



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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RECORDS OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE – SEPTEMBER 4, 2024

Members Present

Ms. Erin Cummings– Chair
Mr. Thomas Bird ⁽¹⁾
Mr. Thomas Harris
Ms. Annmarie Hassan
Ms. Nicole Martorana
Mr. Henry Risman
Mr. Barry Tagen
Mr. Christopher Taylor
Ms. Brenda Williams

Norfolk and Dedham Group
Acadia Insurance Company
Quincy Mutual Group
Arbella Insurance Group
FBInsure
Risman Insurance Agency, Inc.
Pilgrim Insurance Company
The Hanover Insurance Company
MAPFRE U.S.A. Corporation

Substituted for:

⁽¹⁾Ms. Sharon Murphy

Not in Attendance:

Mr. Kenneth Yeh, Allstate Insurance Company

24.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of March 27, 2024. The Records have been distributed and are on file.

24.04 Informational Items

Ms. Wendy Browne notified the Committee that the withdrawal plan of Electric Insurance was approved by the Commissioner of Insurance and that consequently its volumes will decrease over the upcoming year as policies are non-renewed. Additionally, Ms. Browne informed the Committee that the Vermont Mutual Hybrid Audit report, Farm Family Focus Audit report, and the industry SIU compliance report presented at the March 27, 2024 Compliance and Operations Committee meeting were accepted by CAR's Governing Committee at its April 9, 2024 meeting. A future focus audit of Vermont Mutual's SIU program will occur as a result of the Hybrid Audit. Finally, the SIU reports have been provided to the Division of Insurance.

24.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for Permanent General. He provided context for the audit by noting that in 2019, Occidental National Insurance Company underwent a Hybrid Audit that resulted in the Committee requiring a future focus audit to evaluate the corrections efforts on ten recurring data quality issues. Occidental then withdrew from the Massachusetts private passenger automobile insurance market.

As part of an agreement with Occidental National Insurance Company, Permanent General entered the Massachusetts private passenger automobile insurance market in January of 2020, with prior Occidental policyholders being offered new policies with Permanent General. Occidental previously had a third-party vendor agreement with Embark General to underwrite, service, and statistically report automobile insurance business in Massachusetts on behalf of Occidental. Permanent General entered a similar contract with Embark General.

Mr. Hirsh explained that because both companies held a contract with Embark General, Permanent General was notified of the issues identified in the Occidental Hybrid Audit and was informed that CAR expected that these issues would still be corrected. Permanent General then underwent a focus audit in 2020, assessing the corrections efforts of the ten previously identified issues, with six of the ten issues corrected and two new data quality issues identified.

The Committee then directed CAR staff to conduct a Hybrid Audit, and that if the five items prioritized for correction from the focus audit remained uncorrected, Permanent General's future monthly accounting statistical submissions be considered as late and unacceptable shipments in accordance with the Statistical Plan and eligible for penalties until monthly submissions with accurate data were reported.

The Permanent General Hybrid Audit scope included \$836,000 in written premium, and paid losses and allocated loss adjustment expenses totaled \$2,079,000. Mr. Hirsh noted that the five previously identified data quality issues prioritized for correction remained in the audit results. Five additional recurring statistical premium reporting issues and six recurring statistical claims reporting issues were newly identified as not in compliance with the Statistical Plan. He also referenced that Permanent General indicated in its response letter that all recurring data quality issues have either been corrected or are under review to ensure that data reporting is accurate. The company provided an estimated timeline with targeted correction dates for each of the issues identified.

The Committee voted unanimously to accept the audit report and directed CAR staff to begin the process to assess penalties to Permanent General for statistical reporting noncompliance as outlined in the Private Passenger Statistical Plan pertaining to the five recurring issues identified in the 2020 focus audit, until a monthly submission with accurate statistical data is submitted. Separately, the Committee voted unanimously to direct CAR staff to conduct a focus audit in August of 2025 to evaluate the correction efforts pertaining to the 11 newly identified issues.

Mr. Mark Alves notified the Committee that CAR staff began testing the Commercial Audit System in June, and the program was moved to production on September 3rd. Pilgrim Insurance will be the first Servicing Carrier to undergo audit procedures using the new application. The notice of audit will include a projected start date of October 21st.

22.09 Merit Rating Reporting

Mr. Hirsh presented the results of the follow-up private passenger merit rating focus audits. He stated that in 2022, CAR conducted an industry-wide audit of statistically reported merit rating values to

verify if each Assigned Risk Company (ARC) was accurately imputing merit rating values from the Massachusetts Registry of Motor Vehicles. Results identified five ARCs with error rates that exceeded the industry average of 8.7%. At its September 2022 meeting, the Committee directed CAR staff to conduct follow-up audits retesting the merit rating data for each of the five outlier companies and provided a deadline of the January 2024 submission for each ARC to have its merit rating data corrected.

Mr. Hirsh noted that follow-up merit rating audits were conducted on the remaining five ARCs in 2023, with one ARC's error rate decreasing to below the industry average. As a result, this ARC was then considered compliant. For the remaining four companies, Mr. Hirsh explained that a second follow-up merit rating audit was conducted in 2024.

Results from that second audit demonstrated that two ARC's error rates decreased to below the industry average, and as such, both ARCs are now considered compliant with merit rating reporting requirements.

The remaining two ARCs saw improved results from the initial audit in 2022. However, both still held error rates above the 8.7% industry average. Mr. Hirsh explained that, as both ARCs are either currently undergoing or will undergo a Hybrid Audit in 2024 and 2025, that a final follow-up merit rating audit be conducted and included in the results of each Hybrid Audit. If either company still holds an error rate above the 8.7% threshold at that point, then CAR will recommend that penalties be assessed immediately for late and unacceptable shipments as outlined in the Private Passenger Statistical Plan.

24.08 Review Procedures for the Sale and Transfer of Excess Credits

Ms. Browne presented proposed changes to Chapter X – Quota Share and Credit Programs of the ARC Procedures Manual related to the sale and transfer of excess credits. Ms. Browne explained that the proposed changes relate to guidelines that are currently used internally, and that CAR is recommending an update to the ARC procedures manual to codify the procedures and to ensure consistent information for companies initiating credit sale and transfer requests.

Ms. Browne indicated that many of the proposed changes are related to CAR's restriction of credit transfers when the selling company reports interim summary data or is known to have data reporting issues that impact key quota share data elements. Ms. Browne noted that CAR accepts interim summary data from companies newly writing in Massachusetts as those companies are not yet reporting statistical data in accordance with CAR's Rules of Operation. Because these companies report summary data rather than detailed statistical transactions, many of CAR's data quality programs cannot be utilized to verify the accuracy of the data. Ms. Browne stated that these companies have been restricted from selling and transferring excess credits. Ms. Browne highlighted the importance for CAR to maintain the integrity of the quota share process by promptly addressing data quality issues with member companies.

Mr. Thomas Harris stated that he agreed with staff's proposed changes; however, he recommended replacing "restricted" with "prohibited" in the section of the credit sale agreement approval process that details the criteria for approval. **The Committee agreed with this suggestion and voted unanimously to recommend Governing Committee adoption of the amendments to Chapter X – Quota Share and Credit Programs of the ARC Procedures Manual as modified.**

24.09 Commercial Statistical Plan Changes

Ms. Browne noted that a Bulletin recently informed the industry that the Division of Insurance placed on file the Commercial Automobile Insurance Manual Rule, Policy Form, and Endorsement Form

changes for use with ceded policies effective January 1, 2027. She provided a summary of changes including adoption of both the 2020 Business Auto Coverage Form, the 2023 Motor Carrier Endorsement for use in conjunction with the 2020 Business Auto Coverage Form, and the 2020 Auto Dealers Coverage Form for franchised and non-franchised auto dealers. Other related changes include withdrawal of the 2006 Truckers form and the 2010 Massachusetts Garage form. She stated that overall, approximately 90 endorsement forms would either be replaced or updated to current versions, resulting in significant changes applicable to the Servicing Carriers.

With the approval of these newer coverage and endorsement forms, staff has identified updates to commercial statistical reporting to maintain consistency with the new forms. These changes include an updated definition of Physical Damage Coverage Code 087 for consistency with the language used in the policy forms. Also, additional Physical Damage Coverage Codes for Towing and Labor, Substitute Transportation, and On-Hook Coverage will now be applicable for the residual market. While new reporting codes for these coverages were established in 2023 for voluntary business, the Commercial Statistical Plan will now need to reflect that the coverages will be valid for ceded business as well. Ms. Browne indicated the final change pertains to Non-Ownership Liability business, for which additional new classification codes will be required to identify different types of risks. She noted that this is likely the most substantive change as it will require new designations and the addition of numerous classification codes to company systems.

The Committee voted unanimously to accept the proposed outline and directed staff to draft updates to the Commercial Statistical Plan for consideration at a future meeting.

24.10 MAIP Placement Record Reporting

Ms. Browne presented proposed changes to the reporting of the MAIP placement record. Ms. Browne explained that beginning in 2008 and 2009, the Division of Insurance (DOI) directed CAR to collect data on the rate selected, either voluntary or MAIP, for business assigned through the MAIP. This was accomplished by adding the Rating Company Number field to the MAIP Placement Record. CAR produces a report for the DOI that provides statistics that can be used for monitoring trends in the residual market. Ms. Browne noted that CAR staff has identified inconsistencies with the reporting of the Rating Company Number when a company's voluntary rate equals the MAIP rate, specifically when the company has adopted the MAIP rates in their voluntary filings. To ensure meaningful data analysis, CAR is proposing the addition of a new code (002) to separately identify those instances where the filed voluntary rate matches the MAIP rate.

Committee members questioned whether clarification of the reporting instructions would address the need for meaningful data analysis. However, there was lack of consensus as to whether the adoption of the MAIP rate into a carrier's voluntary filing would be considered MAIP rating or voluntary rating. Ms. Browne suggested that the additional code would eliminate any confusion. After discussion, Ms. Browne indicated that she would contact the DOI for feedback and report back to the Committee for further discussion at a future meeting.

MATTHEW HIRSH
Compliance Audit Supervisor

Boston, Massachusetts
September 11, 2024

ATTACHMENT LISTING

Docket #COPC24.02, Exhibit #3

Attendance Listing

**COMPLIANCE AND OPERATIONS COMMITTEE MEETING
MEETING ATTENDEES
SEPTEMBER 4, 2024**

Individual's Name

Company / Agency

PLEASE PRINT

Erin Cummings	Norfolk and Dedham Group
Thomas Harris	Quincy Mutual Group
Annmarie Hassan	Arbella Insurance Group
Nicole Martorana	FBInsure, LLC
Thomas Bird	Acadia Insurance Company
Henry Risman	Risman Insurance Agency, Inc.
Barry Tagen	Pilgrim Insurance Company
Christopher Taylor	The Hanover Insurance Company
Brenda Williams	MAPFRE U. S. A. Corporation
Jessica Katuska	PURE Insurance Company
Benjamin Hincks	TSH & D – CAR Counsel
Steven Torres	TSH & D – CAR Counsel
Mark Alves	CAR Staff
Wendy Browne	CAR Staff
Peter Bertoni	CAR Staff
Shannon Chiu	CAR Staff
Timothy Galligan	CAR Staff
Matthew Hirsh	CAR Staff
Cheryl Kopas	CAR Staff
Tiffany Manning	CAR Staff
Katy Proctor	CAR Staff
James Robery	CAR Staff
Evan Ross	CAR Staff
Alison Ruggiero	CAR Staff
Robin Tigges	CAR Staff