CAR
COMMONWEALTH AUTOMOBILE REINSURERS
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NATALIE A. HUBLEY
PRESIDENT

RECORDS OF MEETING

COMMERCIAL PROGRAM OVERSIGHT COMMITTEE – MAY 29, 2024

Members Present

Mr. John Olivieri, Jr – Chair	J.K. Olivieri Insurance Agency, Inc.
Mr. Thomas Bird(1)	Acadia Insurance Company
Mr. Brian Hayes	Quincy Mutual Group
Mr. Henry Risman	Risman Insurance Agency, Inc.
Ms. Meredith Woodcock	Liberty Mutual Insurance Companies

Substituted for:
(1)Ms. Sharon Murphy

Not in Attendance:
Ms. Nicole Martorana, FBInsure

24.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Commercial Program Oversight Committee meeting of April 25, 2024. The Records have been distributed and are on file.

24.04 Redistribution of Residual Market Books of Business

At its last meeting, the Committee requested Staff solicit feedback from Servicing Carriers regarding the alternatives for the allocation of expense allowances as well as the current tolerance level for redistribution of residual market books of business. Ms. Wendy Browne provided the Committee with an overview of the responses stating that three of the four Servicing Carriers believe the current percent-of-premium methodology is the preferred option as it closely associates the expense reimbursement to the actual expenses incurred in servicing the more complicated policies with higher premium. Ms. Browne noted that one Servicing Carrier preferred the hybrid option as it best tempers the differences in company expenses that can arise from agency mergers and acquisitions while still providing a portion of the premium reimbursement based upon premium volume.

Continuing, Ms. Browne also noted that one Servicing Carrier suggested the Committee consider the concept of assigning new business on a rotational basis for larger agencies and networks and/or for all ceded business. The Servicing Carrier believed this approach could potentially eliminate the need for future redistributions as well as address other concerns such as brokering. She noted that only two carriers commented on the current tolerance level with no consensus of the best option.

Ms. Meredith Woodcock opened the discussion by asking for clarification relative to assigning risks on a rotational basis and how that reduces the need for redistribution. Ms. Browne noted that this option would require significant analysis by staff and Committees to define the basis for initial assignment and subsequent calculation of premium, employing a process similar to the quota share model. Noting that large producers and networks would work with all Servicing Carriers, she explained that the approach would directly lessen the need for redistributions. In discussing the merits of this approach, Mr. Henry Risman expressed concern with limiting the assignment process to only larger agencies and networks but commented that it would be difficult for smaller agencies to work with all Servicing Carriers. He noted that smaller agencies might not have the business relationships that larger agencies or networks have and therefore would not have the same working knowledge of different procedures and processes. The Committee acknowledged that there are definite pros and cons to this approach of assigning risks on a rotational basis and had concerns with the variables potentially creating additional disruption.

Mr. John Olivieri noted that a goal of the Committee is to work towards assuring stability in the commercial residual market and that redistributions are disruptive. He asked for staff's thoughts relative to the hybrid modeled approach to expense allocation. Ms. Natalie Hubley opined that the hybrid model has merit in that it addresses Servicing Carrier comments that premium volume correlates with costs incurred to service residual market business, but it also recognizes that some costs are fixed. She suggested that by reducing the variance in distribution of expense dollars, the hybrid model presents an opportunity for the Committee to consider increasing the established threshold to consider redistribution. She added that Servicing Carriers have identified revenue as the leading factor in determining whether to request a redistribution of the ceded book of business.

After discussion, the Committee expressed interest in further consideration of the advantages and disadvantages of the hybrid model approach. Accordingly, the Committee directed staff to incorporate a comment in the RFP for the proposers to understand that the Committee is considering alternative approaches to the expense allocation methodology with the decision to be determined at a future meeting.

Continuing, Ms. Browne reported on the status of the current residual market distribution. Referring to Exhibit #5 of the agenda, she noted that currently one carrier is undersubscribed in excess of 3%. In addition, she advised that there is a need to realign certain agencies as a result of merger and acquisition activity. Once the realignment of agencies is completed, a different carrier will be undersubscribed by more than 3%. Accordingly, staff is recommending the Committee consider a redistribution for polices effective January 1, 2025 to address these issues. Ms. Browne noted that a redistribution at this time would realign the books of business well in advance of the next Servicing Carrier appointment term. It would also ensure that an additional redistribution would not occur prior to the next term. Ms. Browne explained that a redistribution at this time would involve reassigning less than 15 agencies. The Committee, reflecting on the market disruption associated with a redistribution, requested additional information relative to the impacted agencies. The Committee also requested information reflecting the guidelines used to realign the books of business as well as processes defined for the book transfers. The Committee agreed to continue discussion at its next meeting.

24.05 2027 Commercial Program Request for Proposal

Ms. Lynne Rosenburg reviewed updates made to the RFP which have been included in the Highlight of Changes to the Request for Proposal document. Ms. Rosenburg pointed out the added program requirement for Servicing Carriers to have representation on CAR advisory committees with the intent to improve participation in the administration of CAR's commercial program. Additionally, Ms. Rosenburg noted changes to the RFP relative to projection costs and evaluation factors. Specifically, in section 5.1, language has been added to require a separate price quote for anticipated one-time costs associated with transitioning to the new coverage forms and endorsements and emphasis added to instruct proposers to employ refined residual market cost projections singularly in developing a price quotation for on-going services. Also, Appendix A has been added to provide a format which proposers should utilize in addressing the one-time residual market costs associated with the implementation of the new policy forms and endorsements and to describe their price quotations. Appendix B has been updated with the intent to clarify expenses that should be identified in preparation of proposers' bid quotations. In addition, CAR is recommending Appendix B be modified to eliminate references to separate yearly price quotations, and instead input a single annual price quotation for the appointment term. Finally, the Evaluation Factors section has been updated to simplify the evaluation process and enable more flexibility for the Selection Committee to distinguish aspects of individual proposals.

Mr. Barry Tagen asked about the timing of the reimbursement for the one-time costs. Ms. Hubley responded that it should be addressed as part of the bid proposal and commented that the RFP would be updated to expressly request that information. Mr. Tagen also questioned the reasoning behind eliminating separate, yearly price quotations. Ms. Browne explained that the expense allowance in previous appointment terms was based on exposure whereas now it is based on premium. Accordingly, expense modifications are inherent with rate changes. Mr. Tagen therefore asked whether separate price quotations were necessary based on the number of Servicing Carriers. Ms. Hubley explained that the number of Servicing Carriers helps in understanding the variability of expenses with respect to premium volume as well as helping the Selection Committee understand the proposers' tolerance for handling maximum and minimum volumes.

After discussion, the Committee unanimously voted to recommend to the Governing Committee to authorize the distribution of the RFP as amended.

RICHARD DALTON
Residual Market Liaison

Boston, Massachusetts
June 7, 2024

ATTACHMENT LISTING

Docket #CPOC24.02, Exhibit #3	Attendance Listing

COMMERCIAL PROGRAM OVERSIGHT COMMITTEE MEETING
MEETING ATTENDEES
MAY 29, 2024

Individual's Name	Company / Agency
PLEASE PRINT	
M. John Olivieri, Jr.	J.K. Olivieri Insurance Agency, Inc.
Thomas Bird	Acadia Insurance Company
Brian Hayes	Quincy Mutual Group
Henry Risman	Risman Insurance Agency, Inc.
Meredith Woodcock	Liberty Mutual Insurance Companies
Roberta Fitzpatrick	Arbella Insurance Group
David Zawilinski	Arbella Insurance Group
John Magadieu	Arbella Insurance Group
Barry Tagen	Pilgrim Insurance Company
Michael Brady	Pilgrim Insurance Company
Mary Ellen Thompson	Division of Insurance
Benjamin Hincks	TSH & D – CAR Counsel
Steven Torres	TSH & D – CAR Counsel
Linda Zarella	Arbella Insurance Group
Peter Barton	Safety Insurance Company
Mary McConnell	Safety Insurance Company
Wendy Browne	CAR Staff
Shannon Chiu	CAR Staff
Richard Dalton	CAR Staff
Adrianne Donovan	CAR Staff
Timothy Galligan	CAR Staff
Steven Gautieri	CAR Staff
Matthew Hirsh	CAR Staff
Natalie Hubley	CAR Staff

COMMERCIAL PROGRAM OVERSIGHT COMMITTEE MEETING
MEETING ATTENDEES
MAY 29, 2024

PLEASE PRINT

Individual's Name	Company / Agency
Cheryl Kopas	CAR Staff
Tiffany Manning	CAR Staff
Katy Proctor	CAR Staff
James Robery	CAR Staff
Lynne Rosenburg	CAR Staff
Evan Ross	CAR Staff
Robin Tigges	CAR Staff