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## NOTICE OF MEETING

### AD HOC NON-FLEET PRIVATE PASSENGER TYPES SUBCOMMITTEE

A meeting of the Ad Hoc Non-Fleet Private Passenger Types Subcommittee will be held at the Automobile Insurers Bureau Conference Center at 101 Arch Street, 7<sup>th</sup> Floor, Boston, on

**TUESDAY, JUNE 20, 2017 AT 10:30 A.M.**

### MEMBERS OF THE SUBCOMMITTEE

Mr. John Olivieri, Jr. – Chair  
J.K. Olivieri Insurance Agency, Inc.

Ms. Elizabeth Brodeur  
Mr. Thomas DePaulo  
Mr. Michael Faron  
Mr. Barry Tagen

Safety Insurance Company  
Meridian Insurance Agency, Inc.  
The Norfolk & Dedham Group  
Pilgrim Insurance Company

## AGENDA

### APPT

#### 17.03 CAR Conflict of Interest Policy

The Chair will read a statement relative to CAR's Conflict of Interest Policy.

### APPT

#### 17.04 Non-Fleet Private Passenger Types

The Chair of CAR's Commercial Automobile Committee has established an ad hoc subcommittee to review the various options and details presented to the Commercial Automobile Committee by CAR staff in an effort to address the growth in volume of ceded non-fleet private passenger type (NF-PPT) business and its impact on the deficit in recent years. Staff has prepared exhibits that offer alternative residual market placement options, modify the eligibility definition for placement, and outline a classification plan based on driving history and business use for risks eligible for coverage on a commercial automobile policy. (Docket #APPT17.04, Exhibits #1 and #2)

The Subcommittee should be prepared to evaluate the materials presented and prepare a recommendation to the Commercial Automobile Committee.

**Other Business**

To transact any other business that may properly come before this Subcommittee.

**Executive Session**

The Ad Hoc Non-Fleet Private Passenger Types Subcommittee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

JOHN METCALFE  
Director – Residual Market Services

Attachments

Boston, Massachusetts  
June 7, 2017

**Commonwealth Automobile Reinsurers  
Non-Fleet Private Passenger Types Subcommittee  
Assigned Risk Plan Alternatives**

At its May 10, 2017 meeting, the Commercial Automobile Committee directed CAR to determine the feasibility of expanding the current assigned risk plan (MAIP) to incorporate Non-Fleet Private Passenger Type Risks (Option 1) as well as the feasibility of developing a separate assigned risk program for just NF-PPTs (Option 2). In addition to the issues associated with each alternative, summary information relative to the various companies writing in each market is provided.

**Non-Fleet Private Passenger Type Risks – Summary Data (2016)**

- 51,416 PDL Exposures in Effective Year 2016
  - 14,987 Ceded – 29% cession rate
- 44 Companies/Groups write this business
  - 4 Servicing Carriers
  - 15 companies writing NF-PPTs participate in both the personal and commercial markets
  - 29 companies writing NF-PPTs participate only in the commercial market
    - 22 companies write less than 100 PDL exposures
      - 15 write less than 50 PDL exposures
        - 8 write less than 10 PDL exposures
- 10 private passenger only companies that do not write these risks

**Option 1 – Include Non-Fleet Private Passenger Type Risks in the MAIP**

- All the Rules would require a thorough review. However, our initial examination indicates that adding NF-PPT risks to the MAIP would materially impact the following Rules:
  - Rule 21 – General Provisions
  - Rule 22 – Definitions
    - Assigned Risk Company
    - Assigned Risk Policy
    - Assigned Risk Producer
    - Eligible Risk
    - MAIP
    - Member
    - Private Passenger Motor Vehicle
  - Rule 26 – Policyholder Rights and Responsibilities
    - Motor Vehicles eligible for Assignment
  - Rule 27 – Coverages
    - BI – MAIP maximum limit is \$250,000/\$500,000 whereas Ceded Commercial is \$1 million/\$1 million
    - PD – MAIP maximum limit is \$250,000/accident whereas Ceded Commercial is \$500,000/accident
    - UN/UND – MAIP maximum limit is \$250,000/\$500,000 whereas Ceded Commercial is \$500,000/\$500,000
  - Rule 29 – Assignment Process – see bullet on Quota Share
- Once the Rule changes are approved, the Assigned Risk Company and Assigned Risk Producer Procedures Manuals will need to be updated to reflect the same changes and provide additional detail

## Option 1 – Include Non-Fleet Private Passenger Type Risks in the MAIP (Cont.)

- The online MAIP Policy Application would need to be modified to:
  - Ask if the risk is a Private Passenger Type on one of the initial screens – if yes, then
    - Capture the Name Insured as well as the names of the operators
    - Modify the class code drop down box since only one option would be available
- The current application form would need to be modified and approved to include both Name Insured and Operators for NF-PPTs
- The Quota Share calculation would need to be modified to include these risks (impact to Rule 29 – Assignment Process) – refer to Actuarial Committee for review
  - Determine methodology to incorporate the exposures for NF-PPTs
  - Determine if Keep Out credits apply
  - Determine if Take-Out credits apply
- Since not all companies currently writing in the private passenger marketplace write in the commercial market, the Subcommittee will need to consider whether all current ARCs are equipped to accept commercial NF-PPT assignments under a single assigned risk plan
  - The Subcommittee could consider alternatives to address this issue:
    - Incorporate assignment criteria that skips an ARC that does not write commercial lines when a NF-PPT assignment comes up (and then that ARC would accept the next private passenger assignment thereafter)
    - Modify eligibility criteria in the residual market private passenger policy to include coverage for NF-PPT risks
- Conversely, since not all companies currently writing NF-PPT risks on commercial policies write in the private passenger market, the Subcommittee will need to consider whether all commercial NF-PPT writing companies are equipped to accept private passenger assignments
  - The Subcommittee could consider a buy-out alternative to address this issue, such that carriers writing under a specified market share threshold could pay CAR a buy-out fee (to be determined) which would be commensurate with their residual market financial obligations (and those fees would be distributed among the participating private passenger ARCs)
- If the Subcommittee were to recommend this concept, additional operational issues would be referred to the Compliance and Operations Committee for review
  - For reporting purposes, consider whether the NF-PPT class code should be included in the Private Passenger Statistical Plan
    - Currently, the Statistical Assessment process is based on the premium reported on companies' Annual Statements. If the NF-PPTs are moved into the MAIP, should the Statistical Assessment process be modified to include or exclude those companies that only write assigned NF-PPT risks in the private passenger market?
  - A new Risk Type value for MAIP Placement Record (MPR) reporting could be developed so that these risks can be identified separately
    - The website MPR listings would be updated to allow for segmentation of these risks for easier identification
    - The MAIP Placement Record Edit Package, as well as the Assigned Risk Company Procedures Manual, would need to be updated to reflect the changes
  - The Hybrid Audit Plan would need to be reviewed in order to determine if any changes are warranted to include NF-PPTs in the process

## Option 2 – Separate Assigned Risk Plan for Non-Fleet Private Passenger Type Risks

- The change to the Commercial Residual Market to allow for a separate assigned risk plan for NF-PPTs would necessitate a major change to the Rules to either incorporate new definitions and procedures into each Rule or add an entirely new section for just NF-PPTs
- Once the Rule changes are approved, the Assigned Risk Company and Assigned Risk Producer Procedures Manuals will need to be updated to reflect the same changes and provide additional detail
- A new website application would be developed and either incorporated into the MAIP portion of CAR's website or become a new subsection for Assigned Risk Plan for NF-PPTs with new headings and separate links to the existing website layout.
- A new application form for NF-PPTs will need to be developed and approved to include both Name Insured and Operators
- The current online MAIP Policy Application would need to be modified to:
  - Capture the Name Insured as well as the names of the operators
  - Modify the class code drop down box since only one option would be available
- A separate Quota Share and assignment application would be created
  - Determine the quota share calculation
  - Determine whether credits would be incorporated
  - Determine whether a LAD provision would be included
  - Determine whether a buy-out provision would be included for low volume companies
    - This fee would be distributed to those companies taking assignments.
- If the Subcommittee were to recommend this concept, additional operational issues would be referred to the Compliance and Operations Committee for review
  - A new Risk Type value for MAIP Placement Record reporting could be developed so that these risks could be identified separately
    - The website MPR listings would be updated to allow for segmentation of these risks for easier identification
    - The MAIP Placement Record Edit Package, as well as the Assigned Risk Company Procedures Manual, would need to be updated to reflect the changes
  - The Commercial Audit Plan would need to be reviewed in order to determine if any changes are warranted for assigned NF-PPT risks

**Commonwealth Automobile Reinsurers  
Non-Fleet Private Passenger Types Subcommittee  
Modified Eligibility Criteria and Classification Plan**

The Commercial Automobile Committee directed staff to outline an approach that would (1) modify the definition of those risks eligible for coverage in the residual market under a private passenger policy, and/or (2) outline an all other private passenger types classification plan for those risks eligible for coverage on a commercial policy which would include driving history and business use. To accomplish this, the following Rules of Operation and Rating Manual Rules would require amending:

Private Passenger Definition:

CAR Rules of Operation  
Rule 22 - Definitions

Amended Definition	Comments/Explanation
PRIVATE PASSENGER MOTOR VEHICLE means those vehicles as defined in <del>a</del> the MAIP Massachusetts Private Passenger Automobile Insurance Manual on file with the Commissioner.	Modify the definition in the CAR Rules of Operation to be more specific regarding the insurance manual that will define which policies are eligible for coverage under a personal lines policy in the residual market.

MAIP Massachusetts Private Passenger Automobile Insurance Manual  
Rule 27 – Private Passenger Definition

Amended Definition	Comments/Explanation
A motor vehicle is eligible for a personal automobile insurance policy if it satisfies the following conditions:	
A. Vehicle size: A motor vehicle classified by the Federal Highway Administration as a Class 1, 2, or 3 vehicle.	CAR’s current definition uses a GVW of 10,000 pounds or less, or has a VRG assigned to it by the AIB. The proposed definition eliminates the weight characteristic. By referencing the FHWA classification, CAR’s definition is consistent with those vehicles that are assigned a VRG by the AIB.
B. Vehicle Ownership and Use:	
1. Individual Ownership/Personal or Business Use: a. The motor vehicle is owned or leased under contract for a continuous period of at least 12 consecutive months by an individual or individuals living in the same household, or by a trust whose grantor is an individual or individuals living in the same household and, b. The motor vehicle is used either for personal, recreational, or commuting purposes or used in connection with the insured’s business.	The first part of the definition reflects the current ownership and use specifications.

Modified Eligibility Definition and Classification Plan

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Amended Definition	Comments/Explanation
<p>2. Corporate or Trust Ownership/Personal Use:</p> <p>a. The motor vehicle is owned or leased under contract for a continuous period of at least 12 consecutive months by a partnership, corporation, unincorporated business association, or other legal business entity with a federal employer identification number, or by a trust whose grantor is a partnership, corporation, unincorporated business association or other legal business entity with a federal employer identification number and</p> <p>b. The motor vehicle is used exclusively for personal, recreational, or commuting purposes at least 60% of the time and</p> <p>i. is only incidentally used to deliver or transport goods or materials in connection with the insured's business of installing, maintaining or repairing items other than motor vehicles.</p> <p>ii. is only incidentally used to transport or store goods, ware, or merchandise intended for sale in connection with an insured's business, provided the insured is not in the business of selling, servicing, repairing, or parking motor vehicles.</p> <p>iii. is used 20% or less to transport or store goods, wares, or merchandise on a for hire basis or in the course of employment,</p> <p>iv. Will be operated 100% of the time by operators with a Class D or Class M operator's license</p>	<p>The second part of the proposed definition adds the corporate ownership with personal use. The intent is to have small business owners continue to insure their vehicles as personal vehicles when the vehicle is used primarily to get to work rather than as an integral part of their work.</p> <p>The Subcommittee should consider the criteria to determine or define use that is predominately personal as well as that to be considered "business use" classification.</p> <p>A criteria of 60% personal use is included for discussion purposes  A criteria of 20% for the business use classification and is also included for discussion purposes. This would specify that which would be considered "incidental" use according to the current definition.</p>

CAR Massachusetts Commercial Automobile Insurance Manual  
Rule 61 – Private Passenger Types Eligibility Definition

Amended Definition	Comments/Explanation
<p>A. Vehicle size: A motor vehicle classified by the Federal Highway Administration as a Class 1, 2, or 3 vehicle.</p>	
<p>B. Vehicle Ownership and Use:</p>	
<p>Corporate or Trust Ownership/Business Use:</p> <p>1. The motor vehicle is owned or leased under contract for a continuous period of at least 12 consecutive months by a partnership, corporation, unincorporated business association, or other legal business entity with a</p>	<p>The intent of the proposed definition is to have business owners whose vehicle is used as an integral part of their work to continue to insure their vehicles under a commercial policy.</p>

Modified Eligibility Definition and Classification Plan

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<p>federal employer identification number, or by a trust whose grantor is a partnership, corporation, unincorporated business association or other legal business entity with a federal employer identification number and</p> <p>2. The motor vehicle is used exclusively for business purposes at least 60% of the time.</p> <p>3. This section does not apply to:</p> <p>a. Vehicles that are used as public livery or conveyance. Refer to Section V – Public Transportation of this Manual.</p> <p>b. Vehicles that are rented to others without a driver. Refer to Rule 120 – Leasing or Rental Concerns in Section VII – Special Types and Operations of this Manual.</p>	<p>The Subcommittee should consider the criteria to determine or define primary use that complements the proposed private passenger eligibility definition.</p> <p>A criteria of 60% business use is included for discussion purposes</p>
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CAR Massachusetts Commercial Automobile Insurance Manual  
Rule 62 – Private Passenger Types Classifications

Amended Definition	Comments/Explanation
A. Fleet and Non-Fleet Classification	No change is proposed to this section of the Rule
B. Geographic Classification	No change is proposed to this section of the Rule
<p>C. Driver Classification</p> <p>1. Driver Experience  Determine the years driving experience of the rated operator</p> <p>2. Driver Incidents  Assign a point value based on incidents and violations occurring within the preceding 35 month period  Defined at-fault accidents – # points  Defined major motor vehicle convictions – # points  Defined minor motor vehicle convictions – # points  Unverifiable motor vehicle record – # points</p>	<p>With the assistance of its consulting actuaries, staff will file a proposed classification plan with rating factors commensurate with expected loss results for a range of driver class factors to be determined.</p> <p>The Rule will also require instruction for assignment of drivers to vehicles consistent with the private passenger manual, and Rule 63 will require clarification for rating procedures.</p> <p>CAR will also file for approval of an application form that will require listing of operators and licenses.</p>
D. Leased automobiles that qualify as PPT under the provisions of Rule 61 shall be classified and rated based on the use of the vehicle by the lessee regardless of whether coverage is provided by the owner or the lessee of the vehicle.	No change is proposed to this section of the Rule