



COMMONWEALTH AUTOMOBILE REINSURERS

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RALPH A. IANNACO
PRESIDENT

TRANSCRIPT OF MEETING

SERVICE FEES SUBCOMMITTEE

A meeting of the Service Fees Subcommittee was held at the offices of Commonwealth Automobile Reinsurers, 225 Franklin Street, Boston, Massachusetts, on

WEDNESDAY, DECEMBER 16, 2009 AT 10:00 A.M.

Committee Members present –

Mr. William F. Hofmann, III – Chairman
Provider Insurance Group, Inc.

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| Mr. William J. Cahill, Jr. | The Hanover Insurance Company |
| Mr. Andrew J. Carpentier | Quincy Mutual Fire Insurance Company |
| Mr. Richard P. Jones | Leslie S. Ray Insurance Agency, Inc. |
| Mr. Francis A. Mancini | Massachusetts Association of Insurance Agents |
| Mr. Joseph A. Vargas | Vargas & Vargas Insurance |
| Mr. Kenneth Willis* | Plymouth Rock Assurance Corporation |

Substituted for:
Ms. Paula W. Gold*

Not in Attendance:
N/A

PROCEEDINGS

(Meeting began at 10:01 a.m.)

Mr. Carpentier: My Verizon says 10:00

Mr. Iannaco: My Verizon says 10:01. No, we're good to go.

Mr. Hofmann: Does everybody agree that we go now?

Mr. Cahill: We're with you.

Mr. Hofmann: Thank you.

Mr. Carpentier: Good morning, Paula.

Mr. Willis: Good morning.

Mr. Hofmann: Okay, good morning everybody. Thank you. We have one substitute; Ken is substituting for Paula Gold who is unable to make it today. The main topic that we're going to discuss in this group is the Producer Certification Fee. We had talked about in the Budget Committee meeting. And, it was presented, as everybody may remember, to the Governing Committee. And, there were a couple of people that had some questions about it and some objections to it. So, I thought we would go back over and put together a group to just talk about the purpose of it, what we're hoping to accomplish with it.

I think the thing for me to set the stage a little bit by saying that we had some conversations with the Agent's Association, which is one of the reasons why Frank Mancini is here, to see if the agents had any strenuous objection to a fee for agents for participating with the MAIP. What we're trying to do with CAR, is we're trying to get—we're obviously under some budget restrictions and constraints and pressures from the carriers. So, we're trying to do some things on a fee for service basis. So, a lot of this is going to be things that we're going to be doing for the carriers. But, we felt that seeing as how every agent participated in MAIP, then having an agent pay a fee for the cost to CAR to provide the services that we're providing to agents was not an unreasonable thing to do. A couple of people, you know, raised some issues about it.

So, we're here to discuss what those issues are and what we ought to do going forward. My suggestion is that, I think it's appropriate for agents to pay a small a fee for the services that these folks provide here. And, I think that from an agent's perspective, we're all very thankful for everything that CAR has done here from a staff point of view for all you folks who are making the transition to the competitive rating go as smoothly as it did. And, I think for us, as agents, to pay some small fee is appropriate. And, I know that Karen Cora, I was at a dinner with her the other night, she said, you know, our agency's only got one MAIP customer. And, I said, well, you know, you're fortunate. Most of us have

a larger—more than one. And, I think that as time goes on, they may find that they have more MAIP business as they go through the entire renewal process.

So, anyway, Mr. President, do you have anything that you would like to say about this?

Mr. Iannaco:

Well, maybe I can lay the foundation, perhaps, from a different look, just to bring back in focus what has been happening. At the Budget Committee meeting, which we've had two so far, we provided a budget to the Budget Committee to detail the costs—the administrative costs of running CAR. While we were doing that, we also were having this Budget Subcommittee look at the various functions that we perform. Eventually, we proposed a budget to the committee, the Budget Committee suggested that we come back to them in a couple of months, and to come in with a finalized budget request and to level fund the budget to our fiscal '09 actual. So, we came back two months later and we did that. And, we presented a level funded budget to the Budget Committee.

When I was originally looking at the budget proposal to submit to the Budget Committee, we were and still are, as is the Budget Committee and Governing Committee, very concerned with some of the outstanding pension liability numbers that we have, both our Defined Benefit Pension as well as our retiree health liability. So, my thoughts originally were that, in submitting a budget to cover our administrative costs, I would also include various components of additional revenue making issues to discuss that we would use towards trying to reduce these liabilities that we are faced with today. So, when we talked to the Budget Committee, we talked about actually not only submitting a budget to cover our operating expense, but also for ways to bring in additional funds, which would have been earmarked towards that effort.

And, we talked about three issues; the first—and we'll talk about that, again, this morning. We asked the committee to consider whether CAR could retain the penalty dollars that we receive for stat reporting violations. And, as you know, as a result of the conversion to the MAIP now, the change in the world would minimize the amount of dollars that would be coming in. But, we did suggest that any dollars that we were able to collect, we would use to offset this liability. Now, traditionally, when in years past, we would be collecting in penalty dollars a very large number. That money is sent back to the companies in our Settlement of Balances, which we do every quarter. So, if we were to collect \$1.5 million, for example, which we did, say five years ago, then that money would be sent back the same way we do our assessment for the administrative cost.

Looking at the fact that these numbers are going down, and it's not a material number that we're thinking about, we suggested to the Budget Committee, that we be allowed to retain those dollars and any dollars that do come in out of these penalty dollars would be used to pay towards our liability numbers. And, we're projecting not much more than a

guesstimate today is maybe \$250,000 for this year. So, we don't really consider that to be a material number. But the committee did have thoughts that if we did, in fact, have a larger number that we should go back to the committee, because if it was \$1 million or \$750,000, that was the definition and they thought that would be material. And, we would take a different approach and probably go back to the other standard. So, that was one of the proposals. So, we talked about this a couple of times, and at the last Budget Committee, the Budget Committee agreed that we be allowed to retain those dollars, whatever they may be, towards our liability. So, that was the first thing that we talked about.

During the discussion with the Budget Subcommittee, we also talked about two other issues, and we'll talk about that again briefly this morning. One was how the new methodology was in place and how we would begin the process of assessing insurers for the cost of the administrative budget by lines of business as well as a new administrative fee that we developed. We spent several months working with the Budget Subcommittee to develop an administrative fee that will be used to pay for a share of the statistical agent expense. And, Nat will explain to the committee how that assessment fee will work regarding that share of that expense.

And, again, the four functions that we have, statistical agent function, we are doing through an assessment fee. And, then the other three, residual market functions, which is managing the MAIP, managing the private passenger run-off, and managing the commercial auto. All those assessments will be done facilitating existing statutory requirements of doing market share.

So, the changes we've put forth and are in place, actually, is this new way of doing these assessments. So, part of looking at developing the new assessment with the stat agent piece, we began to kick around the thoughts of having a Fee for Service Program that we would develop. So, I had a working group put together of CAR resources to take a look at what services we will be providing and would provide to the industry that would strictly be on a fee for service proposal. And, the Chairman of this committee, Bill, had asked me to get that matter on the table today. And, again, I can have Nat take you through that. So, that was another issue that we looked at. We don't know to what extent the numbers would be in a Fee for Service. We've been putting together various thoughts about that. We have, as you all know, done a lot of training of carriers when they come in. In the old days when the companies would come in as Servicing Carriers, they had a very detailed training process that we would go through. So, things of that nature, people learning and understanding stat reporting requirements—so, any type of service we can provide out of the ordinary, we would develop a fee associated with that. And, those fee dollars, again, whatever they might be, we would hope would also be put towards our liability concerns.

And, the last topic that I had proposed to try to get additional fees was the concept of creating a certification fee for producers. And, we had a—actually, I think we had two conversations about that at both of the

meetings, and from that, as Bill just indicated, we had some people that thought we shouldn't do anything yet, or we should talk about it some more. And, our concept initially was that, again, these dollars would come in addition to what was being allocated to us to run our operation. We would be using those dollars towards an effort to reduce our liabilities.

Since all of that and all of those conversations have taken place, we have met with the Budget Committee, and now an Ad Hoc Personnel Committee, and what we are presently doing is looking at CAR's Employee Benefit Program, and looking at ways to reduce the expenses associated with those benefits. And, we have a plan in place for a survey of all insurers that's being worked on as we speak. And, when the survey is complete, we're bringing back this committee to review the results of this survey, and we're going to ascertain which of the benefits that take place at CAR should be retained or eliminated or modified all with an eye towards reducing the overall costs of CAR.

We're also looking at some other issues at CAR to further reduce costs. So, we have sort of a two-pronged approach that we've been looking at. So, as a result of the dialog at the Budget Committee meetings, I pulled back the suggestion of a Producer Certification Fee at this time. It was thought that we should talk about this on a later date, thus the formation of this committee. So, my long-winded statement is that we have Nat here to speak about the assessment fee we are using for the portion of the statistical agent costs—how we've broken that down. We can give you a high-level over view or a detailed level, whatever the committee would like. We can also talk in detail if you would like what we are thinking about in our Fee for Service Program. Or, it is what it is, and we can go straight to what we have on the table today relative to the tune of the certification issue.

As far as our records presently indicate, we have 1,750 certified producers on our books today. We had, as you know, during the last course of the year, a lot of activity where agencies were sold and so, therefore, the numbers were reduced, but then we also have had new people come aboard, so as of last night, the last total we had is 1,750 certified producers. We, in the proposal we put forth to the committee—and since then, we haven't done a lot of work on that, I should state at the beginning. But, what we had proposed, originally, to the Budget Committee was that we would institute this Certification Fee, which would be on an annual basis of \$200 per year, per certification of an entity. If an entity happened to have more than one location, we would still only be charging the same \$200 fee. So, for example, I believe one of the agents here may have two other locations, we would only charge that individual that \$200 fee. So, regardless of the size of the agency, it would be that straight fee. And, we would tie that up to our review of having a renewed license that we were asked to monitor by the MAIP Steering Committee.

So, that was the number that we had put forth, and we thought that as we have been able to develop an ability to calculate MAIP rates through our

front-end application system as an application is being filled out and submitted to CAR, CAR now does in fact calculate the MAIP rate correctly, and calculates the required down payment for the producer. Thus, allowing the producer not to have to purchase from their rating organizations that additional MAIP rate. And, my understand is that you buy a product—and someone correct me if I'm wrong here—but you buy a product, which general includes three rates, three different companies, and one being your MAIP rate, and the cost of each is around \$200 per company, depending on who you are doing business with. So, we've offset that expense by producing a MAIP rate. That was one of the first sort of wash to wash as far as the expense was concerned. But, then rather than going into a litany of what services we provide for the agents, I think everyone knows what we do, what the agent—what our front end system does. We—I don't think I have to go into every thing we do for them, unless you want to start asking questions.

But, that was kind of the financial match of it when we determined that \$200 seemed like a reasonable figure. Thus, was the basis of the suggestion that I put on the table when we first discussed. So, that's kind of an overview of what has taken place and where we are. And, as I said, the budget look is ongoing, the benefit look is ongoing, and that's where we are today.

SFS

09.03 Producer Certification Fee

Mr. Hofmann: Okay, what I'd like to do is take these items one at a time and I didn't—I appreciate your getting into the explanation. I was just going to start with the Agent Certification and go into the rest of it. So, I would like to go back and start with the Agent Certification piece and we'll take these four items, as Buddy talked about, one at a time, starting with the Agent Certification piece. Bill, you were one of the people...

Mr. Cahill: Yes.

Mr. Hofmann: I'm not picking on you, but you were the one that had some questions about it. I don't know if you would like to express what those concerns and questions were, and then let's get started that way.

Mr. Cahill: Yeah, sure. So, when the idea of the Producer Certification Fee was raised, my initial reaction has been to not support it at this time. I continue to remain open minded about, and I just think it's the timing of when it's being considered. We have, as you know, as pretty much all of us know, it has been a pretty extensive discussion around the expense structure and the ongoing expenses for CAR. And, so we're looking at a number of different things as Buddy had indicated. And, I think that that discussion should play itself out before this particular item ends up being considered, because I was, at first, my reaction was this was being identified as Buddy just mentioned as a proposal, really sort of a revenue proposal. I was viewing it as a new revenue idea to bring in some additional funds, even though it's not going to be that significant. But, it

would bring in some additional funds to help offset the outstanding liabilities that we have as an organization. And, my feeling was that while that might make a lot of sense to do, I think we ought to really just finish the discussion around what those expenses are and how best to deal with them. And, then this might be part of that. But, I felt as if this was a bit of a rush to bring this in.

There was some talk about how this was going to be revenue neutral at one time, the idea was that much like we were trying to assign fees for services, like if the AIB asks this organization to do something, they ought to pay for it. And, it's more of a, just making sure that it's aligned with whoever is requesting that service. I think we had some of those discussions with different carriers. David Cochrane with Commerce was chagrined to find out that his company had been asking for a lot of different things. And, if we lined up the cost structure a certain way, they should have to pay for that. But, I think he was definitely in agreement with that and it made sense. But the idea being if we want to use this to say, producers are causing the organization to incur some costs, and it's around services that are being provided to producers, then we should have producers pay for those, and thereby the costs for the carriers would be reduced to some degree because, it's a better matching of where the services are being rendered. Okay, I'm open to that as a discussion as well. But to the extent that this is just a new revenue idea, I think the timing of it is just a little bit off. I think we ought to just wait until we finish up the discussions that are ongoing now, and then come back to this. But, that was my reaction.

Mr. Hofmann:

Just to give you sort of a counter to that, Bill. I understand where you're coming from, but of course, we're talking about other sources of revenue with the fees for certain services that we're going to try out. So, the agents is just one of several fees that we're going to potentially talk about. And, I think, you know, listening to the companies who, you know, were pretty specific in saying that, you know, we've got to reduce our costs and the cost of AIB and cost of CAR are two expenses that we have. And, my feeling was that, yes, this was a new source of revenue, but it's—you can argue whether it costs CAR \$200 or \$150 or \$232, but there is some cost to CAR for doing this, and they have agents support the organization, and why should this fall all on you companies, because you companies foot the whole bill thing for this here. Some how or other having agents share in the expense that they help create made sense to me to have agents pay some fee for it, because we all get services from this organization. Mr. Mancini, I can tell you're chomping at the bit down there.

Mr. Mancini:

Buddy, do you break down the administrative costs of the four functions that you have: Statistical Agent, MAIP, Run-off, and Commercial?

Mr. Iannaco:

Yes.

Mr. Mancini:

You do. Okay, so you could—I don't know if you want to say that publically or you could provide us with that information.

Mr. Iannaco:

You know, we can certainly, yeah. That's been a public document.

- Mr. Mancini: Have you thought about how this might be impact those that are commercial automobile writers that have an assignment through CAR to one of the Servicing Carriers?
- Mr. Iannaco: I'm not sure I understand the question.
- Mr. Mancini: If the Frank Mancini Insurance Agency—I don't write private passenger automobile insurance. I don't do any personal lines insurance; I just do commercial. And, I have a—you know, Safety's my commercial lines automobile assigned carrier. Am I going to be assessed—included?
- Mr. Iannaco: Well, you would be.
- Mr. Mancini: Okay.
- Mr. Iannaco: As the Division has ruled, every licensed agent must be certified, so.
- Mr. Hofmann: Part of this is the certification process that they had to go through.
- Mr. Mancini: So, that's what will determine the fee, certification?
- Mr. Iannaco: Yeah.
- Mr. Hofmann: Rich?
- Mr. Jones: Yeah, I think I kind of agree with what Bill's trying to go about looking at the whole picture, but with that said, I think you're looking for from us today, not to necessarily approve fees, are you, or to have a discussion?
- Mr. Hofmann: Well, originally it's to have discussion. I mean, you've got to start somewhere. I mean, I don't know what else we're going to approve before we do this.
- Mr. Jones: Right.
- Mr. Hofmann: But, you know, you've got to start somewhere, so.
- Mr. Jones: So, speaking for myself, I would say that I think there is some fairness to the concept of agents incurring a cost to support the MAIP and all that stuff. I write four policies with the MAIP. So, personally, I don't have a problem with the fee. But, I do have some questions. So, if you use that formula, it looks like you're trying to generate \$350,000.
- Mr. Hofmann: My memory is less.
- Mr. Jones: It would seem to me that there would be some equity here in having some kind of structure formula with, you know, an agent that has say, five or less CSRs and personalized department, maybe pay that \$100 or \$150. And, someone who's got 25 or more may pay a maximum of \$400 or something. You know, I don't think it should be based on the number of policies you have, because every agent needs to support system, you

know, being here. But, I would think that some consideration might be given to a cap and base it on number of employees. So, that would be one thing that I'd throw out.

Mr. Hofmann:

It's possible. Okay.

Mr. Jones:

Another question I have is, are direct writers going to have the opportunity to participate?

Mr. Cahill:

Have the opportunity.

Mr. Hofmann:

Yes, they will.

Mr. Iannaco:

They will have the opportunity.

Mr. Jones:

Okay. How long, let's just say it went before the Budget Committee and it got approved, and then went before the CAR Board. How long would there be a sunset provision or something to go along with this so it does get revisited somewhere down the road?

Mr. Hofmann:

Well, the whole budget gets revisited every year.

Mr. Jones:

I mean, this particular thing about the certification fees.

Mr. Hofmann:

Yeah, I think that, as I say, the entire budget, because what ever other fees we come up with on some of the fees that Nat's going to talk about, I'm assuming that those will be reviewed on an annual basis when the budget gets reviewed. That would be my assumption. So, every year those would be looked at.

Mr. Jones:

So, there would be an opportunity to say...

Mr. Hofmann:

Yes, no, updated, increased or whatever, right.

Mr. Jones:

these fees should be eliminated or these fees are going to have to be increased.

Mr. Iannaco:

We didn't talk too much yet about the Statistical Agent Fee that has been put in place, and we will—we're doing the first two quarters of this year under the old formula. We will settle up and begin that process in March?

Ms. Hubley:

March.

Mr. Hofmann:

March, right.

Mr. Iannaco:

And, what we did when we deliberated developing the Stat Agent Fee, and we have various break downs to who is charged so much depending on quantity of their book and how often they stat report, etc., etc. We said that we would implement this fee structure today and then we would go back and revisit it, because of the fact that there will be new companies entering the state, possibly. There may be companies leaving the state.

And the consensus of the committee was that we should revisit that particular assessment fee periodically, which is the game plan.

Mr. Hofmann: It's the same thing to do with some of the penalty fees. Some of them we hadn't looked at, Wendy, what was it, 15, 18 years that we...

Mr. Carpentier: On the Claims side.

Mr. Hofmann: Whatever the heck it was. I can't remember exactly. A long time. So, I think my advice to the ongoing budget committee would be that this is part of the budget process that ought to be looked at on an annual basis, to answer your question. The only other thing I would say, Rich, and to answer it again, I'm not trying to be devil's advocate and debate here with you, but, you know, the certification fee is the same whether you've got one CSR or ten CSRs, because we're not basing it on number of policies, so really the certification fee and the cost to CAR, if you want to look at it purely from a cost point of view, it cost them X number of dollars, whatever the exact dollar amount is whether you've got one CSR or 10 CSRs, because it's one certification period to see whether you've got five locations, one location, one CSR or ten. Any other comments? Rich, do you have any other questions?

Mr. Jones: What are you going to do if an agent doesn't want to pay? Are you going to shut them off?

Mr. Hofmann: Why not?

Mr. Jones: What?

Mr. Hofmann: Why not?

Mr. Jones: No, I'm asking what you'd do.

Mr. Hofmann: I don't know. Buddy do you?

Mr. Iannaco: Well, we right now have situations where an agent may be terminated for a reason or suspended for a reason, whatever the case might be, or not submitting a renewal license. And, we have an ability to freeze them out of the system. Now some people may not be upset with that fact, because they are not even using the system. So, that is a possibility that we would send an invoice to someone and it would say, well, we're not paying that and we don't care, and so be it.

Mr. Carpentier: I have a couple of questions. What is involved with the annual certification of the agents? I understand what took place with the initial piece, but what, on an ongoing basis is required to be certified?

Mr. Iannaco: Well, I can let Pam and John speak to it with a list of issues, but we obviously have to retain a license renewal, which is the most important thing.

Ms. Wallace:

Right, we need that. We do have a process in place where we are managing the whole agency licensing issue on behalf of the carriers. So that is an annual activity that occurs. But, in addition to that, we are still collecting Tax ID information for each producer so that we can pay commissions on assigned risk business. And, in fact we are in the process of identifying—there are about 500 agencies that have not reported Tax IDs to us. So, we are in the process of going out and contacting those 500 to get that information. The whole ARP management process where we have a system in place to collect infractions, mediate on behalf of the producer and carrier, including ARC infractions that they're reporting to us.

There are a number of tutorials in place that we are monitoring and updating and maintaining each time the system is changed. Buddy already mentioned maintenance of the rating software. We produce, quarterly, a MAIP Messenger that is distributed to the producers that contains up to date and any new changes that are happening in the MAIP world. Security administration is an ongoing activity where you have new employees entering or leaving. Some of the user IDs and passwords are constantly moving about, similarly with fraud training, which is a requirement, as new employees are entering an agency or moving from one agency to another. So, there's definitely been an increase in the interaction between the former residual market mechanism and what occurs now through MAIP. And, those are just ongoing activities that are part of our world now, I guess.

Mr. Hofmann:

Andy, do you have any comments?

Mr. Carpentier:

No. Thank you, Pam. I—there's no, you know, I know we could identify the actual costs associated with these functions, but that's not the approach that was taken.

Mr. Hofmann:

Right.

Mr. Carpentier:

What was taken was, here's the economic trade off on the cost of the rating engine and that's fine. And, then the fees—the income generated by these fees doesn't go towards these operational costs; they go to something else. Whereas, on what was done, when we get into the discussion of the other segments of CAR's business, I think the approach there was much more to look at what were the costs of CAR, what were ascertainable to statistical agent, etc., etc., etc. The concept of Fee For Service was introduced. But, it's not like we took a sum of money—a sum of costs and added to that. We took what was the cost to run the business and divided that up. I did an informal survey—Andy's informal survey of some agents, and just to throw it out there, I won't get into the more flamboyant responses, but one agent commented that we pay a fee to be licensed, we have lead paint education and we have to buy education to renew our license.

While I think what you just described here answers that objection that, you know, what are we getting for that. The sort of comment, I think, is answered because the certification process is being done on an entity basis

and not by a CSR. Someone thought it might be good to be optional instead of mandatory.

Mr. Jones: Unless on taxes.

Mr. Hofmann: Yeah, on taxes, right.

Mr. Carpentier: And, one agent commented that it's ironic that any new carrier entering Mass. auto has no charges. Well, that's debatable, but there was a thought that...

Mr. Hofmann: A new direct writing company would be charged in the certification.

Mr. Carpentier: Yeah, but they don't get charged to do business.

Mr. Hofmann: But, that's not part—that's not fees, it's...

Mr. Carpentier: They're not getting assignments.

Mr. Cahill: They're not getting any assignments, yeah.

Mr. Carpentier: There was also a thought that there should be some sort of a different formula as it applies to something along the concept that you mentioned, here. And, then another questions was, what happens if agents don't pay the fee, what is involved in the certification process? And, I thought that this comment was, I suppose the cost of providing the service should have an impact to the cost of the service. So, I think this quid pro quo here is very helpful in explaining this. In addition, I've talked with some other company people who are not part of this committee, but—and the view was that, I think along the line that Bill is suggesting, is that the effort really ought to be focused on continuing to reduce the costs as opposed to trying to develop a new income stream. Quite frankly, I don't know where I am on this thing. I'm not sure.

Mr. Hofmann: I guess what I would say, Andy, is two-fold. One is that if people feel more comfortable having this be an offset to expenses in using—as opposed to reducing liabilities, we can certainly do it on that basis. Right now, it would be extra money over what we've got now, which is why we approached it that way. But, there's certainly no reason we can't just build into the budget, you know \$300,000 or whatever that is that comes from agents, and it goes to offset the expenses of CAR, period.

Mr. Carpentier: Yeah.

Mr. Hofmann: Okay, which we can certainly do that. I mean, how the money gets appropriated really is sort of up to the Budget Committee ultimately anyway.

Mr. Iannaco: May I speak?

Mr. Hofmann: Go ahead.

Mr. Iannaco: I heard your survey. I'm surprised no agent supported this and they didn't want to pay the money. Anyway, let me back up a little bit. The reason this surfaced is because, as we began to look at our budget, and that is still ongoing. We're trying to cut costs.

Mr. Carpentier: Right.

Mr. Iannaco: And, we will be cutting costs. That is a sidebar. And a lot of people tended to compare what AIB has been doing, and we should look at the AIB, and we should look at the AIB, and I keep hearing that from a lot of people. So, let's talk about what AIB did. AIB had an appropriation for a budget to cover their costs, but they also had additional funds appropriated to defer additional costs. We have never asked for additional funds. I've been here 12 years, and I said to the Budget Committee, I gave you the same budget today as I did 12 years ago. So, we have substantially reduced costs over time. Now, we're faced with a situation where we're trying to level the budget, and we're looking at ways to reduce the budget. But, when we talk about what the AIB was allowed to do, I said, well, why can't we generate additional cash? Because if we can generate additional money, and this hasn't even been tacked on the insurers, it was tacked on other ways of getting them. But, we could use these monies, regardless of what the Budget Committee does to lower our budget, we can use these additional funds that would definitely be earmarked to offset the liability that we have.

So, when you hear that there is no liability at another entity, it's because of a formula that you members of this Governing Committee, who are also members of the AIB committee let take place. That was the reason I put this on the table. But, as you notice, I didn't support this or recommend this, since the last meeting. I took this off the table. Bill is advancing this. I'm not even advancing this theory by the way, personally, because of all the controversy of what we're talking about the problems that it may develop, I just thought this would be a way for us to generate additional funds while we're trying to reduce the expenses on the other side. It's as simple as that. So, I'm really, to be candid, not even supporting this initiative today. I think that if you want to wait until we finish the budget process, that's fine by us. We think it makes sense. If you want to look and see what we do with our benefits, that makes sense.

At the end of the day we will have come to an agreement as to where CAR will be. And, if at that point in time you want to pursue that, that would be my thoughts anyway, personally. Then we should pursue it, but that was the reason I put this on the table in the beginning. And, I think that somehow got lost in the sauce. It's as simple as that.

Mr. Hofmann: It did to an extent. And, I think that, you know, Bill to go to your comment, and Andy your comment, you know, those of us that run independent agencies, we do two things, we can either increase revenue or reduce expenses or both. Well, we've never looked at revenue here. This is a whole new concept at CAR looking at revenue. And, from the company's perspective, you companies, you support this organization and pay the bottom line cost of running this, whatever the heck it is. So, if we

come up with a method to get some additional dollars in here to defer expenses, pay expenses, I would think from your company's point of view, you'd say, great, that's a good idea, because it's less dollars we have to pay. And, what pot it comes out, really what difference does it make? So, I'm a little concerned that when we sit here and talk about we've looked at the expense side, you've been part of the process, so we've looked, and you have as well. We've looked at all these expenses. We've been whacking away at the budget. We're still in the process of doing the personnel stuff. We've got a separate committee. So, we've been looking at reducing expenses. It's not as though CAR has been sitting here doing nothing reducing expenses. They've put a lot of time and effort into that side.

So, the other side of this is to maybe look at in a brand new concept where CAR is bringing some revenue in. Agent Certification just happens to be one of the issues, and Nat's going to talk about other ones. To me, this is a way to reduce the expenses of operating CAR. Now whether you decide to put it towards the unfunded liabilities or you put it toward the actual direct cost of Agent Certification, which you know, Pam has very carefully enumerated. There's a whole bunch of costs connected with that. I just don't see what the objection to offsetting the cost of CAR that agents cause here by some number of dollars. Conceptually, that just says to me, what's the problem. Now, if we want to object to agents paying for it, that's another thought. Andy, go ahead.

Mr. Carpentier:

I was involved on the subcommittee of Budget Committee at AIB. So, I understand. I was involved in that process. And, any comparison between what occurred and is occurring at AIB and what is occurring at CAR are extremely superficial. And, they are largely irrelevant. AIB had to react to the elimination of fixed and established; that immediately put them out of business of formulating and defending rates. They dropped, God, an enormous legal cost they no longer had to absorb. They no longer needed all of the talent as of a date certain to do all of that. It was very clear cut. Secondly, AIB was able to engage in that without the requirement of the Open Meeting Law. In other words, the organization and its Governing Committee and Budget Committee could sit down and talk this through in a very different context than what we have here. And, so it led to a very tight timetable and a very significant reduction in the costs. And because of the decision that was made, to just continue with the budget as it was initially approved at the beginning of the year without taking into account that as of June of that year, they no longer needed to do all of this rate filing for private passenger auto, but just continue to carry out the budget through the end of the year resulted in the surplus that we talk about. And, so that was very easily allocated back to whatever unfunded liabilities the pensions had at that point.

The effort here has been, you know, a horse of a different color. And, we've had to look at this very, very differently. Obviously, on the AIB side of things, it is solely the companies; there is no agent involvement. There is no direct overview by the Commissioner of Insurance. There's a whole variety of things. Here, every step that has been taken to try to redefine CAR's role on an ongoing basis has had to contend with a back

and forth with the Division of Insurance, with changes in directives, rejections of proposals, etc., etc. It has been a laborious public, on going effort between this organization and the Division of Insurance. And, so we just don't have, I think, the ability to expedite the resolution of what the costs associated with running CAR will be in the future. So, we've had to work through this.

I guess the thing that struck me, personally, with this proposal with the producer fees was that, I would be much more comfortable if in fact the fees came back to the costs they were supposed to be offsetting, as opposed to, you know...

Mr. Hofmann: The unfunded liability.

Mr. Carpentier: funding the liability.

Mr. Hofmann: We can look at it that way. That's not a problem.

Mr. Carpentier: Yeah. You know.

Mr. Hofmann: We want to get to this stuff on the table in a second.

Mr. Carpentier: Oh, good.

Mr. Mancini: Just a couple of questions. The direct writers who would be involved in this, I suspect that their fee would be \$200, right?

Mr. Iannaco: Yes.

Mr. Mancini: Okay, \$200 per company.

Mr. Hofmann: Yup.

Mr. Mancini: Okay. It would be helpful to me, and I'm not sure about the others, but if we could see a break down of those administrative costs of those four functions.

Mr. Iannaco: Sure.

Mr. Mancini: Is that something that we could get?

Mr. Iannaco: Let's do it right now. It will take us two minutes.

Mr. Mancini: Okay, okay.

Mr. Iannaco: I can tell you approximately right now while she is getting it, but we can tell you that.

Mr. Mancini: And, just for my education, I'm not familiar with, does—when you do the budget here, do you have negotiations with the Division of Insurance on this?

Mr. Iannaco: No.

Mr. Mancini: You don't, okay.

Mr. Hofmann: Joe, have you've got comments? We listened to me on this side of the room, so don't think...

Mr. Vargas: From a broker's standpoint, you know, it would be nice not to get charged a fee, but if we do have to, it's not like it's a lot of money. I think the fee should be the same across the board, because it's a tool. So, how you choose to use that tool, you know, you can't go around, you know, you can't buy a tool, and hopefully not use it as often and hope you're going to get a cheaper—get it for less money. And, also I think, you know, you also don't want any situations where somebody's not being truthful about how many people are actually using the system, so it eliminates any of that. And, I think it's going to—any fees based on charging on how often you're going to use the system is really going to go right to urban agencies. I mean, the agencies that didn't get the voluntary contracts. Those agencies are just going to get nailed. And, those are the ones that are struggling to keep a value on their books. That's it.

Mr. Mancini: I have one question that I forgot to ask, because it was from a long time ago. I wanted to follow up on a line of questioning that Rich had earlier. Buddy, you had said that you have some agencies now that either didn't give you their license or whatever they were supposed to so for certain locations.

Mr. Carpentier: Tax ID's.

Mr. Hofmann: Tax ID's.

Mr. Mancini: No, no, no, for certification. They didn't provide you with their updated license or something like that.

Mr. Cahill: The Tax—wasn't that...

Mr. Iannaco: No, no, we didn't say that. No, we just said...

Mr. Hofmann: They said the Tax ID number is what they're missing.

Mr. Iannaco: We have at least...

Mr. Cahill: 500 agencies.

Mr. Mancini: Well, if any agency didn't—they have to be certified every year.

Mr. Iannaco: Right.

Mr. Mancini: So, if an agency didn't get recertified, let's say, and I suppose you've had some of those. Have you had some of those that have not?

Ms. Wallace: No.

- Mr. Mancini: Oh, you haven't. Okay.
- Ms. Wallace: No. I mean the agency renewal process is pretty straight forward. When they sent us copies of the license, we—for those that we don't receive, I mean, we have a monthly program where we go in and look and see who is coming up.
- Mr. Mancini: Okay.
- Ms. Wallace: We receive the information. If we don't, we go after it.
- Mr. Mancini: My thought was that if a fee was instituted and Agency A didn't pay it, I assume that CAR would have some responsibility to report that to the Division of Insurance that...
- Mr. Iannaco: Well, that was what we contemplated in the beginning. But, again, I took this off this shelf. So, in other questions that are developing today, we haven't...
- Mr. Mancini: Okay.
- Mr. Iannaco: We haven't discussed at all since two months ago, to be candid. So, we began to think about those things, and then with a sense—and by the way, the AIB did in their request for their budget asked for additional funds towards their liabilities that were approved all the way through, including the reduction last year. They also had, when they did their membership, we're allowed to retain monies in excess of their budget appropriation. So, they were getting A, additional funds on their appropriation, and B, through their membership fees, they were getting more money than they needed to pay their operations unless they had additional funds. We have never, as I said, asked for funds that are more than what we need to run our operation, just to get that point clarified.
- Mr. Hofmann: Right.
- Mr. Mancini: You had mentioned at the beginning, Buddy, that you have a pension liability, and was there anything else besides the pension liability?
- Mr. Iannaco: Well, that's easily identified. We have a very substantial retiree health liability that we're working on in a whole different look. And, that matter is going to be coming up for review at our...
- Mr. Mancini: Okay.
- Mr. Hofmann: The other committee that's looking at it.
- Mr. Iannaco: But, because of the Defined Benefit liability number, which is so large, we, under the IRS regulations, we have seven years to offset it. But, we were looking at sort of a fast track approach to try to offset that, because the committee is considering whether we should retain that benefit, the Defined Benefit as one of the benefits that CAR employees are presently

receiving. So, we have to satisfy that obligation anyway. Our retiree health liability is a substantial number that, right now is something like \$11 million. That's—any retiree health liability is up there. So, we're looking at ways of changing that whole concept.

Mr. Hofmann: We're looking at whole issues, which is why the concept of the \$300,000 from agents, we did it. We thought, oh, right now, we could put it towards that. But, I think it makes sense, and I think quite frankly, probably the proper approach is to use that in the budgetary process to offset the actual expenses for the Agent Certification. That's my suggestion when we get down the road on it. Joe, did you have any other comments? Ken, you had one.

Mr. Willis: It seems fair, and in particular, if the money goes towards the actual costs...

Mr. Hofmann: Yeah.

Mr. Willis: where the services are provided to agents. But, I just have a question. Would this be the first time agents have been charged a fee by CAR?

Mr. Iannaco: Yes.

Mr. Hofmann: Yeah.

Mr. Willis: The first time.

Mr. Hofmann: It would be a new approach, yeah. And, again, it goes back to, you know, we keep talking about AIB and what the funding is with the AIB. They really are two separate organizations and really can't compare the two. And, as I said, from my perspective when I look at the companies' funding of this organization, the companies fund this organization in total. So, whether we use it to offset liabilities or offset the direct expenses, it's the same. We're still going to have to satisfy the IRS on the unfunded pension liabilities that we've got one way or another. So, whether we get a direct contribution from companies from that, or it comes from this, really, I look at it as the total pot. But, I understand, Andy, your comments. And, I think quite frankly in selling this to agents, it's probably an easier sell to agents to say this is a direct offset of your expense of the Operation of CAR for certifying you and providing all of the things that are being talked about.

Mr. Carpentier: Well, along that line, I think it would be helpful for us as well as agents at large. Detail for us the licensing process, because my understanding is that because of the lack of mechanism of that process at the DOI, it is a difficult operation for CAR to coordinate.

Mr. Iannaco: We, as you know, when we began the process that MAIP Steering Committee asked us to verify that an agent is licensed so that they are not in violation of existing statutes, obviously. So, we went to the Division, and we thought we could hook up on line to verify that. Well, it appears that their renewal process is not up to the standard that we need for real

time assignments. So, we were asked to undertake the process. So, we had to develop, initially, a manual process where we had to reach out and begin to communicate with every agent. You have to send us a copy of your license and a picture, and I forget. There were three components, and John Metcalfe can jump in on it. So, we developed a manual process initially. Since then, we've obviously been automated. But, as Pam said, if we don't get a license that has been renewed timely, we reach out to the producer, and if the producer doesn't, and especially someone who has been using the MAIP System, if they don't give us a renewal license, we shut them off from access until they are able to provide us with an up to date renewal license. Now, John can give you much more detail, Andy, on what other process he has in place, if you would like.

Mr. Carpentier: Well, I would.

Mr. Iannaco: John?

Mr. Carpentier: Because, I think the comment that agents make, that well, we pay \$100 for a license.

Mr. Iannaco: Sure, and that's why I took this off this table.

Mr. Carpentier: What are they getting for that?

Mr. Mancini: But, that's more than \$100.

Mr. Carpentier: Well, okay.

Mr. Hofmann: Go ahead, John.

Mr. Metcalfe: Well, chasing licenses is a time-consuming effort. The Division does have limited information on their website. It will list, and we're told that it's up to date on the corporate DBA licenses. So, we can check fairly easily those licenses of—individually licenses are not reflected on their website. We do have to chase them down. We do have a manual type program that we go through monthly. We send out notices on agencies where our dates in our system are not current, and ask them for an updated copy of the license. A lot of them send it back. Some of them we have to do follow-ups. Some of them indicate that the Division has their check; they're processing it. It's not timely; they're backlogged.

So, are there gaps in the process right now? Yeah, there are things that we can't necessarily control, but we continue to chase until we have an active license. If I feel I'm getting the run around with an agency that's two month's behind, we'll shut them off until we get the license, so.

Mr. Hofmann: Any other questions for John? Ken, do you have any other questions? Bill?

Mr. Cahill: Yeah, I just had a couple, just follow-up things. So, one thought, you know, in this idea of getting...

Mr. Hofmann: Thanks, John.

Mr. Cahill: a little bit more information together was—I was just sort of curious. I don't know the answer to this. What—how this works in other states. If other assigned risk plans charge any type of certification fee. I don't remember that there was necessarily a certification process in a lot of states, if any. But, whether or not there's a fee that's charged to producers, it would be interesting to know that as a part of this, because I don't think we should operate in isolation if we were to go down this path down the road. We should know what happens elsewhere. So, if we were to come back and have a further discussion on this, Bill, I think it would be informationally good information to have.

The other two comments were, the cost of this—the entire infrastructure that's here, you know, we talk about whether it's coming from the companies or this minor piece that would potential come from agents. I mean, I think, the thing we haven't really talked about, but ultimately, the payer of all this are consumers. I mean, this all comes back to the expense structure of the market. And, so that's part of the motivation for trying to drive towards making sure that if there are additional expenses that we can wring out of the system, that we do that, as opposed to just trying to shift around who actually pays for it, because it does all come back to consumers.

And, then the last thing, Rich, you had asked out loud whether or not we would end up reviewing this type of fee in the future. And, I think Bill's point is fair about the penalties that we have come back and are glued to the penalties. But, we've looked at the penalties with the eye towards increasing them. We haven't eliminated anything, and I think that, you know, once we go down the path of introducing a producer fee, I think it's just hard, like anything in life, once you've got that type of thing in there, for us to go back and eliminate it, you know, it's going to take a pretty monumental turn of events for us to go back and do that. So, I put that out there.

Mr. Hofmann: Well, but, that's up to the future Budget Committees to look at that.

Mr. Cahill: I understand. I'm just trying to say from an inertia standpoint, it's going to be hard. You never see these things go away.

Mr. Carpentier: It doesn't go away.

Mr. Cahill: Right.

Mr. Hofmann: Mr. Jones?

Mr. Jones: For the Record, Buddy, if Andy had sent me an email, I would have supported the concept. But, Natalie, did you get the information?

Ms. Hubley: Yeah, I have a couple of things here.

Mr. Jones: That's part of my question.

SFS

09.04 Penalty/Service Fee Program

Mr. Hofmann: Oh, okay. Do you want to...

Ms. Hubley: I actually have a couple of things here. This first exhibit that I'm going to hand around is something that was distributed to the Audit Committee. This is a report that we intend to make to the Audit Committee annually to give them information relative to our expenses by function and how they would be allocated amongst the members. And, then we did do—take a little bit of a look at the penalty income and how it is expected to decrease over time. You know, as I think of the Fee for Service Program, it really is all encompassing of all of this. And, that includes the assessment allocation, the producer certification as well as the smaller subset of Fee for Service. But, when we presented this original idea to the committee and we were talking about certification fees as well as the use of penalties, that was because those, that income generated for CAR for that purpose was small and immaterial to the companies as it relates to the company share in CAR's expenses. And so, it was proposed really as a temporary measure to use it in order to offset the liabilities of CAR such that it wouldn't have a material impact on the companies, but once those liabilities were addressed, it would be, again, used as these types of incomes have always been used at CAR, to offset the expenses of CAR.

But, as we're talking the expenses of CAR and how they are allocated to the functions, we did provide information to the Audit Committee relative to the Fiscal Year 2009 and where that flushed out finally. And, then we provided information relating to 2010. And, I'll concentrate a little bit on—or mostly on 2010 for you, because we don't need to go through both of those things. What we do here at CAR is we do an analysis that's in the financial area that is aided by each of the individual department heads, where they're looking at how their staff's are allocating their time to the different functions of CAR. They provide that information to us, here. For those expenses that we can directly allocate to the functions of CAR, we look at those resources costs. We then look to other costs of CAR that can be allocated to functions that aren't necessarily resource costs. The best example I can give you of that, is that there is that fee that we pay to the AIB. That is specifically allocated, we pay them \$210,000 a year and \$100,000 goes towards the private passenger rate filing, \$100,000 goes towards the commercial rate filing, and \$10,000 goes to the generation of claims counts that they've been doing for us for some time now.

So, we allocate our expenses by function in that way, and then that leaves some overhead expenses that we're prorating across the functions according to how those other allocated functions break out. When we did that, at the bottom right-hand side of the page, you can see that the results of that analogy showed that 28% of CAR's expenses anticipated for Fiscal Year 2010, which is based on our 2010 budget and how we've planned our resources to be allocated for the next fiscal year; 28% is expected to be used for the statistical agent function, 31% of our expenses will represent the assigned risk plan operations, 17% will represent that runoff—administering that runoff private passenger deficit as that's

transitioned out, and 22% will be used to administer the commercial automobile program.

We then take those expenses by function, and in order to allocate them to our Member Companies, our assessment process uses the Annual Statement, Page 15. The Annual Statement, Page 15, is broken into four pools; those pools being private passenger liability, private passenger physical damage, commercial liability, commercial physical damage. So, we take each of the functions of CAR, say this statistical agent function where we're anticipating about \$3.6 million, and we—those expenses would be allocated across all four of those lines of business according to the distribution of premium for the industry in that fashion. The private passenger—the MAIP function is only a private passenger function, and so we only look at the private passenger lines of business when we distribute those expenses by line of business. And, then the same is true for the private passenger deficit. And then finally, the commercial expenses, again, are only commercial. So, we use those Annual Statement lines to break those out by line of business.

So, we then have, as we reported to the Audit Committee, we anticipate that the expenses are then allocated by Annual Statement line of business according to as it shows there at the bottom on the page, 45% to private passenger liability, 28% to private passenger physical damage, 20% to commercial liability and 6% to commercial physical damage. Those are the percents of expenses that would be used to—when we then allocate the expenses by market share.

So, we have one last piece that we have to break out, and that's that statistical agent expense. That \$3.6 million that we're identifying as going to the statistical agent expense, is going—will be assessed to Member Companies in accordance in large part with how the companies are statistically reporting to CAR. If you're a company that reports to CAR monthly and reports under several different company numbers, that requires resources from CAR staff for each of the statistical reporting submissions that is sent to CAR. You know, it's data collection, editing, insuring that the quality is as it should be, loading the data and all of that, so we're assessing the companies a flat fee per, we'll say—or representative of the fact that they report many—under many companies.

If you're a company that reports all of your business under one, you're only going to get one of those assessments. If you're a company that reports quarterly to CAR because your volumes are low, the resources required from CAR are smaller, and therefore; the fee assessment is smaller. If you're a company that is a new writer, but you've exceeded your thresholds, you're actually going to be paying CAR the higher fee that is commensurate with the monthly reporters, and that is because you're going to be required to report to CAR in the near future. And, CAR is spending its resources to train you and assist you in getting your operation, so that you can report your data to CAR. If you're a company that's writing, but is not exceeding thresholds, where you're not going to have to be stat reporting, you're paying a lesser fee. And, that's because we're still working with you to monitor your data and ensure that our

records are complete and our assessments are accurate. And, we're providing you information through our website relative to the market place and all of that. But, we're not managing your data to the same level. And, then finally if you're an inactive group, you're being assessed a nominal fee.

So, each company is being assessed a fee commensurate with the expenses required to service your business, and then—or the expenses required to provide you the statistical agents services. And, there are those fees that were designed in order to ensure that when we collect all of these fees from the companies, we'll be collecting an amount that is reasonably related to those allocated resources for the statistical agent function. We then look at the overhead type expenses and we assess those using a market share assessment, and that market share assessment would be performed in the manner that's illustrated here.

It is our intent, and we've reported to the Audit Committee, and we did our first annual report earlier this month. It is our intent to provide the Audit Committee with the results of that study. We would also be reviewing that expense with the budget or, excuse me, the assessment amounts with the Budget Committee each year to ensure that there are no significant swings in the companies reporting and all of that, so that we continue to make sure that those fees are commensurate with the expenses. So, that would be reviewed annually.

To speak to a little bit to the certification fee, and that fee being commensurate with the expenses, as you can see in this analysis here, we're identifying that approximately \$4 million will be related to the management of the Massachusetts Assigned Risk Plan. This is just a number that I'm throwing out here. Pam might want to comment to it, but I would say that probably a third to a half of those expenses are used to manage producers. So, I would tend to think that you're not really looking to have the producers fund that kind of expense, instead we're providing—or we're anticipating a nominal fee that would offset the expenses. Again, it was our original proposal to use those fees because they would not generate a material income to the companies in offsetting these expenses here. To use those to fund the unfunded liability that is of such a concern to the companies, but then once that's brought down, these assessments and the whole use of those funds would be presented to the Governing Committee or to the Budget Committee as the normal course of the budget presentation every year. So, that addresses, I think, how the expenses are allocated, which has been asked of a couple of companies—by a couple of committee members.

But, also to speak a little bit to the penalty income, again, that's a bit of an aside. It's a related issue. It, again, it is an income that has for years been collected by CAR and then distributed immediately back to the companies. And, that really is just a method for ensuring that the expenses are paid by those carriers who are using the services. If you're not reporting well to CAR, you require more services from CAR, and therefore; you're paying a penalty. So, it's really just another reallocation method. And, you can see here, we did a five-year study. Back in 2005

we were collecting about \$1.5 million in penalty fees. Prior to that date it was much more than even. You'd see in excess of \$2 million assessed in fees. And, you could see that in 2006 and 2007, 2008 and 2009, that number has come down significantly. And, there are a couple of reasons, especially in 2009 why those penalties are coming down so significantly. One would be because the private passenger pool is transitioning out, so that your errors relating to that ceded business are really being addressed now and kind of cleaned up.

Also, we put in place the Commercial Limited Servicing Carrier Program, which reduced from every company being a Servicing Carrier to only six carriers, right Pam, being Servicing Carriers. So, you've got much less companies reporting ceded business to CAR. And, you've also got companies who are more concentrated in their efforts in ensuring that the quality of that data is good. And, you also have CAR staff concentrating its resources in ensuring that those six carriers are reporting their ceded data properly to CAR. So, these penalties, while they relate to statistical agent as well as residual market, a good portion of those penalties were generating from the residual market business. So, that comes down, and we expect it to continue to come down as the private passenger pool continues to run-off as well as the commercial carriers continue to get better and better.

So while, yes, we have increased some of the penalties in order to ensure that they are—they were looked at for, you know, they were very, very old penalties and they hadn't been looked in I think maybe 15 or 20 years. So, they were really increased only for inflationary increases, not any real substantive changes. But, in spite of those increases in trying to ensure that the incentives are provided to companies to report well. We still don't expect that we're going to see increased revenues resulted from that increase. So, again, because we've seen this decrease, and here, I'm doing a very conservative estimate of about \$350,000. Buddy mentioned, \$250,000; that was something that we were looking at earlier. Absolutely as these numbers are coming down, we could anticipate anything in the range of \$250,000 to \$350,000. But, the point is that, if you, even at a maximum of \$350,000 the revenue, the offset to any one company for those—from the income generated there is relatively small and is quite immaterial relative to the company share of CAR's expenses. So, we proposed it as a temporary solution to address the unfunded liability, which is such a concern. And then, you know, revisit that as we go forward and those unfunded liabilities are addressed.

Mr. Hofmann: Thank you, Nat. Does that answer your question, Frank?

Mr. Mancini: It does. Thank you very much, Natalie. Very thorough, very thorough. I do have a couple of questions?

Mr. Iannaco: Were you looking for the MAIP expense, I presume?

Mr. Mancini: No, no, no, I just have a couple of questions. How many—do you know off hand how many commercial agencies that have a commercial automobile assignment?

Mr. Hofmann: You mean commercial only, Frank?

Mr. Mancini: No, no, no, just an assignment to one of the six servicing carriers?

Mr. Iannaco: How many agents?

Mr. Mancini: How many agencies have an assignment?

Mr. Hofmann: Everybody does?

Mr. Cahill: Now, well, you've got 1,750 that have certified producers in the MAIP, so your question is how many commercial...

Mr. Mancini: How many of those?

Ms. Wallace: Do you know that? I'm asking John.

Mr. Metcalfe: I don't have an exact number, but I would expect it would be a little bit less than the 1,750, because some aren't writing commercial business and haven't requested a carrier. I can get that.

Mr. Hofmann: Is that okay, Frank?

Mr. Mancini: Yup. Yeah, that's fine.

Mr. Hofmann: Rich?

Mr. Jones: To Joe's point, I think we're spending a lot of time talking about \$200. It's not a lot of money. To Andy's point, there is a selling feature to this to agents, because if you're not an agent that has the benefit of sitting on these committees, you have no idea how this sausage gets made here. So, I think there is a selling point to that.

Mr. Vargas: I agree with that.

Mr. Jones: To my friend, Mr. Cahill, from Beverly, he knows I'm going tax and spend liberal, but the concern I still have, and I don't know the format that you would use to get to this. And, I understand you just want to make it part of the budget process, I think I'm going to go back to what I said earlier, some kind of provision where this thing gets put in play and has a cap of, I don't know, three years, five years, whatever, that it could only go down. Because at some point in time, you're going to have less agents; 1,750 could very easily be 1,200 or 1,300 in a few years. And, I just think in the selling feature to agents, that, no offense, Natalie, but a condensed version of what you just presented, because after our board meeting the other night, a few agents did ask me, you know, what the hell is Hofmann up to? What is he talking about? And, I gave them a simplistic thing that, you know, in order for this thing to work, we all have to participate in the costs, whether you're writing one policy or a hundred policies or more. We all have a responsibility to support, you know, what you're doing here. And, when I said that, and I said, geez, it's only a

couple of hundred bucks, you know the sense was, well, okay. But, agents do have other costs in addition to licensing. It does cost agents more money today to place a piece of meaty business than it did with CAR. So, it is an additional cost I think that the selling part to them is going to be very important, and knowing that it doesn't become like a license fee where the governor could just come along and arbitrarily increase it at a future time, even though there may not be any need to. I think that just helps in the presentation to agents. That's all.

Mr. Hofmann: Well, if we decide to accept this conceptually, it would have to be a proposal that goes to the Budget Committee and the Governing Committee. And, I would certainly think that, you know, it could be made on the basis that it's, you know, three years, two years, whatever people think is appropriate. With a time frame on it, you could certainly do that, or with the caveat that it must be reviewed each and every year as part of the approval of, you know, if we decide to do that. So, I think you can take care of what your concerns are in the way it's presented to the Budget Committee and to the Governing Committee when it has whatever restrictions on it you think are appropriate.

Mr. Vargas: I had a question for Natalie. Natalie, which function line did you say a third or half is...

Ms. Hubley: MAIP.

Mr. Vargas: Which one?

Mr. Mancini: The MAIP. The second one down is MAIP.

Mr. Carpentier: \$4 million.

Mr. Vargas: \$4 million.

Ms. Hubley: The administration of the MAIP, I guess, I would argue, and please join in, and you know, it's almost we service producers probably almost as much as we service companies in administering that function.

Mr. Vargas: You're saying it's to what a third and half, that's what your projection is?

Ms. Hubley: That's just my off the cuff observation; that's not based on any analysis.

Mr. Mancini: Sure.

Mr. Vargas: Okay. Thank you.

Mr. Hofmann: So, if you take half of it, we'd be contributing \$300,000 toward \$2 million in the cost to use the approximate math that we're talking about.

Mr. Vargas: At this point I don't want to know what the equation is.

Mr. Hofmann: Yeah, I understand. I didn't think you did either, Joe.

Mr. Vargas: Good.

Mr. Hofmann: Okay, Andy?

Mr. Carpentier: And, you're not including the taxi pool or the commercial Servicing Carrier costs?

Ms. Hubley: No, I believe...

Mr. Carpentier: You were just thinking of the MAIP.

Ms. Wallace: Right.

Ms. Hubley: No, it was my understanding that the Certification Fee was for the administration of the MAIP.

Mr. Hofmann: Right.

Mr. Mancini: Do you have any figures on what it cost to run the old ERP assigned pool or was it \$4 million of the private passenger side of this operation? Was it more? Was it less?

Mr. Iannaco: Well, you look at—right now, we didn't isolate out the private passenger aspect. If you look at what we have today—unfortunately, we don't have enough sheets. I don't have it in front of me, the sheet that you're looking at, but we've included overhead here, and we have allocated and unallocated costs here. So, if you take the unallocated costs, that's overhead, that's our computers, our rent, our reception area, this room, etc., etc., etc. So, that's a big chunk of each individual expense that you're looking at.

Mr. Mancini: Yeah.

Mr. Iannaco: So, I don't know what the number says for private passenger.

Mr. Mancini: It says a little over \$4 million.

Mr. Iannaco: For private passenger...

Mr. Mancini: What I'm wondering is there for 2007...

Mr. Iannaco: I was trying to get you to that point.

Mr. Mancini: Oh.

Mr. Iannaco: If you look at the private passenger expense and that pass out, which I don't happen to have in front of me, it's probably \$2.5 million, maybe. Is that what it says? I don't...

Ms. Hubley: I don't have it right there anymore.

Ms. Wallace: It's right there.

- Mr. Iannaco: Oh, alright.
- Mr. Mancini: Private passenger liability.
- Mr. Iannaco: No, just the total expense.
- Mr. Mancini: \$4 million for...
- Mr. Iannaco: The private passenger run-off piece.
- Mr. Mancini: Oh, the run-off?
- Mr. Iannaco: Yeah, it's \$2.1 million...
- Mr. Mancini: \$2.1 million.
- Mr. Iannaco: including our unallocated expense, so if that—because it's such a minimal effort now, but if—so, if we were to go back out to where it was, say four years ago, you would have to probably double that at least, conceptually, with resources that we're talking about then versus today.
- Mr. Mancini: So, it's costing less money to run the MAIP, than it did to run the...
- Mr. Iannaco: Well, that's a quick guesstimate to try to figure out what we had for resource allocation five years ago. So, you know, that's a quickee.
- Ms. Hubley: Exactly. But, this is based on CAR's budget and then an estimate of how we allocate our resources. Every year our, you know, we're going to focus our attention in different areas. And, hopefully as the MAIP is an ongoing process...
- Mr. Mancini: Sure.
- Ms. Hubley: we'll be able to redirect our attention to some of the commercial issues. So, that's a number that will shift from year to year. You know prior to the MAIP, we had three functions, the commercial, private passenger, so you might have had a 33% break down on how we were expending our resources. That number will change.
- Ms. Wallace: And I think, Frank, what you're trying to balance is, you know, the ERP system versus the assigned risk system.
- Mr. Mancini: The cost of those.
- Ms. Wallace: The cost of that, I mean, certainly our interaction with producers under the ERP system was significantly different than what it is under MAIP, because much of the management of the ERP was done by the Servicing Carrier.
- Mr. Willis: That's what I was going to say.

Ms. Wallace: And, now we have become responsible for that, because of the fact that the assigned risk producer is dealing with all of the carriers that are writing, and there is no central management with the Servicing Carrier any longer.

Mr. Mancini: So, the Servicing Carriers are saving money?

Mr. Carpentier: Yes.

Ms. Wallace: Yes.

Mr. Mancini: So, that's where the...

Mr. Carpentier: Yes.

Mr. Hofmann: Andy, you have a comment you were going to make.

Mr. Carpentier: I was going say exactly—I was going to ask the company folks if they agreed with the view that I had, that it was much costly for the companies to manage the ERP structure.

Mr. Hofmann: This is a cost savings. And, I think, you know, Bill, to go to your point, and again, you sat through the budget stuff. I think, you know, CAR has done a great job looking at all of the expenses and reducing those as much as they can up to this point. We still are in this transition. And, until we get fully into the MAIP, I don't think that we can—I don't think there are expenses left on the table. I'm saying that I think right now that we can—that we've got to reduce...

Mr. Cahill: That's a subject of a whole other discussion.

Mr. Hofmann: Well, it is, but and of course, you know, the budget was the time to bring up all of those. If there were specific items that we thought we should...

Mr. Cahill: Well, I think there were left over items from that discussion that are still being taken to point.

Mr. Hofmann: Well, the personnel is the biggest item, okay.

Mr. Cahill: Right.

Mr. Hofmann: And, I understand that, and that's being worked on. And, I don't know what the outcome of that will ultimately be. But, don't forget, we're already part way into this budget process—cycle.

Mr. Cahill: Right.

Mr. Hofmann: So, that whenever we make a decision, who knows how much impact it will have on the current budget, okay, because we're—everybody wants more into it.

- Mr. Carpentier: Well, we've already seen, off the top of my head, the budget drop by \$1 million from '08 to '09.
- Mr. Hofmann: That's what I'm saying, yeah. We've already looked at, you know, we've already done some, I think, some terrific work with reducing the expenses, but anyway. Well, anybody have any other comments? I think what we ought to be doing is, we've now got some information to look at, some things to look at, we've got people reflecting on different things. My suggestion is that we get this group back together maybe some time in January, and I'll talk with Buddy about that and come back. And, I would like to see us come to some resolution on these issues, that we either decide to do them or don't do them, whatever the case might be, but not leave them out there hanging. I know Buddy's not, you know, real hot to trot on pushing these fees forward. I think...
- Mr. Iannaco: Well, well, well—now, no, no. We've already A, put into the play the administrative fee for the statistical agent.
- Mr. Cahill: Right.
- Mr. Hofmann: I understand.
- Mr. Iannaco: We just wanted to do an explanation of that fee. And B, we also have already agreed that any penalty dollars that we receive that was at the Budget Committee...
- Mr. Hofmann: At the Budget Committee we agreed to that.
- Mr. Iannaco: and Governing Committee, we'd be allowed to use those dollars whatever they may be. So, really the third issue really is the certification fee concept. And again, and I think I've said and made my point clear three times, I don't have to repeat that, so whatever this committee wants to do, we would do. All that being said, I think this committee can decide if they think this proposal makes sense, if it makes sense, we bring it back to the Budget Committee because the Budget Committee ultimately is going to hear from us with any personnel recommendations, what the impact will be to the Budget Committee going forward, and you can put it together, so you can...
- Mr. Hofmann: Yeah, well I'd like to...
- Mr. Iannaco: settle in on that issue.
- Mr. Hofmann: What I'd like to do is get this group back together to decide on the Agent Certification piece one way or another, and then this will just be one more thing. It will go to the Budget Committee. I want to proceed with that and that's because the big piece will be what the Personnel Subcommittee comes back with what suggestions they've got, and then we'll go to the Budget Committee on the total piece.
- Mr. Iannaco: And, I just think in concept my view is that as we are looking at the benefit piece with this other committee, the Personnel Subcommittee,

ultimately, we'll make some decisions, which we'll report to the Personnel Committee, which will impact our budget. And, I think then as we impact the budget and if there will be some cost reductions as a result of these initiatives, I think we want to go back to the Budget Committee. Because when we go back to the Budget Committee, we will be telling the Budget Committee that you in fact did approve a level funded budget, as you just said, for the remainder of Fiscal '10, but it would appear that some initiatives will have taken place that will maybe reduce the overall costs associated with that budget. They may want to discuss if there is some surplus what we do with those remaining funds. And, we'd want to bring that back to the Budget Committee.

Mr. Hofmann:

Yeah, let's wait until we get there.

Mr. Iannaco:

I think we'd want to tie it all up and say ultimately—and don't forget, we did suggest and I think when we meet later, we're going to put all Governing Committee meeting members on the Budget Committee, again, so everyone knows...

Mr. Hofmann:

Yeah, what's going on, yeah.

Mr. Iannaco:

they can participate, so we can save a lot of time, because we want to keep this process flowing.

Mr. Hofmann:

Yup. I agree.

Mr. Iannaco:

And, half the members here are on the Governing Committee anyway, if not all, except for Frank.

Mr. Hofmann:

Mr. Jones?

Mr. Jones:

Off the Record. It's really not a big deal. I get four auto companies, each one gets an invoice for \$50, and the one or two that don't pay, get shut off from new business for awhile. Other than that, it's not that complicated.

Mr. Carpentier:

Well, you know, if I were to do another informal survey, I would be sure to include our tax and spend representative from the North Shore.

Mr. Jones:

Well Bill knows about it.

Mr. Hofmann:

Anybody have any other...

Mr. Mancini:

Can I just ask what the time table is on this?

Mr. Hofmann:

Some time in January, we're going to get this group back together.

Mr. Mancini:

What's the time table to get to the full...

Mr. Hofmann:

We've got to wait until the Personnel Subcommittee comes back.

Mr. Iannaco:

Well, eventually we would go back to the Budget Committee. We'd flip back to the Budget Committee and ultimately then report back to the

Governing Committee to commence with this type of a process. So it would either be in the February meeting or the April meeting.

Mr. Mancini: What is CAR's fiscal year? Is it calendar year?

Mr. Iannaco: October 1.

Mr. Hofmann: October 1.

Mr. Mancini: So, we're talking about...

Mr. Iannaco: So October 1 in FY '10, yes.

Mr. Mancini: So, we're talking about a budget that would begin in October.

Mr. Iannaco: We've already commenced our Budget for CAR October 1st. So, any revenue dollars that come in, would come in during Fiscal '10, which is through September 30th of 2010. So, if we had...

Mr. Mancini: So, this would be for this budget?

Mr. Hofmann: This could be, could be.

Mr. Iannaco: this budget process.

Mr. Hofmann: Depending upon we decide to do on it.

Mr. Mancini: Okay. Thank you.

Mr. Hofmann: Bill, motion to dismiss?

Mr. Cahill: So moved.

Mr. Hofmann: All in favor, aye.

All Committee Members: Aye.

Mr. Hofmann: Thank you.

(Meeting ended at 11:27 a.m.)

RALPH A. IANNACO
President

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

Attachments

Boston, Massachusetts
February 16, 2010

INITIAL TRANSCRIPTION WITH REVIEW AND INDEXING BY KIM TOBIN, COMMONWEALTH AUTOMOBILE REINSURERS.

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").

EFFECTIVE APRIL 1, 2005, ANY PARTY REQUIRING A VERBATIM TRANSCRIPT OF A PARTICULAR MEETING SHOULD SUBMIT A REQUEST TO CAR FIVE BUSINESS DAYS IN ADVANCE OF THE SCHEDULED MEETING SO THAT CAR CAN COORDINATE THE TRANSCRIPTION WITH A COURT STENOGRAPHER. CHARGES FOR THIS SERVICE WILL BE BORNE BY THE REQUESTING PARTY, AND A COPY OF THE TRANSCRIPT WILL BE RETAINED BY CAR. ALTERNATIVELY, THE PROCEEDINGS OF COMMITTEE MEETINGS ARE AVAILABLE ON CD-ROMS AT NO CHARGE. TO REQUEST THESE SERVICES, PLEASE COMPLETE THE TRANSCRIPT SERVICES REQUEST FORM ON OUR WEBSITE AT WWW.COMMAUTO.COM OR EMAIL KIM TOBIN AT CAR_DISTRIBUTION@COMMAUTO.COM.

ATTACHMENT LISTING

Docket SFS09.02, Exhibit #1

Docket SFS09.04, Exhibit #1

Docket SFS09.04, Exhibit #2

Attendance Listing

Administrative Expense Allocation by Function Report

Historical Penalty Assessments

**Commonwealth Automobile Reinsurers - Audit Committee Report (12/09/2009)
 Administrative Expense Allocation by Function**

Fiscal Year 2009 - Final True-Up of Expense

| | Private Passenger Liability | Private Passenger Physical Damage | Commercial Liability | Commercial Physical Damage | Total | |
|--|--|--|---------------------------------|---------------------------------------|-----------------|------|
| Calendar Year 2008 | | | | | | |
| Annual Statement Written Premium | \$2,300,765,525 | \$1,406,436,525 | \$426,277,338 | \$136,423,826 | \$4,269,903,214 | |
| Percent of Total | 54% | 33% | 10% | 3% | 100% | |
| Private Passenger Percent | 62% | 38% | | | | |
| Commercial Percent | | | 76% | 24% | | |
| Fiscal Year 2009 Expenses | | | | | | |
| Statistical Agent | \$1,976,172 | \$1,208,016 | \$366,138 | \$117,177 | \$3,667,503 | 28% |
| Massachusetts Assigned Risk Plan | \$2,449,330 | \$1,497,253 | | | \$3,946,583 | 31% |
| Private Passenger Deficit Run-Off | \$1,599,490 | \$977,754 | | | \$2,577,244 | 20% |
| Commercial Automobile Plan | | | \$2,056,497 | \$658,152 | \$2,714,649 | 21% |
| Total | \$6,024,993 | \$3,683,022 | \$2,422,635 | \$775,329 | \$12,905,979 | 100% |
| | 47% | 28% | 19% | 6% | | |

Fiscal Year 2010 Interim Expense Allocation

| | Private Passenger Liability | Private Passenger Physical Damage | Commercial Liability | Commercial Physical Damage | Total | |
|--|--|--|---------------------------------|---------------------------------------|--------------|-----|
| Fiscal Year 2010 Budget | | | | | | |
| Statistical Agent | \$1,945,401 | \$1,189,206 | \$380,437 | \$115,353 | \$3,610,396 | 28% |
| Massachusetts Assigned Risk Plan | \$2,519,066 | \$1,539,882 | | | \$4,058,948 | 31% |
| Private Passenger Deficit Run-Off | \$1,344,044 | \$821,602 | | | \$2,165,646 | 17% |
| Commercial Automobile Plan | | | \$2,287,985 | \$732,236 | \$3,020,221 | 22% |
| Total | \$5,808,512 | \$3,550,689 | \$2,648,422 | \$847,589 | \$12,855,211 | 99% |
| | 45% | 28% | 21% | 6% | | |
| Statistical Agent Fee | \$2,224,000 | | | | | |
| Stat Agent Market Share Assessmt | \$1,388,396 | | | | | |
| Residual Market/SB Assessment | \$9,244,815 | | | | | |
| Legal/Benefits Review (Mkt Share) | \$180,000 | | | | | |

**Commonwealth Automobile Reinsurers
Historical Penalty Assessments**

| <u>Description of Penalty</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2007</u> | <u>FY2008</u> | <u>FY2009</u> | <u>Business Function</u> | <u>Continue?</u> | <u>FY2010 Protection</u> |
|--|---------------|---------------|---------------|---------------|---------------|--------------------------|------------------|------------------------------|
| Late Statistical Submissions | \$248,800 | \$217,000 | \$103,400 | \$91,100 | \$206,200 | statistical agent | Y | \$148,850 |
| Late Annual Statement (A/S) Reporting | \$31,200 | \$28,300 | \$9,800 | \$8,400 | \$3,900 | statistical agent | Y | \$6,150 |
| Late A/S Reconciliation Explanations | \$0 | (\$13,300) | \$4,100 | \$3,650 | \$1,100 | statistical agent | Y | \$2,375 |
| Late Expense Calls | \$1,650 | \$1,150 | \$400 | \$0 | \$0 | statistical agent | N | \$0 |
| Excessive Statistical Errors | \$14,500 | \$13,300 | \$28,200 | \$39,300 | \$60,700 | statistical agent | Y | \$50,000 |
| Late Settlement of Balances Payments | \$3,380 | \$1,409 | \$697 | \$1,699 | \$1,160 | CM LSC, PP Runoff | Y | \$1,430 |
| Private Passenger Rate Edit | \$0 | \$0 | \$0 | \$0 | \$0 | PP Runoff | N | \$0 |
| Commercial Rate Edit | \$200,000 | \$158,000 | \$50,000 | \$0 | \$0 | CM LSC | Y | \$0 |
| Experience Rating | \$71,800 | \$64,525 | \$41,175 | \$5,500 | \$3,450 | CM LSC | Y | \$4,475 |
| Claims Standards | \$80,000 | \$5,097 | \$38,900 | \$34,443 | \$40,044 | All Resid Market | Y | \$37,244 |
| Excessive Non-Critical Accounting Errors | \$12,400 | \$10,150 | \$37,100 | \$5,350 | \$26,150 | CM LSC, PP Runoff | Y (75%) | \$19,613 |
| Missing Flat Cancellation Documentation | \$47,000 | \$54,400 | \$34,200 | \$39,250 | (\$6,200) | CM LSC, PP Runoff | Y (75%) | \$0 |
| Cession Backdate Fees | \$0 | \$200 | \$0 | \$0 | \$500 | CM LSC, PP Runoff | Y (75%) | \$375 |
| 10% Loss of Investment - Loss Write Off | \$38,447 | \$54,225 | \$14,880 | \$80,158 | \$25,108 | CM LSC, PP Runoff | Y (75%) | \$18,831 |
| \$60 Cession/No Premium Fee | \$53,640 | \$35,040 | \$279,060 | \$160,500 | \$28,620 | CM LSC, PP Runoff | Y (75%) | \$21,465 |
| Cession/No Premium Write Off Penalties | \$744,100 | \$643,480 | \$340,000 | \$431,400 | \$53,400 | CM LSC, PP Runoff | Y (75%) | \$40,050 |
| | \$1,546,717 | \$1,272,956 | \$981,892 | \$900,750 | \$444,132 | | | \$350,657 |