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TRANSCRIPT OF GOVERNING COMMITTEE MEETING

A meeting of the Governing Committee of Commonwealth Automobile Reinsurers was held at the offices of CAR, 225 Franklin Street, Boston, Massachusetts, on

WEDNESDAY, NOVEMBER 16, 2011 10:00 A.M.

Committee Members present –

Mr. William J. Cahill, Jr. – Chairman
The Hanover Insurance Company

Mr. Paolo V. Abelli	Liberty Mutual Group
Ms. Carol M. Berthold	GEICO
Mr. David H. Cochran	The Commerce Insurance Company
Mr. Sumner D. Gilman	Economy Insurance Agency, Inc.
Ms. Paula W. Gold	Plymouth Rock Assurance Corporation
Mr. Richard P. Jones	Leslie S. Ray Insurance Agency, Inc.
Mr. Joseph P. Leahy	Leahy and Brown Insurance & Realty
Mr. Raymond A. Lukas	Chase, Clarke, Stewart & Fontana
Mr. Robert P. Suglia	Amica Mutual Insurance Company
Ms. Marie-Armel Theodat	R. Theodat Insurance Agency, Inc.
Mr. John P. Tierney	Quincy Mutual Group
Mr. Joseph A. Vargas	Vargas & Vargas Insurance

Substituted for:
N/A

Not in Attendance:
N/A

PROCEEDINGS

(Meeting began at 10:02 a.m.)

Mr. Cahill: Good morning, everyone. Welcome to the Governing Committee meeting for Wednesday, November 16th, we're pleased to have everybody here today. We do have a couple of just administrative announcements off the bat. I wanted to just recognize the new faces we have. We've gained a few more folks in the audience, so for their benefit. Dan Judson joins us today, his first official Governing Committee meeting as President. So, Dan, welcome. We're very pleased to have you here. Dan started as of November 1st in the employment of CAR, and so we welcome him today. Then we have two new Governing Committee members that joined us today. Carol Berthold from GEICO joins us. So, Carol, welcome.

Ms. Berthold: Thank you.

Mr. Cahill: And John Tierney from Quincy Mutual joins us as well. So, John, welcome, we're glad to have you join us. I might just acknowledge, too, Andy Carpentier had previously been serving on the Governing Committee and had been a long-time member, actually served a full six-year term back some time ago and then returned and served into his sixth year here now too. So we recognize Andy's service to CAR and thank him for that. I know everybody should have an opportunity to connect with him individually at some point, but I just wanted to make note of it here this morning. So that brings us to our formal agenda.

GC

11.01 Records of Previous Meeting

Mr. Cahill: The first item is the records of the previous meeting, which would be September 21, 2011. So a motion would be in order to accept those.

Mr. Jones: So moved.

Mr. Gilman: Second.

Mr. Cahill: A motion has been made and seconded with regard to the records of the prior meeting. All those in favor, please indicate by saying "Aye." Any opposed? Motion carries. That brings us to the President's report. Mr. Judson.

GC

11.03 President's Report

Mr. Judson: Thank you, Mr. Chairman. I'm pleased to present what I hope is the first of many President's reports to the Committee. I'll just reiterate the

Chairman's comments regarding our two new members. Nice to have people starting at about the same time I do. We can compare notes as time goes by.

The second thing on my report for this meeting is, we have a LAD agreement between Allstate and Pilgrim. CAR's staff has found no operational issues, which would impact the approval of the agreement between Pilgrim and Allstate. For your information, as of the latest valuation, based on data reported through August, Pilgrim is well below the volume limitation as outlined in Rule 36.C. We have also referred the agreement to outside counsel, and I will now turn to Rachel Davison to let us know if they have any issues with it.

Ms. Davison: We have reviewed the LAD agreement between Pilgrim and Allstate and the applicable Rules of Operation, and the agreement is in compliance with Rule 36, which relates to LAD agreements, including the amendments to Rule 36 relating to the termination of LAD agreements and servicing of policies following termination. So we see no legal impediment if the Governing Committee decides to go through with this agreement. So I guess this is an action item for the Governing Committee.

Mr. Gilman: Move adoption.

Mr. Cahill: A motion has been made.

Mr. Jones: Second.

Ms. Gold: Please note my recusal.

Mr. Cahill: Okay, Paula. Thank you. So we have a motion that's been made by Mr. Gilman and seconded by Mr. Jones. The motion has been made and seconded. Any questions with regard to this, comments. All those in favor, please indicate by saying "Aye." Any opposed? Okay. Motion carries.

Mr. Judson: Thank you, Rachel. The next item that I have to share with you all is, I think all the Governing Committee members have a copy of the Governing Committee meeting schedule for 2012. The meetings will be February 15, April 18, June 20, September 19, and November 14. The meetings will as usual, start at ten o'clock. Meeting dates and times are subject to change with, hopefully, advanced notice, and meetings will also be posted on CAR's web calendar.

The next item I have is to remind everyone who may wish to be appointed or reappointed to serve on CAR's advisory committees for calendar year 2012, please submit your request no later than December 9, 2011, to the attention of the Chairman, Mr. Cahill, at CAR's address. It is important to get those requests in by that deadline, because we do have to

have some interaction with the Division of Insurance with our committee appointments and recommendations.

The final thing, Mr. Chairman that I have just to comment on is to give everyone the status of the commercial rate filing. We have had some response from the Division of Insurance, and we are working with our consultant over at the AIB to respond to their comments. And because of the timing of their review and response to us, we are going to be having to move the effective date of January 1st. A notice was sent out to the Servicing Carriers, the commercial servicing carriers, and we'll know more about what the next practical effective date is once we've finished the dialogue with the Division of Insurance.

Mr. Cahill: Any questions for Dan with regard to the items in his report? Okay. Thank you very much.

Mr. Judson: A pleasure.

Mr. Cahill: That moves us to the next item, which would be the counsel's report. Rachel, do you have anything for us?

GC

11.04 Counsel's Report

Ms. Davison: I have no pending litigation to report, and any proposed changes to the CAR rules will be discussed in the various committee reports.

Mr. Cahill: Next would be the Loss Reserving Committee.

GC

11.05 Loss Reserving Committee

Mr. Judson: The Records of the Loss Reserving Committee meeting of September 7, 2011, have been distributed and are on file with CAR's secretary.

Mr. Cahill: Thank you. Next is the Operations Committee, and that would be Bruce. Welcome.

GC

11.07 Operations Committee

Mr. Cregger: Good morning, Mr. Chairman. Good morning, Mr. President and Committee Members. The CAR Operations Committee met on November 3, 2011. We do have four items to submit. I will go through these individually with the Committee for your consideration as action items.

The first item, 11.05, is Statistical Plan changes. The Committee discussed four changes to the Statistical Plan, the first involving the availability for optional reporting of combined single limit July of 2012, and mandatory policies effective 1/1/2013; an optional field for low-speed vehicles; a commercial name change from Owner-Repairman to Owner-Contractor; and a Class Code Decision Table update to the list for Class 9932 to apply specifically to physical damage.

The Committee reviewed the recommendations and unanimously approved to recommend those to the Governing Committee as an action item for adoption.

Mr. Cahill: A motion would be in order.

Mr. Jones: Move adoption.

Mr. Cahill: Okay. A motion has been made. Is there a second? David?

Mr. Cochrane: Second.

Mr. Cahill: Any questions with regard to this, Statistical Plan changes? All those in favor, please indicate by saying "Aye." Any opposed? Motion carries. Bruce.

Mr. Cregger: 11.09, final closeout of policy effective year 2000. CAR staff reviewed the ceded outstanding losses and confirmed that, for policy year 2000 that it only involves \$320,000, less than 250 claims. The Committee unanimously voted to recommend to the Governing Committee that the final closeout of policy year 2000 occur in the third quarter of 2011, reporting data, and for the January 2012 submission. The Committee proposes that this Committee consider adopting the closing.

Mr. Cahill: Okay. A motion would be appropriate.

Mr. Gilman: Move the adoption.

Mr. Cochrane: Second.

Mr. Cahill: Mr. Gilman has made the motion to approve this item. David Cochrane seconded it. Any questions or comments? All those in favor, please indicate by saying "Aye." Any opposed? Okay. Motion carries.

Mr. Cregger: Thank you. 11.10, elimination of AL3 format for FTP MAIP assignments. This item was reviewed by the Committee for elimination. There being only one carrier that is currently using the AL3 format, CAR's staff has been in contact with that carrier, and they indicated they could move from that FTP within the next six months.

Based on that information, the Committee unanimously voted to recommend to the Governing Committee that the AL3 be discontinued in six months.

Mr. Cahill: Okay.

Mr. Gilman: Move adoption, Mr. Chairman.

Mr. Cochrane: Second.

Mr. Cahill: The motion has been made and seconded. Any questions, comments? All those in favor, please indicate by saying "Aye." Any opposed? Motion carries.

Mr. Cregger: The last item that I have for this morning is 11.11, enhancements to the MAIP Placement Record Reporting. CAR's staff reviewed the MAIP Placement Record data. There was discussion regarding three options, one involving tightening the time frame for submission of the TX1; the second involving Rule 29, where a fatal edit would be created for a fourth-year MAIP Placement Record; and then finally, the staff would develop and continue to expand monitoring processes. There was some considerable discussion regarding this item in terms of those items that resulted in a final recommendation to this Committee, and I would like to just read this for clarity.

"The Committee unanimously voted to recommend to the Governing Committee that the Fatal Edit Code 1 - MAIP Reporting Window be modified so that Transaction 1 and 2 MAIP Placement Records are reportable for up to six months from the policy effective date."

The second item, "A new Fatal Edit be developed that will prevent a fourth-year renewal MAIP Placement Record from being reported." The Committee unanimously voted these two edits and submits for your consideration.

Mr. Gilman: Move adoption, Mr. Chairman.

Mr. Cochrane: Second.

Mr. Cahill: The motion has been made and seconded by Mr. Cochrane. Any questions or comments? All those in favor, please indicate by saying "Aye." Any opposed? Motion carries.

Mr. Cregger: Thank you. This concludes the report from the Operations Committee.

Mr. Cahill: Mr. Leahy.

Mr. Leahy: Bruce, I had a question on 11.04, the Operational Reports. I notice that Ms. Browne has indicated that Zurich has been consistently late in their

reporting and that assessments have been charged. Do you know how much that is?

Mr. Cregger: I would defer that to CAR staff.

Ms. Browne: The assessments vary from quarter to quarter, because there are five companies in the Zurich Group, and they can range, based on if all five companies are experiencing problems or just one and how many days late they are. However, you know, we are working with that company. They are aware of these penalties. We have been trying to encourage a more timely process, but it is what it is right now.

Mr. Leahy: Would it be helpful if we increased those penalties? Maybe that will get their attention.

Ms. Browne: The penalties were increased in 2010. So that was a more rather recent change, so I'm not sure if that really is possible.

Mr. Cahill: Joe, could I offer a suggestion? I'm glad you actually took note of that. I did as well. And this was a suggestion I had informally with Dan, which was -- Dan actually was serving as outside counsel to CAR at the time. We had pretty significant penalties that had built up with this particular carrier, and there was a settlement that was negotiated. I was hopeful that we weren't headed down a similar path and suggested to Dan, particularly just coming on board, I know staff has been so involved in this, but if he could take a look at it with his past knowledge and bring back to the Governing Committee if there is anything he feels we should end up doing, probably bring it through Operations if necessary. But that might be a way to sort of, you know, address your question now or concern, to put it in Dan's lap.

Ms. Browne: If I could clarify one thing. The penalties that were associated with the settlement a couple of years ago were on the residual market side. Zurich is no longer a Servicing Carrier. So the penalties that are presently being assessed deal with the statistical report. So it is a different situation.

Mr. Cahill: Okay. Thank you. Do you have any --

Mr. Leahy: Fine. I mean, we've got to resolve this problem, especially if it's holding up your work.

Ms. Browne: No. The data is reported. It's just not reported timely.

Mr. Cahill: My suggestion is, why don't we leave it with Dan, working with staff. If there is something they feel needs to be brought back to the group, they can do it through the Operations Committee and bring it back up here, if that's a way to deal with it.

Mr. Leahy: Fine.

Mr. Cahill: I appreciate your taking note of that. Bruce, I think we're all set, unless you have any further comment?

Mr. Cregger: Thank you.

Mr. Cahill: That brings us to the Actuarial Committee and, I think, Joe Cofield. Welcome, Joe.

**GC
11.13 Actuarial Committee**

Mr. Cofield: Thank you, Mr. Chairman. There's a report around the table. Everybody has an executive summary. We had three meetings: September 27, October 18 and November 8.

Mr. Cahill: Joe, can I just ask, so we have this summary that's been given to us. Do we have this in the audience too, by chance?

Ms. Hubley: Yes.

Mr. Cahill: So everybody knows what Joe's looking at. Okay. Thanks.

Mr. Cofield: Then some of the prior documents that were distributed to the Governing Committee are actual minutes of our meetings, as well as some of the rule language that we will be referring to from this report. I have three action items for your consideration. The first item, I believe I presented this back at the June Governing Committee. Basically, it just had to do with some clean up on the language relating to Rule 36, the LADA agreements. So, what we're looking for today is approval to send these rule changes over to the Division that represents certainly the LADA and the Servicing Carrier limitations.

Mr. Cahill: Joe, can I just ask, which meeting did you actually take that up at as an action item?

Mr. Cofield: The Actuarial Committee, we did this -- we talked about it at our May meeting, and then at our subsequent meetings we drafted the rule language.

Mr. Gilman: Move adoption, Mr. Chairman.

Mr. Cahill: Is there a second?

Mr. Jones: Second.

Mr. Cahill: The motion has been made and seconded. Any questions with regard to this particular item, the LADA agreements? All those in favor, please indicate by saying "Aye." Any opposed? Motion carries.

- Mr. Cofield: In a related note, we also made some changes to Chapter IV of the Assigned Risk Company Procedures Manual related to this very topic, so that we're looking for your approval on that as well, to send that over to the Division.
- Mr. Cahill: So that would be a separate action item.
- Mr. Gilman: Move adoption.
- Mr. Cahill: Is there a second?
- Mr. Jones: Second.
- Mr. Cahill: The motion's been made and seconded. Questions or comments? Hearing none, all those in favor, please indicate by saying "Aye." Any opposed? Okay.
- Mr. Cofield: The next agenda item really deals with every year we do our annual credit offer. We've had a number of meetings this year, and one of these topics I brought to you at the June Governing Committee. I'll get to that in a couple of minutes. We look at it every year. We try to see how many total credits we'll keep in the system potentially. Some of the items we look at each year are take-out credits. This year we're proposing recommending that policies with a three-year MAIP assignment period that is expiring are not eligible for credits. This is consistent with the new procedures put in place by the MAIP Steering Committee requiring 120 days notice to producers who are going to be non-renewed, so that their insureds may obtain coverage in the voluntary market. The motion passed, with nine members in favor and one opposed, to draft the language accordingly.
- So I don't know if you want to talk about that in concept and then approve the language later, but basically, the issue here is, if we take a policy out, after the first 12 months or the first 24 months, take-out credit applies. If the policy is now in its 36th month, there is no take-out credit, because it's no longer that company's assigned risk policy any more. It presumably is going to the voluntary market or will be assigned somewhere else.
- Mr. Cahill: Joe, can I make a suggestion? I think it would be helpful if you sort of walk through this, because I haven't had a chance to read this. It was just handed to us this morning. What I did read is all of the records from the three different meetings. So I'm trying to line this up. But I think it might be helpful if you sort of walk through. And we can go back and take them individually, but if you could just sort of give the whole review, it would be helpful. Does anybody disagree with that approach? Okay.
- Mr. Cofield: So the take-outs?

Mr. Cahill: Yes.

Mr. Cofield: All right. I mean, basically, what happens is, a policy is assigned to a company for up to three years, and recall that we just made some changes that there is no fourth-year renewal of a MAIP customer. So at every policy expiration, a company can take that risk out, and we've got a credit for it. The intent there was so as not to penalize the company if the company would be reducing its MAIP volume, and then we get -- otherwise we would get an assignment in place of that. If they're actually taking the risk out, we're trying to reward that behavior, and they would not get a replacement MAIP policy. So at the 12-month mark and at 24-month mark, that's when the credit would apply. Now, by the time we come up to the 36-month mark, that policy is no longer -- it's going to automatically go back to the company that's servicing it today. That's consistent -- that's why the MAIP Steering Committee just set out the requirements of -- to require 120-day notice to producers when the ARC is intending to non-renew the risk and give those risks ample opportunity to seek voluntary coverage. That was the vote we had and the motion passed with nine in favor and one opposed. And the rule language amendments are basically stating that the company will receive take-out credit for risks previously insured through the MAIP if the policy is written voluntarily at the expiration of either the initial policy term, the 12-month mark, or the first renewal, the 24-month mark. That's the intent of the motion.

Mr. Cahill: Okay.

Mr. Cofield: Do you want to take these by item, or do you --

Mr. Cahill: I'm trying to -- I'm trying to line this up, because these are even out of order from the way that they were taken up by the committee in the records, right?

Mr. Cofield: I suggested this order, because I figured the last two items would generate more discussion than the first two.

Mr. Jones: I wonder if it might be helpful to just go over all the changes at a high level and then take them up one by one. I think that's what you were --

Mr. Cahill: That's where I was really going. Rather than trying to --

Mr. Jones: Rather than just dive deep, go through all of them, and then we'll dive deep.

Mr. Cahill: Right.

Mr. Cofield: We're talking about the take-out credits, the clean-in-three credits or clean-in-three protections, and then the actual voluntary credits. That's what you're probably seeing every year. We're deciding which class/territory cells are going to get a credit when the company writes

them in the voluntary market. The reason we're doing it all at once is because, when we did all our analysis and decisions, we were trying to figure out the cumulative impact on the system of all these changes, as opposed to doing, say, one in June, one in September. That's why it comes all together at the same time.

Mr. Cahill: So are you going to continue going through these or -- I'm trying to figure out where we are, Joe. I'm sorry, but this is a little confusing.

Mr. Cofield: What I went through is just the take-outs.

Mr. Cahill: Right. So now, you're going to move to clean-in-three?

Mr. Cofield: Unless -- I don't know if you wanted to talk about each item individually?

Mr. Cahill: David, do you want to make a suggestion?

Mr. Cochran: You look like you're not comfortable. So I was trying to -- whatever way you want. I think the take-out credits is an easy one. I think that's logical, if we can make a motion and get it out of the way. Or do you want to hear all of them? I mean, I think -- I would like to hear all of them, personally.

Mr. Cofield: All right. Mr. Chairman, I was going to suggest doing them individually, because I believe the next two items, at least one of them, will generate considerable discussion, just so you're aware.

Ms. Theodat: We can table the discussion until a later time, until after --

Mr. Cahill: What we can end up doing is, you walk through your overview. We can certainly go back to David's point if the first one is -- we'll be able to go back and take that one out, and then we can deal with the other two. But why don't you just walk us through.

Mr. Cofield: The next item we talked about was the clean-in-three credits. Now, this was the one I also came back -- I came back in June as well and presented in concept what we were thinking of doing. At that time, we were recommending the restriction on non-renewal business be eliminated for Clean-in-Three Risks, except those written through producers without a voluntary contract as of April 1, 2008. Further, we recommended that the voluntary market share exclusion, pursuant to Rule 29.B, also continue for those risks. At that time, it was estimated that about 175,000 exposures would be eligible for these non-renewal constraints and the voluntary market share under this proposal. The Governing Committee expressed concern relative to adequate access to the voluntary market for the urban territories and also questioned whether we considered were the CAR ID Code 1 risks equitably distributed by company. So the Governing Committee sent it back to us. We reviewed some additional data. We agreed that most Clean-in-Three Risks will likely find voluntary coverage in the competitive marketplace,

particularly for those risks written through producers who have received a voluntary contract. However, this Committee expressed concern that current restrictions on MAIP placement of this business should sunset in a more gradual manner.

After considerable discussion -- I just would mention that, when we looked at the loss ratio of most of this business in the voluntary market, it was around 60 percent. So the feeling was that the voluntary market would aggressively compete for that business. After considerable discussion, the Committee voted unanimously to recommend a gradual sun setting of the non-renewal constraint for Clean-in-Three Risks. Clean-in-Three Risks with policies effective April 1, 2012, through March 31, 2013, written through producers not having voluntary contracts as of April 1, 2009, will still not be eligible for non-renewal, if you will. In other words, if you look at that chart down below, about 93,000 units for the next quota year will not be -- will still be protected from non-renewal.

The second set, Clean-in-Three Risks with policies effective April 1, 2013, through March 31, 2014, written through producers not having voluntary contracts as of April 10th, may not be non-renewed. So now what we did, Mr. Chairman, is move the cut-off date in order to accommodate the sun setting. So the 93,000 units that are going to be protected for the next 12 months will decrease down to about 18,000 units starting with April 1, 2013. Finally, our proposal eliminates this restriction on clean-in-three non-renewals for all policies effective April 1, 2014, and later and continues the MAIP quota share voluntary market share exclusion for those Clean-in-Three Risks to which non-renewal constraints apply. So, as you can see, 93,000 units will be protected from April 2012 to March 2013; then 18,000 units will be protected from April 2013 to March 2014; and then after that, there will be no more protection. So that's what this proposal is about.

The last item, and there was a lot of discussion around this one, what we're going to do for voluntary market credits. The CAR staff looked at a lot more data this year than I think we have in the past. We entertained eight different proposals, all with variations on some common themes, and it produced credit premium decreases ranging from about 1/2 percent to almost 21 percent. A lot of the discussion deals with what's the right number of credits. I think generally the Committee felt there were too many credits. It was noted the current quota share has about 200 million of assigned risk premium and 500 million credits. We don't really know what the right number is. I think we all would say, when we first did this, we didn't have -- it was a first guess at the MAIP premium. We probably ended up with a little too many credits. We're working to gradually reduce that. So while there was general agreement that we should reduce it, not everybody agreed on what the size of that reduction should be. We considered various proposals that might look at the weights we were actually using in the cells. A lot of those proposals really had no change to the actual credit factors. The other big thing we

looked at was, well, what size in a cell, what percent of MAIP population should get a credit. Today, the 2011 credit offer is using a cut-off of 5 percent. We looked at possibly increasing that to 6 percent or even 7 1/2 percent. And then the third item was, well, what about cells that might lose their credits? Should we be a little more gradual in how we treat those? Again, I would just point out there was a lot of discussion, well because of all these credits the MAIP is small. We really don't know the answer to that yet. The point was made that we reduced credits last year, and the MAIP size is still about the same. So it's not necessarily that if you increase credits, the MAIP automatically goes down, or if you decrease credits, the MAIP automatically goes up. We even looked at one multicolored exhibit that showed, in the credit-eligible cells this year, what happened relative to last year and, you know, if the credits increased, if the MAIP population decreased, and vice versa. So we sharpened our crayons, and everybody pretty much stayed in the lines. About 55 percent of the time, where you increase the credits -- I'm sorry, if you change the credits, the effect on the MAIP population was consistent. So if we increased credits, the MAIP population went down; if we decreased credits, the MAIP population went up. But that was only 55 percent of the time. So it doesn't even follow that every time you increase a cell, it automatically goes up or down. It just depended on the market. So our first motion at this meeting was, we've got a credit offer, eliminating credits altogether, where the residual market share is less than 6 percent, but we didn't change any other credit factors. This resulted in reduction in credit-eligible exposures of about 8 percent and a reduction in credit premium of almost 13 percent.

The motion failed, with five members in favor and five opposed. The opposition, basically, was concerned with the elimination of credit in certain cells and just wanted a more gradual transition to avoid market disruption in those areas. The second motion was then to recommend adoption of what we called the hybrid Safety/Liberty Mutual proposal. This is where a cell was indicated to go to zero, because it was a less than 7½ percent MAIP population rating. We limited that change to 50 percent of the indicated change, just as a way to temper it. So now if a year from now it also suggests no credit is warranted, then it will probably go down to zero or cut down 50 percent again. It's just a more gradual way to introduce that decrease. This results basically in no change to the credit-eligible exposures, and credit-eligible premium goes down about 10 percent.

The motion passed eight in favor and two opposed. The two opposed, I think, felt, basically, that the change was too large of a decrease in credits. That's a combination of the three recommendations.

Mr. Cahill:

Okay. I understood better, now that we've taken the time, that the first item was more of a refinement, as David pointed -- you characterized it as more of a simple, less controversial change, right?

- Mr. Cochrane: Yeah. I'm not sure how (inaudible), but the take-out credit is just logical. There's no sense giving someone credit for something they have to do.
- Mr. Cahill: So, one suggestion might be, since we've walked through -- and I do note that the last piece here is the proposed rule amendments. Those actually are the pieces that follow with the change as you described it.
- Mr. Cofield: Yes. Those were attached to probably the minutes of our meetings. That was already distributed in the packet with the executive summary.
- Mr. Cahill: Right. So one idea might be to go back and deal with the take-out credit item, if people are interested in doing it that way. I have better comfort, actually, having had a chance to read it along with your description. David, do you want to bring us back? We need an action item to take any one of these up, a motion.
- Mr. Cochrane: A motion to approve the recommendation on take-out credits.
- Mr. Gilman: Second.
- Mr. Cahill: The motion has been made and seconded with regard to the Actuarial Committee's proposal on take-out credits. Questions or comments with regard to that? Anybody at the table have a question or comment? I have one hand in the audience. Jason, do you want to come up and just address the group here.
- Mr. Calianos: Jason Calianos, Mass. Urban Agents. Just in general, in the line of take-out credits -- and I was at the Actuarial Committee. They do have a Herculean task, they really do, and I can see why there is so much back-and-forth between the Governing Committee and the Commissioner. Anyways, in general, I don't -- the concept of reducing or eliminating credits where there are disproportionately assigned risks to urban areas just doesn't seem to make sense. I don't see how those risks are going to be -- how anybody is going to want to take those risks if you eliminate the credits. As far as the take-out credits, as I understand it, the question is -- it's assigned to MAIP for three years. Why should any company be penalized if they wait for the third year to take the credit -- to take the risk out? I always envisioned that the company, on the third year, makes its final decision under the MAIP. It's assigned for three years. So even in that third year, if I'm understanding the language correctly, if they waited until that third year to make that decision to take it voluntarily, they would be penalized because they wouldn't be able to go for the take-out credit? Is that correct?
- Mr. Cahill: You're characterizing it as penalizing, but --
- Mr. Cochrane: It's not a penalty. The question is, should you be rewarded for something you don't have any option for. At that point -- Joe can speak to it probably better than I -- at that point, that risk is no longer theirs. They waited three years. It's already gone. It's going to be reassigned, or

somebody else is going to take it. So you don't have an option. Why should you be rewarded for not doing anything?

Mr. Calianos: So the question is at the third year, can the company take the risk voluntarily?

Mr. Cochrane: Sure.

Mr. Calianos: So they still can make that decision in year three to take the risk voluntarily.

Mr. Cahill: Right.

Mr. Calianos: But if they waited for that third year, they wouldn't be able to have a credit.

Mr. Cahill: Correct.

Mr. Cochrane: Well, you get a credit – no credit on the risk. You don't get a take-out credit if you are not responding to the incentive; you're just responding to the loss of that business.

Mr. Cahill: Further questions? Any other comments or questions with regard to this particular item? Motion has been made and seconded. All those in favor, please indicate by saying "Aye." Any opposed? Motion carries.

That moves us on to the clean-in-three credits. So Joe has given his preliminary comments. It would probably be appropriate, is there a motion?

Mr. Cochrane: It's not really credits, right? I mean, it's more a removing the --

Mr. Cofield: Not counting in your quota share.

Mr. Cochrane: I mean, right now those risks aren't counted, because there's this other rule that forces you to keep them voluntarily. So it's a matter of just, are you going to count these as risks written by a company or not. They're not really a credit.

Mr. Cahill: So would you like to fashion that into a motion that --

Mr. Cochrane: Sure. I'll make a motion to approve the phase-in schedule for counting those exposures.

Mr. Cahill: Is there a second?

Mr. Jones: Second.

Mr. Cahill: The motion has been made and seconded. Sumner.

- Mr. Gilman: Mr. Chairman, there's an additional agenda item for Actuarial?
- Mr. Cahill: Yes.
- Mr. Gilman: Would now not be the appropriate time to take it up, since it has to do with Clean-In-Three?
- Mr. Cahill: Well, what we have is we have -- Sumner is making reference to a letter that was addressed to me, and we distributed it as soon as we got it, from Mr. Calianos. And certainly we would invite Mr. Calianos to speak to this question now that we have an action item up on the table for discussion. So certainly you're welcome to do so. Did you want to speak to it specifically?
- Mr. Gilman: I'll defer to Jason, and then I'll speak to it.
- Mr. Cahill: Okay. Jason, would you like to speak to it? Welcome back.
- Mr. Calianos: You have the letter. I think the letter pretty much speaks for itself. It is really referencing the Commissioner's language in reference to the Clean-in-Three Risks. The Commissioner really makes it clear in his December 2, 2010, letter that he wants alternatives for minimizing the likelihood that such risks will end up in the MAIP.
- In 2014, if an agent does not have a contract, those risks will end up in the MAIP. I can guarantee that. The agent will fight hard to make sure that those risks are retained. That's what we have to do. I don't see what is changed from 2010 to 2014. If the agent still doesn't have a contract and the stated goal is that those risks do not end up in the MAIP, why would you get rid of the provision in 2014?
- Our original request, when we first brought it to the Actuarial Committee, was to eliminate it indefinitely. But until such time, the agent had a contract or a brokerage agreement that could sufficiently deal with those risks. And I think that should be the stated goal of this Committee.
- Mr. Cahill: David.
- Mr. Cochrane: I guess two things. One is that the clean-in-three protection of those risks - we're talking about a phase-out schedule for it to go away. It's going away. I mean, it's shrinking through time. Every year clean-in-three cancels from the agency or has an incident, the clean-in-three gets smaller. So it's already shrinking. These counts are probably overstated by 50 percent. So we're not talking about will it go away. We're talking about the schedule for it to go away. But to me it's, you know, you want to expose -- at some point we've all been exposed to the voluntary market. There's no managed competition system to this whole process. Those risks, I think, if you put it out there, it will be exposed to those pressures, the good and bad. I mean, I think the good part of it is that,

now, that company would have a reason to try to deal with that broker and say, "Wait a second. If I don't make some kind of contract, I'm going to lose all those risks." And if they're really profitable, then you'll see some contracts. I don't want to say everybody's going get a contract, but you would force that competitive event to occur that won't occur if that risk is just automatically left in there.

The other thing I'll just say is, the other side of the agents' side -- you've got to worry about the consumer -- but the company side of this. I mean, I don't know our numbers, but we probably have half of these. So if you really want to say that these should stay forever, you really should physically redistribute them, right? I mean, you would want us to only pay our share, just like you only want to have your share. So if in fact it's locked into that we're going to keep it forever, you would really have to go, you know, share it around to everybody. I want all my friends to take a share of those also. And that's not something we want either.

So I think you have to let the market, the whole thing -- there is a phase-in schedule, but there is a repercussion; if you tried to leave it in, I think you've really got to deal with physical redistribution or you create inequities also.

Mr. Cahill: Thank you. Jason, we'll go around here for a few moments. So, Joe.

Mr. Leahy: I just want to make a comment. I mean, I think the Commissioner is clear. He wants different alternatives. I think from day one with managed competition, the original thought was, well, there will be a time when clean-in-three, we're just going to end it. I think the letter is clear. What he's asking for is some alternatives to that, and I think that's what we have to explore. I mean, if somebody -- these agents that have this business now, they have the loyalty of their customer, there's tremendous pressure for them to go out -- I mean, just turn the TV on -- to go out and shop around. But that's not happening because of the loyalty they have to their agent. And to close the door on those agents, I just think it's wrong.

I mean, as you said, David, this is just shrinking, and over time it's going to continue to shrink and it's going to go away. Then let it die that death. Is there a need to rush down and to say, okay, 2014, they're gone?

Mr. Cahill: Sumner?

Mr. Gilman: Well, that would beg the question. And maybe David could respond or maybe Joe Cofield could respond, what's magical about 2014? What's the matter with 2016? There will be even less exposures for us to deal with. Would that work?

Mr. Cahill: Why don't you -- Jason, do you mind?

Mr. Cochrane: If you presume that there's a cost to these risks -- you have to assume that here's a cost to these risks, someone would have taken it, then this isn't

without a trade-off for the cost. I mean, if we want to leave them longer, leave them longer, but I think you've really got to look at a redistribution to make it an equitable process, right?

Mr. Leahy: Maybe that's what the Commissioner is talking about.

Mr. Cochrane: He probably wouldn't want -- I thought they did look at alternatives. I mean, I think they looked at a credit system, and there's complications. To me more credits is a problem. I mean, at some point we could -- and I'm sure we're probably not going to talk each other out of where we're at, but, you know, you've got to kind of believe that the market will work or not. And you can't try to freeze -- these customers are free to do what they're going to do. You can't tell them, no, they've got to stay with you forever, I because they wouldn't like that.

Mr. Leahy: But they've made that choice.

Mr. Cochrane: They've made their choice so far, but they haven't been exposed to the alternatives. Once they get exposed to those alternatives, then we'll see what --

Ms. Theodat: I beg to differ, because I think these clients have been clients of these agencies for -- since 2009 when this came into life. And I think along the years from 2009 until today, they have proven that they want to stay with their agent. And I think if we eliminated the way we're trying to schedule it out, you know, I think the people that are actually going to be harmed by that, first of all, it's the consumers, because they -- in essence you've taken away their choice, and then these agents that do not have voluntary contracts or brokers contracts.

Mr. Cahill: Bob, were you looking to speak?

Mr. Suglia: Yes. I just wanted to support what David said. I mean, we've already had -- initially there was a three-year transition period. Last year it was extended out to a four-year transition period. This actually extends it out two more years to a six-year transition period, which I think is an extraordinary period of time. I think what the Actuarial Committee did is, I think they balanced a number of competing interests. They recognized that the agents who do have or have acquired voluntary contracts over the time will likely place this business in the voluntary markets. So we aren't going to have a sudden increase in the size of the MAIP.

I do understand the concerns of the agents who do not have a voluntary contract. I think Mr. Cochrane made a good point, that this will likely spur more voluntary contracting activity as companies decide they want to retain these risks. And by the fact that the Actuarial Committee proposal already goes out to 2014, I think that would give us a chance to evaluate, if this proposal were approved, how it's worked; and if there

were still a number of exposures with agents who don't have a voluntary contract, go back and take a look at that before April 1, 2014.

But I think it's important that we approve this proposal today and get us on that road and get us moving forward. And, again, if we need to reevaluate in a year or in 18 months to see exactly where we're left, then let's do so at that time. But let's at least get it started at this point.

Mr. Cahill: Sumner, I know you had your hand up.

Mr. Gilman: You raise something that piques my interest. If the language said that assigned risk producers without voluntary contracts would be revisited prior to April 1, 2014, I think maybe that's something that could be supported. It is reality that a carrier who has these Clean-in-Three Risks can non-renew if the risk isn't clean any more. Isn't that a good protection for the carriers? And also, what we've already talked about is that every year that goes by, the number of Clean-in-Three Risks reduces. Who knows how many risks we're going to be talking about come April 1, 2014?

Mr. Cahill: Yes, Joe, go ahead -- Sumner, have you concluded? I don't want to interrupt you.

Mr. Gilman: Well, I think he was going to address my question, which is, if we went to 2016, would that be great for us?

Mr. Cofield: When we presented this back in June, I think the intent there was the Actuarial Committee would look at it each year. When we met further and talked about some of the alternatives we looked at, well, we would want to put an end-game in place for the Governing Committee to consider. Going to Sumner's question earlier, though, there was nothing magical about 2014. That was what we selected.

Mr. Cahill: Okay. David?

Mr. Cochrane: You're saying, Sumner, that you would be happier with the latest plan, but would you actually vote it a year-at-a-time kind of deal? If approved, this does expose some number of risks this first year, right? I mean, there is, I think, 80,000 units that --

Mr. Gilman: Right.

Mr. Cochrane: So rather than trying to have CAR lay it out, but lay it out with the idea that we will review it each year? Are you just looking for that comfort level?

Mr. Gilman: I think we could approve it based on that language.

Mr. Suglia: I think that's important, to review it, and let's see if it has the effect that, as David laid out, that we would anticipate it does have. If we approved

it and then went back and looked at it as we went forward, I certainly support that.

Mr. Cahill: Joe, you had your hand up. Go ahead.

Mr. Leahy: My concern about reviewing is, trust me, if we set a date in 2014, that's the date it's going to be. It might make us feel good to say, "You know, we'll go back and review it," but plans have to be made and things have to be done. If we say 2014, mark my words, it will be 2014. I just don't buy it. It's a segment of business that's shrinking every year. Just let it die its natural death.

You have agents that have built agencies in areas that many agents don't want to do business in, and companies. These people have worked very hard at what they do, and I just -- I think the consumer has a right to continue the relationship with them if that is their choice.

Mr. Cahill: David?

Mr. Leahy: But this is putting them at a disadvantage to compete. We're not talking about a lot of policies. If they go out of the MAIP -- or they go out of the voluntary relationship, the assigned risk producer has only one place to put them, in the MAIP.

Mr. Cochrane: Yes, but it's around 200,000 units in total. I mean, the last year was only going to be 17,000, the phase-in, right? Are you talking about trying to leave everything --

Mr. Leahy: Just let it die its death. We all know it's going to happen.

Mr. Cochrane: But if -- you presume these are unprofitable risks, right, 200,000 unprofitable risks?

Mr. Leahy: If they're clean-in-three, why would you say they're unprofitable?

Mr. Cochrane: No one is giving them a voluntary contract.

Ms. Theodat: They're probably not giving them a voluntary contract because of the nature of the agency or where they are. I mean, it's -- I think that, you know, when we started this whole MAIP plan, had we let some of these agencies die a natural death, it would have happened; but when you force particular agents to fight for what they've built for a number of years, you know, you see the results here. And I think, Joe, you're right; why not let it naturally happen? Why force an issue at this time?

Mr. Cahill: So, just bringing it back, David, do you want to respond?

Mr. Cochrane: Just that those 200,000 risks, if you presume -- as a company, we're all looking for business anywhere we can get it, trying to find that. And so we look at those avenues. That doesn't mean you'd accept all of them. I

don't know if everybody knows their loss ratio, that and what can happen with it. But if in fact -- you need to presume that those are risks -- clean in-three doesn't mean -- you could have a theft every other day. This business can be unprofitable. There are only certain things that go into that definition. But if those were the kind of risks that are out there, the 25,000 risks, there's plenty of money out there, I think you have to, to be fair to the other side, look at reassigning those equally between companies. Ad that's -- you know, if you really want to talk about that, that just seems to me so much more disruptive. It seems like a political nightmare, I mean, the idea of doing a one-year-at-a-time or something with the votes or something? I mean, I --

Mr. Cahill: Why don't we bring it back. Let Joe Cofield go. Go ahead, Joe.

Mr. Cofield: I think the 200,000 number that was read is actually everything that was written is Code 1. Some of those producers would have voluntary contracts by now, for what that's worth. The second thing, Mr. Chairman, is that, if you recall, each year we're looking at credits as well. By the time 2014 gets here, whichever year we end up with, a credit offer will be in place, and what we've seen in the past is the books of business tend to be in the more credit-rich territories. So that would also lend itself to some more voluntary contracting, perhaps.

Mr. Cahill: Let's see. I'm trying to give everybody a chance. Joe Leahy.

Mr. Leahy: I understand where you're coming from, David. I want somebody to explain this to me, because I can't figure it out. If a company makes the ultimate underwriting decision on whether they write a risk or not, then why don't all these assigned risk producers have contracts right now? If that's good business, the clean-in-three business, why don't -- we have, what, 40, 50, 60 that don't have contracts.

Mr. Cofield: You're presuming it has a loss ratio over 65 percent.

Mr. Leahy: If you ultimately decide what you'll write voluntarily, why not give them a contract? You're the ultimate decider of whether you take on the risk or it goes to the MAIP. It doesn't fit your underwriting criteria; it goes to the MAIP. But we still have 50 or so agencies in urban areas that don't have contracts.

Mr. Cahill: Let's go to Sumner.

Mr. Gilman: This may be a compromise. What if the language said that assigned risk producers, as of January 1, 2013, will be evaluated, that book of business will be evaluated relative to the April 2014 date? In other words, you don't do anything.

Mr. Cahill: It allows -- the phase-in language still stays in, but what you're calling for is a review of a subset of the agents?

- Mr. Gilman: Because the producers that are hurt the most are assigned risk producers that don't have voluntary contracts. That's what we're arguing about. The rest of the clean-in-three stuff, quite frankly, I don't care.
- Mr. Cahill: Okay. So is there a reaction to what --
- Mr. Suglia: I would tend to agree with him. I think there's general agreement on that, that producers who have a voluntary contract -- I don't want to put words in anyone's mouth, but we could start the phase-in of non-renewing that business, because that would likely end up in the voluntary market anyway, and then, as Mr. Gilman suggests, take a look at other ones on whatever date to see what the best ways are to handle what should be a much smaller pool of business. So we can get the larger block off the table, and then let's see if we can come up with a creative solution for that remaining.
- Mr. Cahill: Sumner.
- Mr. Gilman: Just in case anyone wants to know what my ulterior motive is, I don't want to go through another physical redistribution. That's where all this gray hair came from.
- Mr. Cahill: David.
- Mr. Cochrane: And I wouldn't want to put you through it. Just to understand what you're saying, you're saying the phase-in, you would follow the phase-in, but you would just put review periods in? Is that what you're saying?
- Mr. Gilman: Only for the last one, when it will affect Assigned Risk Producers.
- Mr. Cochrane: So two years out from now, before you put in that last piece for -- so in the fall, September of 2013, we put in for 4/1/14. So you just want that one review in September? I'm there.
- Mr. Gilman: I think that works for everybody.
- Mr. Cahill: Paolo.
- Mr. Abelli: I could support something like that, because I think it gets us onto the right path but provides some gradual protection as we move along. So I could support that.
- Mr. Cahill: I know Jason has had his hand up. Joe Leahy, did you want to say something else?
- Mr. Leahy: No. I'm all set.
- Mr. Cahill: Okay. Joe Cofield.

- Mr. Cofield: I was just going to throw out, if you want it to be part of the 2014 credit offer, looking at that for the November timeframe. I don't know if September, if it makes much difference compared to November, but whatever.
- Mr. Cahill: Okay.
- Mr. Cochrane: I wasn't proposing September, per se. Just the fall. It's going to be part of the credit. So it would be laid out, as part of that credit proposal, look at that one issue.
- Mr. Cahill: So you could use -- if it was like this, it could be by November of 2013.
- Mr. Cochrane: Right. It's part of the credit offer for 1/14/14, the specific review of that group.
- Mr. Cahill: Okay, David, if you might just sort of -- if you're penning, you might pen something here so that when we come back, we'll have some language. But, Jason, I know you wanted to speak through this whole discussion.
- Mr. Calianos: I can't agree more with Mr. Leahy. It makes no sense, and I don't think the Division of Insurance would ever approve a redistribution of a shrinking market. It makes no sense. And just as -- I think the last time I looked at my clean-in-three loss ratio it was 44 percent. It's good business. We just don't want it for one reason or another. And take that, coupled with the explicit language from the Commissioner saying, "We don't want these people in the MAIP," I don't know how you come up with anything different, other than you can't put them in the MAIP. And I want to clarify Sumner's proposal. I don't know if I would have much of a problem with it, but I don't want to reengineer this thing. They cannot be placed until the review process is finished. In other words, you can't say that the industry risk ends for these producers in 2014, but we'll look a year earlier to see if -- to see what we'll do, if we'll consider it. That makes no sense. And I don't know if that's what you're saying, but I think it's important that if you're going to reengineer this language, it's to keep the protection in place with the review process, not to lose the protection you're going to have a review process. I might have misunderstood it.
- Mr. Gilman: The way the language currently states, we have the protection until 2014.
- Mr. Calianos: And what's the protection after 2014 and June of 2013?
- Mr. Gilman: What we've talked about is seeing what the numbers look like and what the credits look like in the fall of 2013, so that it's all up for negotiation.
- Mr. Calianos: Well, then let's leave the protection there. Don't eliminate it for 2014.
- Mr. Cahill: Paula.

- Ms. Gold: The way I understand it is that the protection is there unless the Committee, when they take it up, says, in 2014 the protection is not going to be there. It has to reaffirm that based on current data at the time.
- Mr. Cahill: We definitely need to clarify this, because I think Jason -- Paula, you're describing what Jason is looking for, but I'm not sure that that's what was being --
- Mr. Cochrane: I think it's probably more of a reconfirmation. I think you should set out the phase-in. Maybe you should throw a motion out. I don't know what you want to do, but for me it would be you're approving the phase-in but with the specific direction that there be a reconfirmation in the fall of 2013. So it does make sense to do that last step.
- Ms. Gold: And so if there is no reconfirmation, then -- that's the issue. What if, for some reason, the Committee doesn't ever meet? So it should say that it's subject to a reconfirmation. So everybody knows what the direction is, but it does not take place unless there is a reconfirmation.
- Mr. Cahill: I think the language on development of a credit offer actually was in the rule. I mean, you could probably include the language right in the rule. Do we need to do that? I mean -- so it would be an affirmative step we would have to take to meet, have a discussion, and reconfirm that that was happening.
- Mr. Cochrane: And recognize -- you need an affirmative step to, I guess, confirm that last -- I mean, I'm sure they're going to meet -- I think we're saying the same thing. Maybe someone can craft whatever language they want.
- Ms. Theodat: Are we saying confirm or have the opportunity to review? Because if you're saying that in 2013 you're going to confirm it, if we're not all here, we could actually say, Oh, it's just something that we just needed to confirm and move on. But if there's nothing that's strategically placed here that says that we have to review it prior to confirming it -- do you see what I'm saying?
- Mr. Cahill: Paula.
- Ms. Gold: I think it should constitute an actual review based on current data at that time -- so everybody knows the direction. And the data may be such that there's no disagreement one way or the other on what should happen, but it has to be an actual review based on current data prior to that taking effect.
- Mr. Leahy: And it has to be reaffirmed.
- Ms. Gold: Yes.

- Mr. Cahill: Okay. So one thing we could do, we could recess briefly and get some language so that everybody can see the language and feel comfortable. I think we've made good progress.
- Sumner, you sort of lead the discussion here in trying to reach a consensus approach. I'm sort of looking at Rachel and David, maybe we could sort of put some language together really quickly to address this. But before we do that, if folks are willing to do that, Jason, did you have another comment you wanted to offer? I cut you off, I think.
- Mr. Calianos: No. I agree that you have to leave protection in place and reconfirm.
- Mr. Cahill: All right. So -- yes, Mark, your hand. Go ahead. You wanted to address this?
- Mr. Winiker: Mark Winiker, Affordable Insurance, my understanding is that, because I have a voluntary appointment, my carriers that are holding the clean-in-three would be able to non-renew starting this coming year?
- Mr. Cahill: Is it affected by the year that you got the voluntary appointment?
- Mr. Cochrane: Depends on the year, depending on what year it was.
- Mr. Winiker: So prior to the MAIP start date by days. So I would be forced to take my clean-in-three and find a voluntary market or put it into the MAIP. Just as -- most of the carriers here would say the clean-in-three is not a desirable book of business for anybody right now. And I can't place what I have now in the voluntary market. I have three contracts, and none of them want the clean-in-three. So I'm going to have a big problem in my agency with all these insureds that are getting non-renewed, to find them a home, unless there's some credit scheme that I'm unaware of that would be more desirable as these come up for renewal. I know my carriers are saying, "Let's go through your clean-in-three and take some out of it now." Maybe somewhere you can put in a take-out credit for the clean-in-three for a few years. That way it will offset your MAIP, or something to that effect.
- Mr. Cahill: What I was going to ask in response to that is -- Joe, maybe you can speak to this -- the Commissioner's letter back a year or so ago specifically asked CAR to prepare information for its committees to assess the need for a credit system beyond the one currently in place for Clean-in-Three Risks and should explore alternatives for minimizing the likelihood that such risks will need to obtain insurance through the MAIP. I'm under the impression you guys actually specifically discussed this and whether or not there needed to be a specific credit for clean-in-three business. Can you speak to that, please.
- Mr. Cofield: This is part of, I think, a meeting back in May and subsequently, and based on the loss ratios, the voluntary market for these risks is about 60 percent, 61, whatever. The voluntary market would be competing for

most of it. In addition, most of the business is in the more credit-rich cells. So that would be another reason for a company to write it. So I think we felt that the existing credit system would be sufficient in and of itself. And especially when we looked out into the future as we continue to refine our credit model, our MAIP credit model, more of those credits would probably be concentrated in the very cells that are mostly represented by these producers.

Mr. Cahill:

Okay. Paula, did you have -- all right. Yes, Joe.

Mr. Leahy:

I would just ask Mark to speak to this. If I'm hearing right, you're telling us, in the practical sense, that's not going to work.

Mr. Winiker:

There's a substantial book of business with a lot of clean-in-three sitting out there from, you know, Bob's company and a couple others that are around the table. No one is coming to me saying, "I'm taking voluntarily. I would like you to write it over to my company." I'm getting more that "It's not a desirable piece of business. We can't get it priced right, and no thank you." It's low-limit business.

Mr. Cahill:

David?

Mr. Cochrane:

But the other side of that competition is that there's no motivation for anyone to do that. As a carrier --

Mr. Winiker:

Without a take-out credit of some sort.

Mr. Cochrane:

There is a take-out credit. But right now there's no motivation. In fact, there's an incentive to leave that with you, because you get the credits in those units on account of they're just sitting there. So there is no motivation for that carrier to come to the table, and there is no motivation for you to have to force it.

That does create pressure. I know that no one likes pressure, but it's going to create a pressure that's going to lead to a solution. The question is, do you believe that the market will lead to a solution or not. But right now you're actually rewarded for it sitting there, and no one -- why does anybody want to work hard, and why do you really have to put too much pressure to get it? It's a nice safe haven. You ruin the safe haven. That's what, I think, the benefit of the phase-in is. And I think Sumner's idea of this last kind of -- put the highest risk exposures that you have in the MAIP.

Mr. Leahy:

I go right back to -- the Commissioner was specific. He wants an alternative to being dumped into the MAIP. He said that's going to be the problem. That's probably where it's going to end up. Isn't he correct? The Commissioner has been very clear. I think we need to listen to him.

Mr. Cahill:

One other observation here is that, in talking to -- well, Joe Cofield, you and I have had a chance to talk about it, we've talked with Natalie and

Dan -- is that we obviously are not looking for the size of the residual market to significantly increase through any of these actions. We're going to have to monitor this. This isn't us, like, taking any action today on any of these pieces and then coming back a year from now and then looking. We're going to actually have to ask our staff, together with the Actuarial Committee, to monitor this, you know, beginning in February, because we'll start to see if business is being non-renewed and there's an influx of applications to the MAIP at that timeframe. We should be able to monitor it, and if all a sudden we sense that there's an unusual influx of business coming in, have the discussion about whether or not we need to adjust any of this. Is that a fair statement? Joe Cofield, I didn't have a chance to talk to you about that, but does that make sense, that your committee would be monitoring this on an ongoing basis?

Mr. Cofield: You'd always have a sense of what's coming into the MAIP, absolutely.

Mr. Cahill: All right. So why don't we do this. Let's just take a quick break to see if we can get some language that we can put in front of people that would feel comfortable, and if everyone is willing to do that, we'll just briefly recess and come back here at 11:15, if we can do that. Okay.

We'll stand adjourned.

(Recessed at 11:00 a.m. and reconvened at 11:15 a.m.)

Mr. Cahill: We're back in session.

Thanks for everyone's patience. Thanks to Natalie and Rachel for their real patience in trying to draft this up. So what we've done is, Rachel has something. I think what we'll do is, I'll ask you to read that. And then if it meets with David -- you know, if it sounds, David, like what you were looking for, Sumner, you guys you can introduce it as a motion, it might make sense. Rachel, do you want to read --

Ms. Davison: I'm not sure if people want to kind of follow along where we are in the --

Mr. Cahill: Sure. That would be nice. Do you want to take them through the material, because there is rule language in certain spots?

Ms. Davison: In the additional information that was distributed, it has additional information for the Operations Committee, Actuarial Committee, and the MAIP Steering Committee. And in that packet we're going to --

Mr. Cochrane: These are the records of some meeting, correct? The November 8th meeting?

Ms. Davison: Yes. Attached to the records of the Actuarial Committee meeting dated November 8, 2011, there are the proposed changes. So this is CAR

Docket No. 11.13, Exhibit No. 5, and the specific changes that we're talking about are to Rule 21.D, Constraints on Placement Through the MAIP, and this appears on Page 12 of 33 of that additional information. It's actually Page 5 of 5 of Rule 21. Docket 11.13, Exhibit No. 5, Page 12 of 33.

So I'm just going to review the type of phase-out that we're talking about here. So starting at No. 2 there, "For policies effective prior to April 1, 2012, a Clean-in-Three Risk can be non-renewed by a member. No. 3 - For policies effective April 1, 2012, through March 31, 2013, a Clean-in-Three Risk cannot be non-renewed by a member if the producer does not have a voluntary contract with a member as of April 1, 2009."

Mr. Cahill: So nothing has changed here.

Ms. Davison: Nothing is changing.

Mr. Cahill: What you are reading right now, nothing has changed.

Ms. Davison: This is the phase-in that was originally contemplated. "No. 4. For policies effective April 1, 2013, through March 31, 2014, a Clean-in-Three Risk cannot be non-renewed by a member if the producer does not have a voluntary contract with a member as of April 1, 2010."

Mr. Cahill: That's all the same too.

Ms. Davison: That's all the same. So No. 5, this is where we're proposing a modification. It would read, "For policies effective April 1, 2014, and subsequent, the restriction on the non-renewal of a Clean-in-Three Risk no longer applies. However, no later than December 1, 2013, CAR shall confirm that the end date should be ratified, based on review of then current data."

Mr. Cochrane: Perfect. Motion to approve.

Mr. Gilman: Second.

Mr. Cahill: So David has made the motion. Sumner has seconded the motion. Any questions with regard to that language? I think probably what we should do is, Joe, this entire part of your proposal was being brought forth and previously had been made as a motion to accept that. So this is really an amendment to that first motion, which is what David and Sumner just made. They made an amendment to this language that was already up on the table. So just clarifying, okay? Any questions with regard to that? Because we'll bring it to a vote as far as the amendment, and then we'll have to take up a vote for the entire set of rule language on this section. Any comments or questions?

All those in favor, please indicate by saying "Aye." Any opposed? Okay. So then that brings us back to this whole piece of rule language that was changing. Yes, Joe.

Mr. Cofield: We still have voluntary credits.

Mr. Cahill: I understand, but that's a separate -- we're really sort of taking this up as a clean-in-three not so much credit, but clean-in-three phase-out, right? Is it fair to say that? And then we'll take up the voluntary credits as a separate item. We seem to be so in deep on this one right now. Okay?

So, then, are there any comments or questions with regard to this amended motion that is on the table? All those in favor, please indicate by saying "Aye." Any opposed? That motion carries. So that takes care of the clean-in-three phase-out. Rachel and Natalie, thank you very, very much and everyone's patience in taking that break.

So then, Joe, that brings us to your third area of discussion, which is with regard to the voluntary credits. And you had previously introduced that, which was some time ago now in the course of our meeting. So is there anything in particular you want to mention with regard to that, or --

Mr. Cofield: I think we've already advised the committee of what the Actuarial Committee ultimately proposed. It was a combination of -- we call it a hybrid Safety/Liberty Mutual proposal. Basically, if the residual market share in a cell is less than 7 1/2 percent, you're going reduce the credit premium in that cell by 50 percent of what the indicated change would be. Really the overall change in the credit offer is that the number of credit-eligible exposures is about the same, and the amount of credit premium is reduced by about 10 percent. And that's coming to you based on a vote of eight members in favor and one opposed.

Mr. Cahill: So we should have a motion to bring this piece up on the table. Is there a motion to do that?

Mr. Cochrane: Can I make a motion without having to say it's a Safety/Liberty proposal?

Mr. Cahill: You can describe it however you want. You can call it the Joe Cofield proposal.

Mr. Cochrane: And I will make it. I do think that there's way too many credits in the system, and it's a move in the right direction. I think this year isn't the year to argue it, but what they did was a good compromise. So I think I would -- I'll make a motion to approve the proposal as submitted.

Mr. Gilman: Second.

Mr. Cahill: The motion has been made and seconded. Any comments or questions with regard to this?

Mr. Abelli: I'm happy that it's not called the hybrid Liberty proposal. I'm actually going to vote against this compromise, and I'm going to explain why, even though we were part of the compromise under the Actuarial Committee. I think the current system -- people keep saying there are too many credits. I think the current system is working. The residual market is small. So there is relatively little need to change. And I firmly believe that any changes should be gradual so as not to upset the market and create any undue disruption for customers. And in order to maintain a fair and equitable distribution, the rules should not also change often and by large amounts. So I think the original Liberty proposal, which was more gradual, in my opinion is a better one, and that's why I will be voting against this particular one at this juncture.

Mr. Cahill: Any additional comments? Yes, Joe.

Mr. Cofield: I would just I agree with Paolo's comments. The Liberty part of this will just be averaging of the other factors in the proposal methodology as opposed to this proposal.

Mr. Cahill: If I could just speak to this too. I actually share the concerns that Paolo is raising with regard to the size of the premium -- the credit that's going to be eliminated here. I'm concerned about that, because we have sought very much to try to maintain the size of the residual market. And I am concerned about this question with regard to the restrictions on the clean-in-three business and how that potentially is going to impact the size of the market.

But where I'm going to go is not to vote against it but to vote in favor of just noting the concern. And it actually further reinforces my request that staff really be monitoring this as we go along, because we do need to be ready to react if necessary if the market starts to grow significantly. There is just this uncertainty around, you know, the larger book of clean-in-three business and how it potentially influences this. And I do note that this is probably the largest credit premium reduction in comparison to the last couple of years. It's been more under 5 percent, and this takes it up over 10 percent. So I notice the exposures haven't really changed, so, again, no net changes in the number of exposures, but certainly the size of the credit premium piece is large. So I just offer that as background.

Yes, Carol.

Ms. Berthold: I just had a question, what's the Committee's concern were with the gradual reduction of credit.

Mr. Cofield: I would say some people felt -- the proposal that failed five to five, we were saying that any cell that had less than 6 percent MAIP population in it should get no credit whatsoever. So the concern with it gradually reducing, that it might be too disruptive. So if that credit factor, let's say, was .5, maybe make it .25. It was just more of a concern of taking the

credits completely away from anyone at one fell swoop. I mean, if the data next year suggests that was a movement in the right direction, we should go further, that would be what we would recommend.

Ms. Berthold: Okay. So if it was a 5 credit area, then you just made it a 2 credit area, whatever; you just reduced the credits instead of -- okay.

Mr. Cofield: Instead of going to zero all at one time.

Mr. Cahill: Dave.

Mr. Cochrane: I just think we've got to keep it in context. The total amount of credits that are in here is 10 percent compared to what you have, what, \$200 million worth of MAIP premium and \$514 million worth of credits. I mean, it isn't really a MAIP assignment system we have. It's a MAIP credit assignment system that you're assigned to write these credits. I mean, it can withstand -- 10 percent is way too heavily weighted. So I think, while 10 percent may seem big, when you start out with \$500 million versus \$200 million worth of MAIP premium, I don't think taking 10 percent off that number is a big number at all.

Mr. Cahill: Other comments or questions? Joe.

Mr. Cofield: I would just point out, too, I believe it was two years ago we actually proposed and the Governing Committee recommended almost 30 percent decrease in credits. That was ultimately disapproved and sent back to us. But even back then we had a recognition that there were too many credits. It was really a question. And I think that's still a question now, just how do we get down to whatever the right number is. I don't have the answer, but that's --

Mr. Cahill: That's clearly where my comments are coming from; not so much that we need to reduce, it's just a matter of what amount at what time.

Any other comments or questions? The motion is on the table, made and seconded. Jason, do you want to comment?

Mr. Calianos: I echo your concerns, Mr. Chairman. I'm concerned about the distribution of the risks in the urban areas. Obviously that's where my heart is. And it just makes no sense to me that eliminating or reducing credit, especially in these areas, is going to lead to a system that reduces the residual market. It doesn't make any logical sense to me. If you take away some incentive to take out that risk from the MAIP into the voluntary market, I don't see how it's going to -- how the risk is going to find itself to the voluntary market in the absence of it. So I think, from our discussion here and our discussion on clean-in-three, I really believe the credit system, the whole credit system is being revised or revisited. And really the work on the credit system that achieves and accomplishes the goal of the Division of Insurance and I think everyone here is to

reduce the size of the residual market. And I'm not so sure that this is going to work.

Mr. Cahill: Okay. Any other comments or questions? All those in favor, please indicate by saying "Aye." Any opposed? Two opposed. Okay.

Joe, do you have anything else?

Mr. Cofield: You have all -- you've seen all the rulings, several of the other distributions from CAR that were put on the website. So if you've approved the concept, do you need to approve the ruling as well, or is that all set?

Ms. Davison: I think we generally approved the ruling which --

Mr. Cahill: We did, by way of the actions we have previously taken in the course of today's meeting, right. So even though your presentation sort of referenced the rules there, I think what our view is, we've approved those -- the rule language itself each time we've taken a vote here today.

Is there anybody that has any questions with regard to that? Joe, thank you very much. I appreciate your patience, and you've been a good sport in working with us this morning.

Mr. Cofield: I tried to make a break at the recess, but someone tackled me. I just would also like to mention that the records of our meeting of September 27th and October 18th have already been distributed, and the records of our meeting of November 8th were distributed.

Mr. Cahill: Okay. Great. Thanks, Joe, very much.

So that brings us to the next item on the agenda, which is the MAIP Steering Committee. That's John Kelly. John.

GC

11.14 MAIP Steering Committee

Mr. Kelly: Thank you, Mr. Chairman. Luckily we only have one action item for the Governing Committee, but we have three informational items that I'll be reporting on.

The one action item is actually an issue that the Governing Committee did address previously, and it was brought back to CAR by the Division of Insurance. It relates to a change to Rule 29 and the assignment process. The issue deals with -- I'll describe the issue. The issue is that the MAIP assignments today are assigned to an Assigned Risk Company for a three-year term. And the current rules allow -- there are three options at the end of the expiration of that three-year term. Today, a carrier can write that risk voluntarily; they can continue the risk to be in the MAIP, assigned to that same company; or they can turn that risk

away, non-renew the risk, and it would be potentially reassigned to another carrier.

The Division of Insurance asked CAR to address the second issue of allowing the company to continue that risk to be in the MAIP, assigned to that same company. And CAR drafted the MAIP Steering Committee rules, sent them to the Division. The Division had issues with some of the language in the rules that were suggested, or proposed, and actually declined those rules, sent the issue back to the MAIP Steering Committee or back to CAR and the MAIP Steering Committee. And the MAIP Steering Committee looked at the issue from the Division and made modifications to the rules based on that feedback and subsequently unanimously approved the revised rules and thus the action item that this committee has before it. So it is that issue of doing away with the second option of that three-year assignment period allowing carriers to continue that -- the risk to be assigned to that same carrier for another term.

Mr. Cahill: Okay. Great. So is there a motion?

Mr. Gilman: Move adoption.

Mr. Jones: Second.

Mr. Cahill: Motion has been made and seconded. Any questions or comments? All those in favor, please indicate by saying "Aye." Any opposed? Motion carries.

Mr. Kelly: As I indicated, there were three issues, which are being discussed at the MAIP Steering Committee and are not ready for a recommendation to the Governing Committee. I'll just briefly review them, and you'll hear from the MAIP Steering Committee at future meetings on these dockets.

The first one is on the Assigned Risk Producer de-certifications. Today if a producer is decertified, we don't have clear rules from CAR as to how to service that risk and what happens with the remainder of that three-year assignment period. CAR staff and the Committee are working on drafting those rules.

The second issue on the agenda is called voluntary rate analysis, and this issue has really two components. For an assigned risk policy, currently the down payment is determined based upon the MAIP rate level, and it's actually 25 percent of the MAIP rate level, and even if that risk is issued at the company's voluntary rate level, because of the Lane- Bolling that's currently how the rules are.

In addition, there has been expressed a desire from assigned risk producers to be able to quote the actual premium. So the MAIP Steering Committee is looking at different alternatives to be able to calculate voluntary premiums. Obviously there are -- could be many options there, based on the number of carriers in the state and the fact that the risks are

assigned randomly. So CAR staff has done some good work, and the Committee is still pursuing that issue to try to come up with a recommendation on that for a future meeting.

And then the last issue for an informational item is the MUAA suggested an option -- to avoid an assigned risk today, there are -- it happens frequently, when an assignment is made to a carrier, and for a number of reasons, that risk is actually never issued or the policy is never issued on that risk. And there's a manual process that goes on today, and we're looking at alternatives that would automate and streamline that work. So that is the third informational item, and you will hear from the MAIP Steering Committee in the future on those.

Mr. Cahill: Okay. Great. Any questions for John? John, thanks very much.

So actually that brings us to the conclusion of the agenda, just the Other Business. Is there anything else to come up before the committee today? Then I guess what I would say is, thanks for everyone's patience and time today, and a motion to adjourn would be in order.

Mr. Gilman: So moved.

Mr. Jones: Second.

Mr. Cahill: All those in favor? We stand adjourned. Thank you very much.

(Meeting adjourned at 11:41 a.m.)

Note: This Transcript has not been approved. It will be considered for approval at the next meeting of the Governing Committee.

Attachment

Boston, Massachusetts
January 25, 2012

The above proceedings have been transcribed in accordance with CAR's guidelines for producing quality transcripts, which provide for the elimination of insignificant material that does not alter the substance of the committee's discussions, such as sidebar comments, the use of verbal fillers (i.e., uhm's and ah's), and commentary (i.e., "laughter" and "coughing").

ATTACHMENT LISTING

Docket #GC11.02, Exhibit #5

Attendance Listing

GOVERNING COMMITTEE MEETING
 SIGN-IN SHEET
 WEDNESDAY, NOVEMBER 16, 2011

Individual's Name

Company / Agency

PLEASE PRINT

Individual's Name	Company / Agency
Datrice Hubley	CAR
Ramela Wallace	CAR
Calley	CAR
SUSAN SCOTT	PREMIER
Jean Downey	NRD
John Ybane	Agency Checklists.
JOHN METCALFE	CAR
Bruce Cregger	ENCOMPASS
Doug Long	Liberty Mutual
Wendy Brown	CAR
Marian Adgate	CAR
Ludith Jones	Pool
John Kelly	Commerce Co
Ken Willis	Plymouth Rock
Geoff Arnold	Plymouth Rock
Chuck Alley	Pilgrim
Barry Tegen	Pilgrim
FRANK MANCINI	
Joe Cofield	metropolitan
Steve Jaeger	Arhella
MARK WINIKIE	A. Affordable ins Agency
GARY SMITH	" " " "