



COMMONWEALTH AUTOMOBILE REINSURERS

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RALPH A. IANNACO
President

BUSINESS TRANSCRIPT OF MEETING

COMMERCIAL RFP SELECTION COMMITTEE

A meeting of the Commercial RFP Selection Committee was held at the offices of Commonwealth Automobile Reinsurers, 100 Summer Street, Boston, Massachusetts, on

THURSDAY, MARCH 17, 2005 AT 10:00 A.M.

Committee Members present –

Mr. David J. Lane – Chairman
NetCare Services, Inc.

Mr. Michael L. Faron
Mr. Francis A. Mancini
Mr. James J. Tarpey
Mr. William J. Whitebone
Mr. Robert D. Woods, Jr.

Norfolk & Dedham Group
Mass. Association of Insurance Agents
Tarpey Insurance Group, Inc.
Quincy Mutual Fire Insurance Company
OneBeacon Insurance

Substituted for:
N/A

Not in Attendance:
N/A

PROCEEDINGS

(Meeting started at 10:01 a.m.)

CSC

05.03 Commercial Servicing Carrier Selection

- Mr. Lane: I'm going to briefly go through the procedure in case anybody wasn't here Tuesday. I'm going to ask each member of the committee to give their name, title, company and their discipline, and the staff is going to introduce themselves. And I'll start with you, Frank.
- Mr. Mancini: Frank Mancini, President and CEO of the Mass. Agents Association.
- Mr. Tarpey: Jim Tarpey, Tarpey Insurance.
- Mr. Whitebone: Bill Whitebone, Vice President of Marketing with Quincy Mutual.
- Mr. Faron: Mike Faron, Commercial Lines and Business Unit Manager, Norfolk & Dedham.
- Mr. Woods: Bob Woods, Vice President of Claims, OneBeacon.
- Mr. Lane: Dave Lane, oh, I'm sorry, go ahead. I was doing the committee members first and then the staff.
- Ms. Gedziun: Valerie Gedziun, Vice President, Claims, CAR.
- Mr. Dalton: Richard Dalton, CAR staff.
- Ms. Wallace: Pam Wallace, Director of Data Quality Services.
- Mr. Lane: Dave Lane, Chairman, NetCare Services Agency. Everybody knows the allotment of their time, 20 minutes for the presenters and 40 minutes for the questions. And we want everyone to speak to the microphones, so we have a transcript and also identify yourself when you're answering a question or asking a question. That is, just with your name so that those who are doing the transcription will be sure that they understand who's talking. And the rules for asking questions will be that I'll go around the table and each member of the committee will ask questions and any follow-up questions that need to be asked by them. And there's no audience participation in this bid review process. That's the way we did it in the Taxi RFP Program, and we'll continue to be consistent in that. On the other hand, all of the bidders have an opportunity tomorrow morning, up to ten minutes of oral comments, if they want to add anything to what they've said today or they want to rebut anything that was said today. So, at the beginning of tomorrow's meeting, any of the bidders who want to comment can do that verbally with up to ten minutes of time. And, therefore, we have covered all of the processes and we will now start the

process here. I believe Safety is the first one to make a presentation today. Who's starting that?

Mr. Cranney:

Good morning, Mr. Chairman, committee members, and CAR staff. My name is Mike Cranney. I am the Director of Commercial Underwriting and Product Development for Safety Insurance. To my right is Paul Narciso. He is a Claims Director for Safety as well. We will be presenting today. Other members who are sitting up here with me who will answer your questions, or help us answer questions, is: Steve Varga. Steve is the MIS Development Director; Ray Sirois is the Director of Marketing; Glenn Hiltbold, he is the Actuarial Director; Dan Crimmins, the Vice President of Marketing and Commercial Operations; and Ed Patrick, who is the Vice President of Underwriting. Since our founding in 1979, Safety Insurance has become a preferred provider of property and casualty insurance in the Commonwealth of Massachusetts, mainly because we're focused on the needs of independent agents and their customers. Our office is located at 25 Custom House Street in Boston, Massachusetts. Safety is the fourth largest commercial auto carrier in the state and the second largest personal lines auto provider. Today, Safety is a multi-line company providing coverage for both personal and commercial risks. Safety has an A, excellent rating from Best, as indicated in AM Best, November 30, 2004 rating. And we have provided a market for commercial auto of Massachusetts for both Exclusive Representative Producers and voluntary agents for over 20 years. During that time, we have developed an experienced commercial underwriting, rating, claims, and system staff to meet the needs of our agents and our insureds. Being a capable Massachusetts insurer, we are eager to continue to provide a major role in Massachusetts' commercial auto market.

Our Commercial Lines Department is an experienced staff who are dedicated and reasonable underwriters. The staff is comprised of a Director of Commercial Underwriting, who has over 25 years of underwriting experience, two team leaders with over 20 years of underwriting experience, eight underwriters with commercial underwriting experience ranging from over 25 years to 5 years. We also have a Commercial Processing Manager who oversees a Product Development Specialist, a Commercial Auto Analyst, a Commercial Auto Rater and five Policy Production Specialists. Agents are assigned to underwriters. Team leaders have less volume so they can oversee the timeliness of the processing and act as a resource for underwriters within their team and the department. We do expect to promote a higher experienced personnel to meet any need that a Limiting Servicing Carrier appointment may create. Agents submit applications to Safety by fax, mail or e-mail, and they are distributed to their assigned underwriters. Safety provides an online rating capability to our agents, which is available through the agents' Virtual Community Network. The software is easy to use; it provides underwriting edits and allows the agents to complete an application online. Once completed, the information is forwarded to the Underwriting Department for processing.

All new business received is date-stamped, logged into an Access database and the driving records are verified with the Registry. Once complete, the applications are distributed to the underwriters based on the agency assignments. Applications are reviewed for completeness, checking items such as effective date, limits, proper classification and loss information. Underwriters also review all expiring policies, at least 90 days in advance, to identify those policies which could, or should be taken out of CAR.

Our Loss Control Services we provide through three vendors, with the territories broken out geographically. Each vendor will offer services beyond the inspection services for an insured at our request. Once a policy is written, and if a claim issue arises, the underwriter is notified directly by the handling adjuster through our TIPS program. The underwriter reviews the information and contacts the agent if a change to the policy is needed or, if warranted, the underwriter involves a loss control company for an inspection or a re-inspection of the risk. When problems arise with claims, the Underwriting and Claims Department work closely by phone or e-mail to resolve any issue. Safety has 556 agents which are serviced by 6 marketing people who work with the agents on an ongoing basis. If Safety is chosen to be a Limited Servicing Carrier, the Marketing Department and the Underwriting Department will work together, through a series of agency visitations, to help educate the agents. Safety also provides customer relation managers, or CRMs, who are in the field to assist agents who have trouble with Safety's AVC software. We also have some tech teams in the field to assist agents when hardware issues develop with any hardware that Safety is responsible for.

Safety provides agents with the Agents Virtual Community, known as AVC, that can be accessed on the agent's desktop. With this site, our agents can access forms and all Safety manuals via internet. There are other applications which can be accessed through AVC which are mutually beneficial. Some of them are: Power Desk, which is used as an inquiry tool that puts policies and claims information at the agent's fingertips; appraisal application, an appraisal company can receive a field appraisal assignment within seconds after a claim is set up; Radical Glass which is a glass-only claims format that can be set up by using the application on the AVC; and E-View. E-View is where all agents' transactions from a prior day are displayed on the web page for them. This includes: new claims reports, new business transactions, as well as endorsements. From an underwriting point of view, we strive to create a good relationship with our agents, offer reasonable markets, assist them through the desktop applications. Some of those, which I just indicated, can be a major resource, if possible. Now, I'd like Paul to speak about the claims end of it.

Mr. Narciso:

Paul Narciso, Claims Director, Safety Insurance. Good morning. Safety Insurance's Claims Management staff is comprised of dedicated individuals averaging more than 15 years of experience in the handling of insurance claims. A management-to-staff ratio allows managers to be an integral part of the claims process. Management oversight of adjuster

activities ensures prompt settlement of valid claims by identifying questionable cases for further scrutiny. Safety's Workload Management System enables its adjusters to prioritize activities associated with their claims investigations. At the same time, managers use the software to monitor and track adjuster compliance. Through our agents, all policyholders are being instructed to report their claims directly to Safety via telephone. A staff of experienced adjusters will screen all new losses for potential coverage defenses and fraudulent activity. Reports received from parties other than Safety policyholders are set up and the insured is contacted immediately for purposes of gathering data and information verification.

The use of proprietary claim software, which minimizes a claims handler's data entry, results in more accurate and consistent collection of information enabling our staff to process losses efficiently through the use of automated system triggers. This will ensure prompt adjuster follow-up and accurate file disposition. A variety of computer-generated alert and security reports will be distributed daily to adjusters and managers. These are designed to assist with completing timely investigations, maintaining proper reserving levels and ensuring appropriateness of claim payments. Additionally, adjusters using an in-house fraud-screening software program, which represents data on each policyholder in a consolidated format, including operator information, principal place of garaging, prior losses, bill payment history and other underwriting information that may be pertinent to the claim. Suspicious claims will be targeted for referral to Safety's SIU. Where cost-justified, the services of external experts will be used in claims investigations, and denials will be pursued vigorously based on the merits of each case.

All adjusters receive initial and ongoing training on a variety of topics. Safety administers web-based training programs to its claims staff, in addition to using other traditional in-house resources, including two full-time dedicated claim trainers, as well as external vendors. Claims must be reviewed and investigated timely to meet various company and industry standards for initial contacts, assignment, and liability damages investigations. Adjusters use external services whenever expert investigations and reviews such as forensics, accident reconstructions and medical examinations are necessary and cost-justified. Investigative reports are obtained when necessary and/or required.

Safety's SIU Department is called upon to handle suspicious claims when their expertise is needed to resolve claims with fraudulent undertones. Safety institutes aggressive fraud recognition, referral and investigation principles from the outset of the report of all new claims. We have implemented direct reporting of claims from policyholders in order to gather all available information at the inception of the claims process. This allows our adjusting staff to recognize premium issues such as unlisted operators, potential garaging issues and inconsistent facts of losses. We've developed software which allows the handling adjuster to interactively view detailed prior loss information in our database for potential fraud patterns and indicators such as, loss dates in close

proximity to policy inception, recent endorsements adding or increasing coverage, operator issues, similarity of loss descriptions or loss locations to prior losses, multiple comprehensive losses, and garaging discrepancies. Management reviews all SIU claims at the conclusion of the investigation and either approves or denies any denial, settlement or compromise recommendations. Our SIU Unit is staffed with field investigators of varied backgrounds in casualty, property and law enforcement areas. The adjusting staff works in conjunction with independent investigators who supplement our available resources.

Safety aggressively utilizes forensic experts in accident reconstructions on minimal impact and inconsistent damage losses. We utilize SIU defense attorneys in securing examinations under oath, where appropriate, on first-party coverages and requesting voluntary examinations on third-party claims. Litigation files are handled by a designated group of adjusters whose experienced levels in the industry range from 10 to over 25 years. In addition, 75% of our existing litigation adjusting staff has prior claims management experience with other Massachusetts carriers. The staff reports to two unit managers with over 42 years of combined claims experience. We have implemented appropriate cost-containment measures with respect to our investigation expenses to ensure management review. We have definitive practices in place on the utilization of forensic experts and judicious use of vendors for foreign language statements. Safety has several programs to control litigation costs. They include semi-annual audits to ensure billing propriety and semi-annual reports are produced on each firm measuring their efficiency. These results are reviewed with respected defense firms.

Safety utilizes the services of an in-house defense counsel office, staffed with experienced attorneys and legal support staff. A senior management level trial attorney with 17 years of insurance defense work experience manages this operation. Safety's commitment as a Massachusetts-only insurer allows us to direct our litigation philosophies, policies and procedures to meet the unique issues presented in the Commonwealth judicial system, maximizing our claims' severity mitigation efforts. Safety has a dedicated Subrogation Department, staffed with experienced recovery specialists, negotiators and arbitrators. Our Subrogation Department's mission is to maximize Safety's subrogation recoveries and mitigate adverse subrogation payments by effective negotiation of comparative negligence and utilization of SIU defenses. The work environment is highly automated with software providing an electronic file from claims set-up to recovery.

Safety dedicates two full-time positions within its Casualty Claims Department for the auditing of all internal and regulatory standards compliance. In addition, our Internal Audit Division oversees specific areas of the claims' operations and reports directly to the executive level of the company. The effectiveness of Safety's policies and procedures and commitment to quality file-handling practices are demonstrated by our historical performance on CAR SIU and file audits. Claims adjusters refer situations discovered during the course of their investigation to our

Underwriting Department via Safety's automated TIP Sheet program. This provides a quick and easy method for adjusters and underwriters to communicate issues which may affect premium or coverage. Our software enables immediate notification between claims and underwriting when information is uncovered involving a potential adjustment in premium. The principal place of garaging and unlisted operators are just some of the issues that claims adjusters communicate to the Underwriting Department in investigating this interactive environment to determine if the appropriate premium is being charged to the risk. Potential claim denials will be pursued where material misrepresentation is determined, resulting in cost savings.

In conclusion, Safety Insurance is an A-rated carrier by Best and is presently the fourth-largest commercial auto provider and second-largest personal auto carrier in the Commonwealth. We are a strong, vibrant, innovative carrier committed to the Commonwealth and, presently, a Servicing Carrier for CAR. Safety Insurance is fully committed and wholly capable of devoting the appropriate resources required to meet CAR's requirements...

Mr. Lane: Five more minutes.

Mr. Narciso: as spelled out in their Request for Proposal. Safety Insurance respectfully requests this committee's consideration for selection as a Limited Commercial Servicing Carrier based on our place in the market, our knowledge of the product and programs, our continued pursuit of cost-efficient ways of doing business and our support for this program. Thank you for the opportunity to present our proposal.

Mr. Lane: Anyone else? We'll start with the questions with Frank Mancini.

Mr. Mancini: Thanks, Dave. Mike, you had mentioned, I think you had 556 agents, licensed, is that it?

Mr. Cranney: Correct.

Mr. Mancini: Do they all write commercial auto for you? Are they all licensed to write commercial auto? Is that part of their contract?

Mr. Cranney: Yes.

Mr. Mancini: Does that include ERPs, assigned ERPs, that 556?

Mr. Cranney: Yes.

Mr. Mancini: Anyone can answer. You had mentioned that if you're chosen, you would begin some agent training. Could you just explain a little bit, in detail, about how you see that training playing out?

Mr. Cranney: Ray, I think you better handle that.

Mr. Sirois: Sure. Basically, as far as, from a training perspective...

Mr. Lane: Would you please repeat your name.

Mr. Sirois: Oh, I'm sorry. Ray Sirois, Marketing, Safety. Sorry about that. We have 6 marketing managers on the road. We have 5 CRM managers on the road and we have 3 technical managers on the road, for a total of 14 people. Basically, we would—all our manuals are online, so we would provide on-line activity for the agent. In addition, these road folks would be out there visiting these agents and reviewing the manual, the submission procedures, the claims procedures, the billing procedures with all these.

Mr. Mancini: As I think you guys all know, one of the goals of this program is to de-populate the pool and look at some of your figures and, currently, you do write some of your ERP business on a voluntary basis. Do you see that continuing? Do you see possibly agents that you're assigned to as a Servicing Carrier becoming voluntary agents for Safety?

Mr. Cranney: We're going to continue to de-populate as much as we can with those agents that are assigned to us by underwriting the risk. As far as, from the agency perspective, whether they're going to turn out to be voluntary agents over time, if that's the question, I do suppose that that could occur as time goes on.

(Unidentified) It will occur.

(Unidentified) You know we've been an aggressive voluntary contract. So that will happen, yes.

Mr. Mancini: That's it for this round.

Mr. Lane: Jim, Jim Tarpey?

Mr. Tarpey: I'm well aware of the company—Jim Tarpey—I'm well aware of the company and I don't have any questions.

Mr. Whitebone: Bill Whitebone, Quincy Mutual. A few questions, a few of mine have already been answered. But, do you have an upload and download program that would be available to these ERPs?

Mr. Lane: Steve?

Mr. Varga: Steve Varga. I don't believe there actually, there actually isn't an uploaded program. There is not, no.

Mr. Whitebone: There isn't at this point? Okay. Who's your staff reporting agent? Do you do it yourself, or do you have an outside statistical reporting agency.

Mr. Varga: We do it ourselves.

Mr. Whitebone: You do it yourselves. Okay.

Mr. Lane: I didn't get the answer.

Mr. Varga: We do it ourselves.

Mr. Whitebone: As far as the basis for the bid is concerned, is it kind of a compilation of buyout programs you have as well as your own in-house commercial program currently?

Mr. Cranney: In terms of the bid, it was more looking at our internal expenses for the commercial auto program in general.

Mr. Whitebone: You have drive-in claims services obviously?

(Unidentified) Yes, we do.

Mr. Whitebone: And one last question. I mentioned, and I saw in the reading here, that you have a rehab program in place for agents. Would this be applicable for high loss ratio agents? Would that be applicable to this program, too?

(Unidentified) Yes. It would definitely be.

Mr. Whitebone: Thank you.

Mr. Lane: Michael Faron?

Mr. Faron: Mike Faron, Norfolk & Dedham. One of the things I noticed in your proposal, relative to some of the other bidders, is that the ratio of premium to loss control representatives was significantly higher. And I was wondering if you felt with what you're providing in the proposal that you have sufficient loss control measures in place to provide improved efficiencies over the existing system that we have in place?

Mr. Cranney: As far as the loss control situation is concerned, we do use vendors and we are in the midst of negotiating with yet one more to assist us in loss control measures. So that will increase as time goes on.

Mr. Faron: And another question I had is, do you feel with the Limited Servicing Carrier system proposed, you could bring efficiencies to the marketplace on the underwriting side over what currently exists, and, if so, how?

Mr. Cranney: The efficiencies that we could bring is more than likely to bring in our AVC and those types of efficiencies where an agent can go online and view their policies and give endorsements after the policies are issued. We can (inaudible) the rating software we have. In other words, all of the software we have available to the agents now, we can give the, probably give the ERPs or the agents who are assigned, if were so assigned. That should help the efficiency from an underwriting perspective to get the policies in quicker, even though services, they can get it to the underwriter for review and assistance to try to underwrite the risk and

maybe take some of the risks out, de-populate if you will. Does that answer your question?

Mr. Faron: Thank you. That's all.

Mr. Lane: Okay. Bob Woods?

Mr. Woods: Bob Woods, OneBeacon. Just a few questions, actually, but the first one—and I must have missed it, but online processing by the agents, you do not have that capacity for the commercial lines? Did I hear that correctly?

Mr. Varga: That's right. They're actually isn't—there isn't any upload now, no.

Mr. Woods: Is it planned in the future?

Mr. Varga: A (inaudible) plan, yes, but there isn't any timeline yet.

Mr. Woods: And a couple of claim questions: Certainly, as I read through the proposal, a couple of questions jumped out and it pertains to Paul, shared operations between personal lines and commercial lines. So for appraisers, SIU, are those shared functions and do they use the same staff for personal and commercial?

(Unidentified) Yes.

Mr. Woods: And radical glass, that's something different?

Mr. Narciso: Radical?

Mr. Woods: Radical. What are you finding for a repair rate with radical glass currently in your program, and it could be personal, commercial, whatever numbers you have available.

Mr. Narciso: We've just rolled out radical glass. I can tell you that, year-to-date, in 2005, our overall windshield repair rate is about 2.5%. Our hope is that radical glass is going to improve those numbers. The goal is 9% or 10%; that's what we're already looking for.

Mr. Woods: Panel usage, you mentioned a strong staff panel, staff counsel operation. Do you use panel council as well?

Mr. Narciso: By panel council...

Mr. Woods: I mean, outside firms.

Mr. Narciso: Yes, yes, we use numerous outside firms as well.

Mr. Woods: And is there a percentage break between staff and outside?

- Mr. Narciso: As time goes on, it's less and less of a reliance on outside staff as we build up our, we're constantly adding to staff in terms of our own in-house council. I don't know the exact split at this point.
- Mr. Woods: I have no further questions at this time, David.
- Mr. Lane: Dave Lane, NetCare Services. Being an exclusively Massachusetts company, how do you propose to handle risks that might be nationwide—long-haul trucking, buses, that sort of thing? I'm sure that you've thought about that and have got a plan but I'd like to hear more about that.
- Mr. Cranney: From an underwriting perspective, if the risk is registered in Massachusetts, of course, we have to insure it, despite it going out of state. As far as loss control terminals and things like that, with the loss control companies that we've ended up with, they're our vendors right now. They do have access to out-of-state loss control facilities to help us out. And, basically, that would be the way that we would be handling it is through loss control, people outside, by the vendors.
- Mr. Lane: What about claims?
- Mr. Narciso: From a claims standpoint, we currently handle out-of-state claims. All New England claims, we have adjusters with licenses who would handle them out of the Boston office. We do have third-party administrators who would handle losses in states where we do not have licenses. And through them, we have appraisal services, we do now in terms of servicing the claims that happen out of state, so we'd be able to continue with that.
- Mr. Lane: Do you visualize adding more vendors to cover more, larger territories?
- Mr. Narciso: The vendor we currently have covers all of the states. They have a presence in all of the states and, certainly, that would be something that we would have to continually review as this develops.
- Mr. Lane: Okay. Frank, do you have some more—Frank Mancini?
- Mr. Mancini: Yeah, Frank Mancini, Mass. Agents. I'll leave it to any of you to answer this question. Massachusetts has probably, if not the highest, one of the highest rates of business being written in the residual market on the commercial side. Do you have any thoughts on why that might be? And do you see this program as reducing that?
- Mr. Lane: Dan?
- Mr. Crimmins: Dan Crimmins, I'd like to answer that if I could, Frank. I think it really comes down to the risk itself, not necessarily the agent, while you can train the agent. The risk itself, if it doesn't fit a certain grid, it ends up getting ceded. I don't think you can make money on it. The beauty of a good commercial operation is that, through good underwriting, through good loss control, through good pricing, you can turn a risk that is

mediocre into a good risk with the cooperation of the insured. And I think that's what we intend to do. That's what we do now, and that's what we intend to do in the future so that we can, not have to cede a lot of business. Why do you want to cede a piece of business that you can change and make a good risk?

Mr. Lane: Okay. Does that answer your question?

Mr. Mancini: Yeah.

Mr. Lane: Okay. Jim?

Mr. Tarpey: I'll pass.

Mr. Whitebone: Bill Whitebone, Quincy Mutual. Just one question, from a staffing standpoint, will you do this with current staff or will you add the staff if you should become a carrier for the program?

Mr. Cranney: From an underwriting perspective, we would add staff where needed. So we would add staff, if necessary.

Mr. Whitebone: Thank you.

Mr. Faron: Mike Faron, Norfolk & Dedham. Do you have a preference as to the number of carriers participating in the Limited Servicing Carrier program? Do you think it's better with more or on the lower side?

Mr. Patrick: Ed Patrick, Safety. I know in the bid we put down a preference for nine, so I'll give you two answers. For eliminating market disruption, the higher the better for the agents. If you're talking about the decision you guys have to make, based upon the carriers that bid, you want to go with the companies that gave you the best bids, the strongest financially, which might, in fact, be a smaller number. But if you're just talking about disruption to the agents, you have to go with a higher number. So my preference would be, I guess only 8 people bid, so 7, 8 or 9.

Mr. Faron: Thank you.

Mr. Lane: Bob?

Mr. Woods: Bob Woods, OneBeacon. Just a couple of questions, you mentioned your VAC system and that agents having the ability of reviewing the claim notes, is that complete notes? Or is it a limited sub-set of notes they're able to view online?

Mr. Varga: Steve Varga. Actually, we have access up to one month's worth of the notepad.

Mr. Woods: Excellent. And a follow-up question. Obviously, as an independent agency company, you mentioned direct reporting of first notice of loss.

How successful have you been with that with the agents, accounts percentage rate? Any resistance to that?

Mr. Narciso: I mean, from the claims perspective, we've had very good success in terms of the results from taking claims over the phone, making sure that we're getting as much information from the person who is reporting the loss as possible.

Mr. Woods: Maybe I should re-word the question: What percentage are you taking today over the telephone versus agents sent them in?

(Unidentified) It's up about 90% now. Like any new program, it takes time. What we do is we have a monthly report that tells us, by agent, what percentage are being conformed. We send the CRM people out and we use them to get more compliance. It grows. It takes time, but it grows. We're up about 90% now.

Mr. Woods: Thank you.

Mr. Lane: Dave Lane, NetCare Services. It seems that you have a good underwriting procedure for making sure you understand the risk and underwrite it properly and decide whether it should be ceded or not ceded. Do you do any pre-audits on exposures that aren't vehicle exposures such as cost of fire and that sort of thing? To make sure you've got the right premium for risks, new risks that are presented to your company?

Mr. Cranney: Pre—no post—we'll do audits only on occasion for those cost-of-hire situations that may occur. We have an auditing—we have a vendor that does our auditing for us.

Mr. Lane: But you don't do that as a routine matter on all risks that are in that class?

Mr. Cranney: That are in that class?

Mr. Lane: That are in that class or any other way you don't have vehicle exposures to determine whether or not the exposures that are given to you are correct when they make the application?

Mr. Cranney: Yes.

Mr. Lane: Do you do that for all risks or you do it only for a few?

Mr. Cranney: We do it for those risks that need it to be done. You have risks that come in and for non-owned situations or hired situations, it's the (inaudible), if any, or something like that. If that's the question here, then what we normally do, we take a look at the number of vehicles, the type of risk it is, and we will audit it as necessary.

Mr. Lane: So when you're deciding whether to take the risk as a voluntary risk or a ceded risk, you're not sure what the right premium is unless you do that, is that correct?

Mr. Cranney: Unless we do that, that's correct. We would have to do that.

Mr. Lane: Okay. The other question I had is, what does your company think is the biggest challenge to implementing this program with respect to your company and the industry as a whole?

Mr. Cranney: I think it would be the market disruption, that type of situation that we stated earlier. It'd be probably the most important thing, most concerning thing.

Mr. Lane: And in the long run, do you think this is going to work and make the commercial automobile situation better for the policyholders and the industry?

Mr. Cranney: Yes, because I think it would help de-populate the facility, for one thing. And the other thing is I think it will give some agents the opportunity, instead of putting something in CAR right away, they will have the opportunity probably to put it in with another carrier, because I think it will attract more carriers to this state, once this thing gets just rolling, so to speak.

Mr. Lane: That ends that line of questioning. Do you...

Mr. Mancini: I'm all set. Thank you.

(Unidentified) All set?

Mr. Whitebone: Bill Whitebone. Just one quick question: You get to have a 24-hour claim service available to this program?

Mr. Narciso: We have the capability. We don't have it active at this point in time, but we do have that capability. We've used it in the past, but currently we do not have it.

Mr. Whitebone: No further questions.

Mr. Lane: Bob?

Mr. Woods: No further questions, thank you.

Mr. Lane: With respect to that question of 24-hour claims service. Are you committed to having it available if you're selected as a Servicing Carrier, Limited Servicing Carrier?

Mr. Narciso: It would be something we would definitely look at. Again, we have the infrastructure in place, and we do have a service, in essence, that takes down the information. But it's not interactive in terms of setting up the claim. That would be, obviously, something we would look at.

Mr. Lane: You're not willing to commit to doing that?

Mr. Narciso: Yeah, we're willing to commit to it.

Mr. Lane: I have one more question here. What do you think your company brings to this program that other companies who are bidding might not, something special that you do, unique?

(Unidentified) Do you want to answer it?

Mr. Cranney: Yeah. I think we're a very professional company. We have a lot of experience in commercial lines. We're people of integrity. We're hard-working people. And I think we bring to the table an expertise that is needed in the marketplace and we're very willing to bring up the level, a lot of agents who may not be real knowledgeable in commercial lines to the various training programs and the feedback we will give. Safety's a true performer, and we'll continue to be a true performer.

Mr. Lane: No other questions from any of the other members?

Mr. Woods: No.

Mr. Lane: Thank you. We appreciate the time that you spent here. We'll have a ten-minute break. The next presenter will start at quarter of eleven. Are they here?

(Committee recessed from 10:39 a.m. until 10:50 a.m.)

Mr. Driscoll: Good morning, everyone. Mr. Chairman, members of the committee, thank you for the opportunity for Liberty Mutual to present to you this morning in connection with the CAR Limited Servicing Carrier new arrangement. With me today, I have several people from various areas of expertise within Liberty Mutual.

Mr. Lane: Do you want to introduce yourself?

Mr. Driscoll: I'm sorry, I'll start there. This is Tom Driscoll from Liberty Mutual. I'm Senior Vice President and General Manager of Liberty Mutual's Involuntary Market Services Operations Business Unit. With me today are Hans Hagen, who is the Manager of Operations for our Involuntary Market Services; Cindy Sickler, to my right, who is the Product Manager for Involuntary Market Services, responsible for overseeing our service commitments, both as we make them and, then, as we follow through with them. To my left is Kelly Pappas. She is Director of Technical Claims in our Claims Operation in Weston, Massachusetts. To my right, over here, immediate right is Charlie Echols, who is the Manager of our Commercial Auto Operations in Involuntary Market Services. And, finally, on the far right over here, is Brian Clark from our Loss Prevention Operations, our Product Director of Technology. I know you've had the opportunity to read through eight scintillating proposals. I don't envy you that. I'm going to hit some high points regarding what we believe are our strengths in connection with this opportunity here in Massachusetts. And

when we get through with that, I will open things up to questions from you.

With that, who is Liberty Mutual? Well, we're the largest domestic property casualty carrier in Massachusetts. In 2004, we had over \$19 billion of premium worldwide. We are the sixth largest commercial automobile insurer in the United States, with over a billion dollars worth of premium in 2004, representing over 4%, nearly 4% of the total market. And as for involuntary market service business, we're currently a commercial auto service carrier in 24 states across the country, including Massachusetts, with over \$90 million of premium in service and over 11,000 policies. We currently have over 3,900 Massachusetts employees among our 30,000 employees around the world, and we have an AM Best rating of A and we have over \$8 billion worth of surplus. So we have substantial commercial and operational resources, demonstrated experience in writing and servicing commercial auto business across the country, both voluntary and involuntary, as well as in Massachusetts, and we have nation-wide service capabilities.

Liberty is an experienced results-oriented commercial automobile carrier. We've been an industry leader in accident prevention and safety. We'll come back to more detail on that in a few moments. We've also had a dedicated residual market service business unit for commercial lines since 1993. We understand the unique aspects of this business, and in recognizing those aspects, we decided that it was more appropriate to segregate that business from our voluntary market in the commercial area and set up specific underwriting operations to handle that business. The remainder of our operations, claims, loss prevention, auditing, are all integrated with our voluntary market service. But the underwriting operations are segregated because, frankly, it's a different animal than our voluntary market.

We have a direct interest in cost-effective and high-quality service. We are a participant in the Mass. CAR results for Commercial Auto, as we are in other states where we are a commercial auto servicing carrier. That gives us an obvious and direct financial interest in the results that we're producing. But over and above that, all of our policyholders are Liberty Mutual policyholders and so it's important to us that they feel that they're getting high-quality service, regardless of how they make their way onto our books. As I mentioned already, we have over a billion dollars worth of commercial automobile premium nation-wide and, currently, are a Servicing Carrier in 24 states. Our underwriting operations—I'm sorry, the claims operation, the claims leader has over 18 years of experience in claims and commercial auto. He has both, he has a legal degree. All of our claims staff is Massachusetts-based and focused in this state and we are electronically linked, our Claims Department with our Auditing, Loss Prevention and Underwriting staff, in order to share information that might bear on any of those areas. As already mentioned, the staff is located in Weston.

Liberty structures its claims handling in what we call "a segmentation approach." Basically, we recognize that different types of claims have different levels of complexity and require different levels of experience and handling. So rather than some other approaches that other carriers may utilize, we segment our claims handling based on claims complexity. When a claim arrives, it goes to what we call our CCU, our Claims Creation Unit. The Claims Creation Unit evaluates the facts of the claim, gets a full evaluation of the claim directly from the policyholder or the claimant and, then, from that information makes a decision immediately as to where that claim should be segmented. Property damage claims, physical damage claims, which are of small complexity and may require less experienced handling, go to what we call our Fast Track Unit. Claims that require more experienced handling, perhaps moderate bodily injury claims, would be assigned to what we call our Claims Service Teams. And, then, finally, the highly-complex bodily injury liability claims, they would go to what we call our Complex Unit. So, again, what we're trying to do here is match experience with the claim based on complexity, so that we're having the right personnel doing the work on the right kinds of claims.

Controlling claim costs is a critical part of what we do. As I mentioned, our involuntary market business is handled by the same claims people that handle our voluntary market business and, obviously, we have an interest in working with our policyholders to keep their claims down. On our voluntary side, that same attention and the same interest applies with our involuntary market customers as well. Our claims staff works with our underwriting and loss prevention staffs. They do loss-trend analysis. If they see an unusual trend with a particular policyholder or among groups of policyholders, we have a process of notifying the Underwriting Department and informing them that there is possibly some suspicious activity here. Or there's simply a trend that might suggest that loss prevention get involved and be more active with this policyholder or types of policyholders. When we have a large claim or particularly severe claims, there is also then immediate notification to the Loss Prevention Department for evaluation of that individual claim and the circumstances around it. What are the safety implications for that particular policyholder and also potential safety implications for other policyholders with similar circumstances?

We have 35 fully-licensed Massachusetts physical damage appraisers. We offer drive-in appraisals. We have approved body shops and repair programs. We have a centralized Subrogation Unit. Again, both on behalf of our customers and on behalf of the participants in the involuntary markets that we service around the country, we think that subrogation is an appropriate way to reduce claim costs when another party can be held liable for all their portion of the claim. We have centralized that unit in recent years and we've been very successful in our subrogation efforts. We also have internal litigation protocols designed around maximizing litigation resources and minimizing litigation costs. We have 50 Massachusetts attorneys that are on Liberty Mutual's staff and handle the majority of our Liberty Mutual claims within

Massachusetts. We also have over 400 attorneys around the country that are available to handle claims in other states. Again, I think among the bidders that you have heard from over the two days of presentations, we have a different approach in that we have this national claims presence. We have people in the Midwest that know the Midwest jurisdictions, so if a customer with a national spread has a claim in those areas, we have the jurisdictional expertise to handle those claims whenever they arise.

In addition to having our own in-house staff, we are very focused on direct-dealing with our customers, and that carries all the way through our claims handling. We want to stay directly in touch with the claimant. To the extent that we can deal directly with the claimant and keep the claim out of litigation, we're going to keep the claim costs down. And that doesn't necessarily mean it's going to happen at the expense of the claimant. So direct dealing in our Claims Operation is something that we think is important, and it carries right through to our litigation management. As with all of the bidders, Liberty Mutual has a focused anti-fraud effort. Fraud begins from initial claims training and carries through all of what we do. We use ISO's first-page database online fraud evaluation system in our claims process. We have specialized training with our Claims Operation to identify and detect fraud. We have 11 Massachusetts-based field investigators, accessible 24 hours to respond to accidents as needed, as well as to investigate claims after an accident has occurred. We have a dedicated toll-free hotline for tips for fraud here in Massachusetts. And we also offer literature and marketing materials to our customers to help them identify and prevent claims fraud.

Turning to underwriting, again, we have proven Mass. CAR service experience. We've been a Servicing Carrier for Mass. CAR for many years, and we are today, and we have unparalleled national presence in terms of our capabilities in underwriting business regardless of where it arises. And our focus is to make sure that we are collecting the accurate premium from the customer so that not only the customer but also the residual market is receiving the premium that is appropriate for the risk that we're assuming. Our current management team for our Involuntary Market Services Unit has an average of 12 years of experience with involuntary market business. We've been a leader in developing underwriting standards around the country, working with the commercial auto plans in several states as well as with AIPSO down in Johnston, Rhode Island.

And our underwriting staff is electronically linked with claims, loss prevention and auditing, so that we can share information on a timely and accurate basis where we think those other departments should be notified. We have dedicated residual market underwriting. This is a different animal. Understanding that Liberty Mutual, historically, had been a direct-writing company, when our customers are initially (inaudible) to us, the agency contacted an application; it's a very different environment in the underwriting arena. We understand that and we take special steps to make sure that we work with the customer and with the agent to get all the appropriate information necessary to properly underwrite the risk.

Again, both for the risk's interest in paying the appropriate premium and for CAR's interest in making sure that the residual market is receiving the funding it should for the exposure it's assuming. We have toll-free customer service available to our customers and agents.

As mentioned, we have specialized protocols designed for the residual market. We have a diverse set of tools, including actively using things that might be obvious like, MVRs, but also by utilizing things like the Department of Transportation's Safer System, which allows us to go online utilizing the Department of Transportation system and evaluating our risk in terms of the information that they have filed with the federal government. This gives us a fairly unbiased view of our customers' operations because this is information that they've provided. If it's accurate and what they have provided us previously is not, they're hard-pressed to explain away why they've reported one thing to us and one thing to the federal government. Renewal quotes are prepared considering driver info and prior claims history. And we have pro-active claims interaction when we see significant loss trends in connection with our customers. We have a quality-control process to measure just how good a job we're doing in our underwriting operations. We had over 600 file reviews in 2004, with a 97% accuracy rate, and we utilize these not only to evaluate the performance of individual underwriters but also to evaluate the quality of our training and our process. If we uncover issues that go across a team or go beyond an individual, we may have training issues or process issues that we need to address that go beyond an individual's performance.

And premium fraud detection is an area that we're particularly proud of. Liberty Mutual has been a leader in premium fraud efforts throughout the country and here in Massachusetts. We have a 25-year Liberty Mutual employee who is the leader of our Premium Fraud Special Investigations Unit, located here in Boston. We have 10 people on our Premium Fraud investigative staff, 5 of whom are located on-site with our underwriters to take referrals directly from them and do the kinds of special fraud investigation that allows us to identify whether or not we have a fraud case. And, depending upon the information that's uncovered, we, obviously, begin with trying to make sure that the customer pays the appropriate premium. But in cases of significant fraud, we will refer cases to the Fraud Bureau here in Massachusetts and in other states and we've also had civil and criminal litigation against customers where there has been significant fraud identified.

Loss prevention, again, is an area in which Liberty Mutual is particularly proud and, we believe, uniquely capable of servicing this market. All of our loss prevention staff are our Liberty Mutual staff. We do not use any outside vendors. In the past, where, because of volume, volume fluctuations or, perhaps, geographical challenges, we have needed additional staff. We have looked to retired loss prevention representatives to come back and work with us to fill in the gaps. So we are entirely Liberty Mutual staffed in that area. And we're a recognized leader in highway and safety and workplace safety. Many of you may remember

the Liberty Mutual survival cars in advertisements back in the '60s. We have tested anti-lock brakes, we have tested seatbelts, we have tested airbags. We have been involved in many, many highway and auto safety initiatives over the years.

We're also very proud of our Liberty Mutual Research Center for Safety and Health in Hopkinton, Massachusetts. It's a 94,000-square foot facility dedicated solely to safety research and analysis. It includes a skid plan, which we utilize for driver training for truckers as well as for the other vehicle drivers. We have done research in back injury and out of our research facility come a number of the techniques and the recommendations that we utilize in our loss control area. We also have the Liberty Mutual National Tech Clinical Center which is located in Westboro, which focuses on things like industrial hygiene testing and other areas, which may not be necessarily applicable here in the commercial auto area, but do give you an idea of the focus and the attention that we pay to loss prevention. If you had the chance to visit our offices down here, our home office down on Berkeley Street, if you walked in, you'd see inscribed over the entry way our corporate creed. And the last few words are, "We are dedicated to helping people live safer, more secure lives." That's why we don't call it loss control. We call it loss prevent. We want to keep the accident from occurring rather than having the claimant or the injured person have to deal with it after the fact.

We have experienced, highly-trained technical staff members mentioned already, a leader in developing safety standards throughout the industry but in the commercial auto area, and our loss prevention staff is electronically linked with claims and underwriting. Our LP staff is located throughout Massachusetts, as well as throughout the country, because, again, it's all Liberty Mutual staff and all dedicated to servicing our voluntary and involuntary market business wherever that may be. Our approach to loss prevention is one that we've refined and utilized for a number of years. It's called The Basic Service Pattern. Our loss prevention representatives visit the customer; they do basic fact-finding, trying to understand the specific customer's risks and exposures. Following that fact-finding, they'll do analysis and evaluation of the information that they've obtained.

One of the things that we work very hard with our customers on is their commitment to working with us on loss control. We believe that the customer commitment to loss prevention is critical. We can make all the appropriate recommendations in the world but if the customer isn't willing to work with us and implement those recommendations and take advantage of those resources, then it's all for naught. So we look for that right upfront. We're looking for customer commitment. We develop an action plan, working with the customer and agreeing on an appropriate action plan. And then we follow through and follow-up with the customer to make sure that they have met the commitments that they have stated they would.

As far as our loss prevention service criteria, every customer of Liberty Mutual's involuntary market service business is offered loss prevention services. They need only contact us and we will provide appropriate loss prevention services on request. Any risk that has more than 25 vehicles will automatically receive a loss prevention visit and an evaluation by our loss control group. In addition, any customer with over \$100,000 in premium will also automatically receive a visit by our loss prevention group. And any risk with over five vehicles, we will pro-actively contact...

Mr. Lane: Tom, you have five more minutes.

Mr. Driscoll: Thank you, Mr. Lane. We will pro-actively contact any risk with over five vehicles and let them know that loss prevention services are available and making sure that they're aware of that fact. And, finally, underwriting may ask us to go out and perform loss control, loss prevention visits where we think that they're, where our underwriting group thinks that there's an appropriate need. It might be when a new piece of business comes in or it might be on a renewal where we've seen loss experience that suggests a loss prevention intervention may be appropriate.

So, in conclusion, we have a residual market focus. The Involuntary Market Services Business Unit that I manage is focused solely on this business throughout the country, both worker's compensation and commercial auto, and nearly \$100 million of commercial auto business. We have Mass. CAR experience. We have been a Mass. CAR Servicing Carrier for many years and, obviously, a long-time participant in the Massachusetts market. We're also committed to this business. For those of you that follow commercial auto residual markets around the country, there was a substantial reduction in the amount of business that was in this market and caused many carriers to abandon the market, the service market in the late '90s. We stuck with that because we think it's appropriate that residual market customers get quality service. We have a vested interest in the results, as I mentioned, because we are a participant in CAR and we have proven performance, both in operational excellence and superior results.

If you look at the next slide, you'll see, these are our audit results for our 2003 CAIP all states audit. We are, as I mentioned, in 23 states other than Massachusetts, most of them commercial auto insurance plan states. They audit us for all states every two years. These are our results for the 2003 audit. The numbers look good. I'm not particularly proud of the first two bars but, unfortunately, those bars got the tail-end of a transition when we moved our underwriting office. I can tell you that our internal measuring of these same factors since 2003, and actually since 2002, has been virtually 100% compliance and we monitor that on a monthly basis. Our internal performance is important but, at the end of the day, what are the financial impacts on CAR or upon other residual markets that we service? This last slide shows you the loss ratio comparisons for two markets that we're in today: The one on the left is our Mass. CAR results where Liberty's loss ratio is compared to the total commercial ceded loss

ratio for CAR. And you can see that we have a significant advantage over that total commercial ceded loss ratio.

Now, we are not a large Servicing Carrier compared to some of the other carriers in Massachusetts, so that data may be suspect to you. Well, if you look at the graph on the right, this is the New Jersey commercial auto plan where we service nearly \$28 million worth of premium, about the same as AIG/New Hampshire Group Company, and a little bit less than Progressive. And there, again, you can see, our loss ratio is five points better than Progressive and nearly 10 points better than the New Hampshire Group/AIG. What that means for those plans is lower claims costs, and lower claims costs means savings for the participants in the residual market plans. So, we believe that we have the capability, the capacity and the proven track record to service this market well. And with that, I open it up to any questions you might have.

- Mr. Lane: Thank you, Tom. I want to start with you, Bob.
- Mr. Woods: Just a couple of questions, Bob Woods from OneBeacon, apologize, a couple of questions. On the claims that would be handled, you seem to have quite a few offices, would those be centralized in one office and who would head that up? Maybe I missed that.
- Mr. Driscoll: Kelly?
- Ms. Pappas: All of our Mass. claims, we handle out of our Weston, Mass. office. As Tom mentioned, the branch office manager, Arthur Gavrilles has about 18 years experience in handling all sorts of property casualty claims, but everybody is based in Weston, Mass.
- Mr. Woods: And those would be commercial, both voluntary and involuntary claims?
- Ms. Pappas: Yes.
- Mr. Woods: Thank you. No other questions at this time.
- Mr. Lane: Michael?
- Mr. Faron: Mike Faron, Norfolk & Dedham. In the material that you submitted with your RFP, it looks like all your residual market business is handled out of Wisconsin. And is that where you're currently handling any Mass. residual market business or is it handled out of Massachusetts?
- Mr. Driscoll: All of our residual market business for commercial auto is handled out of Wisconsin. It's a centralized operation. It allows us to have economies of scale. We are in 24 states, so it really makes sense for us to consolidate from an underwriting perspective. It also allows us to deal with significant changes in volumes. We went from a \$20 million total service operation for commercial auto in 1999 to over \$100 million in about four years. Having a centralized operation allowed us to staff among states, between states, and add staff in such a way that it was efficient to be able

to handle that kind of growth. So we think that, especially when we will be facing significant growth for a state like Massachusetts, it will support us in that we'll have experienced people that we can hire from other teams onto the Mass. team, as well as being able to share resources as necessary. So we will continue to handle the business in Wausau.

Mr. Faron: One other concern I have with the other states where you handle Cape business, I don't think there's as much of an emphasis on taking policies that come in and writing them voluntary, which would be a big aspect of the Mass. program where we're looking to lower the residual market. What mechanisms are in place to handle that aspect of the program?

Mr. Driscoll: This is Tom Driscoll, again. It's an area that, compared to the other bidders that you have heard from and will hear from, we are somewhat uniquely situated badly. We are a direct writer, as you know, in the voluntary market and, in fact, in most states where we are a Servicing Carrier, the idea of cherry-picking business as a Servicing Carrier is, in some cases, specifically prohibited because the perspective is that, particularly in a commercial business, the commercial lines package for a customer can be significant. To have one or two or three, in some states, Servicing Carriers have special access to cherry-pick business and not only perhaps take the individual line but also take a whole commercial lines package away from a producer is frowned upon. So, we are not really in a position today to take business that has been sent to us, assigned to us, and write it voluntarily.

Mr. Faron: So what you're saying is that if you're assigned as a Limited Servicing Carrier, there would be no reduction, at least for the risk you're handling, of it being assigned it voluntarily?

Mr. Driscoll: We are not in a position to write assigned-risk business voluntarily.

Mr. Faron: Thank you.

Mr. Lane: Bill?

Mr. Whitebone: Bill Whitebone. Two questions, would you have an upload and a download program available to these ERPs?

Mr. Driscoll: At this point, we don't. As I mentioned, in most of the states where we are a Servicing Carrier, our relationship is not directly with the producer. The assignments come to us through plan administrators. If we're selected as a Servicing Carrier here, we will be adding significant resources to change our relationship with the producers. I can't commit to that down the road but since—when we look at Massachusetts and the kind of volumes that are here, it will make sense for us to begin exploring how to improve our dealing directly with the agents, especially where we'll have specific agents assigned to us, because in other states any agent—we could be dealing with any agent without knowing in advance which ones. So, I believe, as strongly as I can, that the volume of

business that we will be servicing here will justify us improving our dealings with the Mass. agents.

Mr. Whitebone: Do you do your own statistical reporting?

Mr. Driscoll: Yes, we do.

Mr. Whitebone: You do. The basis for the bid, is this kind of based on what you're currently doing in Massachusetts or kind of a compilation of things?

Mr. Driscoll: It's an evaluation of our current understanding of our costs, as well as what we believe to be any unique services we'll be providing in Massachusetts. So it's, again, our understanding of our service capabilities and our costs and then adapting those for the specific Mass. environment.

Mr. Whitebone: A prime bidder mentioned that they had a rehab program in place for high loss ratio agents. Do you have that sort of...

Mr. Driscoll: We do not have that today, no.

Mr. Whitebone: No. Do you plan to put something like that...

Mr. Driscoll: Again, I think as the opportunity to service this program and, particularly, this size of business will encourage us to review opportunities that haven't really been optimal for us because of the small amount of business that we service in this environment.

Mr. Whitebone: Right. Staffing, I think you mentioned that you'd add the staffing if you had to?

Mr. Driscoll: Oh, absolutely. As I mentioned, we've grown. On the commercial auto side, we grew from \$20 million in premium to about \$100 million in about four years, and worker's compensation, which we also handle; we grew from \$90 million to over \$500 million in in-force premium in about four years. And we staffed and had the resources to handle that growth without any deterioration in service.

Mr. Whitebone: Claims service, you'd have a 24-hour claim service available to these...

Mr. Driscoll: 24-hour reporting, yes.

Mr. Whitebone: The training of the new ERPs, could you fill us in a little bit about that?

Mr. Driscoll: We will start out with seminars that we'll make available to the ERPs that are assigned to us. Then we will be assigning ERPs to specific underwriters, and then we will contact ERPs and seek their interest in specific business and training on dealing with Liberty Mutual. We will, obviously, make available to them the forms and the various information they need to deal with us directly. But we'll reach out to them and as we do, frankly, with our loss prevention, we're looking for people that are

interested in hearing from us because those are the ones that are going to act on what we have to offer.

Mr. Whitebone: One last question. Would you have a marketing rep about visiting these ERPs on an ongoing basis to keep abreast of what's going on at Liberty?

Mr. Driscoll: We don't have a program for that at this point. It's certainly something that we would likely implement, given the fact that we will have a defined number of ERPs we'll be dealing with. Again, it's a different environment than we have in other states but when you have that kind of definition, it allows you to be more pro-active and, frankly, work with the people that are working with us to help the system work better.

Mr. Whitebone: Thank you.

Mr. Lane: Jim?

Mr. Tarpey: I don't have any questions at this time.

Mr. Lane: Frank?

Mr. Mancini: Frank Mancini. Tom, I'm not sure if you can answer this or not but on the private passenger side in Massachusetts, I'm not sure how many ERPs Liberty handles, but I'm sure that you do write some of that business on a voluntary basis. And while you're not equipped to handle the commercial that same way, would that be something that could happen in the future?

Mr. Driscoll: We will explore every opportunity, Frank, to de-populate. You know, our perspective on de-population or in keeping the residual market population revolves around a healthy voluntary market and, frankly, making sure that the involuntary market is truly the market of last resort. In many states, and even for worker's compensation here in Massachusetts, a customer is required to demonstrate that they've been declined by two carriers before they're eligible for entry. If you have a well-funded and a viable voluntary market and you're keeping out customers that can find voluntary coverage, you're going to reduce your involuntary market population. But, you know, we do have increasing abilities within Liberty Mutual to get outside of the old direct-writer model. You may know that our Wausau Insurance Company's operation utilizes agents in its commercial lines business. We also have other companies around the country that are utilizing an agency model for writing small commercial. So we're certainly going to explore all of the resources that they have available, as well as the ability to access our companies to take on some of that risk.

Mr. Lane: Dave Lane, NetCare Services. Tom, the Limited Servicing Carrier program for commercial auto in Massachusetts is different than many others because it's an assigned producer as opposed to assigned risk. And I think you realize that that creates both problems and opportunity for your company to do something that you haven't really done much before. And I hope that you're going to look at it as an opportunity to do

something that is creative in dealing with agents who may not be Liberty agents, and trying to make the system work better. Is that your focus?

Mr. Driscoll: Absolutely. You know, I think at the end of the day, one thing that can be said about the insurance industry is, if there's a way to make a buck, we'll try to figure out a way to do it. And if we can find a way to write business profitably that's coming through us, through this program, and, again, integrate the relationship with the agent into that, it will be in our interest and in the system's interest as well because at the end of the day, we'd like to keep the involuntary market here as small as we can.

Mr. Lane: Do you have an 800-number that any customer or agent that's assigned to you can call, even though they may not know the person that they want to talk to. They have a claim or they have an underwriting issue or they have a loss-prevention issue. Is there a central toll-free number that they can call and then somebody there directs them to the right person to talk with about their problem?

Mr. Driscoll: With our, what we call our installation package, we make available to all of our policyholders' specific contacts, whether it be the claims office, etcetera. But we do have a 1-800 customer service line and those people are capable of dealing with account issues, underwriting issues and referring people to the appropriate location, if it's not the right place.

Mr. Lane: There's one thing about your bid that made it difficult to evaluate because you don't allocate your costs to the various—claims, loss prevention, underwriting. You put it in “All Other” and we'd like an explanation of why you did that and give us an idea of what your real costs are in those various categories.

Mr. Driscoll: Well, I don't know that I can give you an idea of what—off the top of my head—what our costs are in those specific categories. We're a little bit concerned about proprietary information. One of the other competitors here is our direct competitor in other states. So, as we have in the past, when requested, we've try to share as much information about our cost structure as we can without exposing that to too much scrutiny. And I'm not in a position, off the top of my head, to break that “All Other” into those various categories.

Mr. Lane: It does make it difficult for us to evaluate how your costs relate to the services that you're going to provide.

Mr. Driscoll: Well, I guess, the only response I can offer, Mr. Lane, is, I think, ultimately, our cost in terms of our price ought to be a measure of what we think is the appropriate price for the service. And I think the experience that we have and, specifically, the proven performance that we've demonstrated in some of the information we provided today, shows we have the capacity and the capability to provide, to meet the commitments that we suggest we will.

Mr. Lane: Do you have any more questions?

Mr. Woods: Just a question on—Bob Woods, OneBeacon—on the centralization of the subrogation. Is that in Weston or is that in some other location, subrogation?

Ms. Pappas: Our Subrogation Unit is out in Mishawaka. The way that it works...

Mr. Woods: I'm sorry, where's that?

Ms. Pappas: Mishawaka.

Mr. Driscoll: Indiana.

Ms. Pappas: Indiana, sorry. And the way that it works is that all the claims are handled in-house in Weston and once there's an indication that we've resolved it and there is subrogation potential, then we immediately refer it up to the Subrogation Unit. They have access to the claims file that we've been handling all along and we still have access to the claims files that if any additional information comes in on our end, we have a direct link to the subrogation handler. But everything is centralized out in Mishawaka.

Mr. Woods: No further questions.

Mr. Lane: Michael.

Mr. Faron: Mike Faron, Norfolk & Dedham. It looks like you have a very impressive loss prevention program in place. One of the questions I had related to that is, are the loss prevention staff trained on identifying misclassified vehicles and any other items that may result in under-reporting of premium?

Mr. Clark: Brian Clark of Loss Prevention. The training we provide may not be specific to misclassification of vehicles. But we do get a vehicle list and look at anomalies that might occur when we have five passenger vehicles on the list. There might be other vehicles in the parking lot with the customer name on them. But we do have other training that would help the LP consultant identify where those anomalies might be.

Mr. Faron: Do you have a mechanism in place when things like that are detected to refer them to underwriting or your premium audit department?

Mr. Clark: Absolutely, we do, a flag. We would send the report immediately back when we get back to the office to underwriting and claims to let them know of the things that we identified, saw, or didn't see.

Mr. Faron: Thank you.

Mr. Lane: Bill?

Mr. Whitebone: Bill Whitebone, one last question. We talked earlier about the possibility of a rehab program for high loss ratio in the ERPs. And I guess part of

that question is, under your current system, would loss control be paying more attention to those ERPs or those agents that consistently run a high loss? Training, inspections, whatever?

Mr. Driscoll:

Tom Driscoll. As we're able to target high loss customers, this, again, a unique situation for us, but we'll have assigned agents, will allow us to target those areas as well. So, one of the things that both our Premium Fraud Investigation Unit does, as well as our loss prevention staff, is, basically, we run lists of high loss ratio claimants, or high loss ratio policyholders, and try to figure out what's going on with them. Sometimes it's a fraud issue because—the loss ratio's high because the premium's too low for the risk. Other times, they have a safety issue. If they've got a safety issue, we will be active in the loss control perspective and utilizing that same kind of targeted review for agents makes—it will absolutely make sense for us to do. Again, we're looking to work with the customers, with the agents. Our whole focus, on the voluntary side, and it carries over to the involuntary side, is to reduce the total cost of risk for the customer. There's a couple of attachments in the back of your book. One is a safety paper written for transporting people in wheelchairs. That came out of us identifying a trend among some of our customers in some states where people riding wheelchairs in the back of vans were being injured. We saw a number of similar claims. We notified the loss prevention folks. They immediately researched the number of resources around the country, including university studies, and out of that came specific customer information that we can provide to those customers that have that kind of exposure. So this is absolutely a focus for us, and it makes perfect sense for us to take that same focus that we apply to the policyholder and look to those agents. Because if we can't rehab them by rehabbing their customer on the outside, how do we work with the agent to help the customer—the agent work with us on that?

Mr. Lane:

Any other questions from anybody? I have a couple. One is, in your narrative, in your presentation, you mentioned the pre-audit, which is a good plan, a good, effective way of trying to get the right premiums for the risk. But there's no cost attached to that. So we'd like to have an idea of what that cost, what percentage of your premium would be allocated to that?

Mr. Driscoll:

You're looking for what we'll audit, or how often we'll audit, or what it will cost (inaudible)?

Mr. Lane:

What your costs would be. It gets back to the problem that you were reluctant to give us data by...

Mr. Driscoll:

Again, it's part of the service that we offer. It's part of the service price. It's going to be a function of the kind of risks that we see. If we see a majority of \$300, \$500 to \$1,000 risks, you don't spend a lot of preliminary audit effort on those risks. For example, because we have national carrier capability, if we received an inordinate percentage of national risks simply because I was unavailable to handle those, then our audit costs would increase. We will apply the appropriate resources and

expense necessary to make sure that the business is properly handled and that's built into our price.

Mr. Lane: Okay. I wondered what you think about the Limited Servicing Carrier program? Do you think this is going to be a benefit to the industry and policyholders and to your company?

Mr. Driscoll: I think that having a limited number of carriers focused on this specific business is always an advantage because it is different. Risks that are unable to find coverage in the voluntary market, either because they have a problem with the kind of exposure that they bring or there are rate issues in the market itself. We can't deal with the rate issues and, ultimately, as I said before, proper funding of the voluntary market is the best solution to an involuntary market-size issue. But I honestly think that having carriers and agents focused together on this business, under this new structure, we'll end up with better service for the policyholders and a better result for the residual market. What I'm a little bit dicey on is what will happen to the size of the market. I'm a little bit concerned to the extent that the size of the market today may be controlled by some of the session limitations that exist on carriers. By taking those away, I'm not sure what the impact of that will be. That's my only concern about the new program going forward. I'm a little bit unsure about which direction the size of the market will go.

Mr. Lane: Do you have a preference for the number of Servicing Carriers that would be approved in this program?

Mr. Driscoll: Given the size of the current market, I think in terms of economies of scale and efficiencies and performance for the carriers, you could go as high as the eight that have bid. I think whether the committee chooses to go lower than that is a function of whether you want to concentrate the handling among a smaller number of carriers. Obviously, if the market should shrink significantly, it becomes difficult for carriers because, frankly, they just don't have the revenue to support the services. But I think given the current size anywhere from the five to the eight, obviously, with one of them being Liberty regardless of the number.

Mr. Lane: Thank you, Tom. Thank you for the rest of the staff from your company. Do you have any more questions, any of you?

Mr. Woods: No further questions.

Mr. Lane: Thank you very much. We'll recess and come back at one o'clock for our next presenter.

(Committed recessed from 11:35 a.m. until 1:04 p.m.)

Mr. Jones: Arbella Mutual Insurance Company. And our team, on my left is Janet Corcoran, who is Vice President of Operations at Arbella, responsible for all policy services in our enterprise. On my left is Roy Scott, who is the commercial lines Chief Underwriter, Assistant Vice President and Chief

Underwriter of Commercial. On my right is Steve Jacobs, Vice President of Claims at Arbella for all lines of business. On his right is Dennis Morris, who is Assistant Vice President and Manager of Research Development for commercial lines. And at the Technology Center, at the other end, is Dave Toti, who is our Manager of Loss Control. We're very pleased to get the chance to present and discuss our company and our interest in the Limited Servicing Carrier program. Dave, why don't you go to the first slide? Arbella is heavily about automobile insurance in Massachusetts. What I'm showing up there is that in 2004, we wrote \$654 million of direct-written premium. Of that, \$418 million was Mass. private passenger auto and \$89 million was Mass. commercial auto. So when you think Arbella and you think Massachusetts, you should think automobile insurance.

We've been a member of CAR since our inception in 1988 and our history, I think, is a good indicator of our future. When we are engaged in these kinds of commitments, we exceed any program requirement; we would do so in this as well. We have extensive membership in the various CAR committees. On the top half of the slide are full committees that we have representatives on. Then, of course, many appointed subcommittee memberships as well. In 2004, we wrote \$42.5 million of ceded commercial auto business. That's the largest share of ceded business in the Commonwealth last year and we have had that largest share status for ceded business for quite a few years running. The number one point we would make about our candidacy for this assignment is that we represent the least-disruption opportunity the committee has to look at because we already service so much ceded business.

In addition to that, in 2003, we were appointed to a five-year responsibility for half of the Taxi Servicing Program here in Massachusetts and last year, \$10.6 million was our 50% share of that program to service. I would additionally note that each time we are reviewed, whether it's the CAR performance audits or the underwriting audits or the other various ways that CAR staff monitors Servicing Carrier performance; we do very well time after time after time. We have, in Massachusetts alone, over 1,000 employees, and we have appointed over 300 agents who present commercial auto business to Arbella. In 2004, the voluntary agent group that Arbella services here, we wrote \$20.8 million in ceded premium. The ERP agent segment working with us, we wrote \$11 million in ceded premium, and that, of course, is outside of premiums also presented by the taxi ERP and appointed agents.

We are organized in a team fashion, whether it be our underwriting policy services teams or our claims teams, even our billing teams. We believe very strongly in, first of all, a strong employee development furtherance culture and having people that work in a team-work environment to hold each other's arms out. So you'll hear our presentations touch on the concept of teams and a high-service orientation, as we go through our stuff.

Mr. Jacobs:

As Doug noted, I'm Steve Jacobs, Vice President of Claims, and I'd like to take a few minutes to talk about our model for claims handling which may be a bit different than some of the other, other bidders on this program. We currently have 454 claims employees that handle all lines of business, automobile, commercial, liability, worker's comp, homeowners. We're divided, from an auto perspective, into seven claims offices in the field and we feel that this is different than most. And it gives us a localness and it gets us close to our customers. It gets us closer to our agents which we think is very important. From a specialty standpoint, there are a couple of areas of the auto business that are specialized and housed in our Quincy home office, including our glass unit, our unit that handles environmental claims that arise from policies like spills and that type of thing, and also our taxi unit, which we've been handling the business for the past couple of years. We have 16 drive-in claim centers located around Massachusetts. Over 95% of our appraisals are written by staff. We have 55 appraisers on staff and, in addition to that, we have 2 truck and heavy equipment appraisers who have each had more than 20 years in the business appraising this type of, these types of vehicles and damages.

We're very proud of the fact that we have a paperless claims processing system. All of the business that arrives in our claims offices is either sent in—if it's sent in via fax, it goes into a fax server and then is indexed right into a claim file. If it's a new report, it's indexed into a new report box set up immediately and shows up on the screen of the claims handler. And if it's paper mail, it's scanned into the file so the claims handler has it in their face immediately. And this has given us, I believe, a big efficiency boost. Finally, in terms of service, we have a 24/7 loss reporting capability. Not only do we have the loss reporting but we also have the service capability, as the vendor that we use has a set of criteria and we have a long list of claims handlers at Arbella that are considered experienced professionals that are on-call 24 hours a day, on weekends, at night, holidays. And they are paged, should any of the criteria be met that requires immediate contact with insureds, claimants, or the like.

This next slide is just a map of our claims office locations and drive-in claim centers and, as you can see, we have the state pretty well covered in terms of service capability. I'd now like to just take a minute to talk about the claims' effectiveness. We've talked about service and efficiency. We preach early claimant contact. Our standards that we have internally, that we measure against, we consider them tougher than the CAR standards. So we have historically met CAR standards and exceeded most. We also have language in the reviews that come back from CAR talking about the strong claim handling, as well as the adherence or the exceeding of the standards of both CAR and the NAIC. We preach aggressive investigation, which is driven by the fact that we had an experienced staff. The folks that would be handling the more complex cases, the commercial auto cases involving both material damage and bodily injury, average over nine years experience in the business. Many who have handled the bodily injury average 20 and 25 years in the business.

We have dedicated training programs that are divided up not only by coverages in terms of modules for bodily injury and material damage and PIP and like, but they're also divided up by policy type. And we have seminars taught in-house by two full-time instructors that deal with the business auto policy and other commercial auto issues. We're very proud of our Special Investigation Unit which has a staff of 16 full-time employees dedicated strictly to fraud investigation from as soon as the suspicions arise until that claim is either denied, settled on a compromised basis or prosecuted. We have a very strong prosecution program. We have three attorneys on staff in our SIU full-time, over and above the 16 investigators that specialize in exams under oath, and we do almost all of those internally. We also have, as I mentioned, a prosecution program that we have a fraud counsel, on retainer, and we send—obviously, we notify the Fraud Bureau of any suspicious claims we have, and we also have our own prosecution program where we will go direct to the district courts to prosecute fraudulent insureds. We have a Litigation Management Program. We use all outside counsel, a very experienced panel, not only in Massachusetts but in most states within the United States. We use them to very effectively handle our suit program. And finally, we have a centralized subrogation team which is designed to maximize recoveries. They handle all facets of subrogation within Arbella, and it's proven to be a very effective program.

Mr. Scott:

As Doug indicated, my responsibility at Arbella is that of managing our Underwriting Department for commercial lines. The committee here, and the industry in total, are faced with, excuse me, a rather large endeavor in this move to a Limited Servicing Carrier approach, and there is certainly the opportunity here for a rocky road—I'm sorry, can you hear me up there—and some bumps along the way as we go through this transition. And there will be some disruption, and we're charged with trying to minimize that disruption which I think will be a major issue, and we believe that experience and demonstrated performance is critical to making that transition as smooth and non-disruptive as possible. And Arbella certainly has the experience, both in Mass. auto, Mass. ceded auto, to have in place the procedures, practices and people in order to handle this business. Just an indication over the last six years, we have underwritten, rated, processed, billed and handled claims for over \$195 million of ceded business in just the last six years alone. From an overall auto perspective—this is Massachusetts only, again—over a half a billion dollars of direct, voluntary, including ceded.

Excuse me. Additionally, in 2003, we were awarded the bid to handle taxi, limo and car service in a limited servicing capacity, and I think that we have brought—we have a very effective Taxi Program. We are awaiting a recent audit of our CAR Performance Review of our practices there and we expect that the results will be very good. One of the things that we think that we do very well at Arbella, both in our taxi and limo service area and in our other business, is the accurate garaging and vehicle classification. This is about getting the right price for the account, and that goes a long way towards eliminating or minimizing the deficit to CAR. We believe that we do an exceptionally good job of that. In

particular, we have had a number of, shall we say, differences of opinion with people, certainly in the taxi area, and we've always—and our discussions with CAR have been backed up as taking the right approach and applying the rules correctly. We have in-depth knowledge of the CAR Rules and regulations, and we apply them in a diligent and fair manner.

We also see this disruption, if you will, as an opportunity to help de-populate the pool. Why do I say that? As Doug indicated, we write over \$40 million worth of business. If we were to get the assignment, we anticipate that we will lose some of our agents, but because we have such a large section of it, that it would be—in attempting not to be disruptive, we would hope to be able to contain many of the agents that we currently have. But now we're going to get their ceded business from all of their other Servicing Carriers, business that we might not have had the opportunity to look at before. Perhaps it was placed with somebody else because it was part of an account that we did not write the other lines and now we have the opportunity to look at that again. So there's a great opportunity here to de-populate CAR, and we're anxious to grow.

The next slide, this indicates the people that we have on staff, the experience that they have, over 25 years of management and underwriting staff capabilities and over 20 years, or 17 years, of Mass. auto experience. Our loss control people are both accredited and experienced in Massachusetts. The other thing that we can say about our staff is, at this point in time, we could handle up to \$50 million of ceded business, and did, as early as about two years ago, without any need for additional training or additional staff. Again, with respect to loss control, we are willing and able to always work with insureds who want to improve their services and improve their results. And we are ready to provide the services and the support that they need, field inspections, accident investigations, developing safety programs. We have three nationally-certified defensive driving instructors and we have the ability to analyze results and take corrective actions to help people improve. And finally, our focus is on trying to write good business and to help accounts become better and find a home in the voluntary market as opposed to CAR.

Mr. Jones:

So, you've heard from underwriting, you've heard from the claims side. We, of course, also have a system that we greatly rely on from a reporting, a processing, a billing and a communication point of view. And our technology has really proven effective and efficient for us. Probably, lately, the thing that is getting the most powerful positive response in the marketplace is our ability on the Internet. We have access to our agents, information about commercial auto policies, billing status, things like that, as well as the claim history. So, besides the standard transaction processing, things you expect of any substantial carrier, we also have now made the leap into the Web world and are enabling agents to self-serve us and properly serve the customers.

Arbella's really about its people. We're a Massachusetts company. We have as tenured, expert and loyal a staff as you're going to find in this

marketplace. You know, we're the result of The Kemper pulling out. We still have over 400 in our total population—of 1,100 people, over 400 people that earned their spurs, if you wish, in the Kemper days, long gone, and we've built on that in a sense as a melting pot. As a lot of great insurance professionals became available in this marketplace, we've been hiring experience, and we have built a very broad-gauged, competent staff. So prompt, accurate policy processing, measuring—you get what you measure. We have instituted in the recent years many different ways that we set advanced benchmarks and then hold ourselves accountable against those pre-set standards, things like making sure we produce our renewals in more than 33 days in advance of the renewal date. Things like turning around new business quotes within 10 days, whether yes/no or we need more information. There are many ways we can express our measurement focus, but that's who Arbella is. We have become a company very focused on setting goals, then measuring our progress against attaining those goals that's causing us all to reach and grow.

Again, we have the technical expertise through our focus on talent and through our focus on building a good culture where people can grow and prosper, where training and development opportunities are prevalent. And the service culture, if you look at any of our business cards, you will not see our titles right under our names. Every one of us has the same title. Mine is Douglas R. Jones, and right under that is, Customer Advocate. We work very hard on making sure our staff understands the reason they have jobs and careers is to serve us, our public, our policyholders, claimants and agents. So it's a strong service culture and employee culture. We are hungry to grow voluntarily. We have, as a company, just reported a 98 combined ratio. We're very encouraged about our financial footing and our future. And one way we want to express that is through voluntary business growth. One of the most positive ways to do that, since we're such a competent auto company, is to grow through looking at business other companies historically have chosen to see. We are wide open to looking at ERP as well as voluntary agent business and considering placing it voluntarily or, of course, still ceding it and servicing it excellently.

We are so—you know, we're a Massachusetts company—so embedded, committed to having accidents in the same intersections as are customers, and on and on, we are actually quite happy to propose a double portion for Arbella: If you end up, as a committee, not having enough, for whatever reason, places to appoint Servicing Carriers, we're quite capable and willing to take a double portion. Thank you very much.

Mr. Lane: Thank you, Douglas. Questions will be made by the committee members, and I'll start with Frank. Announce your name and title.

Mr. Mancini: Thanks, Dave. Frank Mancini. Doug, I'll ask you the questions and you can determine who answers them, okay?

Mr. Jones: Sure.

- Mr. Mancini: We have a lot of business ceded in Massachusetts, probably more than any other state. Do you have any thoughts on why that is so and how we can reduce that with this program?
- Mr. Jones: Sure, sure. I'm going to invite Roy also, but a couple of quick comments. We don't see another program in the country where there is as much coverage available in the ceded program for commercial risk. And the voluntary rates are, the CAR rate is lower than the voluntary rate for a lot of the high-hazard business, and we think some business stays ceded just because we can't get appropriate rates. And, thirdly, some companies have had very strict rules about not, for instance, considering business presented by ERPs to be written on a voluntary basis. Roy?
- Mr. Scott: The only comment I would add is that CAR has done such a good job of being effective and being a market for business that might not meet the standards of the regular market. It's been easier to do that, to send it to CAR, than it would be to go to an excess or surplus carrier and find another voluntary quote. Competition, and certainly in the last, the hard market, in the last few years has driven much more business into the residual market than would have been there normally.
- Mr. Mancini: Roy, do you see this program reducing the size of the ceded business boom in Massachusetts?
- Mr. Scott: I think that it has the potential to do that. As I said earlier, as business moves between carriers, carriers have different appetites, and I think the opportunity is there if we approach it properly. And our underwriters—we use the same underwriters to handle our voluntary business as we do our ceded business. And their approach is to look at a piece of business first, can we write this voluntarily, and then cede as a second alternative. So I think if that's the kind of approach that is pervasive in the group that looks at this, I think there's an opportunity there to help de-populate.
- Mr. Jones: It's a function of rate and coverages. So, how good is your crystal ball about how things will evolve the next few years to the extent those are appropriately addressed? I think you're also going to benefit by some companies having a healthier appetite in Massachusetts because they won't be Servicing Carriers and they'll be confident that guys like us do a very competent job of servicing the ceded business. And so, I think you'll see more competition from that point of view. Although I would also comment that commercial auto has been healthy from an underwriting loss ratio point of view and from a competitive point of view. So, we'll see how that evolves.
- Mr. Mancini: Thanks, Doug. You've made clear your interest in de-populating the pool and writing business voluntarily, would this translate to voluntary appointments to these agents or some type of brokerage deal or whatever?
- Mr. Jones: It can. We have learned over time it's much more about the agency than the specific transaction. So if we're dealing with a sophisticated commercial agency that is building, you know, the kind of partnership

competence that we want to partner with, then that's a great prospect for going with a voluntary appointment. It's not about just getting revenue. It's not, you know, for any other purpose than, can we find competent broad-gauged commercial partners? The answer would be yes, if that is presented.

Mr. Mancini: I know your company's new to the Taxi/Limo Program, just a couple of years, but can you cite any innovations or extras that you've done with the program beyond what CAR expects from you?

Mr. Scott: Well, we put together a team of claims and processing and underwriting to look at this business and, with the use of loss control, have, I think, done an excellent job in trying to ferret out, what's a car service, what's a limo, and what's really a taxi, to the point that we've had some of the participants in that group out following cars around in communities where there's a decided lack of taxis, but a lot of car services. And we have moved to have those things properly classified. So I think it's been, it isn't about doing something innovative, it's about elbow grease and hard work and going out and finding the facts and applying the rules appropriately.

Mr. Jacobs: If I might add something on that, Frank. As a result of that information, we worked, our claims staff who had worked with our loss control people and ferreted out this information, worked with CAR and have now formed a task force in Massachusetts involving a number of other carriers, the State Livery Association and municipal employees, municipal officials, to try to get to recognize what vehicles are misclassified as car service or limos as opposed to taxis. That's gained a lot of momentum in the last several months.

Mr. Jones: We've had several occasions where there have been requests—we can't respond, of course, it's CAR's Rule—by certain agents, they wished they could have the other servicing company.

Mr. Mancini: That's it for this round.

Mr. Lane: Jim?

Mr. Tarpey: I've heard some of the complaints—Jim Tarpey—I've heard some of the complaints about the taxi situations and I think you're justified in what you do. Are you—well, I'll ask underwriting, are you prepared to be able to service long-haul trucks, buses?

Mr. Scott: We had been doing that for the past 10 years, so we had a very large slew of trucking business. And with the advent of electronic filing of ICC forms and elimination of Form E and apportionment plates, we've had virtually no—an occasional problem with a state like Oregon or something, but even those have gone away in the last several years and we have, as I said, a large element of long-haul trucking and bus fleets that have presented no problem to us. Thank you.

Mr. Lane: Is that all the questions you have? Bob, do you have some questions?

- Mr. Woods: Bob Woods, OneBeacon. A follow-up question to that, we asked everybody else. Handling of the claims for these long-haul trucks that happen outside of Massachusetts, what's the arrangements?
- Mr. Jacobs: Again, we've been doing this for many, many years now. The claims are controlled through our Massachusetts staff in New England, if it's an incident in New England. We have people licensed in every state and they're very experienced and know the people that handle those claims. Once we get outside of New England, we parcel out various tasks to a panel of vendors and providers that we have, while maintaining control of the files. We also have a wide group of legal folks throughout the United States that help advise on rules and regulations and that type of thing in terms of the actual handling of the claims. We've had no trouble over the last 10 years handling this business.
- Mr. Woods: A follow-up question, if I could. Doug, your 98 combine is impressive, congratulations. How does that translate to an AM Best rating? I didn't see that anywhere.
- Mr. Jones: We were rated by AM Best in January. We stayed at B++ but we got a positive outlook. We were stable 12 months ago, now we have a positive outlook. And, you know, you're meeting with a management team here that is full of confidence because what has translated to good underwriting results. It's not a one-trick pony kind of thing. It's been a several-year execution of fundamentals, underwriting and claim management.
- Mr. Woods: Just one last question for this round. You have the Taxi Program sort of segmented with special handlers, I assume. Is that sort of the intention for this program as well? Or will PL/CL, do your claim people handle both lines today or is that segmented?
- Mr. Jacobs: Our claims folks handle both lines but the segmentation arises out of complexity. And to the extent that you have more complexity in terms of coverages for commercial auto, in our offices, those are segmented. We have teams of specialists out there in the offices that concentrate on commercial auto but there's no definitive split based on the line of business.
- Mr. Woods: No further questions at this time.
- Mr. Lane: Thank you. Bill?
- Mr. Whitebone: Bill Whitebone—excuse me—Quincy Mutual. A few questions, if I could, will you be offering these ERPs uploaded and downloaded for your...
- Mr. Jones: No, we don't offer that today and, honestly, Bill, I've never been approached by a commercial auto agent for that service. When you think about it, you can have a 100-vehicle commercial fleet, and that's totally

impractical for that kind of technology. We, of course, have it for our personal auto book. So the answer is no.

Mr. Whitebone: The second question, the staff reporting, do you do your own staff reporting? The basis for the bid, was it kind of based on what you've done with the Taxi Program or was it kind of a compilation of various factors that went into the bid process?

Mr. Jones: The Taxi Program was a good exercise and, you know, developed certain competences but we're, as I was commenting on measurement earlier, we're an organization that's become much more sharp about its costs, its structures and its competencies. And Dennis actually took leadership on developing the response to the proposal from my economic point of view and it's a confident proposal, you know, based on our true costs and intent to make a little bit of money in the process.

Mr. Whitebone: A previous bidder mentioned a rehab program that they had in place for high loss ratio agents. Would you have that sort of process in place, too?

Mr. Jones: We have it for personal auto agents in much more depth than we do on the commercial auto side. I think that's because the commercial auto marketplace, at least in the recent times, from an ERP agent point of view, has been like finding gold, frankly, and that's part of what this movement is addressing. No, we've not had exactly that focus on commercial as we've had on personal. If you match up my comments about our appetite for voluntary business, I think it makes great sense when you find, again, an agency with good commercial competence to work with them, to improve their practices, so that both can prosper.

Mr. Whitebone: De-population pans, I think you mentioned that you do have a de-population plan in place and that will apply to this program, too. As far as staffing is concerned, you could absorb the program with your current staffing numbers?

Mr. Scott: From an underwriting standpoint, we feel that we have enough staff in place to manage the share up to \$45, \$50 million. The only area that we might have to look for some staff would be in the loss control, if we get too much bigger than that.

Mr. Whitebone: Right. You offer 24-hour claim service too, and that would apply to this program, too? And last, but not least, the training of these new ERPs, could you fill us in a little bit about how that will happen? And the second part of that question is, will there be a marketing rep visiting these agents on an ongoing basis?

Mr. Scott: Our plan would be—we do have marketing reps. We have seven marketing reps out in the field and whatever agent we have has an assigned marketing rep. Their purpose, in this instance with a new ERP, would be to demonstrate to them how it is to work with Arbella and nurture them through the process. We would also plan to have a preliminary meeting with any new producers that are appointed to us in

October or earlier, depending on when we know, and go through billing and issuance of policies and submissions, etcetera, so that everybody knows what our procedures and practices are, and then turn it back to the marketing reps to make sure that any questions and problems are answered and taken care of.

Mr. Whitebone: Very good. Thank you.

Mr. Lane: Michael?

Mr. Faron: Mike Faron, Norfolk & Dedham. One of the comments you made was that loss control would be employed where the insured is willing. I know, and we heard earlier from one of the other participants, who's also a Limited Servicing Carrier in the Taxi Program, that on some of the residual market accounts they're not always willing to take part in it. What measures have you employed to encourage greater participation in loss control? And what would you consider to this program?

Mr. Scott: Well, our bid contemplates a certain percentage of this business being automatically looked at, accounts over a certain size, over a certain premium. We always offer the service and will—it's either initiated by the insured, the agent, or the underwriter, if we feel there's an opportunity to make improvement. And I don't mean to say that we would not work with someone who, on the surface, does not appear to be willing to work with us, but the fact is, to de-populate CAR and to be as effective as we can be, we have to work with people who are conscientious in attempting to improve their results and we will direct our efforts towards those people.

Mr. Faron: Just one concern with your AM Best rating is what the impact would be on, in short, seeking an umbrella to go over the auto policy. That would not be an issue, what your experience has been with that, with your current condition?

Mr. Scott: It has been a practically, a very limited problem from an automobile standpoint and when—we've had umbrella carriers who helped write over CAR. Those are the same people who won't write over us writing for CAR. So, the issue is not necessarily Arbella as much as it is carriers who don't want to write over residual market business. It has really not been a major problem for us at all.

Mr. Faron: One last question. You mentioned that you would be willing to take a double portion of the business. Would that also apply if there were only four other participants or four participants in total?

Mr. Jones: Yes, it would.

Mr. Faron: Thank you.

Mr. Lane: Dave Lane, NetCare Services. Douglas, what do you think is the ideal number of Servicing Carriers under this program, from your perspective?

- Mr. Jones: I'm not qualified to answer that. I don't have all the information that I should. I would say that it's a very difficult task for the committee to decide that because you're not just considering the applicants but also the need of the market. I would be striving to get the solution that has the most effect on the cost to the system and, of course, proper service to the constituents of the system. So that's a matrix decision and, certainly, you want several, but I don't have a number in mind.
- Mr. Lane: And the other matrix item is market disruption, too. You want to have a system where you don't have, where you minimize the market disruption.
- Mr. Jones: Well, from a disruption point of view, that's one of our strongest points, and we recognize it's not just premium volume, but it's also a mix of business. Frankly, that's one of our concerns and a challenge for the committee is to balance the hazard risk, if you wish, by book assigned per Servicing Carrier. That's a real challenge.
- Mr. Lane: Well, we know that, but our guidelines and rules say that we must distribute it on an equitable basis, not only in premium volume but by class and by loss ratio, so that each company is treated on an equitable basis.
- Mr. Jones: That's good.
- Mr. Lane: The other question I have is, do you do pre-audits of exposures that are not vehicle exposures such as cost of hire and that sort of thing?
- Mr. Scott: We have not done that in the past and when I heard that here this morning, I said, why didn't we think of that, because we've had—with cost of hire issues and gross receipts basis, we've had our share of differences of opinion with insureds when we get in to do the audit afterwards. So, no, we have not done that but certainly it is a very good idea.
- Mr. Lane: It also establishes whether or not you're getting the right pricing which might, ultimately, make your determination as to whether or not you wanted to write it voluntarily or cede it.
- Mr. Scott: Well, going in, we attempt to get enough financial information, enough information about the operation, so that we have a good sense of, you know, how big an operation it is and what kind of business they're involved in. But we can't, without a pre-audit, as you suggest, we can't know how much of their business is hired out to others. So, that's certainly something that we will, a practice that we will put in place.
- Mr. Lane: Thank you. One other question and that is, do you have an 800-number that your policyholders, your agents, or assigned agents, or anybody can call if they don't know what number they're supposed to call with respect to the particular problem they have, and then that comes in and somebody distributes that call to whoever is responsible for that particular problem?

Mr. Jones: Yes, we do.

Mr. Lane: Okay. Thank you. Frank?

Mr. Mancini: Frank Mancini. In the course of being a Servicing Carrier currently for Massachusetts commercial business, I'm sure that you've run into an agent or two that isn't maybe as well prepared to write commercial business as others. How do you deal with that?

Mr. Jones: Are you getting at training and development primarily?

Mr. Mancini: Yeah, yeah.

Mr. Jones: Through the marketing staff. If again, this is the profile of an agent that we see a great potential to build in partnership, we would invest in that agent. We do run various training events also. Our issue, to get very informative about this, has been that we had too many agents. If you go back to five years ago from a franchise-dilution point of view, we had to retract some. So that's really not been an area we've had much trouble with because we contracted our agency plan. But in this redistribution, if we end up with new agents, we will do what is in our joint interests because the agents are our sales force.

Mr. Lane: Jim?

Mr. Tarpey: Pass.

Mr. Lane: Bill? Oh, I'm sorry, Bob.

Mr. Woods: Bob Woods. Now you got me confused. I'm looking for Bill. Bob Woods from OneBeacon. A lot of talk, when we've asked everyone about this on glass repair. How's progress with Arbella on glass repair, if that's commercial as well as personal?

Mr. Jacobs: We're up to approximately, on our internal tracking, approximately 3%. And I would mention, because I'm sure you've seen numbers out of AIB that has everybody at a lower number than that, but I believe that that tracking number or that methodology is flawed. We tracked the actual repairs as against total glass claims while the other method tracks any claim that's paid under \$125 against all glass claims and that's divided by 50. So, I would say we're right around 3%.

Mr. Woods: No other questions. Thank you.

Mr. Lane: Bill?

Mr. Whitebone: Bill Whitebone, Quincy Mutual, just one quick question. You indicated your willingness to take a double portion of this business. Would the staffing remain the same under that scenario or would you have to add to staff to handle it?

- Mr. Jones: With the exception of loss control, where we would need to add a couple of staff, we already service pretty close to that number as we would estimate it. So, no, we do not perceive a need for staff.
- Mr. Whitebone: Thank you. No additional questions.
- Mr. Lane: What do you bring to this program that you feel is unique and special that maybe other Servicing Carriers might not have?
- Mr. Jones: As opposed to talking about competitors, we are a Mass. auto company, period. That's what we do. We do it very well and we're committed to it, hence, that's who we are.
- Mr. Lane: Okay. Any other questions from the committee?
- Mr. Woods: No.
- Mr. Lane: Thank you for your presentation.
- Mr. Woods: Thank you.
- Mr. Lane: We will take a—are the representatives from St. Paul Travelers here? We'll take a break and start that at 10 minutes of.

(Meeting recessed from 1:45 p.m. to 1:55 p.m.)

- Mr. Kinney: (Inaudible) St. Paul Travelers. Based on the 2004 information, St. Paul Travelers holds the distinction of having key, having four key first place positions in the Massachusetts commercial auto writings. We are the largest writer of commercial auto premium in the state, 2004 CVR. We're the largest writer of voluntary agent commercial auto premium in the state, again, same, 2004 CVR. The largest writer of ceded commercial auto premium, the largest writer of commercial auto Exclusive Representative Producer premium, 2004 Subs Report. With the St. Paul Travelers, you have a current Servicing Carrier that is managing a large volume of facility business today, almost one of every five dollars. We do not have to gear up for the challenge, recruit or hire staff, appoint and train agents in practices or expand our systems. We're the turn-key operation that will insure a successful and smooth transition to the Limiting Carrier Program. St. Paul Travelers has been and continues to be an active participant at CAR to improve the operations of the commercial automobile, auto residual market. Our goal has been to have the residual market be less of a factor in the decision to write voluntary business. We have worked for the attainment of adequate rate levels for voluntary business and appropriate levels for facility business, reductions in the size of the pool, a simple and firm method to allocate any pool deficit and a level playing field for voluntary agents. Throughout the history of the St. Paul Travelers, our companies have taken the leadership role in the residual markets of many states. We're active participants in commercial auto committees that manage residual markets on a country-

wide basis. We have been a Servicing Carrier for many CAIPS's throughout the country. St. Paul Travelers has experience in writing business in residual markets and other lines of insurance. We're one of the primary writers of worker's compensation residual market business and we participate in property pools along coastal areas throughout the country. With me today, I've introduced the representatives, and let me talk a little bit about their disciplines.

Mr. Lane: Patrick, I would appreciate it if you'd introduce them again because we didn't have the audio on when you did it before.

Mr. Kinney: Oh, okay, all right. I'll do it again. If you can raise your hand when I do it, so they know who you are. I am the Regional Vice President, again, and my name is Patrick Kinney for the New England region. Lyle Zucra is the Associate Service Center Manager, located in Middleboro. David Shaffer is Risk Control Liaison and he's down there working, he's on the equipment today. We have Peter Elms here, who is Underwriting Manager, located in our Quincy operation, Lynne DiGiacomo, who's on my left. Lynne DiGiacomo runs the select operation which focuses on small commercial insurance and is located in Quincy, Tony Weldon, we've imported from the home office. He's out of Hartford and he's one of our finance leads. And Dave Hall is fleet engineering, and he's also located out of Quincy.

Mr. Hall: Out of Richmond, Virginia.

Mr. Kinney: Richmond, Virginia. He definitely sounds like he's not out of Quincy, right? And Colleen Reavey, which I keep screwing up here, I apologize, is also located here...

Ms. Reavey: In Hartford.

Mr. Kinney: in Hartford, Connecticut. So, I'm standing in for Mike, so I'm a little struggling with some of the names and processes, and I apologize for that. Michael DeConti wanted to be here.

Mr. Lane: And we'll give you extra time to make up for the fact that we goofed on the audio.

Mr. Kinney: Thank you very much. Again, I think we brought together a great team to talk about the process and my role here is to talk to you a little bit, quickly, about what is our commitment to the State of Massachusetts, and it is phenomenal. We are very much committed to the state and to the area. In my role of being the Regional Vice President and Regional Executive, I oversee the select operation and our economic investment in what we're doing in these businesses. Massachusetts is one of our largest and most profitable states, country-wide. You are already aware of our commitment demonstrated by Premier Insurance Company which was established in 1993 and committed to our continued service of the personal lines customers in Massachusetts.

In addition, in commercial lines, we now have divisions representing many industry segments, including national accounts, advanced technology, construction, middle markets, select accounts, marine, bond and specialty. In fact, the building we're sitting in here today, our national account representatives have a location in as well, and we are moving all of our facilities that are downtown into this facility as we speak. We'll utilize our internal loss prevention and engineering services within all segments, including our trained fleet specialists who we have with us here today. Our dedicated risk control specialists communicate with our insureds to implement loss control recommendations and safety litigation.

At St. Paul Travelers, we treat all auto accounts, voluntarily and involuntarily, the same from an underwriting, audit and engineering perspective. We, individually, underwrite accounts in the tougher classes based on individual risk characteristics. We have local underwriting staffs located throughout the state that are trained in trucking, heavy over-the-road, and other tough exposures associated with the automobile line. We have the ability to service accounts that present interstate and out of state garaging operations. St. Paul Travelers has underwriting capability and offices in all 50 states. This gives us all states filing capabilities, all state claim capabilities and all lines underwriting and policy issuance capabilities. We have developed an extensive self-audit review process. All segments within the St. Paul Travelers participate in self-reviews to ensure continued improvement in underwriting efficiencies and quality.

In Massachusetts alone, we have four commercial lines marketing and underwriting offices: one in Quincy, one in Boston, one's in Hudson, and one in Springfield. We have claims offices in Middleboro and Bedford, New Hampshire. Combined, all of these offices employ over 450 underwriting, claim and marketing staff in the State of Massachusetts. We have an extremely experienced Massachusetts Auto Servicing Unit, headed by Peter and our team there. It's based in Quincy. We continuously invest in the training of our staff, the systems they use and how best to underwrite the automobile line. We adhere to underwriting best practices that allow us to review our efficiency levels and improve service on an ongoing basis. We take pride in our claim operations. We have commercial lines claim offices in Middleboro, New Bedford, I mean, in Bedford, New Hampshire. These offices have an outstanding team of claim professionals, industry-leading technology and specialized disciplines that are designed with our policyholders, agents and brokers in mind.

Our advantage to you is our people. We have a unique blend of skill, tenacity, compassion and common sense. Our claim people just don't pay claims, they manage them to ensure each loss is handled appropriately and each customer is treated fairly. I will tell you that the St. Paul Travelers is absolutely committed to the Massachusetts marketplace, to the economy here and is very excited about the opportunity to sit with you today to talk about our capabilities and, hopefully, become one of your

participants in the future. With that, I'm going to turn it over to Lyle who's going to talk to you about our claim capabilities.

Mr. Zucra:

Good afternoon. My name is Lyle Zucra and I'm an Associate Manager from the claim office in Middleboro, Massachusetts. At St. Paul Travelers, we recognize that superior claim service is a balance between payout, customer service and expenses. We expect our claim handlers to conduct timely and thorough investigations and we ask them to make fast, timely decisions on their claims. In general, our claim handling philosophy is to pay what we owe, nothing more and nothing less. Our claim handling is focused on best practices and the CAR Performance Standards. We handle our Massachusetts claims here in Massachusetts. The overwhelming majority of our claim handlers in the Middleboro office are from Massachusetts and they gained their claim handling experience handling Massachusetts claims. We matched claim complexity with the claim handler's abilities. On our liability, on our auto bodily injury claims, all of our liability unit managers review all new notices before they're assigned to the claim handlers and try to match up the complexity and severity of the claim with the claim handler's skill sets. Our unit managers are constantly reviewing the claim files and providing feedback to the claim handlers regarding their work on those files.

As mentioned earlier, at St. Paul Travelers, we believe in paying what we owe. We ask our claim handlers to handle every claim dollar as if it were their own. We bring a wealth of claim handling experience to the CAR business. Currently, in Middleboro, the four liability and auto unit managers that are handling the CAR, or facility business, have a combined 66 years of claim handling experience. We have a proven track record of providing quality claim service to CAR, as evidenced by our latest claim file review that was done in March of 2004. Our staff appraisal operation consists of 64 appraisers, 5 dispatch positions and 9 unit managers, handling the states of Massachusetts and Rhode Island. We have 12 drive-in locations throughout Massachusetts and a network of 5 independent appraisal firms we use in the event that we need additional resources or we have a particular, we have an appraisal that needs particular expertise.

We have a national preferred pricing program with Enterprise Rent-A-Car which allows us to provide preferred rates for first and third-party rentals. We also have an auto/property damage home office product unit, which we work with on a regular basis, which helps us and acts as a resource to us for system upgrades, training and improving our workflows in the field. All the liability claim handlers conduct on-site outside investigations. We firmly believe that there's a benefit to face-to-face communication with insureds, policyholders, claimants and attorneys. As mentioned earlier, our liability unit managers review every new notice before it's assigned in the liability unit to make sure that the complexity and the severity of the claim is matched up to the right skill set of the claim handler. We're committed to providing the liability reps with the resources and the tools that they need to make fast and informed decisions

on their claims. We have a registered nurse allocated in our Middleboro office, assigned to the Liability Department. She helps with reviewing medicals on files to advise the claim handlers relative to causality, reasonableness and the need for IMEs or independent exams. We also have a risk control engineer allocated and solely dedicated to the Liability Department in Middleboro to help the claim handlers and outside investigations. We utilize a Liability Major Case Unit. It's a unit of highly-trained and highly-experienced claim technicians to handle the high-severity claims. The Major Case Unit works in tandem with the local claim office, so that we can leverage all of the local claim knowledge that we have in Middleboro, along with their particular expertise on high exposure claims.

As in the local claim office with the Major Case Unit, claims are reviewed prior to being assigned to the claim handlers so that we're sure that we match up the right claim with the right set of skills. At St. Paul Travelers we utilize a quality management program. Once a year, our home office QM Department does an annual file review of each office and in each field office we do a monthly self-review. All the review results are regularly reviewed with the claim handlers, so that we provide them with feedback on what they're doing well and where they need to improve. We also review the results and compare them to our financial indicators to make sure that the claim handler behaviors are driving the desired behaviors, the desired results. A quality management review is comprehensive and they touch on every aspect and every component of the claims. We have a unit of ten SIU investigators in New England, six of which are located in the Middleboro office. Our claims system technology will red-flag certain types of claims for automatic referrals to our SIU Department. One example of that would be theft claims. Currently, we have every theft claim red-flagged by the system and an automatic referral to our SIU Department where they review it for any potential fraud indicators.

Currently, the SIU Department in Middleboro utilizes approximately eight investigative vendors for surveillance or other investigative tasks. All of the reports that come in from those vendors are reviewed by our SIU unit first before they go onto the floor to the claim handlers, and they're reviewing those reports for quality and content. Our SIU Department also has a Strategic Analysis Unit which looks for links between medical providers, attorneys and, in particular, claimants. At St. Paul Travelers, we utilize staff counsel as counsel of choice. For Massachusetts, we have staff counsel offices in Boston, Springfield, Worcester and Providence. In those four offices, we have 41 attorneys handling our St. Paul Travelers claims. Each of our staff counsel offices have attorneys designated to specific areas of specialization and expertise. We feel that the close and longstanding relationship that we have with our staff counsel offices promotes accountability, collaborative thinking on a litigated basis. In closing, we feel we bring a wealth of experience and commitment and resources to the CAR business here in Massachusetts. We think that our experience and the resources that we have enable us to deliver exceptional claim service to the assigned risk business. Thanks.

I'd like to now turn it over to Dave Shaffer to talk to the engineering perspective.

Mr. Shaffer:

My name is David Shaffer. I serve as the liaison between risk control and underwriting and claims. And if we are fortunate enough to be selected as one of the Servicing Carriers, I would serve as the person that would manage the risk control services that we would provide to all the CAR policyholders. We have over 100 years of experience in risk control, 450 specialists and risk control consultants around the country. And even more important, what we've done is identify 8 risk control consultants in Massachusetts, in our offices here in Boston, in Quincy, and also in Springfield and Hudson, to provide the servicing to these policyholders. And these are the consultants we selected based on their skill sets and their experience with working with commercial automobile. We have 4 additional consultants in Connecticut and Massachusetts that could also be called in—I'm sorry—Connecticut and Maine that could also be called in to do servicing if their skills were needed. On average, all of these consultants have 20 years of safety experience and 75% of them have some type of professional designation in safety.

And as Lyle indicated, what we have now is, one of our risk control consultants is dedicated to the Middleboro claim office. This individual doesn't go out and do formal risk control. What he's there for is to actually answer any questions that the claim adjuster may have when they run into a more technical case or case that might require some expertise in forensics or engineering, that type of thing. And what that leads into is, in Connecticut, we have our own forensics laboratory. And in that laboratory, we have done studies with tire separation, tire problems, and some of our forensics people have gotten involved with any type of automobile fire, trying to find the source and the origin of the fire and help to drive down the cost of that case and maybe help in any subrogation issues.

I mean, our focus in loss prevention always has been either frequency or severity. We want to help our customer secure the capital that they need for investment and also their human capital. We want to make sure that everybody comes to work, everybody goes home the same way that they came to work, and we're trying to get our insureds to understand that and take on the same philosophy. Some of the resources that would be available to the CAR policyholders would be consulting services. That would be on-site consulting from some of our risk control consultants, the 8 that I mentioned, or we can bring in some of Dave Hall's staff that are actually fleet specialists, that that's all they do, 100%, is fleet program assessment and also training, that type of thing.

We also put on training seminars involving fleet safety and we could do those in the state here and we put them on every year. We have a safety website where we have over 1,400 documents related to all aspects of safety. These also include CD ROMs and that type of thing that they can use for training programs or for setting up their own transportation and safety programs. We have another screening tool that some insureds are

interested in now; it's called Job Candidate Profile. This is a software program that employers can use to actually pre-screen when they're hiring people to identify, do they have the dependability aspects of a good employee, what would their potential safety experience be, and how would they be as far as being safe drivers. So that would be another tool that we'd make available to the CAR policyholders.

Finally, again, if we do start getting involved in doing some loss control, I mean, the way we looked at some of these transportation accounts is that, the first thing we wanted to look at is driver qualifications and selection: Are they doing the best job they can selecting the right employees? We want to take a look at their vehicle records, if we get to do an on-site visit, and also, how are they doing with accident reporting and investigation? Are they getting the information to our Claim Department quickly? And are they capturing all the information so that we can do anything we can to mitigate the cost of the loss? And then, finally, we would spend some time observing some of the vehicles for their physical condition, to give some feedback to our Underwriting Department because that would be— part of the job would be, number one, to work with the client, try to get them to understand the value of loss control in bringing down their losses. But, number two; help underwriting understand, you know, do they have the classifications of the vehicles correctly? Do we really understand what the ratings of operations is and how far they're traveling, that type of thing.

I mean, if we do get people like our transportation and safety specialists on Dave's staff involved, we can help them with their own fleet safety programs and help them improve what they may have already. And then, finally, we do driver training classes, as I previously mentioned, and what we like to do is integrate everybody. When we do driver training courses, we will bring in our staff counsel and the Claim Department, so that we're really giving them information from all our specialty areas when we're doing the training.

Mr. Kinney: Thank you, David. What I'd like to do now is ask Peter Elms to highlight our underwriting and processing abilities. Peter, I'm going to give you the mic.

Mr. Elms: Thank you. My name is Peter Elms. I'm the Underwriter Manager for St. Paul Travelers, out of the Quincy office. I'm also representing the Quincy Service Center out of the same office in Quincy. We're 100% dedicated to the...

Mr. Lane: Excuse me; you have five more minutes for your presentation.

Mr. Elms: I'll get it in; it'll fit perfect. We're dedicated 100% to the production and service of commercial Mass. auto business for both our voluntary agents and ERP agents assigned to us. For our voluntary assigned ERP agencies, the center produces policies that are requested by our various marketing offices and submitted by ERP agents. The underwriting of all ceded business is coordinated through our service center. As Executive

Underwriter, I review all underwriting conducted for ceded accounts, our multi-line underwriters, and I do 100% of the underwriting of accounts submitted from ERP agencies. As stated in our RFP, we have a service center staff consisting of a service manager, myself, as underwriter, 6 raters, 3 service support and 2 service support staff. The management staff averages over 30 years of commercialized experience. Our rating and service support staff is in excess of 15 years, average. Should business needs dictate, we have access to additional support staff in our Albany Service Center in New York, where there are an additional 14 people who have been cross-trained to rate and issue Massachusetts auto.

Cross-training of our own staff goes on constantly, so that personnel within our division each understands the job of the person next to them, so that should situations arise, we always have the ability to continue to produce business effectively, so that we can get policies out, billed, and pay claims as they are needed. In addition, our staff does some ancillary work in that we work with our Claim Department in confirming coverage for policies. We work on providing vehicle registration services for accounts where we are the closest proximity office for someone to get a vehicle registered in the state. We do loss-run production for all of the agencies within the state as respect ceded auto and we do all Mass. record updating through our office. Our past and present performance demonstrates our current commitment as a Servicing Carrier to CAR. The same level of commitment will be carried forward as one of the limiting number of Servicing Carriers.

Mr. Kinney: Thank you, Peter. I think we made it under the gun, and we'd love to answer any questions that you might have at this time. Thank you for listening to us.

Mr. Lane: We'll start by having Michael...

Mr. Faron: Mike Faron, Norfolk & Dedham. I know Mike DeConti has been a big advocate of the Limited Servicing Carrier Program. I'm sorry he's not here and the reason he's not here. One of the big things he advocated was that this would help drive down the size of the residual market. And I was just wondering what measures you have in place to make that happen?

Mr. Kinney: In terms of driving down the number of people that are in the residual market?

Mr. Faron: Yes.

Mr. Kinney: Peter?

Mr. Elms: We feel that limiting the number of Servicing Carriers will give each one of these Servicing Carriers a last look at every piece of business that comes into their office. And as it is now, it is the prime duty of all of our voluntary marketing underwriters to make that first-line decision and do

everything they can to write something voluntary before they send it to myself for cession. That's our primary goal and emphasis in that area.

Mr. Kinney: We coordinate all the markets inside Travelers, so between the small end, the middle end, and the large end, we look at each of the risks. We talk about them first before they go to Peter to make sure that we're ceding the bare minimum that we can.

Mr. Faron: Will the underwriters who will be handling this business also be handling other voluntary agents or will they be dedicated strictly to these risks?

Mr. Kinney: Handling the risks that go into to the assigned risk pool?

Mr. Faron: Yes.

Mr. Elms: (Inaudible) underwriters that work for Lynne and other managers throughout the state handle multi-lines, including commercial auto. But everything that is to be ceded funnels through my desk to make sure that the final i's are dotted and t's are crossed and that we're following all of CAR's Rules and regulations as respect to that.

Mr. Kinney: So what happens is, when it comes into our office, we review it, we review the entire account. We underwrite the automobile locally with our underwriters. If we believe it needs to be ceded, we hand it over to the experts that work for Peter.

Mr. Faron: Thank you.

Mr. Lane: Bill?

Mr. Whitebone: Bill Whitebone, Quincy Mutual. If you've been sitting in the audience, you might recognize some of these questions. First of all, could you tell us what you're going to be doing as far as training these ERPs in terms of what that process is all about? And secondly, would there be a marketing rep that would be visiting these people after the fact?

Mr. Elms: Under the current situation, even with a—should we end up with five carriers only, I don't anticipate that but if that should be the case, our actual market disruption, because we're one of the largest carriers around, would be minimal. We have, in the past, trained all ERPs that were assigned to us. I personally went out and visited every one of our new appointments that occurred in the last five to six years and made sure that they were cognizant of our standards, of the standards of CAR, and of their responsibilities to both us and to CAR.

Mr. Whitebone: And you would have a follow-up—a marketing rep follow up with the agent, visit the agent on occasion?

Mr. Elms: As necessary, yes.

- Mr. Kinney: We have plenty of marketing reps. We send them out all the time. We would send them out and see if there are any other opportunities, you know, when we're in there, to make sure we're not missing anything. So the answer is, yes, we have somewhere north of 35 marketing reps in the state, to begin with, between select, middle-market and all the other businesses we have here.
- Mr. Whitebone: And you have a 24-hour claim service available to the insured?
- Mr. Elms: Yes.
- Mr. Whitebone: There was a rehab program that was mentioned earlier and, essentially, what it does is address high loss ratio ERPs and then follow a rehab plan. Do you have anything like that in place, currently, with your current book of business?
- Mr. Kinney: In terms of the ERP guys?
- Mr. Whitebone: Not only ERPs but just agents in general. If you have a high loss ratio agent, you know, what do you do?
- Mr. Kinney: Okay. Let me take it from the voluntary side. In terms of the voluntary side, we have a high loss ratio agent, we're constantly looking at what's in the book, what's causing the issue, is it one account, has it been one particular driver? It could be one particular business segment. We could have it impacted—say middle-market has a pretty tough fleet on an account. So we work with that agent to try to figure it out, to try to keep the agent and everything they do voluntary with us, so that we're not putting any undue strain on the system. If it's an ERP agent that we've been having some issues with...
- Mr. Elms: From a loss ratio standpoint, I don't really see what we could do about an individual account with a high loss ratio. That's what they're there for. But we do make every effort to make sure that our policies are properly classified, that we're collecting the proper premium for that account, and that all of CAR's regulations (inaudible) that we don't write any out-of-state business improperly, so that we don't attract from other states the business that, for whatever reason, the CAR rates are more attractive than the state in which they reside.
- Mr. Whitebone: Could you have your loss control people work more closely with that sort of a situation where you had a high loss ratio ERP to try to...
- Mr. Kinney: At present, we use loss control primarily on an as-requested basis from the ceded market. If we request the loss control, and it meets our standards, then we will do that.
- Mr. Kinney: Your question is more, are we pro-active in terms of looking at it and deciding this is one who should receive engineering?
- Mr. Whitebone: Exactly.

Mr. Kinney: Okay. We understand the question.

Mr. Whitebone: The bid process, itself, did you base this on your current experience in Massachusetts with the residual pool? Or, I mean, is it a compilation of things?

Mr. Kinney: The process in terms of what we arrived at the price or in terms...

Mr. Whitebone: Yeah, how you arrived at the price, the actual figures.

Mr. Kinney: Tony?

Mr. Weldon: The market is pretty much based on the existing unit within Travelers/St. Paul. It handles approximately \$40 million worth of ceded Massachusetts business. And our expectation was that the cost of operating this unit at the level of service and efficiency required (inaudible) stayed pretty much where it was.

Mr. Kinney: And we thought, with our experience, that we obviously do a very large part of it today, that we could definitely use that as a benchmark to come up with the right price and the right idea of what it would cost us to do it.

Mr. Whitebone: And my last question is, you would have drive-in locations, claims locations around the state?

Mr. Kinney: I think we said there were 12.

Mr. Whitebone: Thank you.

Mr. Lane: Okay. Bob?

Mr. Woods: Bob Woods, OneBeacon. A couple of questions, do you share resources in Mass. with Premier? When you talk about SIU appraisers, is that a shared function or is that just dedicated to St. Paul Travelers?

Mr. Kinney: The only shared function that we do share with Premier is the appraisal staff.

Mr. Woods: So that was a combined number when you gave those appraisals?

Mr. Kinney: Right, right.

Mr. Woods: SIU was a dedicated number?

Mr. Kinney: Correct. Premier has their own program.

Mr. Woods: And I had asked previous respondents, so I will you, too. Best rating, did I see that here?

Mr. Kinney: A+.

Mr. Woods: No other questions at this time.

Mr. Kinney: Thank you.

Mr. Lane: Jim?

Mr. Tarpey: Jim Tarpey. Do you happen to have any good agents in Wakefield?

Mr. Kinney: Lynne DiGiacomo.

Mr. Tarpey: I'll pass on the questions.

Mr. Lane: Frank Mancini?

Mr. Mancini: Frank Mancini, Mass. Agents Association. Under this program, you're likely to be assigned to some current ERPs that have some good business and, possibly, to a number of voluntary agents that have good ceded business. You talk about being aggressive in de-population and Mike always talked about that. Do you see this de-population generating maybe some voluntary contracts for these agencies?

Mr. Kinney: I'll let Lynne answer it. She runs the operation here in Select.

Ms. DiGiacomo: As far as de-populating and going from an ERP status to a voluntary status, we've already done that with a number of agents. We've looked through the ERP book of business. With the help of Peter, we've met with the folks, and it has resulted in, to the best of my knowledge, a very large appointment. So we're always looking to see if there's any way we can appoint new customers.

Mr. Kinney: We're looking to grow in the state. We're very large here, so we're constantly looking at every agent to see what we can do with him and where we can go with it.

Mr. Lane: Thank you. Dave Lane, NetCare Services. Do you have an 800-number that an agent or a policyholder or anybody can call, even though they don't know exactly who they should be talking to, so the receptionist will direct that call to the appropriate department to handle that call.

Mr. Kinney: So, you mean, like an ombudsman in terms of them calling in and don't know what I'm calling for or for a claim?

Mr. Lane: Yes, yes. They don't...

Mr. Kinney: No. You have an 800-number to call the field offices and say, my name is Bob and I'm looking for the person in charge of claims and the person would then say, go to claims. It's not truly an ombudsman. It's the 800-number for the field office. Our claim operations have 800-numbers that are open 24 hours a day to receive claims on all lines of insurance but not

particularly if I would look at it as an ombudsman to say, direct yourself here or there.

Mr. Lane: Is that something you'd consider?

Mr. Kinney: If it was—I can't see why, but without Mike here, I don't know if I can answer that question. I feel like I'm playing the game without my superstar.

Mr. Lane: We'll go around, again. Do you have anything, Michael, to ask? Bill? Bob?

Mr. Woods: No, no further questions.

Mr. Lane: Jim? Frank? Thank you for your participation and proposal. I will now have some conversation about what we're going to be doing tomorrow. I understand we're going to be making our decisions tomorrow. We will proceed with describing what's going to happen the rest of the day here and tomorrow. The rest of the day here, we have to get our rating sheets done. We're rating every proposer and we have to get those done and handed to the staff so that they can assimilate that information so we have it all in summary form. And so we're going to, the members are going to stay here until we finish the rating process. We haven't rated you, obviously, because we just finished with you. But what's going to happen tomorrow is that, at 10 o'clock, we will start the meeting and any bidder that wants to add something to what they've already said or rebut something that's been said will have up to 10 minutes, verbally, to do that at the meeting tomorrow.

And, then, the committee will then discuss and decide which companies to recommend as Servicing Carriers under this program. So there'll be a discussion and a decision on that process. Then, we're going to make sure that we clarify the services required of the Servicing Carriers and remind them, at least, there'll be an annual review and there'll be periodic reviews of the performance of the companies and, at least annually, there will be a review of their performance and how they provided the services that were required under the program. And we also expect the companies to train new assigned producers which, I'm sure, you have done in the past and will continue to do. And, then, finally, after we've made sure that everybody understands what the services are that we expect, we're going to decide what expense allowance we're going to recommend to the Governing Committee that we'll be reimbursing the companies for the services that they're providing. And it will be a uniform expense allowance; it'll be the same for every carrier. And the intent is to have a uniform amount of business for each carrier, it'll be evenly divided. It'll be divided by (inaudible). It'll be divided equally and equitably by loss ratio and class of business. So every carrier that becomes a Servicing Carrier under this program will be on the same level playing field as every other carrier, hopefully. And, obviously, as time goes on, that has to get adjusted because some producer grows faster than another and

certain classes develop faster than others and so that has to be adjusted periodically.

We're going to—with respect to the expense allowance, I had said yesterday—or Tuesday, that we wanted the companies to respond during the meeting on Friday as to whether or not they accept the expense allowance that we're proposing. That's probably unrealistic because companies have to decide whether or not it's right for them and whether they can do it. And so we're going to give all the bidders until Wednesday noon to get their notification into us whether they accept the service expense allowance that will be decided by this committee. And if you have any questions, they should be directed to Pam Wallace. Then, on Wednesday, when we have that information, we will be able to decide whether we're going to have five, six, seven, eight Servicing Carriers, whatever that happens to be. But we have a mandate to have at least five Servicing Carriers. So if we have less than five Servicing Carriers willing to accept the Servicing Carrier bid, we'll have to have another meeting of this committee to re-evaluate the situation.

Let me see if there's anything else. We need to ask the staff for some information that will help us make the decision tomorrow. So we're going to have that discussion now as to what we think we need so that staff can prepare that for our meeting tomorrow. And I know that we do want some analyses helpful in evaluating the bids which would be, compare the company bids to expenses allowed in the CAR rates, compare the company bids to actual company expenses, identify the incremental costs and savings associated with additional percentage point of expenses allowed.

Does anybody on the committee have any other things that they want to add to that? We also want the staff to prepare a list of the services required and expected of the Servicing Carriers, to make sure everybody's on the same page with that respect because in our specs we asked for certain things, and some companies added things; some didn't answer on some of those questions. So we want to make sure that everybody's on the same page as to what the services are. And we also want to include in there, in the services we require, some indications the companies are committed to trying to de-populate the residual market through writing voluntary business for the assigned producers that may be giving them business. Is there anything else? Yes?

Ms. DiGiacomo: Yes. Mr. Lane, could I just double check, the expense allowance will be given to the prospective companies by when?

Mr. Lane: Tomorrow, we'll decide that tomorrow.

Ms. DiGiacomo: Okay. And you'll let us know through Mike or...

Mr. Lane: Presumably, you should have somebody here to have that information. And, then, you have until Wednesday at noon to say whether you accept it or not.

Ms. DiGiacomo: Thank you.

Mr. Lane: Since the figure will probably be higher than some people's bids and lower than other people's; some may say, yeah, we'll take that right away. The others will have to think about what they want to do. Does that answer your question?

Ms. DiGiacomo: Yes, thank you.

Mr. Lane: So, I think we've covered the things that we have to do. We're going to take some fire time and fill out evaluation rating sheets and then we'll reconvene tomorrow at 10 o'clock in the morning.

Mr. Kinney: Thank you very much for giving us the opportunity. I know if Mike was here today, he would tell you how much he wants to do this, how committed he is to the process. Mike, obviously, is the power behind what brings St. Paul Travelers to the table. We very much want to do this with you and we thank you for your time.

Mr. Lane: Will you pass on to him our...

Mr. Kinney: Yes, we will.

Mr. Lane: profound sadness and our thoughts and prayers are with him.

Mr. Kinney: Thank you very much.

(Meeting ended at 2:34 p.m.)

Initial transcription by the Tape Transcription Center, a Division of the Skill Bureau, with review and indexing by Regina Nagle, Commonwealth Automobile Reinsurers.

Note: This Transcript has not been approved. It will be considered for approval at the next Commercial RFP Selection Committee meeting.

Boston, Massachusetts
August 31, 2006

ATTACHMENT LISTING

This Exhibit is Unavailable

Sign-in Sheet of Meeting Attendees