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RECORDS OF MEETING

COMMERCIAL AUTOMOBILE RESIDUAL MARKET STANDARDS SUBCOMMITTEE – DECEMBER 18, 2018

Members Present

Mr. John Olivieri, Jr. – Chair
Ms. Elizabeth Brodeur⁽¹⁾
Ms. Sarah Clemens
Ms. Sheila Doherty
Mr. Coleman Johnson
Ms. Mona McCowen⁽²⁾
Mr. Thomas Skelly, Jr.
Mr. Barry Tagen

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

Substituted for:

⁽¹⁾Mr. Brian Lam

⁽²⁾Ms. Mayre Hammond

Not in Attendance:

N/A

18.01 Records of Meeting

The Subcommittee unanimously voted to approve the Records of the Commercial Automobile Residual Market Standards Subcommittee meeting of November 8, 2018. The Records have been distributed and are on file.

18.04 Commercial Residual Market Issues

Ms. Wendy Browne reported that the list of issues impacting the commercial residual market has been updated to reflect the current status of the Subcommittee’s deliberations. For today’s meeting, she indicated that the Subcommittee will continue to discuss the development of a market need concept for new producer appointments and review modifications to Rules 52 and 72 of the Commercial Automobile Manual. Additionally, the Subcommittee will review a draft of Servicing Carrier and Exclusive Representative Producer standards for determining and validating radius class and geographic classification for trucks, tractors and trailers and public automobiles. She further noted that staff will provide a status report on efforts relative to the requirements for vehicle operations in Massachusetts.

Ms. Browne informed the Subcommittee that the Ineligible Risk Database is actively being utilized by Servicing Carriers to share information on ceded risks that are ineligible for coverage in the Massachusetts commercial residual market. The database has approximately 80 entries thus far, primarily for non-fleet private passenger types, trucks, tractors and trailers and bus classes, and which provide information on ceded risks that have been cancelled, non-renewed or declined for a variety of reasons,

including licensing and principal place of business issues, and inability to verify the existence of a commercial entity.

The Subcommittee discussed the benefits of reporting to the Ineligible Risk Database on a retrospective, in addition to a prospective basis. The Servicing Carriers on the Subcommittee indicated that they were currently only reporting to the database on a prospective basis due to the effort required to obtain prior risk information. After discussion, the Subcommittee agreed that in order to prevent potential disputes that may arise as a result of reporting information from the period when expectations were not yet in place, reporting should be on a prospective basis only, commencing with the date the database was initially approved for implementation.

18.09 Producer Requirements

The Subcommittee continued its discussion relative to the development of a market need concept for the appointment of new commercial residual market Exclusive Representative Producers (ERPs). Ms. Natalie Hubley indicated that the data reports previously provided to the Subcommittee at its October 23, 2018 meeting which profiled the commercial marketplace were updated with current data. Additionally, as requested by the Subcommittee, new data reports that display ceded volume and loss experience by class and rating territory for producers with and without voluntary contracts were attached to the meeting's Additional Information Notice. Also provided for the Subcommittee's information was the previously distributed market need concept outline that had been developed based upon prior Subcommittee discussion. Ms. Hubley stated that the information contained on each of these reports may assist the Subcommittee in the development of objective criteria to determine whether a market need exists for additional producer appointments, specifically for those ERPs that do not have a voluntary commercial automobile contract with a Massachusetts insurer.

After reviewing the provided data reports, the Subcommittee agreed that access to the residual market is readily available, with appropriate expertise to service all classes of risks throughout the Commonwealth. Therefore, at this time there does not appear to be a need for any new ERP appointments for those new ERPs that do not already have a voluntary commercial automobile contract with a Massachusetts insurer. The Subcommittee further agreed to move forward with the market need concept, as proposed, with an annual review of residual market data to determine whether a market need exists for the appointment of applicants without a voluntary Massachusetts commercial automobile contract for the upcoming 12 month period. Absent a determination that gaps in access to the residual market exist which would indicate a market need, the Subcommittee agreed that appointments would be limited to those producers that already have a voluntary commercial automobile contract with a Massachusetts insurer. However, a producer without a voluntary contract would still be able to apply and petition for an appointment before a CAR committee, but must demonstrate in what manner it would otherwise fulfill a market need. The Subcommittee further discussed the scenario involving the purchase of an ERP's book of business by another ERP where the selling ERP's appointment was terminated pursuant to CAR Rules. The Subcommittee agreed that in such a scenario, regardless of whether or not the purchasing ERP has a voluntary contract and does not currently possess a Servicing Carrier appointment, the applicant will be required to appear before a CAR committee to petition for appointment. The Subcommittee suggested that committee reviews be held on a quarterly basis.

Ms. Hubley stated that based on today's discussion, staff will prepare amendments to Rule 14 and the Manual of Administrative Procedures for the Subcommittee's review at its next meeting, in anticipation of a recommendation being made to the Governing Committee at its February 2019 meeting.

18.12 Radius of Operation and Rating Territory

Ms. Hubley stated that at the Subcommittee's last meeting Staff presented draft amendments to Rule 72 of the Commercial Automobile Manual relative to the determination of radius of operation and geographic class. Subsequently, staff has developed corresponding amendments which mirror the same clarifications for determining zone and zone combination to Rule 52 in Section III – Trucks, Tractors and Trailers of the Commercial Automobile Manual. Each of these drafts were attached to the meeting's Additional Information Notice.

Ms. Hubley noted that since the last distribution of the amendments to Rule 72, it has come to Staff's attention that, as the discussion in 2013 relative to the determination of rating territory for non-zone rated risks primarily focused on the operation of the vehicle, the draft of the Rule provided to the Subcommittee did not address how territory is assigned when the majority of the vehicle's operations are outside of Massachusetts. Accordingly, this portion of the Rule will need to be modified to include direction in this regard; specifically that the Servicing Carrier will assigned the highest rated territory in the case where the majority of the vehicle's operations are outside of Massachusetts. Ms. Sarah Clemens pointed out several references to metropolitan zone in both Rules 52 and 72 that should be modified to reflect regional zone. Ms. Clemens also questioned whether it was more proper to rate a vehicle as origin zone 03 – Boston rather than origin zone 49 – other than Boston if the risk is principally garaged outside of Massachusetts, as zone 49 produces a lower rate. Ms. Hubley indicated that staff would take a look at this example and determine which origin zone would be most appropriate.

Ms. Hubley walked the Subcommittee through proposed Servicing Carrier and ERP Standards for determining and validating radius class and geographic class for trucks, tractors and trailers (TTTs) and public automobiles. She stated that the standards are meant to assure consistency among carriers in three key areas; determining and validating principal garaging, determining and validating principal place of operation and determining radius and geographic class in the absence of credible documentation. She pointed out that the Standards define principal garaging as the location at which the automobile is garaged the majority of the time that the automobile is not in regular use. For determining and validating principal garaging and principal operation, the Standards identify those tools that Servicing Carrier and ERPs may take advantage of in evaluating documentation to validate either garaging or operation. Mr. Coleman Johnson noted that there are other documentation options available to validate an automobile's principal geographic area of operation, such as FMCSA's Safety and Fitness Electronic Records (SAFER) and SafeStat systems, and the availability for use of those options should also be noted in the Standards.

Finally, Ms. Hubley noted that the Standards provide instruction on how to determine radius and geographic class when the risk is unable or fails to provide credible documentation to validate its garaging and/or operations. When the applicant is unable to provide credible records to validate principal garaging, radius class will default to intermediate radius. For assigning rating territory, an applicant whose business entity has been in existence for less than a year and may not yet have supporting documentation available to it, would be treated differently than an entity that has been in business for many years. The proposed Standards suggest that a long term applicant would be assigned to a territory 10 and if the applicant can provide credible documentation to the Servicing Carrier to validate a different radius or geographic classification, the carrier will rerate the policy on a prospective basis. A new applicant would be assigned a territory 17 and if the applicant provides credible documentation to validate a different radius or geographic classification, the carrier will rerate the policy back to the effective date of the policy. The Subcommittee expressed concern that assigning a territory 17 to a new risk provides little incentive for the risk to follow up with documentation when it actually belongs in a higher rated territory. The Subcommittee suggested that both long term and new risks be assigned a territory 10 and must provide the Servicing Carrier with credible documentation if any change is needed.

For the next meeting, Ms. Hubley indicated that staff would update the Rules for out-of-state operations and rating territory and modify the Standards as discussed by the Subcommittee.

18.14 Requirements for Vehicle Operations in Massachusetts

Ms. Browne informed the Subcommittee that the Compliance and Operation Committee had approved the addition of an indicator to the Commercial Statistical Plan to collect information on vehicle operations in Massachusetts and recommended its approval to the Governing Committee. Amidst concern that carriers may not be able to accurately collect that information, thus impacting the validity of the data collected, the Governing Committee did not approve the recommended modification. Ms. Browne indicated that it would be appropriate to wait for the outcome of the Subcommittee's discussion on radius of operation and rating territory, as the same validation methods to be used for determining those items would also be applicable for validating vehicle operations, potentially satisfying the Governing Committee's concerns. At that point, the Compliance and Operations Committee could determine whether a statistical plan modification would be resubmitted to the Governing Committee.

Other Business

Mr. John Olivieri informed the Subcommittee that in order to streamline 2019 efforts relative to improving the commercial residual market, the Commercial Automobile Residual Market Standards Subcommittee will be dissolved and the issues currently being discussed by the Subcommittee will be heard directly by the Commercial Automobile Committee.

MARIAN ADGATE
Corporate Documentation Specialist

Boston, Massachusetts
January 9, 2019

ATTACHMENT LISTING

Docket #CRMS18.02, Exhibit #13

Attendance Listing

