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ADDITIONAL INFORMATION

TO MEMBERS OF THE COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

FOR THE MEETING OF:

Wednesday, May 29, 2024, at 10:00 a.m.

CPOC

24.04 Redistribution of Residual Market Books of Business

At its last meeting, the Committee discussed alternatives to minimize market disruption associated with the need to redistribute residual market books of business to maintain equity among Servicing Carriers. The Committee instructed staff to solicit feedback from the Servicing Carriers on the alternatives discussed.

Correspondingly, since changes in the Servicing Carrier's residual market books of business are forthcoming due to merger and acquisition activity and one carrier has exceeded the 3% threshold, the Committee should be prepared to discuss a redistribution in advance of the next appointment term.

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

- A document summarizing Servicing Carrier comments regarding the alternatives to redistributing residual market business. (Docket #CPOC24.04, Exhibit #3)
- A document indicating the current distribution of premium by Servicing Carrier. (Docket #CPOC24.04, Exhibit #4)
- A document indicating the distribution of premium after accounting for the merger and acquisition activity. (Docket #CPOC24.04, Exhibit #5)

CPOC

24.05 2027 Commercial Program Request for Proposal

Attached is an updated draft of the RFP which is scheduled to be distributed to the industry August 1, 2024 incorporating a number of modifications, including a new appendix for the one-time projected Servicing Carrier expenses associated with the transition to the new commercial forms for the Committee's review. (Docket #CPOC24.05, Exhibit #3)

RICHARD DALTON
Residual Market Liaison

Attachments

Boston, Massachusetts
May 23, 2024

Commonwealth Automobile Reinsurers
Commercial Program Oversight Committee
Redistribution of Residual Market Business
Summary of Servicing Carrier Comments

At the last meeting, the Committee requested that Staff solicit feedback from the Servicing Carriers relative to alternatives for the allocation of expense allowances. A summary of the comments is provided below:

Servicing Carrier A:

The percent of premium alternative is the preferred option because it best equates the expense reimbursement to the actual expenses that a Servicing Carrier incurs, as the amount of written premium does correspond to the work that is involved in servicing a policy. If the Committee were to consider any changes, consideration could be given to including a factor for the number of vehicles or exposures along with the premium-based allowance.

As far as the tolerance for a redistribution, 3% seems a bit low, so consideration could be given to increasing the tolerance to 4%.

Servicing Carrier B:

The hybrid approach, which combines both a percentage of premium and a flat fee component, is the preferred option as it best tempers the differences in company expense allowances that can arise from premium distributions that have been impacted by agency mergers and acquisitions.

The Committee should not consider changing the current 3% tolerance level as it accurately identifies a significant difference in premium distributions.

Servicing Carrier C:

Has concerns about the suggestion that loss ratio incentives could be considered, as the Servicing Carriers have no control over which agents are assigned to them, particularly as some agencies may have more challenging books of business, such as TTTs or buses. The current percent of premium approach is preferred as it is more reflective of the amount of work that is involved in servicing more complicated risks with higher premium volumes.

Servicing Carrier D:

The percent of premium approach is the preferred approach as it aligns the work that is involved in servicing the policies with the reimbursement provided (unlike the flat fee approach). However, the Committee should consider the concept of assigning new business on a rotational basis for larger agencies and networks or for all ceded business. This approach would eliminate the potential for the premium distribution to become unbalanced. Furthermore, since the producers would be working with all four Servicing Carriers, there would be additional opportunities for voluntary contracts to be offered. Additionally, concerns associated with brokering would be eliminated under this type of process.

Commercial Servicing Carrier Program
Premium by Class Type
Ceded Business (Car ID 4, 5)
Written Premium Based on Latest 12 Months @ March 2024
Loss Ratio for Policy Year 2021-2023 Valued through December 2023

<u>Class Type</u>	<u>Arbella Insurance Company</u>				<u>Commerce Insurance Company</u>			
	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>
TTT	\$19,220,094	40.1%	32.5%	47.6%	\$30,496,587	50.7%	41.5%	66.6%
Zone Rated TTT	\$6,325,321	13.2%	31.9%	46.5%	\$3,144,760	5.2%	115.7%	71.8%
PPT Fleet	\$962,632	2.0%	32.3%	43.4%	\$1,401,868	2.3%	34.0%	37.5%
PPT Non-Fleet	\$2,207,472	4.6%	48.6%	62.9%	\$1,498,824	2.5%	58.9%	86.9%
Bus/Van Pools	\$13,488,452	28.1%	22.1%	39.8%	\$13,727,920	22.8%	58.8%	78.2%
A/O (ex Taxi / Limo)	\$5,186,377	10.8%	51.1%	61.2%	\$7,792,744	13.0%	42.0%	42.3%
Taxi	\$115,583	0.2%	72.8%	77.3%	\$729,466	1.2%	15.2%	45.3%
Limousine	\$25,642	0.1%	7.3%	15.1%	\$89,113	0.1%	26.4%	40.5%
Car Service	\$416,360	0.9%	35.6%	78.8%	\$1,212,167	2.0%	12.3%	30.3%
Total	\$47,947,933		32.4%	48.2%	\$60,093,449		48.1%	65.0%
Market Share	22.0%				27.5%			
Agency Count	244				382			

<u>Class Type</u>	<u>Pilgrim Insurance Company</u>				<u>Safety Insurance Company</u>			
	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>
TTT	\$17,349,770	34.8%	33.2%	40.8%	\$28,320,438	46.8%	65.6%	67.7%
Zone Rated TTT	\$6,722,356	13.5%	29.0%	54.5%	\$7,234,080	12.0%	48.7%	109.8%
PPT Fleet	\$1,228,845	2.5%	31.1%	38.2%	\$1,203,428	2.0%	58.1%	36.5%
PPT Non-Fleet	\$785,006	1.6%	43.0%	63.0%	\$2,544,079	4.2%	91.2%	103.1%
Bus/Van Pools	\$17,169,803	34.5%	47.7%	45.7%	\$12,065,472	20.0%	52.9%	162.8%
A/O (ex Taxi / Limo)	\$6,100,358	12.3%	26.3%	57.3%	\$6,170,511	10.2%	41.7%	59.7%
Taxi	\$82,971	0.2%	52.1%	66.2%	\$379,850	0.6%	28.2%	71.9%
Limousine	\$69,264	0.1%	59.0%	57.0%	\$699,893	1.2%	33.6%	42.5%
Car Service	\$277,505	0.6%	35.5%	50.7%	\$1,857,939	3.1%	45.2%	56.5%
Total	\$49,785,878		37.0%	46.5%	\$60,475,690		58.3%	88.9%
Market Share	22.8%				27.7%			
Agency Count	224				289			

Total				
<u>Class Type</u>	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>
TTT	\$95,386,889	43.7%	44.9%	57.4%
Zone Rated TTT	\$23,426,517	10.7%	47.1%	73.0%
PPT Fleet	\$4,796,773	2.2%	44.6%	74.2%
PPT Non-Fleet	\$7,035,381	3.2%	65.5%	81.4%
Bus/Van Pools	\$56,451,647	25.9%	39.2%	38.6%
A/O (ex Taxi / Limo)	\$25,249,990	11.6%	40.5%	54.4%
Taxi	\$1,307,870	0.6%	28.4%	61.3%
Limousine	\$883,912	0.4%	33.8%	43.3%
Car Service	\$3,763,971	1.7%	33.9%	52.3%
Total	\$218,302,950		44.8%	63.1%
Total Agency Count	1139			

Commercial Servicing Carrier Program

Premium by Class Type

Ceded Business (Car ID 4, 5)

Written Premium Based on Latest 12 Months @ March 2024
 Loss Ratio for Policy Year 2021-2023 Valued through December 2023
 With Mergers and Acquisitions as of May 2024

Class Type	Arbella Insurance Company					Commerce Insurance Company			
	Written Premium	Class WP %	1yr Loss Ratio	3yr Loss Ratio	Written Premium	Class WP %	1yr Loss Ratio	3yr Loss Ratio	
TTT	\$21,865,504	37.3%	32.2%	49.0%	\$27,441,416	50.9%	42.4%	65.2%	
Zone Rated TTT	\$6,735,893	11.5%	32.4%	45.1%	\$2,876,948	5.3%	121.1%	75.1%	
PPT Fleet	\$1,155,426	2.0%	26.8%	34.4%	\$1,242,569	2.3%	36.0%	39.3%	
PPT Non-Fleet	\$2,246,679	3.8%	48.3%	66.0%	\$1,376,260	2.6%	64.6%	89.3%	
Bus/Van Pools	\$18,878,118	32.2%	30.8%	40.2%	\$12,011,148	22.3%	51.7%	77.3%	
A/O (ex Taxi / Limo)	\$7,136,825	12.2%	48.2%	59.1%	\$6,993,592	13.0%	40.6%	40.7%	
Taxi	\$115,583	0.2%	72.8%	77.3%	\$729,590	1.4%	15.2%	45.2%	
Limousine	\$30,314	0.1%	6.2%	13.5%	\$54,257	0.1%	28.1%	43.0%	
Car Service	\$434,204	0.7%	35.4%	79.9%	\$1,218,769	2.3%	12.0%	28.7%	
Total	\$58,598,546		34.3%	48.0%	\$53,944,549		47.4%	64.2%	
Market Share	26.8%				24.7%				
Agency Count	254				370				
Class Type	Pilgrim Insurance Company					Safety Insurance Company			
	Written Premium	Class WP %	1yr Loss Ratio	3yr Loss Ratio	Written Premium	Class WP %	1yr Loss Ratio	3yr Loss Ratio	
TTT	\$18,883,351	39.6%	35.6%	46.3%	\$27,196,618	46.8%	65.3%	66.0%	
Zone Rated TTT	\$6,601,919	13.9%	28.8%	55.4%	\$7,211,757	12.4%	48.8%	110.3%	
PPT Fleet	\$1,252,412	2.6%	32.7%	41.0%	\$1,146,366	2.0%	61.1%	38.6%	
PPT Non-Fleet	\$965,950	2.0%	31.9%	56.1%	\$2,446,492	4.2%	94.6%	105.6%	
Bus/Van Pools	\$13,892,001	29.2%	50.7%	53.2%	\$11,670,380	20.1%	54.3%	166.2%	
A/O (ex Taxi / Limo)	\$5,569,944	11.7%	48.6%	61.5%	\$5,549,629	9.5%	21.7%	57.8%	
Taxi	\$82,971	0.2%	52.1%	66.2%	\$379,726	0.7%	28.2%	72.8%	
Limousine	\$99,448	0.2%	54.8%	53.9%	\$699,893	1.2%	33.6%	42.5%	
Car Service	\$295,754	0.6%	35.1%	50.0%	\$1,815,244	3.1%	46.3%	57.3%	
Total	\$47,643,750		40.5%	51.3%	\$58,116,105		56.8%	89.0%	
Market Share	21.8%				26.6%				
Agency Count	244				271				
Class Type	Total								
	Written Premium	Class WP %	1yr Loss Ratio	3yr Loss Ratio	Agency Count				
TTT	\$95,386,889	43.7%	45.0%	57.3%					
Zone Rated TTT	\$23,426,517	10.7%	47.2%	73.0%					
PPT Fleet	\$4,796,773	2.2%	44.6%	74.3%					
PPT Non-Fleet	\$7,035,381	3.2%	65.4%	81.4%					
Bus/Van Pools	\$56,451,647	25.9%	39.2%	38.3%					
A/O (ex Taxi / Limo)	\$25,249,990	11.6%	40.6%	54.4%					
Taxi	\$1,307,870	0.6%	28.4%	61.5%					
Limousine	\$883,912	0.4%	33.8%	43.3%					
Car Service	\$3,763,971	1.7%	34.0%	52.5%					
Total	\$218,302,950		44.9%	63.1%					
Total Agency Count	1139								

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.

2.9/

4.9 Staffing

- To align with the staffing requirements of the Program, proposers are asked to address the steps to be taken to abate residual market disruption if significant staffing changes were to occur during the appointment period.

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.

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.
- Emphasis is added to instruct proposers to employ refined residual market cost projections singularly in developing a price quotation for on-going services.
- Reference to multiple-year price quotations is eliminated, rather proposers are asked to quote a single annual price quotation.

8.4 Evaluation Factors

- This section has been rewritten to simplify the evaluation process and enable more flexibility for the Selection Committee to distinguish aspects of individual proposals.

Appendix A: Projected Costs of Forms Implementation Project

- Appendix A is added to set forth the format that proposers should use to identify one-time costs associated with the implementation of the new policy forms and endorsements and to describe their price quotations.

Appendix B: Summary of Projected Costs for Servicing the Commercial Residual Market

- Minor edits to the Appendix are intended to clarify expenses that should be identified in preparation of proposers' bid quotations.
- The Appendix is modified to eliminate reference to separate yearly price quotations, but rather to request a single annual price quotation for the appointment term.