



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

NOTICE OF MEETING

COMMERCIAL AUTOMOBILE RESIDUAL MARKET STANDARDS SUBCOMMITTEE

A meeting of the Commercial Automobile Residual Market Standards Subcommittee will be held at the Automobile Insurers Bureau Conference Center at 101 Arch Street, 7th Floor, Boston, on

TUESDAY, DECEMBER 18, 2018 AT 10:30 A.M.

MEMBERS OF THE SUBCOMMITTEE

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

Ms. Sarah Clemens
Ms. Sheila Doherty
Ms. Mayre Hammond
Mr. Coleman Johnson
Mr. Brian Lam
Mr. Thomas Skelly, Jr.
Mr. Barry Tagen

MAPFRE U.S.A. Corporation
Doherty Insurance Agency, Inc.
Arbella Insurance Group
The Hanover Insurance Company
Safety Insurance Company
Deland, Gibson Insurance Associates, Inc.
Pilgrim Insurance Company

AGENDA

CRMS

18.01 Records of Previous Meeting

The Records of the Commercial Automobile Residual Market Standards Subcommittee meeting of November 8, 2018 should be read and approved.

CRMS

18.03 CAR Conflict of Interest Policy

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

CRMS

18.04 Commercial Residual Market Issues

Attached is an updated status report of the Subcommittee's current efforts (Docket #CRMS18.04, Exhibit #13)

CRMS

18.09 Producer Requirements

The Subcommittee will continue its review and deliberations of potential enhancements to the existing requirements for producers. Additional information will be distributed prior to the meeting.

CRMS

18.12 Radius of Operation and Rating Territory

The Subcommittee will continue its discussion relative to proposed modifications to Rule 72 – Public Automobile Classifications of the Commercial Automobile Insurance Manual and draft standards to enhance consistency in the determination of the Radius of Operation and Rating Territory. Additional information will be distributed prior to the meeting.

CRMS

18.14 Requirements for Vehicle Operations in Massachusetts

Staff will provide a status report on efforts relative to the requirements for vehicle operations in Massachusetts.

Other Business

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

Executive Session

The Commercial Automobile Residual Market Standards Subcommittee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

WENDY BROWNE
Vice President – Business Operations

Attachment

Boston, Massachusetts
December 5, 2018

**Commonwealth Automobile Reinsurers
Commercial Automobile Residual Market Standards Subcommittee – Market Issues
Status as of December 5, 2018**

IN PROCESS

I. Issue: Non-Fleet Private Passenger Types – Driver Licensing Requirements

Category: Residual Market Growth – Eligibility for Placement in the Massachusetts Commercial Automobile Residual Market

Priority: High

Subcommittee Focus: Development of Rule Language and/or Standards for Underwriting and Processing Risks involving Foreign or Out of State Licenses

Subcommittee Action to Date: At its November meeting, the Subcommittee recommended to the Commercial Automobile Subcommittee updated language for the eligibility definition in Rule 2 and proposed Standards for the verification of applicant drivers' licenses.

STATUS: The Commercial Auto Committee has begun reviewing the draft language and will continue its discussions at an upcoming meeting.

II. Issue: Producer Requirements – Market Need

Category: Residual Market Growth – Exclusive Representative Producer Eligibility for Appointment to a Servicing Carrier

Priority: High

Subcommittee Focus: Determination of commercial automobile residual market access for the consumer with regard to the appointment of ongoing Exclusive Representative Producers

Subcommittee Action to Date: The Subcommittee has discussed the concept of the need for new commercial automobile Exclusive Representative Producer (ERP) appointments. Data reports reflecting market distribution of commercial producers by territory, class of business, written premiums and by the status of the producer's company relationships (voluntary vs. no voluntary presence in the agency) were distributed to the Subcommittee for their review. It was the consensus of the Subcommittee that the market appears to be currently adequately accessible based on the data provided. Consensus was that future applicants with voluntary commercial auto contracts would be eligible, absent other eligibility criteria in CAR Rule 14, for a Servicing Carrier appointment. Applicants without a voluntary commercial auto contract, would be required to meet certain market need criteria in order to be eligible for an appointment.

STATUS: The Subcommittee continues deliberations on the specifics of a market need concept. Additionally draft reports will be provided to the subcommittee to assist in the discussions.

III. Issue: Program Oversight - Servicing Carrier Audits

Category: Servicing Carrier Performance - Reviews

Priority: Medium

Subcommittee Focus: Implementation of Servicing Carrier Focus Audits

Subcommittee Action to Date: At its March 29, 2018 meeting, the Subcommittee recommended approval of CAR's Focus Audit plan that will gather information to assist in the development of underwriting standards for use by Servicing Carriers to determine eligibility, classification, and rating of commercial residual market risks. This was approved by the Commercial Automobile and Governing Committees at the April 2018 meetings.

STATUS: The results of the Focus Audits were presented to the Compliance and Operations Committee on October 18th and the Commercial Oversight Committee on November 8th. Two new issues, identified through the audits, have been added to the Subcommittee's List of Issues. Staff is currently preparing company specific reports that will be provided to each Servicing Carrier. Additionally, once that effort has been completed, Staff will begin developing an Audit Plan for the Servicing Carriers for review by the Compliance and Operations Committee

IV. Issue: Radius of Operation and Rating Territory

Category: Classification and Rating

Priority: High

Subcommittee Focus: Development of consistent classification and rating standards to be employed by all Servicing Carriers

Subcommittee Action to Date: The Subcommittee noted that the determination of radius of operation for truck and bus classes is not consistent. Pursuant to Rules 52 and 72 of CAR's Commercial Automobile Manual, radius for trucks is determined using the street address of principal garaging, and for buses using the motor vehicle's registration. Furthermore, the Subcommittee noted that language in Rule 72.C.2. defining the determination of non-zone rated risks could be clarified to enhance consistency among Servicing Carriers

STATUS: The Subcommittee will continue its discussion relative to proposed modifications for determining the Radius of Operation and the Rating Territory at its meeting.

V. Issue: Information Sharing

Category: Servicing Carrier Consistency in Handling of Risks

Priority: Medium

Subcommittee Focus: Development of a communication mechanism to assist Servicing Carriers in the consistent writing and servicing of residual market commercial automobile business

Subcommittee Action to Date: The Subcommittee has discussed opportunities to share information that may not be proprietary in nature or in conflict with statute and/or regulation, but that would be beneficial to the administration of the program. Staff proposed developing a web-based online system for this function, which was unanimously accepted by the Subcommittee at its May 9, 2018 meeting.

STATUS: The Ineligible Risk Database was implemented in mid-November and Servicing Carriers have begun to populate the database. CAR will continue to monitor the system for activity, timeliness, and trends. The Subcommittee should consider if the current level of detail is sufficient or if additional information is needed.

VI. Issue: Vehicle Operations in Massachusetts Requirement

Category: Residual Market Eligibility

Priority: Medium

Subcommittee Focus: Determination whether or not a risk must be required to have a vehicle operation presence in Massachusetts to be eligible for placement in the residual market.

Subcommittee Action to Date: Information regarding other state's handling of multi-state risks was distributed to the Subcommittee at its September 2018 meeting.

Status: The Compliance and Operations Committee approved Staff's recommendation to add a new data element to the Commercial Statistical Plan to collect information relative to the percentage of operations in MA. However, the Governing Committee deferred action until accurate data collection standards are developed. Accordingly, the discussions for the standards in determining radius of operation should also address the vehicle's operations in MA.

FUTURE ITEMS

VII. Issue: Additional Insured

Category: Residual Market Loss/Cost Control

Priority: Medium

Subcommittee Focus: Eligibility of Additional Insureds on ceded policies

Subcommittee Action to Date: None

Status: As part of its review during the Focus Audit, Staff observed a number of policies with Additional Insureds listed. In many instances, additional insureds, such as lienholders or lease companies were added to a ceded policy and supported with the appropriate documentation. However, several less customary entities were included on ceded policies, including casinos, out-of-state school districts and out-of-state metropolitan transit commissions. Because of the potential exposure to the pool, the Subcommittee should be prepared to review and discuss the appropriateness of certain additional insureds.

VIII. Issue: Non-Ownership Liability Coverage

Category: Residual Market Growth - Loss Experience

Priority: Medium

Subcommittee Focus: Improvement of underwriting results – non-ownership liability classifications

Subcommittee Action to Date: None

Status: Staff has observed consistently high loss ratios for the non-ownership liability classifications. The Subcommittee will be asked to review rule amendments and/or procedures to improve the residual market results for these risks at a future meeting.

IX. Issue: Miscellaneous Risk Classifications

Category: Classification and Rating

Priority: Medium

Subcommittee Focus: Ensuring consistency among Servicing Carriers in the classification of certain risks

Subcommittee Action to Date: None

Status: At a future meeting, the Subcommittee will discuss whether the language in the rating manual should be clarified to ensure consistency among Servicing Carriers in classification of risks. Examples raised to date include:

- Buses – Social Service vs. School vs. NOC
- Garage – Dealer Risk with some Repair vs. Repair Risk with some Dealer
- Others as may be determined (Multi use vehicles, etc.)

X. Issue: Cancelled Risks - Premium Avoidance

Category: Residual Market Premium Collection

Priority: Medium

Subcommittee Focus: Premium collection regarding risks that have been cancelled being placed on other policies to avoid owed premium.

Subcommittee Action to Date: None

Status: The Subcommittee should further discuss this issue to determine whether strengthened controls are feasible and beneficial to the residual market.

XI. Issue: Supplemental (or Renewal?) Application

Category: Risk Evaluation

Priority: Low

Subcommittee Focus: Determination whether there is a need for a supplemental application after the various issues have been discussed and concluded

Subcommittee Action to Date: None

Status: The Subcommittee has discussed the possibility of developing a supplemental application that will incorporate the different certifications, as well as address the need for any other necessary information not presently captured in the policy application.

XII. Issue: Coverage Limits

Category: Residual Market Loss/Cost Control – Review of Maximum Cedable Limits

Priority: Low

Subcommittee Focus: Review of the current limits and whether a change is warranted

Subcommittee Action to Date: At its June 2018 meeting, the Governing Committee requested that the Subcommittee revisit the issues related to the cedable limits available in Massachusetts, whether they present an incentive to seek coverage in the Massachusetts residual market and/or whether a change in the limits are warranted. The Subcommittee subsequently agreed to table consideration of the cedable limits until the impact of the reforms recently adopted and currently under consideration can be evaluated.

STATUS: Tabled

COMPLETED

XIII. Issue: Principal Place of Business – Out of State Risks

Category: Residual Market Growth - Eligibility for Placement in the Massachusetts Commercial Automobile Residual Market

Priority: High

Subcommittee Focus: Development of Standards for Determining and Substantiating Principal Place of Business

Subcommittee Action to Date: The changes to Rule 2 – Definitions, to include the nerve center test, were approved by the Division of Insurance on March 29, 2018. At the May 9, 2018 meeting, the Subcommittee voted to recommend approval of the standards, including the certification form, for use by the Servicing Carriers and Exclusive Representative Producers in determining and substantiating Principal Place of Business. The Commercial Automobile and Governing Committees approved the recommendations of the Subcommittee at the June 2018 meetings. The Certification Form has been placed on file by the Division of Insurance and the Standards were published to the industry in Bulletin No. 1055. Standards, forms and procedures have been implemented.

Status: **Complete**

XIV. Issue: Non-Fleet Private Passenger Types – Validation of Business Entity and Vehicle Operators

Category: Residual Market Growth – Eligibility for Placement in the Massachusetts Commercial Automobile Residual Market

Priority: High

Subcommittee Focus: Development of Standards for Determining and Substantiating Eligibility of Risks Relative to Validating the Business Entity and Vehicle Operator Information

Subcommittee Action to Date: Standards, including a certification form, an operator exclusion endorsement, and proposed changes to the rating manual were developed and recommended for use by the Servicing Carriers and Exclusive Representative Producers in verifying eligibility for all NF-PPT risks. The Commercial Automobile and Governing Committees approved the recommendations of the Subcommittee at the June 2018 meetings. The Certification Form, Endorsement and Rating Rule change have been placed on file by the Division of Insurance and the Standards were published to the industry in Bulletin No. 1058. Additionally, Chapter V- Premium of the Manual of Administrative Procedures has been updated to include the new certification and endorsement exclusion forms. Standards, forms and procedures have been implemented.

STATUS: **Complete**

XV. Issue: Producer Requirements – ERP Applicant – Previous Massachusetts Commercial Auto Insurance Experience

Category: Residual Market Growth – Exclusive Representative Producer Eligibility for Appointment to a Servicing Carrier

Priority: High

Subcommittee Focus: Enhancement of the prior work experience requirement for an appointment of an applicant to a Commercial Automobile Servicing Carrier

Subcommittee Action to Date: A proposed amendment to Rule 14 – Exclusive Representative Producer Requirements increased an applicant’s required prior work experience in the Massachusetts commercial automobile insurance market from 6 out of the previous 12 months to 12 out of the previous 24 months. The amendment was approved by the Commercial Auto and Governing Committees at the June 2018 meetings. The proposed change was approved by the Division of Insurance, and published to the industry in Bulletin No. 1057

STATUS: Complete

XVI. Issue: Covered Automobiles

Category: Residual Market Loss/Cost Control

Priority: Medium

Subcommittee Focus: Consideration as to whether “Any Auto” coverage Symbol 1 should be eliminated requiring any residual market insured vehicle to be specified on the policy for coverage.

Subcommittee Action to Date: At the May 2018 meetings, the Subcommittee approved a proposal to limit ceded risks to policies written on a specified car basis only, including modifications to the Rules of Operations, the Commercial Automobile Insurance Manual and the Manual of Administrative Procedures. The Commercial Automobile and Governing Committees accepted the recommendations at the June 2018 meetings. The proposed changes to the Rules of Operation were intended to avoid the stacking of coverage and excess exposure to the residual market. The changes were approved by the Division of Insurance and published to the industry in Bulletin No. 1056. Proposed changes to the Commercial Automobile Insurance Manual were filed and approved by the Division, and then published to the industry in Bulletin No. 1059. The corresponding updates to Chapter V – Premium of the Manual of Administrative Procedures was published to the industry via Bulletin No. 1060.

STATUS: Complete
