

# CAR sets limited commercial servicing carrier plan

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BOSTON — More than a year after they began entertaining the idea of a Limited Servicing Carrier (LSC) program, the Commercial Automobile Committee of Commonwealth Automobile Reinsurers last week voted 10 to 4 in favor of referring an LSC proposal to a subcommittee.

The commercial auto insurance proposal, which was drafted by Michael DeConti of Travelers Property Casualty, calls for three to five CAR-selected companies to be appointed as LSCs to prevent overflow in the residual market.

Each LSC will be asked to process approximately \$50 million to \$60 million of ceded business, which backers say should provide increased efficiencies and reduce the costs of servicing the facility business.

## No Limits for Agents

If an agent cannot write a certain client with his or her existing commercial auto carriers there would always be a company that would take that client, and there would be no limitations on how many of the agent's clients could go there, under the plan.

Before the motion was voted on, Frank Mancini, executive vice president of the Massachusetts Association of Insurance Agents, expressed wits-end frustration to the committee for not taking any action for so long.

"It's unbelievable to me that we just keep kicking this thing back and forth," he said.

Annmarie Schuster of OneBeacon Insurance and John Kelly of The Commerce Insurance Co. were the most vocal opponents of the proposal.

"The motion limits the ability to look at different alternatives," said Kelly.

Schuster told the committee that voting for the proposal would be like "opening a huge flood gate," adding, "I just think Mike's vision is too narrow."

Despite the "too narrow" criticism, DeConti's draft includes a list of 21 ideas, some of which were raised in prior subcommittee meetings.

The plan calls for all agents to be assigned to one of the LSCs for the processing of ceded policies. LSCs will service all classes of commercial auto ceded business, and will provide only the minimum required coverages for ceded risks.

## Proof of Declinations

Another important tenet of the plan is that prior to being

ceded, some proof of attempted access of the voluntary market must be presented. Three declinations certified by the agent may suffice.

"This is a market of last resort, not first resort," said DeConti.

Some provisions which were borrowed from the way taxicabs are written now include that the distribution of ceded business through all agents to the LSCs will be as equitable as possible and that the appointment terms determined by the Commercial Auto committee may be staggered initially and may be from 3 to 5 years in length.

Also, as was found with the taxi program, the creativity component of the request for proposals may lead to further improvements in the servicing of the ceded risks beyond what CAR expects today.

Sheila Doherty of Doherty Insurance Agency, Andover, said she supports DeConti's draft because it at least puts the committee on a timeline. She said although acknowledging there is a problem is a step forward, if the industry just keeps acknowledging the problem and doesn't do anything about it, nothing will ever get solved. Doherty said this way at least there can be a complete draft for the Governing Committee to vote on by the summer 2004 meeting.

The first bullet point on DeConti's draft was in fact that the originally proposed timeline provided by CAR would be followed leading to the implementation on Jan. 1, 2005 of an LSC plan.

## Plan Highlights

Other key points contained in the draft LSC plan include:

- LSCs will service all of the ceded commercial auto business in the state.
- LSCs will need to set up a structure to isolate the servicing business from their retained voluntary business.
- A "Take Out" program will be considered as part of the plan to further depopulation in a financially sound manner.
- Non-LSCs will not be able to process ceded business. They will only write retained business.
- CAR deficits will be distributed to the industry based upon retained voluntary market shares.
- The LSC program, Take Out program and LSC performances will be reviewed annually by the Commercial Auto Committee for effectiveness.
- The LSCs will improve classification, pricing, servicing, and claims handling of facility business.
- CAR will establish performance standards or best practices for the LSCs and monitor adherence to those standards. □