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## ADDITIONAL INFORMATION

### TO MEMBERS OF THE COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

#### FOR THE MEETING OF:

**Thursday, April 25, 2024, at 9:30 a.m.**

#### CPOC

##### **24.04 Redistribution of Residual Market Books of Business**

At its last meeting, the Committee discussed the market environment of agency merger and acquisition activity and resulting difficulty to ensure minimal disruption in the event of redistribution of residual market books of business to maintain equity among Servicing Carriers. Topics identified by the Committee for consideration to improve the process included multiple Servicing Carrier appointments for networks and large agencies and changes to the expense allowance allocation methodology. The following exhibit is attached to assist the Committee in its continued discussion of these topics. (Docket #CPOC24.04, Exhibit #2)

#### CPOC

##### **24.05 2027 Commercial Program Request for Proposal**

To accommodate for the transition to the new commercial forms, a Request for Proposal (RFP) for Servicing Carrier appointments is scheduled to be distributed to the industry in late summer 2024 to service the commercial automobile residual market beginning with policies effective January 1, 2027 and subsequent.

The following exhibits are attached for the Committee's discussion:

- A document highlighting recommended changes to the RFP. (Docket #CPOC24.05, Exhibit #1)
- A draft of the RFP, with recommended changes redlined for committee consideration. (Docket #CPOC24.05, Exhibit #2)

RICHARD DALTON  
Residual Market Liaison

Attachments

Boston, Massachusetts  
April 19, 2024

Commercial Program Oversight Committee  
Book of Business Distribution Factors

At its last meeting, the Committee members identified certain topics for consideration to minimize the need for book of business redistributions and to minimize associated market disruption.

Multiple Servicing Carrier Appointments for Networks and Large Agencies:

The Committee noted that agencies associated with network clusters are independent agencies, whereas merger and acquisition activity results in the entire operation absorbed into another entity. Therefore, the two affiliation circumstances can be considered separately.

Networks:

The table below identifies the volume of ceded premium written by agencies participating in five network groups.

Premium Volume	# of Ceding Agencies	Total Ceded Premium	Ceded Premium per Agency
0-500K	158	15,370,926	97,284
500K-1M	8	5,480,744	685,093
> 1M	12	19,075,385	1,589,615
Total	178	39,927,055	

- Consider enabling these agencies to be assigned individually
- Consider introducing a prohibition against brokering ceded business among agencies affiliated through network clusters.
- Rules of Operation and procedures will need review and amendment. Can be addressed independent of the RFP process.

Large Agencies:

- Postpone consideration of multiple assignments for large agencies

Expense Allowance Allocation Procedures:

Servicing Carriers have identified revenue as the leading factor in determining whether to request a redistribution of the ceded books of business. Some have commented that a change to the current percent-of-premium method of the expense allowance allocation could shift Servicing Carrier perspective on the need for redistribution. That is, the current allocation method incents carriers who are undersubscribed in premium volume to request a redistribution. Whereas a flat expense allowance or a hybrid approach would incentivize the oversubscribed carrier to request a redistribution. In this case, the oversubscribed carrier would identify for the Committee the market conditions that have resulted in the oversubscription.

The attached exhibit compares the result of a percent-of-premium allocation and a flat allocation method. The exhibit also demonstrates the impact of a 50/50 hybrid approach.

**Commercial Program Oversight Committee  
Illustration of Alternate Expense Allocation Methods  
Percent-of-Premium vs Flat Allowance**

	<b>Actual Premium Distribution as of 12/2023</b>				
	<b>SC1</b>	<b>SC2</b>	<b>SC3</b>	<b>SC4</b>	<b>Total</b>
<b>PY2023 Written Premium</b>	\$46,828,491	\$58,740,401	\$48,223,873	\$57,395,046	\$211,187,811
<b>PY2023 Expense Allowance</b>					
Pct-of-Prem (13.26%)	\$6,209,458	\$7,788,977	\$6,394,486	\$7,610,583	\$28,003,504
difference from equity	(\$791,418)	\$788,101	(\$606,390)	\$609,707	
<b>Flat Allowance</b>	\$7,000,876	\$7,000,876	\$7,000,876	\$7,000,876	\$28,003,504
shift in equity	\$791,418	(\$788,101)	\$606,390	(\$609,707)	
<b>Hybrid Approach</b>					
.5 Pct-of-Prem	\$3,104,729	\$3,894,489	\$3,197,243	\$3,805,292	\$14,001,752
<u>.5 Flat Allowance</u>	<u>\$3,500,438</u>	<u>\$3,500,438</u>	<u>\$3,500,438</u>	<u>\$3,500,438</u>	<u>\$14,001,752</u>
Total Allowance	\$6,605,167	\$7,394,927	\$6,697,681	\$7,305,730	\$28,003,504
Difference from equity	(\$395,709)	\$394,051	(\$303,195)	\$304,854	

**Illustration of Varying Tolerance for Book-of-Business Distribution  
(Assuming \$211,000,000 Ceded Premium Volume)**

	<b>3%</b>	<b>4%</b>	<b>4.5%</b>	<b>5%</b>	<b>6%</b>
Target Premium Distribution	\$52,750,000	\$52,750,000	\$52,750,000	\$52,750,000	\$52,750,000
Implied Acceptable Prem Var Allowance Variance	\$6,330,000	\$8,440,000	\$9,495,000	\$10,550,000	\$12,660,000
Pct-of-Prem Allowance	\$839,358	\$1,119,144	\$1,259,037	\$1,398,930	\$1,678,716
Flat Allowance	\$0	\$0	\$0	\$0	\$0
Hybrid Allowance (.5/.5)	\$419,679	\$559,572	\$629,519	\$699,465	\$839,358

April 25, 2024

Commercial Servicing Carrier Appointments  
Massachusetts Residual Market  
Commercial Automobile Program

Highlight of Changes to the Request for Proposal

CAR staff has drafted initial modifications to the RFP for Committee review. The recommended changes are intended to continue to enhance consistent Servicing Carrier procedures, to solicit additional information in proposer responses and to address the implementation of the newer policy coverage and endorsement forms. Below is a summary of the substantive changes for Committee discussion.

1.1 Schedule of Events

- The Schedule for the RFP release and Servicing Carrier selection has been updated.

2.2/

4.2 Underwriting and Policy Processing

- Language has been added to emphasize the requirement that Servicing Carriers use the forms and endorsements on file with the Division of Insurance for use in the residual market.

2.4/

4.4 Management Information Systems

- Language has been added to request that the proposer identify any substantial systems upgrades anticipated during the appointment term and to describe the steps to be taken to abate residual market disruption.

2.10/

4.10 CAR Advisory Committee Participation

- A program requirement for Servicing Carrier representation on certain CAR advisory committees has been introduced to improve participation in the administration of CAR's commercial program.

2.11/

4.11 Implementation Plan

- Language has been added concentrating on the transitional needs of the proposers to address adoption and usage of the new policy coverage and endorsement forms with specific instruction to address training of staff and assigned producers.

4.9 Staffing

- This section has been updated to align with the staffing requirements of the Program and to require the proposer to address the steps to be taken to abate residual market disruption if significant staffing changes were to occur.

5.1 Projected Costs/Expense Allowance

- Language has been added to require a separate price quotation for anticipated one-time costs associated with transitioning to the new coverage forms and endorsements and to emphasize that proposers must employ refined residual market cost projections singularly in developing a price quotation for on-going services. Note that the Committee will discuss expenses and price quotations in more detail at its next meeting.

Other Considerations:

- Review Evaluation Factors to confirm continues relevance.
- Consider the appropriateness of annual expense allowance increases. Staff will provide historical expense analysis at the next meeting.



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**REQUEST FOR PROPOSAL**  
**FOR COMMERCIAL SERVICING CARRIER APPOINTMENT**  
**MASSACHUSETTS AUTOMOBILE RESIDUAL MARKET**  
**COMMERCIAL AUTOMOBILE PROGRAM**

**CEDED POLICIES EFFECTIVE JANUARY 1, 202~~7~~<sup>2</sup>**

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Section 1 – Background and Purpose

1.1 Schedule of Events

~~The schedule for selection of Servicing Carrier appointment for policies effective January 1, 2027 and later is initiated well in advance of the effective date to accommodate staff training and programming changes needed to transition to the updated commercial policy coverage forms and endorsements.~~ Commonwealth Automobile Reinsurers (CAR) intends to progress in this procurement in a series of orderly steps. The schedule that follows has been developed ~~in order~~ to provide adequate information for proposers to prepare definitive proposals and to permit CAR to consider fully various factors that may affect its decision. These dates ~~will~~should be carefully observed.

<u>Event</u>	<u>Date</u>
Notice of RFP Issued	<del>April 30, 2021</del> <u>August 1, 2024</u>
Mandatory Pre-Response Conference	<del>May 12, 2021</del> <u>August 15, 2024</u>
Final Date for Proposer Questions	<del>May 28, 2021</del> <u>August 29, 2024</u>
Final Date to Submit Proposals	<del>June 16, 2021</del> <u>Sept 16, 2024</u>
Selection Committee Evaluation of Proposals	<del>July-October 12/14-30/31, 2021</del>
Governing Committee Decision	<del>August 5, 2021</del> <u>Nov 19, 2024</u>
Servicing Carrier Appointment Notification	<del>August 6, 2021</del> <u>Nov 20, 2024</u>
ERP Distribution Notification	September 1, 202 <u>6</u>
ERPs Contracted by Servicing Carriers	October <del>30/29</del> , 202 <u>6</u>
Servicing Carrier Implementation of Services	January 1, 202 <u>7</u>

1.2 Background Information

~~CAR has employed separate specialized programs to manage, 1) ceded commercial automobile risks other than taxi, limousine, and car service classifications and 2) ceded taxi, limo, and car service classifications in order to control the size of the residual market and to establish equitable access to the residual market for all classes of commercial automobile business. The programs consolidates the servicing of commercial residual market business to a limited number of Servicing Carriers; ~~each~~ appointed for a specific term. The programs ~~were~~ is designed to enhance the effectiveness of underwriting and loss control practices by assigning each producer to one Servicing Carrier ~~for each program~~. For the upcoming Servicing Carrier appointment term, the programs will be combined into a single program to service all classes of commercial automobile residual market business, eliminating the separate programs of prior terms.~~ The Commercial Program Oversight Committee has indicated its preference to appoint four Servicing Carriers for the upcoming program term. However, the Committee notes ~~sd~~ that a final decision regarding the number of Servicing Carriers will be determined subsequent to the evaluation of the submitted proposals.

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Section 1 – Background and Purpose (Continued)

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1.3 Administrative Procedures - Servicing Carrier and Producer Requirements

Servicing Carriers shall comply with all provisions of Rules 1 through 20 of CAR's Rules of Operation and required procedures set forth in CAR's Manual of Administrative Procedures, Commercial Automobile Manual, and Commercial Claims Performance Standards. These manuals are available on CAR's website at [www.commauto.com](http://www.commauto.com).

1.4 Purpose

The purpose of this Request for Proposal (RFP) is to provide qualified Member Companies with sufficient information to enable submission of proposals for appointment as a Servicing Carrier to service all classes of Massachusetts ceded commercial automobile business effective January 1, 2027<sup>2</sup>. Proposals shall respond to all terms and conditions of this RFP. Proposers shall complete all information requested.

1.5 Program Oversight

Oversight of the Commercial Servicing Carrier Program is managed through the combined efforts of CAR staff in partnership with the Commercial Program Oversight Committee and the Compliance and Operations Committee.

The Commercial Program Oversight Committee is responsible for the general oversight of the Commercial Servicing Carrier Program and acts as the selection committee for Servicing Carrier appointments. The Committee reviews Servicing Carrier annual reports and CAR audit results to recommend potential enhancements to program standards that may involve further consideration by the Commercial Auto Committee. The Committee also engages in reviews of and recommendations to the Governing Committee relative to Servicing Carrier requests for extraordinary expenses, and any other issues that may arise concerning oversight of the programs.

The Compliance and Operations Committee reviews the results of recurring and focused audits conducted by CAR staff designed to monitor Servicing Carrier adherence to the program standards, statistical reporting requirements, and claims handling performance standards. The Committee may recommend corrective action where appropriate.

## Section 2 – Program and Performance Requirements

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### 2.1 Administrative and Account Management Services

The Servicing Carrier(s) will be expected to:

- Assign a management level account executive with knowledge of the Program responsible for responding to CAR inquiries and the requirements set forth herein and, upon reasonable notice, be available to meet with CAR staff and committee(s).
- For commercial automobile residual market business with policy effective dates beginning on or after January 1, 202~~7~~<sup>2</sup>, each appointed Servicing Carrier shall utilize an installment payment plan that has been filed with and approved by the Commissioner of Insurance. The plan shall include the application of an installment finance charge based on an annual percentage rate (APR), and no more than a 30% first or deposit payment due on or before the policy effective date. The plan shall also include that no fewer than seven monthly payments thereafter must be offered to the insured that chooses to pay in installments. The Servicing Carrier will cooperate with its producers assigned through the program to assure that policyholders are made aware of their option to utilize an installment plan.

### 2.2 Underwriting and Policy Processing

Subject to general direction of CAR, the Servicing Carrier(s) will be required to provide the ability for assigned Exclusive Representative Producers to immediately bind coverage and certify registrations for commercial automobile residual market business. The Servicing Carrier(s) shall:

- Evaluate and confirm residual market eligibility.
- Properly classify and rate all risks ceded to the commercial residual market.
- Comply with all standards and issuance of all ~~appropriate~~ commercial forms, endorsements, and applications on file with the Division of Insurance for use with residual market ~~each risk's underwriting file~~ as described in the Commercial Automobile Manual and Chapter 10 of the Manual of Administrative Procedures.
- Provide training for, support to, and oversight of assigned producers.

### 2.3 Claims Management Services

Subject to general direction of CAR, the Servicing Carrier(s) shall establish procedures for claims management for the risks insured through this program pursuant to the provisions of CAR's Rules of Operation, Manual of Administrative Procedures, and Commercial Claims Performance Standards.

- The Servicing Carrier(s)' Massachusetts claims units will manage claims arising out of state.
- Each Servicing Carrier is required to maintain a Special Investigative Unit in accordance with M.G.L. Chapter 175 Section 113H, Articles III and IV of the Plan of Operation and Rule 10 of the Rules of Operation to investigate suspicious claims and to assist in the underwriting of questionable risks with the objective to eliminate fraud.
- The Servicing Carrier must employ litigation management and legal cost containment processes.

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Section 2 – Program and Performance Requirements (continued)

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- The Servicing Carrier must develop a fraud management program and describe related costs associated with it.

2.4 Management Information Systems

Subject to general direction of CAR, the Servicing Carrier(s) shall gather and produce reliable, relevant, and properly organized data that supports the ~~decision-making process~~ requirements of the Program.

- Provide all data required by CAR’s Rules of Operation and Manual of Administrative Procedures.
- Produce ad hoc reports as may be requested by CAR staff and its committees.
- Meet all statistical reporting requirements.

2.5 Loss Control Services

The Servicing Carrier(s) will be expected to provide safety engineering or loss control services consistent with best practices and as directed by the Governing Committee. Minimum parameters for the establishment of loss control programs to be made available to qualifying policyholders are as follows:

- Upon request, any risk regardless of size will be provided written material concerning loss control. Any risk with five or more power units or the equivalent of such exposure, if hired by the risk, that develops an experience rating debit will be offered a loss control survey.
- Program features shall include vehicle inspection, driver and equipment evaluation, a review of accident and loss experience, a safety newsletter or other informational mailings.
- The results of the loss control survey shall include a corrective action plan, safety management features and, if applicable to the risk, a hazardous material plan.

2.6 Integration of Claims and Underwriting Operations with Loss Control

The Servicing Carrier(s) must provide the means to facilitate successful integration of the claims, underwriting and loss control functions including but not limited to an SIU investigation of suspicious underwriting issues and the establishment of procedures for claims alerts to the underwriting and loss control personnel. It is critically important that the claims and underwriting operations are fully coordinated with loss control services.

2.7 Innovative and Creative Solutions

As CAR’s statutory obligation is to contain and control costs, Servicing Carriers should employ ~~CAR is very interested in pursuing~~ innovative and creative ideas that ~~would~~ strengthen the underwriting, claim administration and loss control process in a cost-effective manner, applying them to the Program wherever appropriate. Proposals will be evaluated, in part, on their ability to bring fresh ideas and concepts to all classes of commercial business.

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Section 2 – Program and Performance Requirements (continued)

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2.8 Additional Services

CAR is interested in any other services which the proposer is qualified to offer that would enhance, or expand in a related manner, the services that CAR provides to its Members, producers, and insureds in a cost-effective manner.

2.9 Staffing

Whenever possible, staff should be assigned full time to the Program. ~~Any and a~~All staff assigned to the Program must have an excellent working knowledge of the needs and requirements of the Program and how these may differ from other business. The account executive must be able to make a time commitment to the management of this account and will be held responsible for the delivery of all services provided by the Servicing Carrier(s).

2.10 CAR Advisory Committee Participation

Servicing Carrier participation in the discussion of program policies and procedures is vital to the successful performance of the program. Therefore, Servicing Carriers are required to appoint qualified staff members to sit on CAR's Commercial Automobile, Compliance and Operations, and Loss Reserving Committees. Additionally, Servicing Carriers are required to assign qualified staff members to attend CAR's Commercial Program Oversight Committee meetings to add company perspective to that committee's discussions.

2.11~~0~~ Implementation

Servicing Carriers shall ~~CAR will be very interested in the development of~~ an implementation plan to the new appointment term which will provide the smoothest transition and minimal service disruption for the producer and the insured.

2.12~~1~~ Term and Termination

CAR seeks a multi-year appointment of five years. In accordance with the provisions of CAR's Rules of Operation and Manual of Administrative Procedures, CAR has the ability to terminate the appointment for lack of acceptable performance by the Servicing Carrier.

Refer to Rule 16 of CAR's Rules of Operation which addresses voluntary and involuntary Servicing Carrier terminations.

Section 2 – Program and Performance Requirements (continued)

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2.1~~32~~ Residual Market Management Control Efforts

The Servicing Carrier(s) ~~are expected~~shall ~~to~~ assist CAR in its efforts to control the size and the financial results of the commercial residual market. CAR will require an annual report from each Servicing Carrier providing a self-assessment of its performance in addressing commercial market concerns and the results of those efforts. The Servicing Carriers will outline their objectives to maintain the highest levels of achievement in dealing with the issues of concern identified in the marketplace and strategies for maintaining or exceeding those expectations. The report will include any factors that may have successfully permitted or negatively impacted the company's efforts to effectively manage the residual market. Annually, CAR will provide Servicing Carriers a template and schedule for the reports to be delivered and reviewed.

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Section 3 – General Conditions for Content of Proposals

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3.1 Eligibility of Proposers

Proposers must be Massachusetts licensed motor vehicle insurance companies with an acceptable A.M. Best rating of A- or better or comparable financial and operating performance as determined by CAR.

3.2 Regular Proposals

Each proposer shall comply with all requirements as directed by this notice. Proposals which are defective, or irregular may be rejected immediately.

3.3 Uniform Proposals

To facilitate comparative analysis and evaluation of proposals, it is desired that a uniform format be employed in structuring each proposal. The required format is specified in Section 7 of the RFP. Proposals with major deviations or omissions may not be considered for detailed study.

3.4 Requests for Additional Information

Questions regarding the RFP and the selection process should be directed to:

Richard Dalton  
CAR Residual Market Services  
Tel: 617-880-2319  
Email: [rdalton@commauto.com](mailto:rdalton@commauto.com)

Proposers may also submit questions orally or in writing at the pre-response conference (see Section 3.6). All questions and answers of general interest will be circulated in writing after the pre-response conference to all firms who have attended. Officials or employees of CAR, its consultants or committee members shall not be contacted at any time by proposers. Any unauthorized contact may be grounds for disqualification of the proposer's proposal.

Any questions submitted after the mandatory pre-response conference must be submitted by ~~May 28, 2021~~ August 29, 2024. Answers will be returned in writing to all proposers.

3.5 Revisions

If it should become necessary to revise any part of this RFP or otherwise provide additional information, an addendum will be issued by CAR and furnished to all prospective proposers that have attended the CAR pre-response conference.



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Section 3 – General Conditions for Content of Proposals (Continued)

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3.6 Pre-Response Conference

A mandatory pre-response conference for prospective proposers will be held virtually via Zoom video conferencing software at 11:00 A.M. on ~~May 12, 2021~~ August 15, 2024. Only those firms represented at the mandatory pre-response conference shall be eligible to submit proposals to CAR.

3.7 Proposer's Examination of the RFP

Proposers shall examine all information and materials contained in and with this RFP. Proposers shall also be responsible for having full knowledge of all relevant laws and regulations of the State of Massachusetts and the United States Government. Failure to do so shall be at the proposer's risk.

3.8 Exceptions to the RFP

It is anticipated that proposers may find instances where their proposals are not completely consistent with the specifications of this RFP. All such exceptions shall be clearly identified and written explanations shall include the scope of the exceptions, the ramifications of the exceptions for CAR, its Members, representative producers and insureds, and a description of the advantages to be gained by CAR, its Members, representative producers and insureds as a result of these exceptions. This written description shall be included in Section 7.3.2 of this RFP.

3.9 Proposals Considered Firm

All proposals received by CAR in response to this RFP shall be considered firm and may not be amended during the pendency of the selection process unless CAR amends any data or RFP requirements during that process.

3.10 Statement of Time

Time, if stated as a number of days, shall include Monday through Friday, excluding legal holidays, unless specifically stated otherwise.

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Section 3 – General Conditions for Content of Proposals (Continued)

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3.11 Incurring Costs

CAR shall not be liable for any costs incurred by proposers in preparing, submitting or presenting proposals, or in satisfying any other requirements. CAR shall not reimburse any costs incurred by proposers in anticipation of being awarded a Servicing Carrier appointment under this RFP. CAR shall not accept billings for additional costs except as may be otherwise specified in this RFP.

3.12 Responsibilities of Servicing Carrier

The successful proposer(s) shall be considered the Servicing Carrier(s) and shall be required to comply with all CAR's Servicing Carrier requirements and to assume total responsibility for all services offered in this proposal, whether or not it is the producer, author, or supplier of them.

CAR shall consider the authorized representative of the successful proposer(s) to be the sole point of contact regarding all obligations incurred and all services supplied or performed pursuant to this RFP.

Prior to final selection, proposers may be required to submit any additional information which CAR may deem necessary to determine the proposer's qualification to respond to this RFP.

3.13 Firm Price

Prices provided pursuant to this RFP shall be firm and not subject to increase during the term of any appointment arising between CAR and the successful proposer(s) as a result of this RFP, except as may be approved by CAR's Governing Committee.

3.14 Exceptions to Firm Price

In accordance with Rule 11 of CAR's Rules of Operation and Chapter III of CAR's Manual of Administrative Procedures, a Servicing Carrier may petition to be reimbursed in whole or in part for a specific, necessary and extraordinary expense incurred in performing its obligations as a Servicing Carrier. The expense must be actually incurred before reimbursement. Such expense must be explained by the Servicing Carrier in such detail as is requested and establish that the expense is necessary and significantly in excess of the normal additional expense that could reasonably have been contemplated by the Servicing Carrier in acceptance of the terms of CAR's request for proposal for the current service period.

Servicing Carriers may also petition CAR for reimbursement of unanticipated expenses resulting from statutory or regulatory assessments that include ceded premium in the determination of the company's market-share-based assessment during the term of this agreement period. Any agreed upon reimbursement under this condition will expire at the end of the service term.

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Section 3 – General Conditions for Content of Proposals (Continued)

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3.15 Open Procurement

CAR reserves the right to accept any item or group of items proposed in any response, unless the proposer qualifies its offer by specific limitation. CAR reserves the right to negotiate with proposers regarding variations to the original proposal(s), to include cost(s), which may be in the best interest of CAR. CAR reserves the right to accept or reject any or all proposals in whole or in part.

3.16 Terminology

Terms used in this RFP are not intended to imply or denote a proposer and are not to be construed as restrictive in any way.

3.17 Implementation Dates

Proposers shall be expected to fully implement their services on January 1, 202~~7~~<sup>2</sup>, and contract with those producers appointed to them no later than October ~~30~~<sup>29</sup>, 202~~6~~<sup>4</sup>.

3.18 Execution of Appointment

Upon the acceptance of a proposal(s), CAR shall name the selected Servicing Carrier(s) in accordance with the provisions of CAR's Rules of Operation and Manual of Administrative Procedures, and as approved by its Governing Committee.

3.19 No Assignment

Assignment by the successful proposer(s) to any third party of any contract based on this RFP or any monies shall be absolutely prohibited and will not be recognized by CAR unless approved by CAR in writing.

3.20 Proposer Responsibility

Notwithstanding the details presented in this RFP, it is the responsibility of the proposer to verify the completeness and suitability of the services proposed to meet the intent of these specifications. Any additional services which may be required within each individual component of service proposed, even if not specifically mentioned herein, shall be provided by the proposer without claim for additional payment. The successful proposer shall be obligated to provide a program which meets all guarantees in its proposal for the price contained herein. This includes, but is not limited to, all requirements of the Commonwealth of Massachusetts and the United States Government, whether or not specifically identified in this RFP.

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Section 3 – General Conditions for Content of Proposals (Continued)

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3.21 Proposer Commitment

The proposer shall provide and maintain all services proposed pursuant to this RFP for the term of the appointment by CAR unless otherwise directed by the Governing Committee.

3.22 Rights to Submitted Material

All proposals, responses, inquiries, or correspondence relating to or in reference to this RFP, and all reports, charts, displays, schedules, exhibits and other documentation submitted by proposers shall become the property of CAR when received. CAR shall have no obligation to return any such submitted material.

Supporting technical manuals will be returned at the request of the proposer. CAR retains the right to use any or all ideas presented in any proposal in response to the RFP, whether selected or not. Selection or rejection of any proposal does not affect this right.

3.23 Proposals Not Selected

Non-selection of proposals will mean that another proposal was deemed to be more advantageous to CAR or that no proposal was accepted. The decision of CAR's Governing Committee is final. Proposers whose proposals are not accepted will be so notified.

3.24 Non-Discrimination in Employment and Affirmative Action

The proposer shall not discriminate against any qualified employee or applicant for employment because of race, color, national origin, ancestry, age, sex, religion or physical or mental handicap. The proposer agrees to comply with all applicable federal and state statutes, rules and regulations prohibiting discrimination in employment.

3.25 Force Majeure

Neither the proposer nor CAR shall be liable, nor may either cancel the Appointment pursuant to this RFP, when delays arise out of causes beyond the control and without fault or negligence of the proposer or CAR. Such causes may include but are not restricted to acts of God or the public enemy, fires, floods, lightning strikes, epidemics, quarantine restrictions, strikes, freight embargoes, wars, civil disturbances, work stoppage, power failures, laws, regulations, ordinances, acts or orders of any governmental agency or official thereof, and unusually severe weather. In every case, the delay must be beyond the control and without the fault or negligence of either party.

If the proposer is delayed in its performance as a result of the above causes, CAR may either (1) extend the time for completion of such responsibilities for a period of time equivalent to the time lost for the completion of such responsibilities by reason of any or

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Section 3 – General Conditions for Content of Proposals (Continued)

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3.25 Force Majeure (Continued)

all of the aforesaid causes, or (2) secure substitute performance at its own cost and expense during the duration of the excusable delay and reduce performance and payment under this Appointment, or (3) terminate all or a portion of this Appointment when the delay totally precludes the proposer's performance or materially affects it and the delay continues for a period of thirty (30) consecutive days. CAR agrees that within 10 business days after commencement of the delay, it shall give the proposer written notice of its election as to options (1), (2) or (3).

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Section 4 – Proposal for Services

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4.1 Administration and Account Management Services

Referring to Section 2.1 of the RFP, indicate how your firm would approach the delivery of administrative and account management services.

4.2 Underwriting and ~~Policy Processing~~ ~~Technical Services~~

Referring to Section 2.2 of the RFP, indicate how your firm would approach the delivery of underwriting and ~~technical services~~ policy processing.

4.3 Claims Management Services

Referring to Section 2.3 of the RFP, please describe in detail the process by which your firm will manage claims from the point of accident to the closing of the case. Include any charts or diagrams which you believe would be helpful to CAR in understanding your presentation on this subject.

4.4 Management Information Systems

Referring to Section 2.4 of the RFP, describe how your firm would meet the information storage and reporting requirements of CAR. Include samples of your reporting formats. Included in this section, the proposer should disclose any planned significant systems changes and steps the company will take to mitigate disruption to the residual market.

4.5 Loss Control Services

Referring to Section 2.5 of the RFP, indicate how your firm would approach the delivery of loss control services.

4.6 Integration with Loss Control

Referring to Section 2.6 of the RFP, describe how your firm would integrate the claims management operation with that of loss control.

4.7 Innovative and Creative Solutions

Referring to Section 2.7 of the RFP, list and describe any services which your firm could offer that would further control claims and service costs.

4.8 Additional Services

Referring to Section 2.8 of the RFP, describe any additional services that your firm could make available to CAR that would be relevant and useful to the operation of a property and liability pool.

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Section 4 – Proposal for Services (Continued)

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4.9 Staffing

Referring to Section 2.9 of the RFP, describe your firm’s proposed staffing to address the requirements of CAR’s Commercial Servicing Carrier Program. Include in this section actions your company has taken and will take to notify CAR of changes to staffing and confirm the qualifications of staff reassigned to service the residual market.

4.10 CAR Advisory Committee Participation

Referring to Section 2.10 of the RFP, describe your firm’s commitment to participate in CAR advisory committee activities.

4.11~~9~~ Implementation Plan

Referring to Section 2.1~~10~~ of the RFP, describe your firm’s proposed implementation plan which will provide the smoothest transition and minimal service disruption for the producer and the insured.-. Specific to this appointment term, proposers will address staff and producer training and programming requirements to accommodate the newer policy coverage and endorsement forms.

## Section 5 – Program Price

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### 5.1 Projected Costs/Expense Allowance

CAR anticipates that Servicing Carriers will incur one-time costs associated with the implementation of newer policy coverage and endorsement forms. Proposers should submit a separate price quote for the forms implementation project. To the extent that carriers will use these forms in the voluntary market, the carrier should comment on how it has prorated costs attributed to the residual market.

Proposers should provide separate detailed cost projections to service ~~this~~ residual market business. Your analysis should assume that your company will service a specified volume of ceded commercial written premium, distributed equitably among either two, three, or four selected Servicing Carrier(s). The total ceded written premium identified in Section 5.4 of the RFP is used as a basis for calculating estimated residual market premium. Your analysis should conclude with a price proposal, calculated as a percentage of ceded written premium, for policy year 202~~7~~2 as well as each additional year of the appointment. Additional information providing a more detailed breakdown of this data will be distributed under separate cover.

**Note that proposers must include ONLY those costs associated with servicing residual market business when preparing its bid price quotation. Proposers should describe methods used to isolate such costs when preparing cost projections.**

Using Exhibit 5.1.1 in Appendix A, provide the following information to detail your company's cost projections and price proposal for servicing this business.

1. In Sections A, B, C and D, separately identify total policy year 202~~7~~2 projected company expenses for servicing ceded business by ULAE expenses, Underwriting/Technical Services expenses, Loss Control Services expenses, and Company/General expenses. Include detail as specified in the exhibit and based on the ceded written premium scenarios given in Section F. Specify your preference for an optimal premium volume by completing the column titled Preference. If actual proposed expenses are not used, please specify the methodology used to allocate these expenses.
2. In Section G, calculate your company's projected policy year 202~~7~~2 expense ratio using the ceded written premium given in Section F.
3. In Section H, provide your company's proposed policy year 202~~7~~2 program price.
4. Provide program price proposals for each additional year of the appointment. In Sections I, J, K and L, include your proposals for policy years 202~~8~~3-203~~1~~26. All price proposals should be based on the ceded written premium given in Section F.

The selected price, as approved by CAR's Governing Committee, shall be uniformly applicable to each carrier selected to be a Servicing Carrier. Note that the selected Servicing Carriers will be requested to provide CAR with an annual expense call containing the same information and detail level your company is providing in this proposal.



Section 5 – Program Price (Continued)

5.2 General Cost-Related Information

The tables in the following sections provide statistics which identify the current size of the residual market and general claim costs. More detailed data will be posted to CAR’s website in March. Respondents may also request additional statistics at the pre-response conference.

5.3 Volume of Business

Residual market business is written through approximately 1,000 producers. The 2023~~0~~ policy year residual market volume at 12 months for all commercial classes is as follows:

<b>Pools</b>	<b>Premiums</b>	<b>Exposures</b>	<b>Exposure-Based Cession Rate</b>
Regular TTT & Regular TTT Fleet			
Zone Rated TTT & Zone Rated TTT Fleet			
Commercial Buses & Commercial Buses - Fleet			
Zone Rated Buses & Zone Rated Buses - Fleet			
PPT Buses & PPT Buses-Fleet			
Garages Subject to Compulsory Law			
Garages Premises			
Van Pools			
Private Passenger Types - Non-Fleet			
Private Passenger Types - Fleet			
Taxi			
Limo			
Car Service			
Special Types & Motorcycles			
Non-Owned, Special Rating & Gross Receipts			
<b>Total</b>			
<b>Approximate number of agencies</b>			
<b>Approximate number of policies</b>			

Section 5 – Program Price (Continued)

5.4 Ceded Commercial Claim Experience

<b>Ceded Commercial Claim Experience</b>			
<b>Data as of December, 2023</b>			
<b>(CAR ID Codes 4,5)</b>			
<b>Policy Year</b>			
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b><u>Written Premium</u></b>			
<b><u>Cession Rate*</u></b>			
<b><u>Earned Premium</u></b>			
<b><u>Reported Loss Ratio</u></b>			
<b><u>Incurred Claim Counts</u></b>			
Liability			
Physical Damage			
Total			
<b><u>Incurred Losses</u></b>			
Liability			
Physical Damage			
Total			
<b><u>Cost Per Claim Count</u></b>			
Liability			
Physical Damage			
Total			

\* Cession rate based on written premium

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Section 6 – General Instructions

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6.1 Contact Information and Deadline of Submission of Proposals

It is intended that this be a “turnaround” document, i.e. that each proposer furnishes all information in the format presented by this RFP. Submissions of manuals, promotional literature and other documents should be minimized except as the proposer may consider absolutely necessary to meet the requirements of this RFP.

Each proposal shall include a letter of transmittal, not to exceed two pages in length, which bears the signature of an authorized representative of the proposer and designates by name not more than two individuals authorized to represent the proposer with binding authority.

The letter of transmittal may also briefly set forth any particular information the proposer wishes to bring to CAR’s attention.

The proposer shall provide one electronic copy of its proposal no later than 12:00 noon on ~~June 16, 2024~~September 16, 2024 to:

Mr. Richard Dalton  
Residual Market Services  
Commonwealth Automobile Reinsurers  
101 Arch Street, Boston, MA 02110  
Tel: 617-880-2319  
Fax: 617-880-7298  
Email: [rdalton@commauto.com](mailto:rdalton@commauto.com)



Section 7 – Proposal Information (Continued)

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Who is the individual responsible for this account?

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By submitting this proposal, the proposer certifies that the firm is in compliance with all laws of the Commonwealth of Massachusetts, the Internal Revenue Service relating to taxes and 201 CMR 17.00 relating to confidentiality and protection of personal information.

7.1.2 Service Profile

List the location of the office(s) that would service this account.

\_\_\_\_\_

What is your current staffing for underwriting, claims, and loss control services in the Boston/New England area:

<u>Position Classification</u>	<u>Number of FTE Personnel</u>
Underwriting	_____
Claims	_____
Loss Control	_____

For this program:

Describe your firm's billing payment plan.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What minimum and maximum levels of assigned ceded written premium are necessary for your firm to bid on servicing this business?

Minimum: \_\_\_\_\_

Maximum: \_\_\_\_\_

What ratio of premium or insureds to underwriters does your firm propose to maintain? \_\_\_\_\_

What ratio of underwriters to supervisors will your firm maintain?

\_\_\_\_\_

Section 7 – Proposal Information (Continued)

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What ratio of open claims to claim adjusters does your firm propose to maintain?  
If applicable, separate your response by coverage: BI, PDL, and PIP/med pay.

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What ratio of adjusters to supervisors will your firm maintain?

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What ratio of premium or insureds to loss control representatives does your firm propose to maintain?

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What ratio of loss control representatives to supervisors will your firm maintain?

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Describe what efforts your firm would employ in seeking to reduce the size of the residual market and improve financial result~~session rate~~ for all classes of commercial automobile business.

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Describe your company's use of SIU for underwriting and loss investigations.

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7.1.3 Division of Responsibilities

If the proposer intends to utilize one or more subcontractors, provide a summary description of responsibilities among (a) the proposer and (b) each subcontractor. Also, describe how you have worked with the subcontractor in the past. If no subcontractors are to be used, so state.

Subcontractor Information:

Name, Address, and Telephone Number:

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Specify this subcontractor's responsibility for this engagement.

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Section 7 – Proposal Information (Continued)

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Name, Address, and Telephone Number:

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Specify this subcontractor's responsibility for this engagement.

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Name, Address, and Telephone Number:

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Specify this subcontractor's responsibility for this engagement.

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7.1.4 Executive Summary

Provide a summary of your proposal, prepared in such a manner as to be understood to individuals at a general management level with experience in commercial automobile insurance. The synopsis should contain a summary of your proposal and a brief description of the following:

- Your claim and management philosophy and proposed approach.
- Your proposed services.
- Your integration of functions.
- The distinctive elements of your proposal and your firm's capabilities.
- Your training and support commitments.
- The experience of your firm with similar programs, with Massachusetts commercial business, and with other commercial business.
- Your additional recommendations for this engagement.

7.2 Implementation

Provide your implementation plan, referring to Section 2.11 and 4.110 of the RFP.

Section 7 – Proposal Information (Continued)

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7.3 Miscellaneous Provisions

7.3.1 Capability to Respond to Significant Changes

Explain your firm's capability to respond to significant changes in this engagement.

7.3.2 Exceptions to the RFP

Summarize material exceptions which your firm has to this RFP.

7.3.3 Additional Services and Associated Costs

List any additional services or approaches and the anticipated costs.

7.3.4 Addendum

Specify in not more than two pages any additional information which your firm feels CAR should have in evaluating your proposal.



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## Section 8 – Selection Process

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The selection of Servicing Carrier(s) to serve CAR's needs is an important and complex task. CAR will follow the process outlined in the following subsections.

### 8.1 Request for Proposal (RFP)

This RFP is intended to provide the interested proposers with uniform information concerning the nature of the services desired and conditions for submitting proposals. The pre-response conference will be held to clarify any points which may be in question. In responding to this RFP, proposers shall adhere to the format provided herein so that comparable objective data will be provided for CAR's review and analysis.

### 8.2 Evaluation Responsibility

CAR's Commercial Program Oversight Committee, with the advice of any consultants and/or subcommittees it may choose to engage, will have responsibility for reviewing and evaluating all proposals submitted, and making its recommendation for Servicing Carrier appointments to CAR's Governing Committee.

### 8.3 General Objectives for Evaluation

The general objectives to be evaluated include but are not limited to the proposer's ability to properly establish eligibility for placement in the residual market, to underwrite risks written through the Program according to classification and garaging (territory) and to minimize fraud and mitigate the frequency and severity of losses through effective claims management and loss control.

Servicing Carrier(s) will be selected based on their proven ability to handle all classes of commercial business. Measurement of a Servicing Carrier's qualifications will include a basis for an expectation of superior performance and improvement in overall underwriting results within the Program.

### 8.4 Evaluation Factors

Proposals will be evaluated against the specifications presented in the RFP. A proposer may or may not be eliminated from consideration for failure to comply completely with one or more of the Program requirements as outlined in this RFP, depending on the nature of the requirement. CAR will apply a weighted factor approach in its evaluation of proposals with each category evaluated from 0% to the maximum shown.

The award of an appointment pursuant to this RFP will be made to that responsible proposer(s) whose proposal is determined to have the greatest overall benefit to CAR, its Members, agents and insureds. CAR will apply the following weighted factors in evaluating the proposals received. The relative importance of these factors involves

Section 8 – Selection Process (Continued)

8.4 Evaluation Factors (continued)

management judgments and will include both objective and subjective analysis.

<b>Underwriting and Policy Processing Evaluation</b>	
A. Experience/Demonstrated Performance	
1. Demonstrated performance writing Massachusetts commercial automobile business	8%
2. Demonstrated performance with commercial business, including servicing residual market automobile programs	4%
3. General Experience of proposer	3%
B. Personnel and Leadership	
1. Administrative and account management leadership	4%
2. Capability and experience of staff assigned	6%
3. Integration of underwriting operation with loss control	2%
C. Location of Staff	
	3%
D. Capability for Adjusting to Changed Exposure	
	3%
Subtotal	33%

<b>Claims Management Services Evaluation</b>	
A. Experience/Demonstrated Performance	
1. Demonstrated performance writing Massachusetts commercial automobile business	8%
2. Demonstrated performance with commercial business, including servicing residual market automobile programs	4%
3. General experience of proposer	3%
B. Personnel and Leadership	
1. Administrative and account management leadership	4%
2. Capability and experience of staff assigned	6%
3. Integration of claims operation with loss control	2%
C. Location of Staff	
	4%
D. Capability for Adjusting to Changed Exposure	
	3%
Subtotal	34%

Section 8 – Selection Process (Continued)

8.4 Evaluation Factors (continued)

<b>Loss Control Services Evaluation</b>	
A. Experience/Demonstrated Performance	
1. Demonstrated performance writing Massachusetts commercial automobile business	4%
2. Demonstrated performance with commercial business, including servicing residual market automobile programs	2%
3. General experience of proposer	2%
B. Personnel and Leadership	
1. Administrative and account management leadership	2%
2. Capability and experience of staff assigned	4%
3. Integration of loss control with underwriting and claims operations	2%
C. Location of Staff	
	3%
D. Capability for Adjusting to Changed Exposure	
	2%
Subtotal	
	21%

<b>Other</b>	
A. Management Information Systems which include the ability to produce ad-hoc reports.	2%
B. Minimize/Mitigate Market Disruption	3%
C. Experience with Massachusetts reporting requirements which includes statistical reporting, financial reporting and Registry of Motor Vehicle requirements	2%
D. Quality of Implementation Plan	1%
E. Additional Services/Creativity	1%
F. AM Best Rating	3%
Subtotal	
	12%
TOTAL	
	100%

Summary of Evaluation Factors

Category	Underwriting	Claims	Loss Control	Total
Experience	15%	15%	8%	38%
Personnel & Leadership	12%	12%	8%	32%
Location of Staff	3%	4%	3%	10%
Adjust to Change	3%	3%	2%	8%
Subtotal	33%	34%	21%	88%
AM Best Rating				3%
Other				9%
Total				100%

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Section 8 – Selection Process (Continued)

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8.5 Proposer Conferences

Following the initial screening of proposals, some of the proposers may be eliminated from consideration. Those that have not been eliminated may then be requested at no cost to CAR to meet with CAR staff and its committees and advisors for the purpose of presenting distinguishing elements of its proposal and responding to questions. Each such conference may be expected to take up to two hours.

8.6 Proposer Selection

The field of proposers shall be reduced to a group of finalists. The finalists, or a subset thereof, may be invited to participate in a more detailed review of qualifications and capabilities with CAR. CAR's personnel will also be available during that time to meet with each proposer's personnel to discuss any special requirements presented by this RFP.

These conferences may be supplemented by visits to the proposer's office. Interviews with individual staff on-site may be required.

Concurrently, each finalist may be requested to submit supplemental information based on its meeting with CAR and the ongoing evaluation of its proposal. This supplemental information will also be considered in CAR's selection process.

Following the procedures previously described, CAR will make a decision regarding selection of the proposer(s) to whom it will engage for the purpose of servicing ceded commercial business.

**Appendix A**

**Exhibit 5.1.1**

**Summary of Projected Costs for Servicing the Commercial Residual Market**

<b>A. ULAE Expenses</b>	<b>2 Carriers</b>	<b>3 Carriers</b>	<b>4 Carriers</b>	<b>Preference</b>
Claims Management Services Loaded Annual Staffing Costs				
Overhead/Traveling Expenses*				
Special Investigations (concerning the facts of the loss)				
Adjuster's Fees				
Motor Vehicle Appraisal Fees				
Fees for retrieval of pre-inspection reports				
Other				
<b>Total</b>				
* All salaries, including ULAE-related salaries, should be reported in the salary supplement.				

<b>B. Underwriting/Technical Services Expenses</b>	<b>2 Carriers</b>	<b>3 Carriers</b>	<b>4 Carriers</b>	<b>Preference</b>
Underwriting/Technical Services Loaded Annual Staffing Costs				
Agency Education and Training				
General Processing Expenses				
Other				
<b>Total</b>				

<b>C. Loss Control Services Expenses</b>	<b>2 Carriers</b>	<b>3 Carriers</b>	<b>4 Carriers</b>	<b>Preference</b>
Loss Control Services Loaded Annual Staffing Costs				
Surveys of New Insureds				
Surveys of Renewal Insureds				
Cost for Vehicle Inspection				
Educational Programs				
Monitoring of Loss Control Recommendations				
Special Services				
Other				
<b>Total</b>				

**Appendix A**

**Exhibit 5.1.1**

**Summary of Projected Costs for Servicing the Commercial Residual Market**

<b>D. Company/General Expenses</b>	2 Carriers	3 Carriers	4 Carriers	Preference
Other Loaded Annual Staffing Costs				
Administrative/Account Management Services				
Management Information System Services				
All Other Services				
Rent and Rent Items				
Office Equipment & Supplies				
Professional Services (Auditors, Actuarial, Legal, etc.)				
Taxes, Licenses, & Fees				
Other				
<b>Total</b>				

<b>E. Calculation of Total Expenses</b>	2 Carriers	3 Carriers	4 Carriers	Preference
Section A. Total: ULAE Expenses				
Section B. Total: Underwriting/Technical Services Expenses				
Section C. Total: Loss Control Services Expenses				
Section D. Total: Company/General Expenses				
<b>TOTAL: (A+B+C+D)</b>				

<b>F. Estimated Residual Market Premium</b>	\$105,500,000	\$70,333,000	\$52,750,000	
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<b>G. PY 2027<del>2</del> Expense Ratio (Total E / F)</b>				
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**Appendix A**

**Exhibit 5.1.1**

**Summary of Projected Costs for Servicing the Commercial Residual Market**

	2 Carriers	3 Carriers	4 Carriers	Preference
<b>H. PY 202<del>27</del> Price</b>				
If different from H., please explain				
<b>I. PY 202<del>83</del> Price</b>				
If different from H., please explain				
<b>J. PY 202<del>49</del> Price</b>				
If different from I., please explain				
<b>K. PY 20<del>30</del><del>25</del> Price</b>				
If different from J., please explain				
<b>L. PY 20<del>31</del><del>26</del> Price</b>				
If different from K., please explain				