



DANIEL R. JUDSON  
PRESIDENT

## COMMONWEALTH AUTOMOBILE REINSURERS

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### NOTICE OF MEETING

#### COMPLIANCE AUDIT COMMITTEE

A meeting of the Compliance Audit Committee will be held at the offices of Commonwealth Automobile Reinsurers, 225 Franklin Street, Boston, on

**WEDNESDAY, FEBRUARY 12, 2014 AT 10:00 A.M.**

#### MEMBERS OF THE COMMITTEE

Mr. Jerry S. Sleeper – Chairman  
Safety Insurance Company

Mr. Thomas F. Alighieri  
Mr. Michael Cesinger  
Ms. Inna L. Chernyakova  
Mr. Francis N. Delage  
Mr. Charles J.C. Gillon  
Mr. Robert E. McKenna  
Mr. Kenneth Olivieri  
Ms. Marie-Armel Theodat

The Norfolk & Dedham Group  
Plymouth Rock Assurance Corporation  
Travelers of Massachusetts  
The Hanover Insurance Company  
Arbella Insurance Group  
MAPFRE U.S.A. Corporation  
J.K. Olivieri Insurance Agency, Inc.  
R. Theodat Insurance Agency, Inc.

#### AGENDA

##### CAUC

##### **13.01 Records of Previous Meeting**

The Records of the Compliance Audit Committee meeting of November 6, 2013 should be read and approved.

##### CAUC

##### **14.03 Annual Audit of CAR for Fiscal Year Ending 2013**

PricewaterhouseCoopers will present Financial Statements and a report regarding its review of CAR for fiscal year ending September 30, 2013. A draft of the report will be provided to Committee members prior to the meeting.

**CAUC**

**14.04 Compliance Audit Program**

Staff will provide an overview of the most recent audit activity conducted in accordance with the Compliance Audit Program. The Committee should be prepared to discuss the audit findings.

**CAUC**

**14.05 Hybrid Audit Plan – Electronic Access to ARC Documentation**

The Committee will discuss proposed amendments to Section C.1. of Chapter XI – Compliance Audit of CAR’s ARC Procedures Manual regarding electronic access to ARC documentation. (Docket #CAUC14.05, Exhibit #1)

**CAUC**

**14.06 Private Passenger Claims Performance Standards – Labor Rates**

As discussed at the November 6, 2013 meeting, the Committee will consider the request by the Alliance of Automotive Service Providers to amend the Private Passenger Claims Performance Standards relative to labor rates and times. Proposed modifications to Section I.A.4. of the Private Passenger Claims Performance Standards are attached. (Docket #CAUC14.06, Exhibit #1)

**Other Business**

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

**Executive Session**

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

VALERIE B. GEDZIUN  
Vice President, Compliance Audit

Boston, Massachusetts  
January 31, 2014

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controls. The Compliance Audit staff is available to oversee or coordinate with any external auditors or consultants retained by CAR for specific projects.

b. Independent Audits

An independent audit will be conducted annually by a public accounting firm recommended by the Compliance Audit Committee and approved by the Governing Committee. CAR's Corporate Auditor will coordinate this annual audit with the other involved departments. At its conclusion, the audit report and certified financial statements will be presented to the Compliance Audit Committee. Copies of the financial statements will be made available upon request.

**C. Audits of Assigned Risk Companies or Assigned Risk Producers**

Audits shall apply to all ARCs including those Members that have executed a LADA with an ARC who writes or services private passenger automobile insurance policies in Massachusetts. ARCs or any other entity servicing these policies or reporting statistical data to CAR must make available all documentation required by CAR's auditors to adequately verify the accuracy of all aspects of the reported data as authorized by Rule 34 – Audit Review of CAR's Rules of Operation.

CAR staff will conduct audits of reported statistical data as prescribed in the Compliance Audit Program to fulfill its industry responsibilities as the Statistical Agent and Residual Market Administrator in the Commonwealth of Massachusetts. The Hybrid Audit is the primary scheduled examination of ARCs for private passenger data.

1. Hybrid Audits

The Hybrid Audit encompasses all aspects of the company's reported data and tests accuracy of statistical data for premium and losses. The Hybrid Audit closely examines the underlying data utilized in Quota Share and rate making. The Hybrid Audit also evaluates the audited company's adherence to statutory requirements and CAR's Rules of Operation. Examples of this include Lane-Bolling, Clean-In-Three, and the consistency of claim handling practices of voluntary and residual market business in accordance with Claim Performance Standards, as well as other requirements and rules.

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Premium and claim data is selected in stratified random samples that include MAIP and voluntary policies. These samples are minimally based on a 90% confidence level with 5% plus/minus standard error rate. The sample consists of 400 policies of which 270 policies have at least one claim.

Documentation and system access must be made available to CAR's compliance auditors upon request. Original documents, copies of scanned documents, or other reasonable facsimiles must be made available to the auditors as required in order to complete the audit. System access means direct access to the ARC's computer systems on a read only basis, to view information necessary to complete the audit.

CAR staff will respect the level of supervision, confidentiality, and security that each Member or ARC is willing to provide relative to the access of company documents and its computer systems.

- a. The documentation and system access for the premium or underwriting portion of the Hybrid Audit shall include but is not limited to the following:
  - (1) Access to the premium underwriting system which shows all necessary information involved in declarations and endorsements for premium determinations such as coverages, limits, deductibles, classification and territory, etc.

If the ARC determines that system access ~~is will~~ not ~~be made~~ available, a fee is assessed in consideration of the additional time and resources to be incurred by CAR in obtaining the documentation necessary to conduct the audit in its entirety; ~~the following may be substituted:~~

The level of the fee is commensurate with the level of system access provided or allowed by the ARC.

Partial access is defined as the ARC granting limited access to only the premium, claim, or any adjunct systems used to access source documents. The fee assessed is \$12,000.

No access is defined as the ARC not granting any direct access to the premium, claim, or any adjunct systems used to access source documents. The fee assessed is \$24,000.

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Any assessed fee is processed through the Settlement of Balances in the quarter subsequent to the audit completion. Income generated by such assessments is dispersed to Member Companies through the Settlement of Balances as miscellaneous income using the administrative expense participation ratios.

When partial or no system access is provided, the following may be substituted:

- (a) Access to an imaging system which shows all declarations and endorsements, or
  - (b) Hardcopies of declarations and endorsements, or
  - (c) A print-out of data stored in a computer, provided it includes all information found on the declaration page.
  - (d) Primary underwriting documentation, including, but not limited to, new business applications, anti-theft documentation, pre-insurance inspection forms, cancellation forms, and underwriter's notes. These may be provided through access to an imaging system or with hardcopies which are the original or photocopies of the original;
  - (e) All necessary printouts from the Registry of Motor Vehicles or access to the Registry of Motor Vehicles;
- (2) The audited Member or ARC is required to supply their voluntary rates on file with the Division of Insurance including rules and discounts within the accounting dates of the audit scope.
- b. The documentation and system access for the claim statistical and claim Performance Standards portion of the Hybrid Audit shall include but will not be limited to the following:
- (1) Access to the claim system in its entirety including check and payee information
  - (2) Access to the claim file details including police reports/accord, appraisals and adjuster's running notes

***Performance Standards for the Handling and Payment  
Of Claims by Assigned Risk Companies***

**I. Auto Physical Damage & Property Damage Liability Claims**

**A. Auto Body Payments**

**1. Service Times**

- a. Assigned Risk Companies (ARCs) must establish programs and procedures to ensure prompt settlements of warranted auto physical damage claims.
- b. ARCs must establish procedures to permit prompt appraisal of damage and to make prompt claim payments of auto physical damage claims.
- c. The Standard for assignment to an appraiser from the date the report is received or date of notice of recovery of theft is 2 business days.
- d. The Standard for transmittal of the completed appraisal from the date of the appraisal assignment is 5 business days in accordance with 212 CMR 2.04(1)(e).
- e. The Standard for payment of a first party auto physical damage claim under any Direct Payment Plan is 5 business days from completion of the appraisal on all repairable vehicles, subject to all other provisions of the Plan.
- f. The Standard for payment of a first party auto physical damage claim that is not under any Direct Payment Plan is 7 business days following receipt of a Completed Work Claim Form.

**2. Direct Payment Plan**

- a. ARCs must have a Direct Payment Plan unless their average Massachusetts private passenger market share is less than 1 percent of the total Massachusetts private passenger market.
  - 1) The Industry Plan can be adopted (Appendix C).
  - 2) Modifications to the Industry Plan can be filed for approval by the Commissioner of Insurance.
  - 3) An ARC can develop its own plan and submit it for approval by the Commissioner of Insurance.
- b. Any Direct Payment Plan developed by an ARC must include a referral shop program.

**3. Parts Cost**

- a. ARCs must have programs and procedures to demonstrate their efforts to obtain discounts and pay less than full retail price for parts.

## Private Passenger Claims Performance Standards

- b. ARCs must consider the applicability of aftermarket, rebuilt, and like kind and quality (LKQ) parts on all appropriate appraisals.
- c. ARCs must allow for, and insist on, the use of aftermarket, rebuilt, and LKQ parts in lieu of new or cost of repair, whenever appropriate.

### 4. Labor Rates and Times

- a. ARCs must have a plan designed to control labor costs, ~~and~~ to seek the most competitive labor rates and times, and to determine whether labor, repair, and replacement times are reasonable and consistent with industry-recognized sources.
- ~~b. ARCs must have a plan to demonstrate their efforts to resist labor rate increases or to lower rates whenever possible.~~
- ~~c. ARCs must have a plan to determine whether labor, repair, and replacement times are reasonable and consistent with industry-recognized sources.~~

### 5. Total Loss Payments

- a. ARCs shall not declare any vehicle a total loss when a prudent appraisal evaluation would have shown that the vehicle could have been repaired at an overall cost less than the actual cash value minus the salvage value.
- b. The actual cash value of any vehicle must be determined based on the following requirements of Regulation 211 CMR 133.05 Determination of Value (Appendix F).
  - 1) Actual Cash Value: Whenever the appraised cost of repair plus the probable salvage value may be reasonably expected to exceed the actual cash value of the vehicle, the insurer shall determine the vehicle's actual cash value. This determination shall be based on a consideration of all the following factors:
    - a) the retail book value for a motor vehicle of like kind and quality, but for the damage incurred.
    - b) the price paid for the vehicle plus the value of prior improvements to the motor vehicle at the time of accident, less appropriate depreciation;
    - c) the decrease in value of the motor vehicle resulting from prior unrelated damage which is detected by the appraiser; and
    - d) the actual cost of purchase of an available motor vehicle of like kind and quality but for the damage sustained.
- c. Existing pre-insurance inspection reports must be reviewed for options, mileage, prior condition, prior damages, and placed in the claim file on all total losses.
- d. ARCs must be in compliance with the Salvage Title Law, Chapter 90D, section 20 (a through e).