Review Subcommittee. For outside counsel, eight firms responded with seven interviews conducted by the Legal Contract Review Subcommittee. The Commercial Servicing Carrier Selection Committee interviewed each of the companies responding to the Commercial RFP. Subsequent to the Committee’s selection of

carriers to service the Commercial Automobile Program, CAR received several letters from companies and producers regarding that decision. Therefore, Mr. Iannaco suggested that agenda item 10.17, Commercial Servicing Carrier Committee, be reported on first.

Prior to the Commercial Servicing Carrier Selection Committee's report, Mr. William Cahill and Ms. Paula Gold requested that the Record reflect that they recused themselves from consideration of this agenda item.

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10.17 Commercial Servicing Carrier Selection Committee

Mr. James MacPhee reported that a meeting was held on June 1 and continued to June 3, 2010. At the June 1 meeting, Mr. Ralph Iannaco announced that two companies that responded to the Taxi/Limousine RFP are the current Servicing Carriers of the Program and staff had no operational issues that would hinder their reappointment. The Committee proceeded to discuss the merits of each of the respondents and voted unanimously to recommend to the Governing Committee the continuation of the Servicing Carrier appointments of Pilgrim and Safety Insurance Companies, for five-year terms commencing January 1, 2011.

It was the consensus of the Governing Committee to vote on this recommendation at the conclusion of the report.

Continuing, he stated that the Committee commenced discussion on the Commercial Servicing Carrier Program. Representatives from Pilgrim Insurance Company, Safety Insurance Company, Arbella Insurance Group, and The Hanover Insurance Company each provided an overview of their responses to the RFP to service the Massachusetts commercial automobile residual market. Each company highlighted their financial strength and expertise, integration, and capabilities of their claims, underwriting, and loss control departments, and the vested presence each carrier has in Massachusetts.

The Committee asked several questions focusing on how each carrier would handle out-of-state losses, various functions associated with multi-state risks, SIU referrals, systems and data accessibility, staffing adequacies, and depopulation efforts of each carrier. The Committee discussed an exception to the RFP expense allowances proposed by Arbella Insurance Group, which resulted in a \$13.00 per exposure decrease in the expense allowance for each of the five years. The Committee requested that each respondent be prepared to address the Arbella proposal following the final presentation.

At the June 3, 2010 meeting, representatives from Progressive Insurance Company, The Commerce Insurance Company, and Travelers Insurance summarized their proposals, emphasizing their financial strength, producer training, dedicated resources, integration of claims, underwriting, and loss control, and their experience with automobile residual markets including Massachusetts. Questions from the Committee for those carriers concentrated on premium-to-underwriting ratios, cession rates, depopulation of the pool, loss control activities, premium financing, automation of underwriting activities, system and data access, and strategies to prevent premium leakage.

Following those presentations, each respondent confirmed its ability to service the commercial residual market in accordance with the requirements of the Commercial Servicing Carrier Program, at the expense allowance proposed by Arbella, in their response to the RFP. Additionally, Safety proposed a \$28 per exposure decrease in the expense allowance and Hanover offered a \$14 per exposure decrease in the expense allowance. After significant discussion, it was the consensus of the Committee that the service levels may be compromised by a \$28 per exposure expense reduction over the term of the appointment. The Committee voted unanimously in favor of adopting the expense allowance pricing structure of \$350 per exposure for policy year 2011, \$357 for 2012, \$365 for 2013, \$372 for 2014, and \$380 for 2015.

Continuing, Mr. MacPhee stated that each Committee member evaluated and ranked the factors of each respondent's ability to perform the claims, underwriting, loss control, and operational functions associated with being a Commercial Servicing Carrier for the residual market. The combined results of the evaluation reflected that Arbella, Commerce, Safety, and Travelers received the highest rankings.

The Committee voted unanimously to recommend to the Governing Committee that those four companies be appointed as Servicing Carriers for a five-year term starting January 1, 2011.

The Governing Committee unanimously voted to approve the continuation of the appointments of Pilgrim and Safety Insurance Companies as Servicing Carriers to service the Taxi/Limousine Program, for five-year terms commencing January 1, 2011.

A motion was made and seconded that the Governing Committee approved the recommendation of the Commercial Servicing Carrier Selection Committee to have Commerce, Safety, Arbella, and Travelers be appointed as Commercial Servicing Carriers for five-year terms beginning January 1, 2011.

Discussion on the motion ensued. In answer to a question regarding the Commercial Servicing Carrier Selection Committee's decision to go from six carriers to four, Mr. MacPhee explained that Mr. Iannaco opened each of the sessions, noting that the volume of business written in the Plan, had declined from \$180 million, with a 23% cession rate and based on policy year 2009, there would be approximately \$96 million of premium to be distributed reflecting a 15.8% cession rate. Discussion ensued relative to the last time an RFP was conducted, the volume of business per carrier, and based on the previous ratio, four carriers could adequately service the business rather than six. The Selection Committee considered that as a given. The RFP had been issued stating that four carriers would be selected. It seemed reasonable, if the volume of the Plan was declining, than fewer carriers would be needed. The Committee did not deliberate or debate the issue.

The decision to reduce the number of Commercial Servicing Carriers from six to four continued to be discussed at length by the members of the Committee, with additional detailed statements presented from representatives of the Hanover, Pilgrim, Safety, and Commerce Insurance Companies as well as comments from members of the audience.

Following no further discussion, on a vote of five in favor and five opposed with two abstentions, the motion to have Commerce, Safety, Arbella, and Travelers be appointed as Commercial Servicing Carriers for five-year terms beginning January 1, 2011 failed.

Chairman Hofmann announced that in light of the failed motion and all the concerns/issues raised including the rewriting of the RFP, he recommended that the Commercial Servicing Carrier Selection Committee reconvene to address those issues and present its recommendation at the September Governing Committee meeting.

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10.04 Counsel's Report

Mr. Lee MacPhee stated that there is no pending litigation and there has been no comment from the Division of Insurance regarding the proposed rule changes as reported by Mr. Iannaco.

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10.05 Actuarial Committee

Ms. Natalie Hubley stated that Actuarial Committee unanimously approved the Records of its January 7, 2010 meeting. The Records have been distributed and are on file.

Continuing, Ms. Hubley reported that at the Actuarial Committee meeting of May 4, 2010, the Committee discussed the LAD assigned premium limitation in Rule 36.C. Staff presented its analysis of the provision to Rule 36 and reported that it had reviewed and confirmed the steps of that calculation with the Division of Insurance, and had determined that all LAD carriers are well within the limitation at this time. The Committee did note, however, that the example in Rule 36.C. should be clarified to eliminate any uncertainty in the determination of the LAD limitation and directed staff to draft Rule changes in conjunction with finalizing its recommendation relative to credits for policies effective April 1, 2011.

Mr. Ralph Iannaco distributed an email from Mr. Andrew Carpentier regarding the one percent voluntary market share requirement for an ARC to become a LAD carrier and requested that the Committee consider whether this restriction should be relaxed. He further questioned whether carriers who had previously expressed an interest in becoming LAD carriers be queried relative to their continued interest. The Committee agreed to continue this discussion at its next meeting.

The matter of clean-in-three credit provisions were discussed by the Committee. Staff advised that Rule 21.F. directs CAR to propose rules that will ensure the continued control of the size of the residual market after April 1, 2011. Rule 29.H. directs that CAR develop a credit mechanism designed to encourage members to insure voluntarily consumers who are "clean-in-three." The Committee began discussions on defining those Clean-in-Three Risks that require credits to encourage voluntary writing, as well as to consider some alternative mechanisms to accomplish this objective.

Several members suggested that the credit program should target those exposures that are eligible for the CAR ID Code 1, voluntary market share exclusion, which are written through former ERPs that have not yet received a voluntary contract. It was also suggested that the committee may consider postponing or eliminating the sunset provision of the current clean-in-three transition rule as an alternative solution. The Committee directed staff to prepare various data analyses in order that the Committee can continue its discussions at a later date.

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10.06 MAIP Steering Committee

Mr. William Cahill reported that the first item of business at the June 17, 2010 meeting was Rule 30 - Assigned Risk Company Requirements. Massachusetts Association of Insurance Agents President, Mr. Frank Mancini, urged the Committee to approve the amendments to Rule 30.C.1.d. that eliminates the sunset provision relative to an Assigned Risk Carrier's obligation to the producer of record on business removed from the MAIP and written voluntarily, noting that the legislative bill passed in the House of Representatives and is currently under review by the Senate.

The Committee voted to recommend to the Governing Committee the adoption of the amendments to Rule 30.C.1.d. with one opposed and the chair voting in favor of the motion.

Mr. Cahill moved adoption by the Governing Committee of the changes as recommended by the MAIP Steering Committee.

Following a lengthy discussion relative to Rule 30.C.1.d being filed with the Division of Insurance on three different occasions and being rejected by the Commissioner, the Governing Committee voted, with one opposed, to approve the amendments to Rule 30.C.1.d. as recommended by the MAIP Steering Committee.

Continuing, Mr. Cahill reported that as a result of the discussions at the Ad Hoc Violations/Penalties Committee meeting, the Assigned Risk Company Performance Standards have been reorganized into two categories. The Ad Hoc Committee further recommended a clarification to

Performance Standard B. Certificates of Insurance, to indicate that the certificates include SR-22 filings and expanded upon the premium dispute issue by adding Performance Standard F. Disputed Premium Recalculation. Ms. Susan Scott recommended that further clarification be made to the wording contained in the Performance Standard F. to emphasize that the ARC must issue an endorsement recalculating the premium within 15 days of the validation of an incorrect premium charge, rather than the validation of a premium dispute. Following discussion, the Committee voted unanimously to recommend to the Governing Committee the approval of the amendments to the Assigned Risk Company Performance Standards.

The Governing Committee voted unanimously to approve of the amendments to the Assigned Risk Company Performance Standards.

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10.08 Loss Reserving Committee

Mr. Joseph Cofield stated that the Records of the Loss Reserving Committee meeting of March 4, 2010 have been distributed and are on file with CAR's secretary.

The Committee set loss and loss adjustment expense reserves using data through March 31, 2010. The Committee projected a policy year 2009 private passenger ultimate deficit of \$9.8 million with a loss ratio of 107.2%, and a policy year 2009 commercial ultimate deficit of \$5.4 million with a loss ratio of 74.4 percent. The Committee also estimated a policy year 2008 private passenger ultimate deficit of \$52.7 million with a loss ratio of 105.3%, and a policy year 2008 commercial deficit of (\$1.4) million with a loss ratio of 69.3 percent. It also estimated a policy year 2010 loss ratio of 76.8% for commercial, at three months. Ultimate loss ratio and deficit projections for policy years 2009 and prior are detailed in the exhibits.

The Committee set loss and loss adjustment expense reserves for ceded taxi business, using data through December 31, 2009. The Committee projected a policy year 2009 ultimate deficit of (\$0.7) million and an estimated loss ratio of 67.3 percent. Ultimate loss ratio and deficit projections for policy years 2009 and prior are detailed in the exhibits.

The Committee discussed the need for a reserve opinion as part of a fiscal year 2010 audit and expressed concerns about best practices and the potential burden for domestic carriers that may require their own reserve opinion if the CAR opinion was eliminated.

In light of these concerns, the Loss Reserving Committee was in favor of informing the Audit Committee of its consensus to continue the practice of obtaining an actuarial opinion.

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10.11 Operations Committee

The Records of the Operations Committee meeting of January 20, 2010 have been distributed and are on file with CAR's secretary.

Mr. Edward Patrick reported on the meeting of June 8, 2010. He advised that staff informed the Committee that as a result of the various options available to companies for determining vehicle symbol, staff proposed the elimination of the Symbol Code field from the private passenger physical damage premium and loss record layouts for policies effective January 1, 2011. Changes to a number of pages from the Reporting Instructions Section, Coding Section, Record Layouts, and Decision Tables were provided to the Committee for its review.

The Committee unanimously voted to recommend to the Governing Committee that the proposed changes to the Private Passenger Statistical Plan to eliminate the Symbol Code field be adopted.

The Governing Committee voted unanimously to adopt the recommendation of the Operations Committee.

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10.15 Auditor Contract Review Subcommittee

Mr. Andrew Carpentier reporting on the May 11, 2010 meeting informed the Committee that the written report of the actions taken by the Subcommittee includes an action item for Governing Committee consideration. However, he advised the Committee of his concern that the Subcommittee did not perform a detailed evaluation process that included assigning rankings or values to any of the elements of the RFP. Rather, the individual members voted their preference for the outside auditor.

Therefore he recommended that the Auditor Contract Review Subcommittee reconvene in order to develop and perform an in depth evaluation process for CAR's outside Auditor.

The Governing Committee accepted Mr. Carpentier's recommendation to reconvene the Subcommittee and voted unanimously to table the report of the Auditor Contract Review Subcommittee until the September 15, 2010 meeting.

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10.16 Legal Contract Review Subcommittee

Mr. William Cahill reporting on the May 17 continued to May 19, 2010 meeting advised that the Subcommittee voted unanimously to recommend to the Governing Committee to continue to retain the services of the law firm of Morrison Mahoney as CAR's outside counsel.

The Governing Committee voted unanimously to approve the recommendation of the Legal Contract Review Subcommittee and authorized President Iannaco to sign a letter of engagement with the law firm of Morrison Mahoney consistent with their submission to the RFP.

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10.18 Ad Hoc Violations/Penalties Committee

The Records of the Ad Hoc Violations/Penalties Committee meeting of June 8, 2010 have been distributed and are on file with CAR's secretary.

Mr. John Kelly reporting on the Ad Hoc Violations/Penalties Committee meeting of June 8, 2010 advised that the Committee was charged with developing a penalty program applicable to ARC violations of the Assigned Risk Company Performance Standards. Working with staff, the Committee developed a two-tiered penalty program approach. One set of penalties would be the result of violations that impact insureds directly, and a second category of penalty assessment for those operational issues associated with managing the MAIP business.

The Governing Committee unanimously voted to adopt the recommendation of the Ad Hoc Violations/Penalties Committee.

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10.12 Personnel Committee

The Records of the Personnel Committee meeting of March 18, continued to March 23, 2010 have been distributed and are on file with CAR's secretary.

Mr. William Cahill reporting on the Personnel Committee meeting of June 23, 2010, stated that Mr. Iannaco, spoke to CAR's survey relative to the movement of salary ranges implemented by insurance companies represented on the Governing Committee for calendar years 2006 to 2010. The calculation of salary range movements for calendar year 2010 resulted in an average increase of 2.49 percent. In keeping with the methodology approved by the Division of Insurance and Governing Committee, Mr. Iannaco recommended that the annual salary range movement for both officer and non-officer positions be increased by 2.49% for calendar year 2010.

Following discussion, the Committee unanimously voted to recommend to the Governing Committee that CAR's salary range movement be increased by 2.49% for calendar year 2010.

The Governing Committee unanimously approved the recommendation of the Personnel Committee.

RALPH A. IANNACO
President

Boston, Massachusetts
August 27, 2010

ATTACHMENT LISTING

Docket #GC10.02, Exhibit #6


Attendance Listing

GOVERNING COMMITTEE MEETING
 SIGN-IN SHEET
 JUNE 23, 2010

Individual's Name

Company / Agency

PLEASE PRINT

Individual's Name	Company / Agency
Natalie Hubley	CAR
Valerie Bernin	CAR
	CAR
Marie Kellner	The Thruway
Quinn Gallagher	Forbes Gallagher
Greg O Grant	Hanover Ins.
Jay Huber	Hanover Ins.
Dennis Morris	Arbelle
Ron Clavess	EASTERN INS. GROUP
James Fleming	Travelers of Massachusetts
John Chobot	Plymouth Rock/SISGT
Greg Jaobi	BBDO
Katie Talley	GEICO
Joe Cotfield	Metropolitan
Michael DeCanti	Travelers
Paul Cileman	Safety
Mike Hossey	Safety
Chris Danton	Safety
Mike Cranney	Safety
Jason Allen	DOT
Wendy Browne	CHR
Rita Mahk	CAR
Don Beranicos	CAR
Paul Wessatt	Mass Urban Tax Agents Assoc

GOVERNING COMMITTEE MEETING
 SIGN-IN SHEET
 JUNE 23, 2010

Individual's Name

Company / Agency

PLEASE PRINT

Individual's Name	Company / Agency
Tom Costain	CAR
DAVID HANCOCK	mill city insurance
Janelle Harwood	DI
MARK ALVES	CAR
STEVE GARDNER	CAR
Richard Looney	Mass. Division of Insurance
Guangping Wei	Massachusetts state Division of Insurance
Marion Adgate	CAR
Dorothy daCruz	Commercial Ins. Agency
BILL HARTMAN	PILGRIM INSURANCE
Ken Willis	Plymouth Rock
Barry Tague	Pilgrim
Louis Palomeque	Pilgrim
JOHN METCALFE	CAR
Richard Dawson	CAR
Dr. E. A.	Gorman Ins Agency
Carl Sybister	Abelle
FRANK MANOINI	MAIA
SEAN CAHILL	MAIA
John Kelly	Compass Ins. Group
Edward Patrick	Safety
Summer D. Gilman	Mass. Urban Agency Assoc