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## NOTICE OF MEETING

### COMMERCIAL PROGRAM OVERSIGHT COMMITTEE

A meeting of the Commercial Program Oversight Committee will be held virtually via Zoom video conferencing software on

**WEDNESDAY, JULY 31, 2024, AT 10:00 A.M.**

If you plan to attend this meeting and are not a member of this Committee, please RSVP by completing the Visitor Security Form located in the Contact Us/Visitor Information section of CAR's website. CAR will then forward to you, via email, meeting access information. Please do not share access information provided by CAR, but refer others wishing to attend the meeting to CAR's Visitor Security Form.

### MEMBERS OF THE COMMITTEE

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

Mr. Brian Hayes  
Ms. Nicole Martorana  
Ms. Sharon Murphy  
Mr. Henry Risman  
Ms. Meredith Woodcock

Quincy Mutual Group  
FBInsure  
Acadia Insurance Company  
Risman Insurance Agency, Inc.  
Liberty Mutual Insurance Companies

## AGENDA

### CPOC

#### 24.01 Records of Previous Meeting

The Records of the Commercial Program Oversight Committee meeting of May 29, 2024 should be read and approved.

### CPOC

#### 24.03 CAR Conflict of Interest Policy

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

**CPOC**

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

At its last meeting, staff recommended that the Committee consider a redistribution of the Servicing Carrier ceded books of business for policies effective January 1, 2025 to address changes due to merger and acquisition activity and to rebalance the books of business well in advance of the next appointment term. The Committee requested additional information concerning the impacted agencies, the guidelines used to realign the books of business, and procedures for book transfers. Attached for the Committee's review are exhibits outlining the requested information. (Docket #CPOC24.04, Exhibit #6)

Also at its last meeting, the Committee discussed alternative methodologies for the redistribution of the residual market books of business, including options for the allocation of expense allowances, to evaluate whether changes to the process would benefit the program going forward. After discussion, the Committee directed staff to prepare a more detailed outline providing the advantages and disadvantages for the Committee's review. An exhibit with additional information is attached. (Docket #CPOC24.04, Exhibit #7)

**Other Business**

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

**Executive Session**

The Commercial Program Oversight Committee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

**RICHARD DALTON**  
Residual Market Liaison

Attachments

Boston, Massachusetts  
July 19, 2024

Commonwealth Automobile Reinsurers  
Commercial Program Oversight Committee  
Redistribution of Residual Market Business

At the last meeting, the Committee requested additional information relative to the recommended redistribution for policies effective January 1, 2025. Staff has prepared the following information to assist the Committee in its deliberations:

- Current Servicing Carrier book of business distribution (as of March 2024)
- Servicing Carrier Book of Business Distribution after accounting for mergers and acquisitions (M/A activity as of May 2024)
- Estimated Servicing Carrier book of business distribution after reassignment (data as of June 30, 2024; to be reviewed prior to SC/producer notification)
- List of agencies anticipated to be reassignment with related volume information (list will be finalized with updated data prior to SC/producer notification)
- Reassignment guidelines and book transfer procedures
- Statement of Intent relating to Committee consideration of book of business redistributions included with RFP for 2022 SC appointment term

**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**

Arbella Insurance Company					Commerce Insurance Company			
<u>Class Type</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%	\$30,514,784	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%
Taxi	\$115,583	0.2%	72.8%	77.3%	\$729,466	1.2%	15.2%	36.9%
Limousine	\$25,642	0.1%	7.3%	15.1%	\$89,113	0.1%	26.4%	40.6%
Car Service	\$416,360	0.9%	35.6%	79.4%	\$1,212,167	2.0%	12.3%	30.1%
A/O	\$5,186,377	10.8%	51.1%	61.2%	\$7,809,114	13.0%	42.0%	42.4%
Total	<b>\$47,947,933</b>		<b>32.4%</b>	<b>48.2%</b>	<b>\$60,128,016</b>		<b>48.1%</b>	<b>64.9%</b>
Market Share	<b>21.9%</b>				<b>27.5%</b>			
Agency Count	<b>244</b>				<b>382</b>			
Pilgrim Insurance Company					Safety Insurance Company			
<u>Class Type</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	\$17,527,769	35.0%	33.2%	40.9%	\$28,320,438	46.8%	65.6%	67.8%
Zone Rated TTT	\$6,733,200	13.4%	29.0%	54.5%	\$7,234,080	12.0%	48.7%	109.8%
PPT Fleet	\$1,228,845	2.5%	31.1%	38.3%	\$1,203,428	2.0%	58.1%	36.7%
PPT Non-Fleet	\$815,765	1.6%	43.3%	63.1%	\$2,544,079	4.2%	91.2%	103.2%
Bus/Van Pools	\$17,200,415	34.4%	47.7%	45.7%	\$12,065,472	20.0%	52.9%	162.8%
Taxi	\$82,971	0.2%	52.1%	66.2%	\$379,850	0.6%	28.2%	72.3%
Limousine	\$69,264	0.1%	59.0%	57.0%	\$699,893	1.2%	33.6%	42.5%
Car Service	\$284,751	0.6%	35.5%	50.7%	\$1,857,939	3.1%	45.2%	56.5%
A/O	\$6,118,401	12.2%	26.3%	57.3%	\$6,170,511	10.2%	41.7%	59.7%
Total	<b>\$50,061,381</b>		<b>37.0%</b>	<b>46.5%</b>	<b>\$60,475,690</b>		<b>58.3%</b>	<b>88.9%</b>
Market Share	<b>22.9%</b>				<b>27.7%</b>			
Agency Count	<b>224</b>				<b>289</b>			
Total								
<u>Class Type</u>	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>				
TTT	\$95,583,085	43.7%	44.9%	57.4%				
Zone Rated TTT	\$23,437,361	10.7%	47.1%	73.0%				
PPT Fleet	\$4,796,773	2.2%	44.6%	74.2%				
PPT Non-Fleet	\$7,066,140	3.2%	65.6%	81.4%				
Bus/Van Pools	\$56,482,259	25.8%	39.2%	38.6%				
Taxi	\$1,307,870	0.6%	28.4%	58.9%				
Limousine	\$883,912	0.4%	33.8%	43.3%				
Car Service	\$3,771,217	1.7%	33.9%	52.8%				
A/O	\$25,284,403	11.6%	40.5%	54.4%				
Total	<b>\$218,613,020</b>		<b>44.8%</b>	<b>63.1%</b>				
Total Agency Count	<b>1139</b>							

**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**

Arbella Insurance Company					Commerce Insurance Company			
<u>Class Type</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	\$21,865,504	37.3%	32.2%	49.0%	\$27,459,613	50.9%	42.4%	65.8%
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	2.5%	64.2%	89.2%
Bus/Van Pools	\$18,878,118	32.2%	30.8%	40.2%	\$12,011,148	22.3%	51.7%	77.3%
Taxi	\$115,583	0.2%	72.8%	77.3%	\$729,590	1.4%	15.2%	36.7%
Limousine	\$30,314	0.1%	6.2%	13.5%	\$54,257	0.1%	28.1%	43.2%
Car Service	\$434,204	0.7%	35.4%	79.9%	\$1,218,769	2.3%	12.0%	28.4%
A/O	\$7,136,825	12.2%	48.2%	59.1%	\$7,009,962	13.0%	40.6%	40.6%
Total	<b>\$58,598,546</b>		<b>34.3%</b>	<b>48.0%</b>	<b>\$53,979,116</b>		<b>47.4%</b>	<b>64.4%</b>
Market Share	<b>26.8%</b>				<b>24.7%</b>			
Agency Count	<b>254</b>				<b>370</b>			

Pilgrim Insurance Company					Safety Insurance Company			
<u>Class Type</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	\$19,061,350	39.8%	35.4%	45.9%	\$27,196,618	46.8%	65.3%	66.0%
Zone Rated TTT	\$6,612,763	13.8%	28.8%	55.4%	\$7,211,757	12.4%	48.8%	110.3%
PPT Fleet	\$1,252,412	2.6%	32.7%	42.6%	\$1,146,366	2.0%	61.1%	38.6%
PPT Non-Fleet	\$996,709	2.1%	35.2%	57.1%	\$2,446,492	4.2%	94.6%	105.6%
Bus/Van Pools	\$13,922,613	29.1%	50.5%	53.1%	\$11,670,380	20.1%	54.3%	166.2%
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	\$303,000	0.6%	33.8%	49.4%	\$1,815,244	3.1%	46.3%	57.3%
A/O	\$5,587,987	11.7%	48.5%	61.3%	\$5,549,629	9.5%	21.7%	57.8%
Total	<b>\$47,919,253</b>		<b>40.4%</b>	<b>51.1%</b>	<b>\$58,116,105</b>		<b>56.8%</b>	<b>89.0%</b>
Market Share	<b>21.9%</b>				<b>26.6%</b>			
Agency Count	<b>244</b>				<b>271</b>			

Total				
<u>Class Type</u>	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>
TTT	\$95,583,085	43.7%	44.9%	57.4%
Zone Rated TTT	\$23,437,361	10.7%	47.1%	73.0%
PPT Fleet	\$4,796,773	2.2%	44.6%	74.2%
PPT Non-Fleet	\$7,066,140	3.2%	65.6%	81.4%
Bus/Van Pools	\$56,482,259	25.8%	39.2%	38.6%
Taxi	\$1,307,870	0.6%	28.4%	58.9%
Limousine	\$883,912	0.4%	33.8%	43.3%
Car Service	\$3,771,217	1.7%	33.9%	52.8%
A/O	\$25,284,403	11.6%	40.5%	54.4%
Total	<b>\$218,613,020</b>		<b>44.8%</b>	<b>63.1%</b>
Total Agency Count	<b>1139</b>			

**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**  
**Anticipated Reassingment - Policies Effective January 1, 2025**

Arbella Insurance Company					Commerce Insurance Company			
<u>Class Type</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	\$21,210,442	38.8%	32.2%	47.9%	\$27,913,340	51.1%	42.7%	65.8%
Zone Rated TTT	\$6,627,903	12.1%	32.8%	45.0%	\$2,893,115	5.3%	120.2%	74.6%
PPT Fleet	\$1,069,577	2.0%	27.1%	35.1%	\$1,280,066	2.3%	35.5%	39.0%
PPT Non-Fleet	\$2,225,328	4.1%	48.7%	66.2%	\$1,416,773	2.6%	62.7%	87.8%
Bus/Van Pools	\$15,876,135	29.1%	33.3%	38.3%	\$12,080,759	22.1%	52.2%	77.1%
Taxi	\$115,583	0.2%	72.8%	77.3%	\$729,590	1.3%	15.2%	36.7%
Limousine	\$30,314	0.1%	6.2%	13.5%	\$54,257	0.1%	28.1%	43.2%
Car Service	\$419,511	0.8%	35.9%	80.2%	\$1,221,720	2.2%	11.8%	28.1%
A/O	\$7,070,704	12.9%	48.7%	59.3%	\$7,065,897	12.9%	40.3%	40.3%
Total	<b>\$54,645,497</b>		<b>35.4%</b>	<b>47.5%</b>	<b>\$54,655,517</b>		<b>47.5%</b>	<b>64.3%</b>
Market Share	<b>25.0%</b>				<b>25.0%</b>			
Agency Count	<b>252</b>				<b>374</b>			
Pilgrim Insurance Company					Safety Insurance Company			
<u>Class Type</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	\$20,884,725	38.2%	35.4%	47.3%	\$25,574,578	46.8%	66.3%	66.3%
Zone Rated TTT	\$6,823,466	12.5%	28.5%	55.0%	\$7,092,877	13.0%	48.9%	111.1%
PPT Fleet	\$1,394,504	2.6%	34.2%	41.8%	\$1,052,626	1.9%	61.5%	38.7%
PPT Non-Fleet	\$1,108,819	2.0%	41.1%	62.9%	\$2,315,220	4.2%	95.1%	105.2%
Bus/Van Pools	\$18,139,391	33.2%	44.1%	65.3%	\$10,385,974	19.0%	56.2%	156.0%
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	1.3%	33.6%	42.5%
Car Service	\$352,699	0.6%	31.5%	50.4%	\$1,777,287	3.3%	47.4%	57.5%
A/O	\$5,767,125	10.6%	47.4%	60.9%	\$5,380,677	9.8%	22.1%	58.5%
Total	<b>\$54,653,148</b>		<b>38.9%</b>	<b>55.2%</b>	<b>\$54,658,858</b>		<b>57.6%</b>	<b>86.8%</b>
Market Share	<b>25.0%</b>				<b>25.0%</b>			
Agency Count	<b>251</b>				<b>262</b>			
Total								
<u>Class Type</u>	<u>Written Premium</u>	<u>Class WP %</u>	<u>1yr Loss Ratio</u>	<u>3yr Loss Ratio</u>				
TTT	\$95,583,085	43.7%	44.9%	57.4%				
Zone Rated TTT	\$23,437,361	10.7%	47.1%	73.0%				
PPT Fleet	\$4,796,773	2.2%	44.6%	74.2%				
PPT Non-Fleet	\$7,066,140	3.2%	65.6%	81.4%				
Bus/Van Pools	\$56,482,259	25.8%	39.2%	38.6%				
Taxi	\$1,307,870	0.6%	28.4%	58.9%				
Limousine	\$883,912	0.4%	33.8%	43.3%				
Car Service	\$3,771,217	1.7%	33.9%	52.8%				
A/O	\$25,284,403	11.6%	40.5%	54.4%				
Total	<b>\$218,613,020</b>		<b>44.8%</b>	<b>63.1%</b>				
Total Agency Count	<b>1139</b>							

# **Commercial Servicing Carrier Program** **Anticipated Reassignment – Effective January 1, 2025** **Details by Agencies**

<u>Agency</u>	<u>Written Premium</u>	<u># of Policies</u>	<u>Exposures</u>	<u>VolContract</u> <u>With Assigned SC</u>
1	2,285,778	119	363	No
2	1,667,271	22	215	Yes
3	1,262,328	20	75	No
4	839,678	56	105	No
5	326,087	38	73	Yes
6	253,960	63	75	No
7	188,702	33	44	Yes
8	169,579	11	39	Yes
9	158,461	13	30	Yes
10	134,501	12	24	Yes
11	112,617	8	18	No
12	93,587	6	28	Yes
13	68,146	6	9	Yes
<b>Total</b>	<b>7,560,695</b>	<b>407</b>	<b>1096</b>	

**Commonwealth Automobile Reinsurers  
Commercial Program Oversight Committee  
Redistribution of Residual Market Business  
Agency Reassignment Procedures**

When there is a need for agencies to be reassigned, either because of a new Servicing Carrier term or due to a need to rebalance Servicing Carriers' books of business, the goal is to minimize disruption while also providing adequate controls for Servicing Carriers to fulfill their responsibilities. Accordingly, the following guidelines for the reassignment process and transition procedures are in place to minimize disruption and assist the impacted policyholders, producers and Servicing Carriers. As the Committee considers a realignment of the ceded books of business for policies effective January 1, 2025 and later, the Committee may review these procedures for confirmation or recommend modifications that it considers appropriate.

Reassignment Guidelines:

- Agencies with identified affiliations will be placed with the same carrier to avoid adverse selection, pursuant to Rule 14.
- No producer will be moved more than once in a three-year period, unless the reassignment is unavoidable.
- To the extent possible, assign an agency to a carrier with which it has an existing voluntary relationship. If multiple relationships exist, preference will be to assign the producer to the Servicing Carrier with the highest premium volume with that producer.
- To the extent possible, maintain an equitable distribution among the Servicing Carriers of premium volume and loss ratio by class type group
- Overall, minimize the number of impacted agencies and the volume of reassigned ceded business to the extent possible.

Policy Issuance Transition Procedures:

- Non-renewal notices will be provided to the producer of record a minimum of 45 days prior to the expiration date for ceded policies that will be rewritten with a new Servicing Carrier.
- To assist producers in identifying, well in advance, business transferring to a new carrier, Staff will distribute a listing of expirations to producers.
- For non-fleet business:
  - The expiring policy's declarations page may be submitted in place of a new business application.
  - If that declarations page is submitted to the new Servicing Carrier at least 60 days prior to the policy effective date, the deposit premium is waived.
- For fleet business:
  - Normal company application submission procedures will be followed.



Ad Hoc Redistribution Committee  
Recommendation to Commercial Program Oversight Committee  
Minimize Impacts of Ceded Book of Business Redistributions

Statement of Intent

The Ad Hoc Redistribution Committee recognizes the disruptive impact to producers and insureds when the need for equity among Servicing Carriers results in a need to redistribute the ceded books of business. In order to maintain reasonable equity with the objective to minimize the disruptive impacts of a redistribution, the Ad Hoc Redistribution Committee recommends that the Commercial Program Oversight Committee adopt a Statement of Intent that addresses and prioritizes the following considerations, for recommendation to the Governing Committee:

- Minimize redistributions to the extent possible
- Maintain the safe harbor provision enabling a Servicing Carrier to demonstrate undue burden associated with continued or renewed inequity
- Employ a threshold approach to consider redistribution based on the financial impact to a Servicing Carrier
- Address producer concerns with reassignment:  
Staff to develop a reporting procedure to advise the Commercial Program Oversight Committee subsequent to a redistribution of concerns expressed by reassigned agencies with specific issues that may be addressed or referred for Committee consideration

The Ad Hoc Redistribution Committee recommends a process to evaluate Servicing Carrier requests for redistribution:

1. Servicing Carrier redistribution requests
  - a. +/-3% of premium threshold has been exceeded
  - b. Demonstrate hardship resulting from inequity
  - c. Demonstrate positive performance warranting rebalancing
2. Committee evaluation of request
  - a. Cause of imbalance
  - b. Scope of required redistribution

## **Commercial Program Oversight Committee – 7/31/2024**

### **Ceded Book of Business Distribution Issues**

Earlier this year, CAR staff indicated that the trending merger and acquisition activity and growing agency networks will likely result in more disruptive impacts during the next Servicing Carrier appointment term in the event of needed realignment of books of business to maintain equity among the Servicing Carriers. The Committee has discussed various ceded book assignment methods and Servicing Carrier expense allowance allocation methods to evaluate whether changes to current procedures would benefit the program. At its last meeting, the Committee requested a more detailed outline of the alternatives considered in order to evaluate the benefits and drawbacks of each.

#### **Agency Assignment Alternatives:**

To date, the Committee has considered the alternatives described below.

##### **Maintain Current Procedures:**

CAR would continue to ensure that, pursuant to Rule 14.A.2, producers participating in producer networks and producers with a direct or indirect material and continuing proprietary or management interest in another agency will be assigned to the same Servicing Carrier as all members of the affiliated group.

##### **Supporting Comments:**

- all producers access to only one SC

##### **Opposing Comments:**

- increasingly difficult to ensure minimal disruption with rebalancing of books

##### **Enable Networks Be Assigned as Independent Agencies**

CAR would no longer consider agencies participating in network clusters to be affiliated agencies and would assign those agencies as independent agencies.

##### **Supporting Comments:**

- increases the population of agencies to be used to realign the books of business, increasing CAR's ability to minimize disruption

##### **Opposing Comments:**

- although agencies are independently managed, the networks maintain some level of influence
- a prohibition on brokering would be difficult to oversee
- inability to eliminate brokering could result in ceded books becoming unbalanced

##### **Additional Considerations:**

- amend Rules of Operation

##### **Assign Affiliated Agencies and/or Networks to Multiple Servicing Carriers:**

CAR would assign affiliated agencies and/or agencies participating in network clusters to multiple Servicing Carriers based on assignment criteria to be defined.

##### **Supporting Comments:**

- enables realignment with less disruption

##### **Opposing Comments:**

- potential for adverse selection if assignment criteria is not strictly defined
- inability to eliminate adverse selection could result in ceded books becoming unbalanced
- introduction of brokering prohibition would be difficult to oversee
- basis for assignment with strong oversight potential is difficult to define
- magnifies varying SC processes and procedures

Additional Considerations:

- develop specifications
  - identify producers eligible for multiple appointments
  - define assignment criteria (office location, risk PPOB, other)
- amend Rules of Operation

Rotational Assignment of New Business:

CAR would assign new business to Servicing Carriers on a rotational basis.

Supporting Comments:

- ensures equity among SC books of business
- enhances program stability in the long run

Opposing Comments:

- producers work with all appointed SCs
- fundamental program change
- long term solution not likely to be implemented with 2027 SC terms

Additional Considerations:

- develop specifications
  - optimal number of SCs
  - assignment and true-up specifications
- amend Rules of Operation
- develop assignment application
- draft procedures manuals

**Servicing Carrier Expense Allowance Allocation Alternatives:**

Servicing Carriers are currently compensated for their service with an allowance calculated as a percent of written premium agreed to during the Committee's evaluation of responses to the RFP and Servicing Carrier selection. The Committee has discussed alternative expense allocation procedures intended to enhance equity among Servicing Carriers from a revenue perspective and minimize the need for realignment of the books of business. The attached exhibit illustrates various options to combine a percent-of-premium allocation with a fixed dollar allowance. In consideration of a change to the expense allowance allocation method for the next appointment term, the Committee members expressed interest in better understanding the benefits and drawbacks of such a hybrid approach.

Supporting Comments:

- improves revenue equity among SCs  
(tempers the differences in company allowances arising from premium distributions impacted by agency mergers and acquisitions)
- recognizes some costs vary by premium, others are fixed
- potential for small increase in tolerance for premium variances among SCs

Opposing Comments:

- 3 of 4 SCs comment that percent-of-premium correlates best to actual expenses incurred

Additional Considerations:

- difficult to quantify fixed versus variable costs

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

	<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>Fixed 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 Examples</b>					
.5 Pct-of-Prem	\$3,104,729	\$3,894,489	\$3,197,243	\$3,805,292	\$14,001,752
<u>.5 Fixed 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	
.75 Pct-of-Prem	\$4,657,093	\$5,841,733	\$4,795,864	\$5,707,937	\$21,002,628
<u>.25 Fixed Allowance</u>	<u>\$1,750,219</u>	<u>\$1,750,219</u>	<u>\$1,750,219</u>	<u>\$1,750,219</u>	<u>\$7,000,876</u>
Total Allowance	\$6,407,312	\$7,591,952	\$6,546,083	\$7,458,156	\$28,003,504
Difference from equity	(\$593,564)	\$591,076	(\$454,793)	\$457,280	

**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	\$6,330,000	\$8,440,000	\$9,495,000	\$10,550,000	\$12,660,000
Allowance Variance					
Pct-of-Prem Allowance	\$839,358	\$1,119,144	\$1,259,037	\$1,398,930	\$1,678,716
Fixed Allowance	\$0	\$0	\$0	\$0	\$0
Hybrid Allowance (.5/.5)	\$419,679	\$559,572	\$629,519	\$699,465	\$839,358
Hybrid Allowance (.75/.25)	\$629,519	\$839,358	\$944,278	\$1,049,198	\$1,259,037