

# Kentucky Automobile Insurance Plan

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## Notice of Governing Committee Meeting

A meeting of the Kentucky Auto Insurance Plan Governing Committee will be held on June 11, 2020 following the Annual Meeting. This meeting will be held via teleconference.

Agenda:

1. Roll Call.
2. Anti-Trust Preamble.
3. Approval of Minutes and Ratification of Mail Votes
  - a. July 30, 2019 Governing Committee Meeting
  - b. October 28, 2019 Executive Committee Meeting
  - c. AIPSO PAIP Contract Mail Votes – Unanimous
  - d. CAIP to AIPSO Consideration Mail Votes
4. Election of Officers.
5. 2019 KAIP and PAIP Independent Auditors Report.
  - a. DMLO Report to Management
  - b. DMLO Financial Statement
6. 2019 Kentucky CAIP Statutory Financial Statement.
7. 2021 CAIP Servicing Carrier Allowance.
8. Secretary Treasurer’s Report.
9. Rate, Rule and Form Changes.
  - a. Private Passenger Increase +9.8%
  - b. Commercial +1.9%
  - c. Proposed Commercial Inspection Requirements Change
10. Other Business.
  - a. Kansas, Indiana and Kentucky Letter to AIPSO – August 2, 2019
  - b. AIPSO Response to our Letter – March 9, 2020
11. Adjournment.

Mark Hillis



Secretary –Treasurer and Manager

Cc: Shawn Boggs, Kentucky Department of Insurance

## ANTI-TRUST PREAMBLE

We are here to discuss and act on matters relating to the business of the KENTUCKY AUTOMOBILE INSURANCE PLAN and not to discuss or pursue the business interest of our individuals companies. We should proceed with caution and alertness towards the requirements and prohibitions of federal and state anti-trust laws. We should not engage in discussions – either at this meeting or in private conversations – of our individuals companies plans or contemplated activities. We should concern ourselves only with the business of the KENTUCKY AUTOMOBILE INSURANCE PLAN as set forth in the agenda for this meeting. Only shared market matters may be discussed at shared market meetings and each company's voluntary market plans cannot be discussed.

# Kentucky Automobile Insurance Plan

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A Governing Committee Meeting of the Kentucky Automobile Insurance Plan was held following the Annual Meeting on July 30, 2019 in the Conference Room at 10605 Shelbyville Road, Louisville, KY.

## **Governing Committee:**

George Moore, (Chair)	CNA Commercial Insurance Company
Rod Shockley (Vice-Chair)	Kentucky National Insurance Company
Kristen Mellinger	KY Farm Bureau Mutual Ins. Company
Mike Donovan	Progressive Insurance Company
Bradley Corso	Erie Insurance Company
Angie Haston	State Farm Mutual Insurance Company
Anna Etherington	Liberty Mutual Insurance Company

## **Kentucky Department:**

Director John Melvin	Kentucky Department of Insurance
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## **Insurance Guests:**

Sarah Antle	Deming, Malone, Livesay and Ostroff
Jeff Borkowski	Clearpath Mutual

## **Staff:**

Mark Hillis	Secretary/Treasurer & Manager
Melissa Chlon	Assistant Director – Kentucky Insurance Plans
Georgia Breeding	Kentucky Automobile Insurance Plan

## **Call to Order**

Mr. Moore called the meeting to order and advised that Ms. Novak was represented by proxy to Ms. Haston. He noted that role was taken during the annual meeting and again confirmed that a quorum was present. Ms. Etherington attended via telephone.

## **Anti-Trust Preamble**

The Chair advised the preamble was read in the preceding meeting and participants were still bound.

## **Approval of Minutes**

Mr. Shockley moved, Mr. Donovan seconded a motion to approve the minutes of the June 28, 2018, and October 22, 2018 meetings, and to ratify the actions of the committee which included various prior mail votes. The motion carried.

## **Election of Officers**

Ms. Mellinger nominated Mr. Moore as Chair, Mr. Shockley as Vice Chair and Mr. Hillis as Secretary-Treasurer. Mr. Moore called for other nominations from the floor and hearing none asked for a motion to accept the nominations. Ms. Haston moved to close and accept the nominations, Mr. Donovan seconded, and the motion passed unanimously.

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## **2018 KAIP Independent Auditors Report**

Ms. Antle presented the KAIP Independent Auditors Report. She indicated that no irregularities were noted and DMLO had issued a clean opinion based on the audit. Ms. Antle discussed the Service and Cost Sharing Agreement between the Kentucky Auto Insurance Plan, Kentucky FAIR Plan, Kentucky Insurance Guaranty Association, Kentucky Assigned Claims Plan and Kentucky Insurance Arbitration Association whereby personnel, office and other resources are shared with costs allocated to each Plan. She advised that the audit of KAIP includes the allocation of those expenses. She also advised that the Plan has a Retirement Savings Plan that is categorized as a defined contribution Plan, and briefly discussed the plan. She noted that the KAIP had been the lead organization but that this was transitioning in 2019 to the FAIR Plan. She asked for questions, there were none and the report was accepted.

Mr. Hillis informed the committee members of a conversation that he had with Sandra Batts at the Kentucky Department of Insurance. At this time, the DOI is pleased with the audited financial reports.

Mr. Hillis also noted that DMLO has been approached to audit the PAIP component in addition to continuing the administrative audit for the Plan. At this time, Mr. Hillis is working to engage DMLO along with AIPSO so that DMLO may compile a bid.

Mr. Moore thanked Ms. Antle for her continued support of the Plans.

After Ms. Antle had departed from the meeting, Mr. Hillis informed the committee that the only bid for auditing the PAIP component of the Plan was from Grant Thornton and it was in excess of \$25,000.

## **2018 KY CAIP Independent Auditors Report**

Mr. Hillis presented the 2018 KY CAIP Statutory Financial Statement prepared by Grant Thornton and responded to questions. The report was accepted.

## **CAIP Servicing Carrier Allowance**

The 2020 servicing carrier allowance (annual recalculation) was presented and discussed. These were: Expense Allocation of 18.8%; ALAE – direct reimbursement; and ULAE of 8.9%. Mr. Shockley moved that the 2020 allowance be approved, Ms. Mellinger seconded. Mr. Donovan abstained from discussion and vote on this matter. The motion carried.

## **Secretary Treasurer's Report**

Mr. Hillis reported:

### **1. Budget:**

- a. The Plan was 3.1% under budget for 2018 and is on target for 2019. There was general discussion regarding the Plans health insurance. Mr. Hillis reminded the committee that a single, high deductible PPO plan is offered to employees and this is a point of review each year. He noted that rates didn't come out until after the

# Kentucky Automobile Insurance Plan

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final budget had been reviewed and indicated that based upon a 20% increase for 2019, he anticipated significant increase for 2020, has asked the broker to price the market again, and will be looking at plans which perhaps will provide for lower out of pocket costs for employees, or may consider contributing to employees FSA accounts.

- b. Mr. Hillis noted that the Plan continued to focus on operational efficiencies, he thanked Mr. Assad, Mr. Chrones and their AIPSO teams for assisting.

## **2. Bank Balance:**

The bank balance with Republic Bank was \$362,873 as of May 30, 2019.

Mr. Hillis noted that the 2019 administrative expense budget was lower than the expenses of the Plan back in 2007, and the assessment in 2019 was 45% lower than in 2007.

## **3. Plan Experience:**

Mr. Hillis presented a PowerPoint presentation and discussed:

- a. Commercial auto results including PIF, written premium and net losses.
- b. Personal auto earned premiums and experience from the new PAIP program.
- c. Personal and Commercial auto application. 36 new applications were received in 2019 compared to 362 in 2018. 31 of these were Personal auto, and 5 were Commercial. Reduced applications and policies in force is an indication that the industry is doing a good job absorbing risks.

Mr. Hillis noted that the Plan is visiting top producers in the state to 1) educate producers; and 2) to ensure that business is being placed in the right market. Also noting, the partnership between Plan staff and CAIP and PAIP underwriters has been instrumental in 2019.

## **Rate Reviews:**

Mr. Hillis advised that AIPSO actuaries had completed a review of rates for Private Passenger and Commercial Auto for consideration by the Governing Committee.

### **a. Private Passenger Rate Review:**

The Proposal includes adoption an experience-based indication. This resulted in an indicated rate need of +13.8%, however capping changes at 25% with an overall recommended change of 13.2% with an estimated impact of \$149,327 (based upon 2017 prior to the PAIP change) to be effective January 1, 2020 and only applying to the PAIP program, not prior LAD business. The actuaries also requested a small deviation of +/- 2.5% in the event updated information becomes available prior to the filing. A general discussion took place with relation to prior LAD carriers being able to adjust rates.

With concern noted, the committee agreed that rates should be tied to the newly developed PAIP program as it was introduced essentially under a new company, when the KAIP began writing on its own paper. This would be similar to a carrier entering the market with a new company formed to write business.

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## **b. Commercial Auto Rate Review:**

The Proposal will result in an indicated rate indication of 40%, however capping rate changes at 25%, resulting in an overall proposed change of 18.2% with an estimated impact of \$236,930. Actuaries utilized ISO national data with limited Kentucky weighted experience.

Mr. Hillis recommended these filing be made to keep the Plan on track with ISO loss cost filings as had been discussed in prior meetings. Following discussion and questions Ms. Haston moved to accept the rates as presented, Ms. Mellinger seconded and the motion for private passenger was unanimous to approve the filing with the Department of Insurance.

Mr. Shockley then moved to approve the commercial auto rate recommendation, Mr. Corso seconded and the motion to approve the filing with the Department of Insurance was approved. Mr. Donovan abstained.

## **Other Business**

- (1) Mr. Hillis reviewed two additional items with proposed changes to the Plan Manual. (1) Included basic Commercial Application and Manual Revisions. (2) Private Passenger Risk Premium Payment Options. Ms. Haston moved to approve the commercial application and related manual changes as recommended, Ms. Mellinger seconded. Mr. Shockley moved to accept changes to the private passenger premium payment option as outlined, Ms. Haston seconded. Both motioned carried.
- (2) The committee reviewed an item which had been tabled during the spring 2018 Governing Committee meeting. This was whether or not to consider allowing those with prior LAD business to non-renew policies and move their current insureds into the new PAIP program. After general discussion, there was unanimous agreement that this should not be allowed. And those with outstanding LAD business should be required to service their policies through the 3-year renewal cycle as the Plan Manual had outlined. Kentucky Farm Bureau and State Farm both voiced an intent to not be a disruption to the customer.
- (3) Mr. Hillis provided an update on the AIPSO contract. He indicated that Kentucky has continued to work with Kansas, and more recently, Indiana and as of Friday the 26<sup>th</sup> of July, had presented what they believed was a commercially reasonable contract to AIPSO. He noted that there were follow up meetings with AIPSO at the end of August during which these Plans would meet with AIPSO's President, Vice President and their counsel to attempt to reach an agreement that would serve the industry well. Mr. Hillis provided copies of the draft contract to each member who wished to review same.
- (4) As part of his update, Mr. Hillis noted again his concerns with the ability of the current system which AIPSO had in place to be robust enough to handle the PAIP programs across

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the country. He reminded the committee that at the onset, Kentucky had requested that AIPSO have at least two claims vendors. He noted that at this point, the system that is being used, doesn't have a claims portal, and the sole remedy was that AIPSO contracted with a single claims vendor, York, and that the first 2 claims York handled for Kentucky were not well done. He noted that as Kentucky has direct access to both systems, Kentucky had caught issues early on and this allowed for corrections to be made. In an effort to make sure that there is ongoing consideration for systems, Mr. Hillis noted that the Kansas AIP had a letter which was being presented to the leadership at AIPSO requesting that they have system solution in place before the expiration of the current contract with York. He noted that the Kansas board agreed to sign same as industry representatives. He indicated that Indiana leadership had done so as well, and Mr. Hillis noted that he was asking Kentucky representatives to sign on as well. He indicated, that Anne Novak, who held a seat on AIPSO's board had already agreed and signed same. There was unanimous consent to execute the agreement. Governing Committee members secured and signed the draft letter and returned to Mr. Hillis.

- (5) Mr. Hillis provided an update of the proxy votes which the KAIP had been using. He indicated that on average, the Plan received fewer than 15% of responses. He shared how the other Kentucky residual market Plans allowed for the board to simply represent the industry. And he noted the Kansas model didn't operate under the old proxy system. He asked if there was interest in allowing Kentucky to move to a similar model – and if so, he would work on a proposal for same. Ms. Haston noted that she didn't see a problem eliminating the proxies and seating the committee. Ms. Mellinger, Mr. Shockley and Mr. Donovan echoed same. Director Melvin did not foresee any issues as long as checks and balances are in place. Mr. Hillis will work on a proposal to present at a later date.
- (6) Mr. Hillis reminded the committee of the merger of PCI and AIA. And he noted that in addition, NAMIC had shown interest in making sure they had representation on boards across the country. He indicated that after the PCI and AIA merger, the Kentucky AIP needed to amend its language to simply be able to seat the board this year. And at this point, opened the floor for discussion on whether it made sense any longer to have trades select the representatives on the board. It was noted that Governing Committee members represent the industry during the meeting, not their individual organizations. As such, the conversations with trade organizations should not be eliminated as they may have recommendations or suggestions, but the overall feeling of the current status is that the partnership is an unneeded step to seat the board. It was agreed that the Plan would start drafting proposed changes while also watching to see how or if AIPSO approaches the subject on a national level.
- (7) Mr. Hillis asked if there was interest from the committee in reviewing producer commission to disincentivize producers from using the Plan. He noted that while recent meetings seem to have been successful with agents in educating them as to making sure that the AIP was being used as a market of last resort, and not a competitive market, that

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perhaps if commissions were moved from 10% to 5%, it may cause producers to make sure they made every effort to place their insureds into the right markets, with the right coverage. Mr. Shockley moved to reduce producer commissions to 5% effective 2021, Ms. Haston seconded. The motioned carried.

(8) There was then discussion about contingency reserves for the new Kentucky PAIP program. Mr. Hillis reviewed the limited experience which the Plans had seen, noting that it was still too early to truly determine the amount needed here. However, he recommended that the Plan begin with a \$500,000 contingency fund and that it be reviewed annually. General discussion took place as to how this would be presented to the carriers if they received conflicted documentation. It was noted that \$500,000 would be retained as contingency, secured from the initial assessment from 2019 should the funds be available. The overall assessment/disbursement process will be revisited in 2020.

(9) Mr. Hillis then noted that the true up for the initial PAIP assessment was be around September of 2020. The Governing Committee requested that rather than return checks being provided, with an assessment to follow, that there be consideration for a balance sheet of sorts that is provided to each member. That statement should reflect any return amount, and then be offset by the next years assessment amount. With the balance either being collected, or returned by the member. Mr. Hillis indicated that he would reach out to AIPSO for further discussions on the possibilities which would be viable for Kentucky, as there should be uniformity nationwide.

## **Executive Committee Review of 2020 Budget, Assessment, and Fall Meeting**

Mr. Moore then noted that the Governing Committee has typically asked the Executive Committee to review the 2020 budget and proposed assessments in lieu of having a fall meeting. If this was still the pleasure of the Governing Committee, he sought their approval of same.

Ms. Mellinger motioned to extend authority to the Executive Committee, composed of Mr. Moore, Mr. Shockley, and Mr. Hillis, to review and approve the budget and proposed assessments for the next year. Ms. Haston seconded, and the motion carried.

## **Kentucky Department of Insurance Comments**

Director Melvin provided an update from the Kentucky Department of Insurance:

- The DOI will be relocating in late fall 2019.
- The DOI website 'refresh' is live, with another iteration coming soon.
- He noted that the Kentucky Department of Insurance came in second among all DOI's countrywide. They hit numerous metrics to earn the recognition.
- He noted that filings can now be searched online.
- He thanked the committee members and Mr. Hillis for the invitation and continued support.

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### **Adjournment**

Mr. Hillis recognized Georgia Breeding for her hard work and dedication to the Plans over the last 16 years and wished her well in her upcoming retirement. Ms. Breeding has been instrumental over the years to the organization's success. Appreciation was echoed by the Governing Committee members.

There being no further business, Mr. Corso moved, Mr. Shockley seconded, and the motion passed unanimously to adjourn the meeting.

Respectfully submitted,



Mark Hillis  
Secretary - Treasurer

# Kentucky Automobile Insurance Plan

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## Minutes

A meeting of the Kentucky Automobile Insurance Plan Executive Committee was held at 11:00 AM on October 28, 2019 at 10605 Shelbyville Road, Louisville KY.

### In attendance

George Moore, Chair  
Rod Shockley, Vice Chair  
Mark Hillis, Secretary-Treasurer

CNA Commercial Insurance Co.  
Kentucky National Insurance Co.  
Kentucky Automobile Insurance Plan

#### 1. Call to Order

Mr. Moore called the meeting to order.

#### 2. Anti-Trust Preamble

Mr. Hillis reminded the Committee they were bound by the anti-trust preamble which was included in their documents.

#### 3. Draft Minutes

Mr. Hillis noted that the Minutes of the prior Executive Committee Meeting as well as the recent Compensation and Benefits Committee Meeting were included in the handouts and had been distributed electronically prior to the meeting.

#### 4. 2019 Budget and Assessment

Mr. Hillis recommended a budget of \$184,327 for 2020, and a KAIP Administrative assessment of \$172,536. The budget represents a 3.2% reduction over 2019.

Further, Mr. Hillis reviewed the new PAIP program. He indicated that applications had declined by nearly 90% year over year. He reminded the Committee that they began the program with an approximate \$948,000 assessment, of which, \$500,000 would be retained in a Contingency Reserve. Noting the results of the first year, he recommended that the PAIP assessment of \$116,000 be included to reflect anticipated losses to the program for 2020. After review and discussion, Mr. Moore made a motion to approve the 2020 Budget and Assessment. Mr. Shockley seconded and the motion passed.

#### 5. Other Business

##### a. PAIP Contract – AIPSO

Mr. Hillis noted that there was still work to be done on the PAIP contract with AIPSO. He advised that both Kansas and Indiana were working with Kentucky on uniform language which would be agreeable to all parties. The areas which remain are driven by indemnification, insurance, and state manager control. He indicated that he believes agreement can and will be found.

## Kentucky Automobile Insurance Plan

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A general discussion took place pertaining to the current claims vendor York. Mr. Hillis noted that there has been less than stellar service and a Kentucky Claims manager has provided both assistance and feedback in attempts to make sure that claims are being handled according to Kentucky standards. As there is currently no 2<sup>nd</sup> claims vendor or system ability to provide a 2<sup>nd</sup> claims vendor, the Kentucky operation continues to review each application, and every claim submitted through AIPSO.

With regards to the contract, Mr. Hillis provided copies of the most recent contract response from AIPSO dated 9/30/2019 from AIPSO's counsel, Robert Powers.

Mr. Hillis reminded the Committee that they had sent a letter to AIPSO's President and asked that a new system be sought for the PAIP operations. This letter was sent by Kentucky, Indiana and Kansas.

### **b. Compensation and Benefits Committee**

Mr. Hillis also distributed a copy of the Minutes of the Compensation and Benefits Committee which was established in 2017 to provide input from a Governing Committee or Board member of the Kentucky FAIR Plan Reinsurance Association; the Kentucky Assigned Claims Plan; and the Kentucky Insurance Arbitrations Association, all of whom participate in the Cost Sharing Agreement and who's organizations utilize the salary administration grid. He also provided copies of the Plans annual Willis, Towers, Watson survey addressing both Salary Range Adjustments and Merit Increase Budgets.

The Committee voted to authorize an aggregate increase of 3 percent for the employee group to be allocated by Mr. Hillis on a relative assessment basis effective the first pay period in January 2020. Further, the Committee provided Mr. Hillis with his evaluation and gave Mr. Hillis a 3 percent salary increase also to be effective the first pay period in 2020. Mr. Moore will send Mr. Hillis an email confirming same.

6. **Adjournment:** There being no further business, the meeting was adjourned.

Respectfully submitted,



Mark Hillis  
Secretary-Treasurer

**WRITTEN CONSENT TO RESOLUTIONS  
OF THE GOVERNING COMMITTEE OF  
THE KENTUCKY AUTOMOBILE INSURANCE  
PLAN**

The undersigned, being all of the members of the Governing Committee of the Kentucky Automobile Insurance Plan ("KAIP"), acting under the terms of KAIP's Plan Manual, hereby unanimously adopt the following resolutions without and in lieu of a special meeting of the Governing Committee called for the purposes thereof:

**RESOLVED**, that KAIP enter into a PAIP Services Agreement with AIPSO in the form attached hereto as Exhibit A (the "Services Agreement"); and

**RESOLVED, FURTHER**, that the Plan Manager of KAIP be, and he hereby is, acting singly, authorized, empowered and directed to execute and deliver the Services Agreement for and on behalf of KAIP, and do such other acts and things as may be reasonable, necessary, desirable, appropriate or expedient in order to effect the transactions contemplated by, and the intents and purposes of these Resolutions; and

**RESOLVED, FURTHER**, that a copy of this Written Consent be filed with the minutes of the proceedings of the Governing Committee of KAIP.

This Written Consent may be executed in any number of counterparts and by the different members of the Governing Committee hereto on separate counterparts, each of which, when so executed and delivered by the members of the Governing Committee, shall constitute an original, but all such counterparts together shall constitute but one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

**IN WITNESS WHEREOF**, each of the undersigned has executed this Written Consent on the date set forth next to his or her signature thereby agreeing that the foregoing resolutions shall be of the same force and effect as if duly adopted at a meeting of the Governing Committee held, upon due notice, effective as of February , 2020.

CNA Insurance Company

By: \_\_\_\_\_  
George Moore,  
Chair and Governing Committee Rep

Date: February \_\_, 2020

Kentucky National Insurance Company

By: \_\_\_\_\_  
Rod Shockley,  
Vice Chair and Governing Committee

Date: February \_\_, 2020

Kentucky Farmer Bureau Insurance

By: \_\_\_\_\_  
Kristen Mellinger  
its Governing Committee representative

Date: February \_\_, 2020

Nationwide Insurance Company

By: \_\_\_\_\_  
Christopher Migliozi ,  
its Governing Committee representative

Date: February \_\_, 2020

Erie Insurance Company

By: \_\_\_\_\_  
Robert Kepperling,  
its Governing Committee representative

Date: February \_\_, 2020

State Farm Insurance Company

By: Angela Haston  
Angie Haston,  
its Governing Committee representative

Date: February 12, 2020

Independent Agent - Old Kentucky Ins.

By: \_\_\_\_\_  
Rudy Schlich,  
its Governing Committee representative

Date: February \_\_, 2020

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CNA Insurance Company

By: \_\_\_\_\_  
George Moore,  
Chair and Governing Committee Rep

Date: February \_\_, 2020

Kentucky National Insurance Company

By: \_\_\_\_\_  
Rod Shockley,  
Vice Chair and Governing Committee

Date: February \_\_, 2020

Kentucky Farmer Bureau Insurance

By: \_\_\_\_\_  
Kristen Mellinger  
its Governing Committee representative

Date: February \_\_, 2020

Nationwide Insurance Company

By:  \_\_\_\_\_  
Christopher Migliozzi,  
its Governing Committee representative

Date: February 4, 2020

Erie Insurance Company

By: \_\_\_\_\_  
Robert Kepperling,  
its Governing Committee representative

Date: February \_\_, 2020

State Farm Insurance Company

By: \_\_\_\_\_  
Angie Haston,  
its Governing Committee representative

Date: February \_\_, 2020

Independent Agent - Old Kentucky Ins.

By: \_\_\_\_\_  
Rudy Schlich,  
its Governing Committee representative

Date: February \_\_, 2020

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OF THE GOVERNING COMMITTEE OF  
THE KENTUCKY AUTOMOBILE INSURANCE  
PLAN**

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**RESOLVED**, that KAIP enter into a PAIP Services Agreement with AIPSO in the form attached hereto as Exhibit A (the "Services Agreement"); and

**RESOLVED, FURTHER**, that the Plan Manager of KAIP be, and he hereby is, acting singly, authorized, empowered and directed to execute and deliver the Services Agreement for and on behalf of KAIP, and do such other acts and things as may be reasonable, necessary, desirable, appropriate or expedient in order to effect the transactions contemplated by, and the intents and purposes of these Resolutions; and

**RESOLVED, FURTHER**, that a copy of this Written Consent be filed with the minutes of the proceedings of the Governing Committee of KAIP.

This Written Consent may be executed in any number of counterparts and by the different members of the Governing Committee hereto on separate counterparts, each of which, when so executed and delivered by the members of the Governing Committee, shall constitute an original, but all such counterparts together shall constitute but one and the same instrument.

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CNA Insurance Company

By:   
George Moore,  
Chair and Governing Committee Rep

Date: February 7, 2020

Kentucky National Insurance Company

By: \_\_\_\_\_  
Rod Shockley,  
Vice Chair and Governing Committee

Date: February \_\_, 2020

Kentucky Farmer Bureau Insurance

By: \_\_\_\_\_  
Kristen Mellinger  
its Governing Committee representative

Date: February \_\_, 2020

Nationwide Insurance Company

By: \_\_\_\_\_  
Christopher Migliozi ,  
its Governing Committee representative

Date: February \_\_, 2020

Erie Insurance Company

By: \_\_\_\_\_  
Robert Kepperling,  
its Governing Committee representative

Date: February \_\_, 2020

State Farm Insurance Company

By: \_\_\_\_\_  
Angie Haston,  
its Governing Committee representative

Date: February \_\_, 2020

Independent Agent - Old Kentucky Ins.

By: \_\_\_\_\_  
Rudy Schlich,  
its Governing Committee representative

Date: February \_\_, 2020

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THE KENTUCKY AUTOMOBILE INSURANCE  
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**RESOLVED**, that KAIP enter into a PAIP Services Agreement with AIPSO in the form attached hereto as Exhibit A (the "Services Agreement"); and

**RESOLVED, FURTHER**, that the Plan Manager of KAIP be, and he hereby is, acting singly, authorized, empowered and directed to execute and deliver the Services Agreement for and on behalf of KAIP, and do such other acts and things as may be reasonable, necessary, desirable, appropriate or expedient in order to effect the transactions contemplated by, and the intents and purposes of these Resolutions; and

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By: \_\_\_\_\_  
George Moore,  
Chair and Governing Committee Rep

Date: February \_\_, 2020

Kentucky National Insurance Company

By: \_\_\_\_\_  
Rod Shockley,  
Vice Chair and Governing Committee

Date: February \_\_, 2020

Kentucky Farmer Bureau Insurance

By: Kristen Mellinger  
Kristen Mellinger  
its Governing Committee representative

Date: February 13, 2020

Nationwide Insurance Company

By: \_\_\_\_\_  
Christopher Migliozi ,  
its Governing Committee representative

Date: February \_\_, 2020

Erie Insurance Company

By: \_\_\_\_\_  
Robert Kepperling,  
its Governing Committee representative

Date: February \_\_, 2020

State Farm Insurance Company

By: \_\_\_\_\_  
Angie Haston,  
its Governing Committee representative

Date: February \_\_, 2020

Independent Agent - Old Kentucky Ins.

By: \_\_\_\_\_  
Rudy Schlich,  
its Governing Committee representative

Date: February \_\_, 2020

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CNA Insurance Company

By: \_\_\_\_\_  
George Moore,  
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Date: February \_\_, 2020

Kentucky National Insurance Company

By: \_\_\_\_\_  
Rod Shockley,  
Vice Chair and Governing Committee

Date: February \_\_, 2020

Kentucky Farmer Bureau Insurance

By: \_\_\_\_\_  
Kristen Mellinger  
its Governing Committee representative

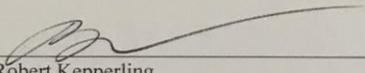
Date: February \_\_, 2020

Nationwide Insurance Company

By: \_\_\_\_\_  
Christopher Migliozi ,  
its Governing Committee representative

Date: February \_\_, 2020

Erie Insurance Company

By:  \_\_\_\_\_  
Robert Kepperling,  
its Governing Committee representative

Date: February 17, 2020

State Farm Insurance Company

By: \_\_\_\_\_  
Angie Haston,  
its Governing Committee representative

Date: February \_\_, 2020

Independent Agent - Old Kentucky Ins.

By: \_\_\_\_\_  
Rudy Schlich,  
its Governing Committee representative

Date: February \_\_, 2020

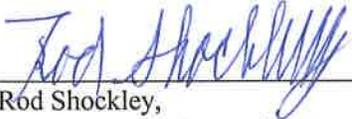
**IN WITNESS WHEREOF**, each of the undersigned has executed this Written Consent on the date set forth next to his or her signature thereby agreeing that the foregoing resolutions shall be of the same force and effect as if duly adopted at a meeting of the Governing Committee held, upon due notice, effective as of February, 2020.

CNA Insurance Company

By: \_\_\_\_\_  
George Moore,  
Chair and Governing Committee Rep

Date: February \_\_, 2020

Kentucky National Insurance Company

By:  \_\_\_\_\_  
Rod Shockley,  
Vice Chair and Governing Committee

Date: February 8, 2020

Kentucky Farmer Bureau Insurance

By: \_\_\_\_\_  
Kristen Mellinger  
its Governing Committee representative

Date: February \_\_, 2020

Nationwide Insurance Company

By: \_\_\_\_\_  
Christopher Migliozi ,  
its Governing Committee representative

Date: February \_\_, 2020

Erie Insurance Company

By: \_\_\_\_\_  
Robert Kepperling,  
its Governing Committee representative

Date: February \_\_, 2020

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Angie Haston,  
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Date: February \_\_, 2020

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its Governing Committee representative

Date: February \_\_, 2020

State Farm Insurance Company

By: \_\_\_\_\_  
Angie Haston,  
its Governing Committee representative

Date: February \_\_, 2020

Independent Agent - Old Kentucky Ins.

By:  \_\_\_\_\_  
Rudy Schlich,  
its Governing Committee representative

Date: February 7, 2020

## Kentucky Auto Insurance Plan

### **FUTURE OF CAIP/SRDP/POOLED CAP PROCEDURE**

#### **Mail Vote**

#### **INTRODUCTION**

National Continental Insurance Company (NCIC) recently sent a letter to AIPSO management indicating that effective immediately NCIC terminated its project to replace the ICAPS/MAPPS system (the “System”). This System is used by NCIC to process all of the CAIP/SRDP/Pooled CAP (collectively “CAIP”) business throughout the 44 state plans (the “Plans”) it serves as the sole CAIP servicing carrier. While NCIC stated that it will continue to honor its contractual commitments to all of the Plans through the expiration of the current servicing carrier agreement on August 31, 2022, NCIC also informed AIPSO management that NCIC will not apply to be a CAIP servicing carrier for a new term for any Plan.

As a result, AIPSO is providing the following information and guidance for the Plans in their review and consideration in determining a solution to this issue.

#### **BACKGROUND**

Since 1982, the CAIP has been the primary pooling mechanism for the commercial automobile residual market. A limited number of companies act as servicing carriers for eligible risks on behalf of all insurers writing commercial automobile business in the voluntary market. Plan subscriber companies reinsure and assume their proportionate share of the pool’s operating results. In 1989, there were more than 20 servicing carriers providing underwriting, claims and accounting services in the more than 40 states that adopted CAIP as their commercial auto insurance residual market mechanism.

The sustained decline in the residual market’s volume of commercial auto business saw the number of CAIP servicing carriers reduced to one, NCIC, as of January 2010. Thereafter, beginning in 2012, to insure the continued viability of the CAIP program in the event no other servicing carrier was available, AIPSO became a back-up service provider, handling a portion of the CAIP business in the New Jersey, Georgia, District of Columbia and New Hampshire plans. Beginning in 2014 all Plans agreed to a new countrywide approach (the “Countrywide Process”) to try and attract servicing carriers in a low volume environment. The Plans engaged in the Countrywide Process in 2014 and in 2018. Each time, only a single servicing carrier, NCIC, applied.

#### **AIPSO BOARD RECOMMENDATION**

At its March 2020 meeting, the AIPSO Board discussed the available options to prepare for the NCIC withdrawal. The Board affirmed that the CAIP continues to be the preferred mechanism for handling commercial automobile business in the residual market. Due to the lack of interest by carriers and as a result of AIPSO’s successful implementation and operation as a back-up service provider, the AIPSO Board recommends that the most stable solution is for the Plans to agree to appoint AIPSO as the sole service provider for the CAIPs.

As the service provider, AIPSO will perform all of the functions of the servicing carrier (policy processing, underwriting, claims, etc.). AIPSO will initially engage a fronting company to use its paper to write the business in order to comply with applicable statutory requirements that only licensed insurance companies may issue policies. The use of a fronting company has worked well during AIPSO's tenure as a back-up service provider. It is anticipated that at some point in the future, Plans will seek either regulatory or legislative approval to allow the CAIP business to be written on Plan paper. This future solution will avoid costs paid to the fronting company as well as secure the viability of the CAIPs in the event no company wishes to serve as a fronting company in the future.

AIPSO is looking to get a sense from each of the Plans as to whether they will be agreeable in concept to pursuing the AIPSO Board recommended course of action.

**Mark Hillis' Recommended Kentucky Specific Recommendations**

- (1) If the KAIP Governing Committee Agrees to the AIPSO Boards Recommendation, Kentucky should require that AIPSO leadership work proactively to educate leaders within the NAIC, specifically each impacted states Commissioner. In this manner, the potential changes are shared from the "top down" and not worked individually at each states level. I believe this is a lesson learned from the PAIP transition.
- (2) That AIPSO, acting as a service provider, shall adhere to all state specific requirements as outlined by each states Governing Committee to include such things as:
  - a. Service Standards for Underwriting/Claims which reflect a high industry standard so that challenges similar to the PAIP transition aren't experienced
  - b. Licensing as required by each specific state

**Please indicate your preference below:**

I Concur to appoint AIPSO as the sole service provider for CAIP with the condition that AIPSO leadership works proactively with the NAIC to educate states Commissioners as to this change

I Concur to appoint AIPSO as the sole service provider for CAIP

I Do Not Concur

I Abstain

Hold for discussion at next meeting

Signed: \_\_\_\_\_ *Angie Hasten* \_\_\_\_\_ Date: 04/28/2020

Company: State Farm Mutual Automobile Ins. Co.

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

## Kentucky Auto Insurance Plan

### **FUTURE OF CAIP/SRDP/POOLED CAP PROCEDURE**

#### **Mail Vote**

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I Concur to appoint AIPSO as the sole service provider for CAIP

I Do Not Concur

I Abstain

Hold for discussion at next meeting

Signed: Christopher Migliozi Date: 4/29/2020

Company: Nationwide Insurance  
Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

## Kentucky Auto Insurance Plan

### **FUTURE OF CAIP/SRDP/POOLED CAP PROCEDURE**

#### **Mail Vote**

#### **INTRODUCTION**

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I Concur to appoint AIPSO as the sole service provider for CAIP

I Do Not Concur

I Abstain

Hold for discussion at next meeting

Signed: George Moore

\_\_\_\_\_ Date: April 27, 2020 \_\_\_\_\_

Company: CNA Insurance \_\_\_\_\_

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

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I Do Not Concur

I Abstain

Hold for discussion at next meeting

Signed: Kristen Mellinger Date: 4/29/20

Company: Kentucky Farm BUREAU  
Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

## Kentucky Auto Insurance Plan

### FUTURE OF CAIP/SRDP/POOLED CAP PROCEDURE

#### Mail Vote

#### INTRODUCTION

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I Do Not Concur

I Abstain

Hold for discussion at next meeting

Signed:  Date: 5-1-20

Company: Eric Insurance  
Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

## Kentucky Auto Insurance Plan

### FUTURE OF CAIP/SRDP/POOLED CAP PROCEDURE

#### Mail Vote

#### INTRODUCTION

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I Do Not Concur

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Signed:  Date: April 27, 2020

Company: Kentucky National Ins. Co.  
Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

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As the service provider, AIPSO will perform all of the functions of the servicing carrier (policy processing, underwriting, claims, etc.). AIPSO will initially engage a fronting company to use its paper to write the business in order to comply with applicable statutory requirements that only licensed insurance companies may issue policies. The use of a fronting company has worked well during AIPSO's tenure as a back-up service provider. It is anticipated that at some point in the future, Plans will seek either regulatory or legislative approval to allow the CAIP business to be written on Plan paper. This future solution will avoid costs paid to the fronting company as well as secure the viability of the CAIPs in the event no company wishes to serve as a fronting company in the future.

AIPSO is looking to get a sense from each of the Plans as to whether they will be agreeable in concept to pursuing the AIPSO Board recommended course of action.

**Mark Hillis' Recommended Kentucky Specific Recommendations**

- (1) If the KAIP Governing Committee Agrees to the AIPSO Boards Recommendation, Kentucky should require that AIPSO leadership work proactively to educate leaders within the NAIC, specifically each impacted states Commissioner. In this manner, the potential changes are shared from the "top down" and not worked individually at each states level. I believe this is a lesson learned from the PAIP transition.
- (2) That AIPSO, acting as a service provider, shall adhere to all state specific requirements as outlined by each states Governing Committee to include such things as:
  - a. Service Standards for Underwriting/Claims which reflect a high industry standard so that challenges similar to the PAIP transition aren't experienced
  - b. Licensing as required by each specific state

**Please indicate your preference below:**

I Concur to appoint AIPSO as the sole service provider for CAIP with the condition that AIPSO leadership works proactively with the NAIC to educate states Commissioners as to this change

I Concur to appoint AIPSO as the sole service provider for CAIP

I Do Not Concur

I Abstain

Hold for discussion at next meeting

Signed: Rudolph C. Schlich (done electronically)

Date: April 27, 2020

Company: Old Kentucky Insurance

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

**ELECTION OF OFFICERS: Kentucky Automobile Insurance Plan Governing Committee –  
2020**

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Name and Address
<p><b>George Moore (Chair)</b> Vice President – CNA Insurance 550 Polaris Parkway Suite 100 Westerville, OH 43082 (614) 818-7801 <a href="mailto:George.Moore@CNA.com">George.Moore@CNA.com</a></p>
<p><b>Rodney Shockley (Vice-Chair)</b> Chief Executive Officer – Kentucky National Insurance 2709 Old Rosebud Rd. Lexington, KY 40509 (859) 264-0030 <a href="mailto:roshockley@forchtgroup.com">roshockley@forchtgroup.com</a></p>
<p><b>Stephen “Mark” Hillis (Secretary-Treasurer, Manager)</b> Executive Director – Kentucky Insurance Plans 10605 Shelbyville Road Suite 100, Louisville, KY 40223 (502) 327-8909 <a href="mailto:Shillis@kyfairplan.com">Shillis@kyfairplan.com</a></p>



To the Governing Committee  
Kentucky Automobile Insurance Plan

We have audited the financial statements of Kentucky Automobile Insurance Plan (Plan) for the year ended December 31, 2019, and have issued our report thereon dated February 19, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 11, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kentucky Automobile Insurance Plan are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the loss and loss adjustment expense reserves. These estimates are based on losses reported and adjusted and estimates for loss and loss adjustment expenses incurred but not reported. The Plan relies on the actuarial opinion of AIPSO, a management organization and service provider for the residual market, in determining the estimate for loss and loss adjustment expenses incurred but not reported. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of liability of loss and loss adjustment expenses in Note 3 to the financial statements. This disclosure is significant due to the information provided on the future liability of the Plan.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following adjustments for the Plan, detected as a result of our audit procedures, were corrected by management:

	<u>Change in Net Assets</u>
Record and adjust assessments	<u>\$288,742</u>

In addition, the schedule below summarizes an uncorrected adjustment of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

	<u>Change in Net Assets</u>
Accrue payroll and PTO	<u>\$(3,269)</u>

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 19, 2020.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Plan’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

This information is intended solely for the use of the Governing Committee and management of Kentucky Automobile Insurance Plan and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deming, Malone, Linsay & Ostroff*

Louisville, Kentucky  
February 19, 2020

**KENTUCKY AUTOMOBILE INSURANCE PLAN**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2019**

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## Independent Auditors' Report

To the Governing Committee  
Kentucky Automobile Insurance Plan

We have audited the accompanying financial statements of Kentucky Automobile Insurance Plan (a not-for-profit organization), which comprise the statement of assets, liabilities, and net assets – statutory basis as of December 31, 2019, and the related statement of revenue, expenses, and other changes in net assets – statutory basis and statement of cash flows – statutory basis for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statements, the financial statements are prepared by Kentucky Automobile Insurance Plan in accordance with financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Commonwealth of Kentucky Department of Insurance. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Kentucky Automobile Insurance Plan as of December 31, 2019, or the changes in its net assets for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and net assets of Kentucky Automobile Insurance Plan as of December 31, 2019, and its revenue, expenses, and other changes in net assets for the year then ended, in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance as described in Note 1.



Louisville, Kentucky  
February 19, 2020

**KENTUCKY AUTOMOBILE INSURANCE PLAN**

**STATEMENT OF ASSETS, LIABILITIES, AND  
NET ASSETS - STATUTORY BASIS**

December 31, 2019

<b>Assets</b>	
Cash and cash equivalents	\$ 1,174,008
Premiums receivable	8,828
Assessment receivables	166,788
Other receivables	156,866
Accrued interest receivable	<u>621</u>
<b>Total assets</b>	<b><u>\$ 1,507,111</u></b>
 <b>Liabilities and Net Assets</b>	
<b>Liabilities</b>	
Accounts payable	<u>\$ 30,301</u>
Accrued expenses	<u>2,258</u>
Insurance reserves:	
Losses	43,941
Loss adjustment expense	4,832
Unearned premiums	40,918
Premium deficiency	<u>3,683</u>
	<u>93,374</u>
<b>Total liabilities</b>	125,933
<b>Net Assets</b>	<u>1,381,178</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 1,507,111</u></b>

See Notes to Financial Statements.

**KENTUCKY AUTOMOBILE INSURANCE PLAN**  
**STATEMENT OF REVENUES, EXPENSES, AND OTHER**  
**CHANGES IN NET ASSETS - STATUTORY BASIS**  
Year Ended December 31, 2019

**Revenues**

Assessments	\$ 287,842
Premiums earned	64,279
Net investment return	9,578
Other income	<u>65</u>
<b>Total revenues</b>	<u>361,764</u>

**Expenses**

Program - underwriting expenses:

Losses	72,165
Other	14,597
Service provider fees	11,120
Commissions	10,520
Loss adjustment	<u>7,086</u>
	<u>115,488</u>

Management and general:

Salaries and wages	76,167
Professional fees	35,876
Computer	29,151
Management fees	23,880
Other	22,417
Health insurance	16,517
Retirement	15,075
Rent	6,806
Payroll taxes	<u>5,590</u>
	<u>231,479</u>

**Total expense**

346,967

**Change in net assets**

14,797

Net assets at beginning of year

1,366,381

Net assets at end of year

\$ 1,381,178

See Notes to Financial Statements.

**KENTUCKY AUTOMOBILE INSURANCE PLAN**  
**STATEMENT OF CASH FLOWS - STATUTORY BASIS**  
Year Ended December 31, 2019

<b>Cash Flows from Operating Activities</b>	
Cash received from customers, members and others	\$ 1,295,177
Cash paid to suppliers, employees and others	(261,952)
Net investment and other income received	<u>9,022</u>
<b>Net cash provided by operating activities</b>	<u>1,042,247</u>
<b>Net increase in cash and cash equivalents</b>	1,042,247
Cash and cash equivalents at beginning of year	<u>131,761</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,174,008</u></u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities</b>	
<b>Change in net assets</b>	\$ 14,797
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in:	
Premiums receivable	(8,828)
Assessment receivables	796,376
Other receivable	114,590
Accrued interest receivable	(621)
Increase (decrease) in:	
Accounts payable	30,301
Accrued expenses	2,258
Insurance reserves	<u>93,374</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 1,042,247</u></u>

See Notes to Financial Statements.

## KENTUCKY AUTOMOBILE INSURANCE PLAN

### NOTES TO FINANCIAL STATEMENTS

#### **Note 1. Nature of Organization and Summary of Significant Accounting Policies**

##### **Nature of organization:**

The Kentucky Automobile Insurance Plan (Plan) is a statutory, not-for-profit, unincorporated legal entity which provides two residual market mechanisms for vehicle liability coverage in Kentucky, one for personal vehicles and the other for commercial vehicles. The Plan's members are insurance companies authorized to write automobile liability insurance in Kentucky.

Effective January 1, 2019, the Plan's personal vehicle component, Personal Auto Insurance Program (PAIP), policies are issued on Kentucky Automobile Insurance Plan paper. Issuance of the policies and claims handling is administered by Automobile Insurance Plan Service Office (AIPSO). This activity is included in the accompanying financial statements.

The Plan's commercial vehicle component, Kentucky Commercial Automobile Insurance Procedure (KCAIP), policies are not issued on Kentucky Automobile Insurance Plan paper. The Plan receives applications and forwards each properly completed application to a single servicing carrier which underwrites the commercial vehicle policies, collects the premiums, handles all claims and adjustment expenses, charges its pre-approved fees, and remits the remaining funds to AIPSO if applicable, or charges the industry for losses beyond premiums earned. AIPSO operates a pooling arrangement on behalf of the Plan and its members under which the profits and losses from the operation of KCAIP are spread among the Plan's members. From time to time, the members pay assessments to AIPSO or receive distributions from AIPSO in connection with the pooling arrangement. This activity is not included in the accompanying financial statements

The plan periodically assesses all member insurance companies for their pro-rate share of PAIP and administrative expenses. Each member is assessed in the same proportion that the member's voluntary direct premiums written during the preceding calendar year bear to the total of such direct premiums written by all members during the preceding calendar year.

## NOTES TO FINANCIAL STATEMENTS

### **Summary of significant accounting policies:**

This summary of significant accounting policies of Kentucky Automobile Insurance Plan is presented to assist in understanding the Plan's financial statements. The financial statements and notes are representations of the Plan's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles on the statutory basis of accounting and have been consistently applied in the preparation of the financial statements.

### **Basis of accounting:**

The Plan prepares its financial statements on the statutory basis of accounting as prescribed or permitted by the Commonwealth of Kentucky Department of Insurance for insurance companies. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules.

Statutory accounting practices vary in some respects from accounting principles generally accepted in the United States of America. The more significant differences are as follows:

- Certain costs of acquiring insurance business, principally commissions, are expensed as incurred rather than deferred and amortized as the related premiums are earned.
- Salvage and subrogation recoveries are recognized when received rather than accrued.
- Certain assets, principally certain deposits, premium receivables greater than 90 days past due, and furniture and equipment, are designated as “non-admitted assets”. The total cost of the property to be occupied by the Plan may not exceed 10% of the total admitted assets. The remainder must be designated as “non-admitted assets.”
- Investments in available-for-sale securities having a fixed term, rate and face value are stated at amortized cost rather than fair value.

## NOTES TO FINANCIAL STATEMENTS

### **Net assets:**

Net assets are available for use in general operations and are not subject to any donor restrictions. Net assets include funds designated as a contingency fund by the Governing Committee.

### **Use of estimates:**

The preparation of financial statements under accounting practices prescribed or permitted by the Commonwealth of Kentucky Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Premiums, assessments and underwriting expense:**

Insurance premiums are earned ratably over the terms of the underlying policies. Assessments are earned when assessed. Commissions and other costs related to acquiring business are charged to operations as incurred.

### **Cash equivalents:**

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents include the Plan's share of a liquid asset trust, a commingled investment account administered by AIPSO on behalf of participating plans.

### **Receivables:**

Premiums receivable consist of unsecured amounts due from policyholders. Amounts are considered past due based on policy terms. If unpaid per policy terms, the policy is cancelled and related unearned premium is reversed.

Assessment receivables consist of unpaid amounts due from member insurance companies. Amounts are written off when deemed uncollectible.

The Plan considers all receivables at December 31, 2019 to be fully collectible. Accordingly, there is no allowance for doubtful accounts.

## NOTES TO FINANCIAL STATEMENTS

### **Loss and loss adjustment expense reserves:**

Loss and loss adjustment expense reserves are based on losses reported and adjusted and estimates for loss and loss adjustment expenses incurred but not reported. The Plan relies on the actuarial opinion of AIPSO, a management organization and service provider for the residual market, in determining the estimate for loss and loss adjustment expenses incurred but not reported. Loss and loss adjustment expense reserves are based on estimates, and the ultimate liability may vary significantly from such estimates. Changes in estimates are recorded in the statement of income in the year in which the Plan becomes aware of the need for revision.

### **Functional allocation of expenses:**

The costs of program and supporting services are presented in the statement of revenues, expenses, and other changes in net assets – statutory basis. The functional expenses on that statement present the natural classification detail of expenses by function. Costs have been directly allocated to program and supporting services based on type of costs.

### **Capitalization policy:**

The Plan's policy is to capitalize asset purchases in excess of \$2,000 with a useful life exceeding one year.

### **Newly issued standard not yet effective:**

The Financial Accounting Standards Board has issued accounting standard No. 2016-02, *Leases*, effective for years beginning after December 15, 2020. The Plan is evaluating the impact that this standard will have on the statutory basis of accounting.

### **Subsequent events:**

Subsequent events have been evaluated through February 19, 2020, which is the date the financial statements were available to be issued.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Liquidity and Availability

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of December 31, 2019, comprise the following:

Cash and cash equivalents	\$ 674,008
Receivables	<u>333,103</u>
	<u>\$1,007,101</u>

Additional cash equivalent funds designated by the Governing Committee as a contingency fund in the amount of \$500,000 could be made available for general expenditure if necessary.

The Plan manages its liquidity and reserves following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs.

### Note 3. Liability for Loss and Loss Adjustment Expenses

Activity in the liability for loss and loss adjustment expenses as of and for the year ended December 31, 2019 is as follows:

Provision for insured events of current year	\$ 79,251
Payments attributable to current year events	<u>(30,478)</u>
Reserves, end of year	<u>\$ 48,773</u>

### Note 4. Tax Status

The Plan is exempt from federal, state and local income taxes as a not-for-profit entity as described under Internal Revenue Code Section 501(c)(6). The Plan files an information return in the U.S. federal jurisdiction.

As of December 31, 2019, the Plan did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Related Party Transactions

Kentucky Assigned Claims Plan, Kentucky Insurance Guaranty Association, Kentucky Insurance Arbitration Association, and Kentucky FAIR Plan Reinsurance Association (KFP) are related organizations under a cost sharing agreement. The Plan and KFP furnish personnel and administrative support for the Plan and the above entities and allocate the charges to each. The cost sharing agreement was managed and administered by the Plan through December 31, 2018. Effective January 1, 2019, KFP began managing and administering the cost sharing agreement.

Following is a summary of transactions and balances under the cost sharing agreement for the year ended December 31, 2019:

Receivable at the beginning of the year	\$271,456
Expenses allocated during the year	(206,644)
Payments received during the year	(271,456)
Payments made during the year	<u>177,011</u>
Payable at the end of year	<u>\$ (29,633)</u>

### Note 6. Retirement Plans

The Plan has a money-purchase pension plan that covers substantially all employees. Contributions are determined annually at the discretion of the Governing Committee. Pension expense was \$12,459 for the year ended December 31, 2019.

The Plan also has a 401(k) defined contribution plan that covers substantially all employees. Annual expense provisions are based upon the Plan matching a portion of the employees' contributions. Matching contribution was \$2,616 for the year ended December 31, 2019.

Costs are allocated in accordance with the cost sharing agreement as described in Note 5.

## NOTES TO FINANCIAL STATEMENTS

### **Note 7. Operating Lease**

The Plan leases office space from the Kentucky FAIR Plan Reinsurance Association under an operating lease through December 31, 2023. This lease has an automatic renewal provision which allows for the lease to automatically renew and extend an additional year unless either party gives written notice of intent not to renew not less than 180 days prior to expiration of the term of the lease. Rent is based on actual utilities, maintenance, taxes, insurance and related expenses associated with the property. Rent expense was \$6,806 for the year ended December 31, 2019.

Rent is allocated in accordance with the cost sharing agreement as described in Note 5.

### **Note 8. Concentration of Credit Risk**

The Plan maintains its cash and cash equivalents at various financial institutions and in a liquid asset trust held by AIPSO. The total balance at each financial institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019, the Plan's uninsured cash balance totaled approximately \$933,000.

### **Note 9. Commitments**

The Plan has entered into a service agreement with AIPSO to administer the Personal Auto Insurance Program (PAIP). Under the agreement, AIPSO will provide underwriting, policy issuance and administration, and claims handling services for all PAIP applications. The Plan may terminate the agreement with six months written notice to AIPSO. During the year ended December 31, 2019, the Plan paid AIPSO \$11,120 in service provider fees and \$23,880 in management fees under the terms of the agreement. As part of the agreement, AIPSO holds the Plan's funds in a liquid asset trust. As of December 31, 2019, the Plan had a receivable due from AIPSO of \$156,866 for Plan funds that have not been allocated to the Plan's share of the liquid asset trust. This amount is included in other receivables on the statement of assets, liabilities, and net assets – statutory basis.

Financial Statements and Statements of Cash Receipts  
and Disbursements Accounted for by the  
Central Processor and Reports of  
Independent Certified Public Accountants

**KENTUCKY COMMERCIAL AUTOMOBILE  
INSURANCE PROCEDURE**

August 31, 2019 and 2018

DRAFT

Financial Statements and Report of  
Independent Certified Public Accountants

**KENTUCKY COMMERCIAL AUTOMOBILE  
INSURANCE PROCEDURE**

August 31, 2019 and 2018

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Governing Committee  
Kentucky Automobile Insurance Plan

We were engaged to audit the accompanying financial statements of Kentucky Commercial Automobile Insurance Procedure (the "CAIP"), which comprise the statements of assets, liabilities and accountability of members as of August 31, 2019 and 2018, and the related statements of operations, changes in accountability of members for the years then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section B of the Commercial Automobile Insurance Procedure Accounting and Statistical Requirement Manual dated June 2009 (the "Manual"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

Our procedures on the underwriting accounts (as defined in Note 2 to the financial statements) were restricted under the terms of our engagement, and did not allow us to obtain evidence as to the existence, completeness, accuracy, and valuation of the underlying data reported to the CAIP by individual servicing carriers as of August 31, 2019 and 2018. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts in the underwriting accounts, and the related elements making up the statements of operations, changes in accountability of members and statements of assets, liabilities and accountability of members.

**Disclaimer of opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

**Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting to meet the requirements of financial reporting provisions of the Manual. The financial statements are prepared by the Central Processor (AIPSO) on the basis of the financial reporting provisions of Section B of the Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of the governing committee, management, AIPSO, member companies of the CAIP and state insurance departments to whose jurisdiction the CAIP is subject and is not intended to be and should not be used by anyone other than these specified parties.

Hartford, Connecticut  
June XX, 2020

# KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE

## Statements of Assets, Liabilities, and Accountability of Members

August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 617,183	\$ 473,451
Accounts receivable - member companies	194,037	338,359
Accrued interest receivable	358	425
	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$ 811,578</u></u>	<u><u>\$ 812,235</u></u>
 <b>LIABILITIES AND ACCOUNTABILITY OF MEMBERS</b>		
<b>LIABILITIES</b>		
Loss reserves	\$ 1,335,904	\$ 1,370,219
Allocated loss adjustment expense reserves	74,730	71,815
Unearned premiums	274,725	816,097
Premium deficiency reserve	-	134,254
Accounts payable - member companies	193,013	94,802
Accounts payable - servicing carriers	207,113	306,307
Accounts payable - AIPSO	1,518	1,331
Accrued expenses	19,147	-
	<u>                    </u>	<u>                    </u>
Total liabilities	2,106,150	2,794,825
 <b>ACCOUNTABILITY OF MEMBERS</b>		
	<u>(1,294,572)</u>	<u>(1,982,590)</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and accountability of members	<u><u>\$ 811,578</u></u>	<u><u>\$ 812,235</u></u>

*The accompanying notes are an integral part of these financial statements.*

# KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE

## Statements of Operations

Years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Premiums earned	\$ 1,200,207	\$ 1,291,208
Losses incurred	522,847	1,403,879
Allocated loss adjustment expense incurred	20,289	12,662
Unallocated loss adjustment expense allowance	164,060	172,635
Change in premium deficiency reserve	(134,254)	(97,713)
Administrative expense allowance	121,822	275,331
Commissions expense	42,788	98,023
Premium tax expense	13,177	29,407
	<u>750,729</u>	<u>1,894,224</u>
Total underwriting expense		
Underwriting gain (loss)	449,478	(603,016)
Premiums recovered (charged-off)	26,138	(58,249)
Indemnification expense	(19,147)	-
Central processor expense	(13,772)	(15,590)
Miscellaneous income (expense)	7,405	(14,062)
	<u>7,405</u>	<u>(14,062)</u>
Gain (loss) from operations	<u>\$ 450,102</u>	<u>\$ (690,917)</u>

*The accompanying notes are an integral part of these financial statements.*

**KENTUCKY COMMERCIAL AUTOMOBILE  
INSURANCE PROCEDURE**  
**Statements of Changes in Accountability of Members**  
**Years ended August 31, 2019 and 2018**

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	<u>2019</u>	<u>2018</u>
<b>Accountability of members, beginning of year</b>	\$ (1,982,590)	\$ (1,348,850)
Settlement activity for period		
Change in settlement	237,916	57,177
Gain (loss) from operations	<u>450,102</u>	<u>(690,917)</u>
<b>Accountability of members, end of year</b>	<u><u>\$ (1,294,572)</u></u>	<u><u>\$ (1,982,590)</u></u>

*The accompanying notes are an integral part of these financial statements.*

# **KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE**

## **Notes to Financial Statements**

### **August 31, 2019 and 2018**

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#### **1. NATURE OF BUSINESS**

The primary responsibility of the Kentucky Automobile Insurance Plan (the Plan) is to provide automobile insurance to applicants that are eligible for coverage under the Plan. The Commercial Automobile Insurance Procedure (CAIP) was implemented to provide for the servicing of risks as defined in the CAIP section of the Plan. The Kentucky CAIP was adopted by the Governing Committee and approved by the Commissioner of Insurance of the State of Kentucky.

The Governing Committee has appointed servicing carrier(s) to issue insurance policies, collect premiums, pay commissions, and adjust claims. They are paid a fee for these services. Any insurance company writing commercial automobile insurance in the state is required to become a member of the Plan. Funds are collected and disbursed to servicing carriers and member companies on a quarterly basis, based on net cash activity. In the event that a company is declared insolvent, all remaining companies are responsible for the insolvent company's share of the Plan deficit.

AIPSO has been appointed by the Governing Committee to act as the Central Processor to perform accounting and statistical functions for which the CAIP is charged a service fee. AIPSO is responsible for the disbursement and collection of funds attributable to the servicing carriers' CAIP experience.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Presentation**

The accompanying financial statements of the Kentucky Commercial Automobile Insurance Procedure, domiciled in Kentucky, have been prepared in accordance with the financial reporting provisions of Section B of the Commercial Automobile Insurance Procedure Accounting and Statistical Requirements Manual (the Manual).

The financial reporting provisions of the Manual vary from U.S. generally accepted accounting principles primarily in that underwriting results and related accounts presented in accordance with the Manual would not be recorded and expenses directly associated with the acquisition of new policies are charged to current operations as incurred rather than deferred and amortized over the term of the policy. The aggregate effect of the difference has not been determined. In addition, a statement of cash flows has not been presented.

##### **Cash and Cash Equivalents**

Cash and cash equivalents represent the CAIP's share of the AIPSO Liquid Asset Trust (LAT) managed by AIPSO and cash on hand. The investments of the LAT are limited to U.S. Treasury notes and bills, government-sponsored enterprises, money market accounts, commercial paper, and overnight repurchase agreements and are recorded at cost, which approximates fair value. LAT investments have less than three month maturities from the acquisition date and, therefore, are considered cash equivalents.

# **KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE**

## **Notes to Financial Statements**

### **August 31, 2019 and 2018**

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#### **Underwriting Account Accumulations**

Servicing carriers report to AIPSO underwriting account accumulations, including premiums, commissions, losses, loss adjustment expenses, premium taxes, loss reserves, loss adjustment expense reserves, administrative expenses, guaranty fund and other assessments, other underwriting expenses, premiums charged off, commissions charged off, collection fees and related receipts, and disbursements, as applicable. AIPSO accumulates this underwriting account information and derives the related asset and liability accounts, which form the basis for preparation of the accompanying statements of assets, liabilities and accountability of members and statements of operations and changes in accountability of members. The appropriate share of these underwriting accounts, including other operating expenses of the CAIP, is allocated to each participating member company. This allocation is based upon participation ratios, which approximate each company's voluntary writings to the total voluntary writings within the state.

#### **Change in Settlement**

Each quarter, the Central Processor estimates the projected cash needs of the CAIP based upon the last four quarters cash requirements and CAIP market trends and includes an appropriate contingency fund to cover potential cash shortfalls in the CAIP. The change in settlement is a combination of the change in contingency fund, as well as the cash results of the CAIP, which are allocated to and settled with the participating members based on their voluntary market share in the state.

#### **Premiums**

Premiums earned are recognized ratably over the terms of the policies. Unearned premiums represent that portion of written premiums applicable to the unexpired period of the policy. Earned but unbilled premium represents estimated audit premiums and are recorded as an adjustment to earned premium. The amount of earned but unbilled premium at August 31, 2019 and 2018 was \$12,980 and \$8,871, respectively, which is included in unearned premiums in the statement of assets, liabilities, and accountability of members.

#### **Loss and Allocated Loss Adjustment Expense Reserves**

The liability for losses and allocated loss adjustment expense represents case basis estimates of reported losses, estimates of incurred but not reported losses, as reported by the servicing carriers, and estimated salvage and subrogation recoverable, as calculated by AIPSO. The estimated salvage and subrogation recoverable at August 31, 2019 and 2018 was \$15,116 and \$24,294, respectively, which is included in loss reserves in the statement of assets, liabilities, and accountability of members.

Reserve estimates are based on past loss experience modified for current claim trends as well as prevailing social, economic, and legal conditions. Final claim payments, however, may ultimately differ from the established reserves. Reserve estimates are continually reviewed and updated and any resulting adjustments are reflected in current operating results.

The loss reserves and allocated loss adjustment expense reserves contained in the financial statements have been subjected to the NAIC loss reserve statement of opinion process as contained in the Manual. Each servicing carrier has provided to AIPSO a loss reserve statement of opinion that covers the following points: a) the reserves meet the requirements of the insurance laws of "state of domicile"; b) are computed in accordance with accepted loss reserving standards and principles; and c) make a reasonable provision for all

# **KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE**

## **Notes to Financial Statements**

### **August 31, 2019 and 2018**

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unpaid loss and loss expense reserving obligations of the servicing carrier under the terms of its policies and agreements. The loss reserve statements of opinion are kept on file at AIPSO.

#### **Unallocated Loss Adjustment Expense Allowance**

Unallocated loss adjustment expense allowance is computed as a percentage of earned premiums.

#### **Administrative Expense Allowance**

Administrative expense allowance is computed as a percentage of premiums written.

#### **Use of Estimates**

The Central Processor, AIPSO, and the servicing carriers have made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with the basis of accounting described in Note 2. Actual results could differ from those estimates.

#### **Premium Deficiency Reserve**

Premium deficiency reserve represents the excess of anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs over unearned premiums. The amount of the premium deficiency reserve at August 31, 2019 and 2018 was \$-0- and \$134,254, respectively.

### **3. INCOME TAXES**

The CAIP represents an administrative procedure of the Plan. The Plan is a tax-exempt organization as described in Section 501(c)(6) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The Plan is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

### **4. MEMBER COMPANIES IN REHABILITATION**

There is no amount included in accounts receivable or payable member companies at August 31, 2019 and 2018, due from/(due to) members in rehabilitation/conservation by court order. If an amount becomes uncollectible, it would be written off and assessed to the other member companies of the CAIP. The write-off of insolvent companies is accomplished through a reallocation of the insolvent companies' inception-to-date CAIP experience, including amounts paid and unpaid by the insolvent member, with no net impact on accountability of members or accounts receivable (payable) member companies in the aggregate.

### **5. COMMITMENTS AND CONTINGENCIES**

The CAIP is involved in various legal proceedings arising out of and incidental to its business.

In accordance with the CAIP servicing carrier agreement, a servicing carrier is entitled to have certain legal and other claim related costs indemnified by the CAIP if it is determined that there was no criminal or willful misconduct on the part of the servicing carrier. During the fiscal years ended August 31, 2019 and 2018, the CAIP incurred indemnification expenses of \$19,147 and \$-0-, respectively.

**KENTUCKY COMMERCIAL AUTOMOBILE  
INSURANCE PROCEDURE**  
Notes to Financial Statements  
August 31, 2019 and 2018

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Management of the CAIP, based on its review with counsel, does not anticipate that the losses, if any, incurred as a result of these legal proceedings, or CAIP indemnification, would materially affect the financial position or results of operations of the CAIP.

**6. LIABILITY FOR LOSS RESERVES AND ALLOCATED LOSS ADJUSTMENT EXPENSE RESERVES**

Activity in the liability for loss reserves is summarized as follows:

	<u>2019</u>	<u>2018</u>
<b>Balance at September 1</b>	\$ 1,370,219	\$ 989,420
Incurring (recovered) related to		
Current year	762,344	1,164,541
Prior years	(239,497)	239,338
Total incurred	<u>522,847</u>	<u>1,403,879</u>
Paid related to		
Current year	84,069	214,322
Prior years	473,093	808,758
Total paid	<u>557,162</u>	<u>1,023,080</u>
<b>Balance at August 31</b>	<u><u>\$ 1,335,904</u></u>	<u><u>\$ 1,370,219</u></u>

Activity in the liability for allocated loss adjustment expense reserve is summarized as follows:

	<u>2019</u>	<u>2018</u>
<b>Balance at September 1</b>	\$ 71,815	\$ 99,661
Incurring (recovered) related to		
Current year	24,503	36,487
Prior years	(4,214)	(23,825)
Total incurred	<u>20,289</u>	<u>12,662</u>
Paid related to		
Current year	1,864	-
Prior years	15,510	40,508
Total paid	<u>17,374</u>	<u>40,508</u>
<b>Balance at August 31</b>	<u><u>\$ 74,730</u></u>	<u><u>\$ 71,815</u></u>

# **KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE**

## **Notes to Financial Statements**

### **August 31, 2019 and 2018**

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Detailed loss information is captured by the servicing carrier on an accident and policy year basis for reporting purposes. Therefore, the current year, as reported above, includes the accident year results and the prior accident year results, which were reported in the first quarter of the current fiscal year.

The Plan is unable to determine the reasons for the change in the provision for incurred losses and allocated loss adjustment expense reserves, which are attributable to insured events of prior years. This information resides with the servicing carriers and is not reported to the Plan. Refer to Note 2 for further information.

#### **7. RISKS AND UNCERTAINTIES**

Currently, there is only one active servicing carrier in the CAIP Program. However, AIPSO currently acts as a backup servicing provider, using a fronting company model, to write CAIP policies in four states. AIPSO will remain a backup carrier only in these states, unless no insurance company is interested in being a CAIP servicing carrier.

#### **8. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June \_\_\_\_, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by novel coronavirus, a pandemic. The Plan's management is closely monitoring the evolution of the pandemic, including how it may affect the economy and the general population. The ultimate impact of the pandemic on the CAIP is not currently determinable.

Statements of Cash Receipts and Disbursements  
Accounted for by the Central Processor and Reports of  
Independent Certified Public Accountants

**KENTUCKY COMMERCIAL AUTOMOBILE  
INSURANCE PROCEDURE**

August 31, 2019 and 2018

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**GRANT THORNTON LLP**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Governing Committee  
Kentucky Automobile Insurance Plan

We have audited the accompanying statements of cash receipts and disbursements (financial statements) of the Kentucky Commercial Automobile Insurance Procedure (the "CAIP"), for the years ended August 31, 2019 and 2018, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the CAIP for the years ended August 31, 2019 and 2018 in accordance with the cash basis of accounting described in Note 2.

**Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter

**Restriction on Use**

Our report is intended solely for the information and use of the governing committee, management, AIPSO, member companies of the CAIP and state insurance departments to whose jurisdiction the CAIP is subject and is not intended to be and should not be used by anyone other than these specified parties.

Hartford, Connecticut  
June XX, 2020

# KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE

## Statements of Cash Receipts and Disbursements Accounted for by the Central Processor Years ended August 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
RECEIPTS		
Collections from member companies	\$ 576,985	\$ 385,076
Collections from servicing carriers	211,287	83,604
Miscellaneous income	5,458	3,389
	<u>793,730</u>	<u>472,069</u>
DISBURSEMENTS		
Distributions to member companies	96,536	622,223
Distributions to servicing carriers	536,586	383,573
Central processor expense	13,922	15,514
Miscellaneous expense	2,954	2,870
	<u>649,998</u>	<u>1,024,180</u>
Receipts over (under) disbursements	143,732	(552,111)
Cash and cash equivalents, beginning of year	<u>473,451</u>	<u>1,025,562</u>
Cash and cash equivalents, end of year	<u><u>\$ 617,183</u></u>	<u><u>\$ 473,451</u></u>

*See accompanying notes to statements of cash receipts and disbursements accounted for by the Central Processor.*

# **KENTUCKY COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE**

## **Notes to Statements of Cash Receipts and Disbursements Accounted for by the Central Processor**

**August 31, 2019 and 2018**

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### **1. NATURE OF BUSINESS**

The primary responsibility of the Kentucky Automobile Insurance Plan (the Plan) is to provide automobile insurance to applicants that are eligible for coverage under the Plan. The Commercial Automobile Insurance Procedure (CAIP) was implemented to provide for the servicing of risks as defined in the CAIP section of the Plan. The Kentucky CAIP was adopted by the Governing Committee and approved by the Commissioner of Insurance of the State of Kentucky.

The Governing Committee has appointed servicing carrier(s) to issue insurance policies, collect premiums, pay commissions, and adjust claims. They are paid a fee for these services. Any insurance company writing commercial automobile insurance in the state is required to become a member of the Plan. Funds are collected and disbursed to servicing carriers and member companies on a quarterly basis, based on net cash activity. In the event that a company is declared insolvent, all remaining companies are responsible for the insolvent company's share of the Plan deficit.

AIPSO has been appointed by the Governing Committee to act as the Central Processor to perform accounting and statistical functions for which the CAIP is charged a service fee. AIPSO is responsible for the disbursement and collection of funds attributable to the servicing carriers' CAIP experience.

### **2. BASIS OF PRESENTATION**

The statements of cash receipts and disbursements, accounted for by the Central Processor of the CAIP, have been prepared on the basis of cash received and disbursed (cash basis). The primary difference between the cash basis and accrual basis of accounting required by U.S. generally accepted accounting principles is that the revenue is recognized when received rather than when earned and expenses are recorded when paid rather than when incurred. The statements of cash receipts and disbursements are a summary of only the cash activity of the CAIP that is accounted for by AIPSO, the Central Processor. Accordingly, the statements of cash receipts and disbursements are not intended to present results of operations in conformity with U.S. generally accepted accounting principles.

### **3. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June \_\_, 2020, which is the date the statements of cash receipts and disbursements accounted for by the Central Processor were available to be issued.

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by novel coronavirus, a pandemic. The Plan's management is closely monitoring the evolution of the pandemic, including how it may affect the economy and the general population. The ultimate impact of the pandemic on the CAIP is not currently determinable.



*“Serving the Insurance Industry”*

April 6, 2020

Mark Hillis, Manager  
Kentucky Automobile Insurance Plan  
10605 Shelbyville Rd, Suite 100  
Louisville, KY 40223-3167

**2021 CAIP SERVICING CARRIER ALLOWANCE  
ANNUAL RECALCULATION  
KENTUCKY AUTOMOBILE INSURANCE PLAN**

Dear Mark,

Below are the 2021 CAIP servicing carrier allowances, calculated in accordance with the Plan of Operation, to be effective March 1, 2021. In addition, the 2020 CAIP servicing carrier allowances are provided for Governing Committee reference.

<b>KENTUCKY AUTO INSURANCE PLAN</b>			
<b>Administrative Expense Allowance as a Percentage of Written Premiums</b>			
<b>Coverage</b>	<b>2020</b>	<b>2021</b>	
<b>Liability</b>	<b>18.8%</b>	<b>18.3%</b>	

<b>Loss Adjustment Expense Allowance as a Percentage of Earned Premiums</b>			
<b>Coverage</b>	<b>2020</b>	<b>2021</b>	
<b>Liability - ULAE</b>	<b>8.9%</b>	<b>7.0%</b>	
<b>Liability - ALAE</b>	<b>Direct Reimbursement</b>		

In accordance with the Servicing Carrier Agreement, six months' written notification must be provided to servicing carriers prior to any revision to the allowance. Following review by the Governing Committee, proper notification of the change in allowance must be issued to servicing carriers not later than September 1, 2020.

Thank you,

Karen Leite, AIS  
Sr. Insurance Coordinator  
Quota and Participation Services

**Kentucky Book of Business  
As of 04/30/2020**

Report Date: 05/11/2020

#	Last Name	Effective	Column1
AAP16-001	McIntire	01/07/2019	cancelled 11/20/19
AAP16-002	Felix	01/11/2019	expired 1/11/2020
AAP16-005	Lee	01/16/2019	expired 1/16/2020
AAP16-006	Abdo	01/25/2019	cancelled 7/23/19
AAP16-007	Binford	01/24/2019	expired 1/24/2020
AAP16-008	Booker	01/29/2019	cancelled 11/18/19
AAP16-009	Johnson	01/23/2019	cancelled 4/10/19
AAP16-010	Britt	01/28/2019	expired 1/28/2020
AAP16-011	Davis	02/07/2019	cancelled 3/25/19
AAP16-012	Hopkins	02/22/2019	cancelled 5/10/19
AAP16-013	Dawkins	02/20/2019	expired 2/20/20
AAP16-014	Seviour	02/25/2019	cancelled 5/13/19
AAP16-015	Buford	02/27/2019	cancelled 6/14/19
AAP16-016	Dawson	03/01/2019	cancelled 2/28/20
AAP16-017	Forney	03/07/2019	expired 3/7/20
AAP16-018	Beningfield	03/12/2019	expired 3/12/20
AAP16-019	richards	03/13/2019	cancelled 7/25/19
AAP16-020	Davis	03/14/2019	cancelled 5/2/19
AAP16-021	Brown	03/14/2019	cancelled 12/2/19
AAP16-022	Sparks	03/19/2019	cancelled 4/12/19
AAP16-023	Anand	03/15/2019	cancelled 4/9/19
AAP16-024	Ford	03/22/2019	expired 3/22/20
AAP16-025	Jarboe	03/28/2019	expired 3/28/20
AAP16-026	Shubeso	03/26/2019	cancelled 5/28/19
AAP16-027	Curry	04/11/2019	expired 4/11/20
AAP16-028	Williams	04/09/2019	cancelled 6/19/19
AAP16-029	Broadus	04/23/2019	cancelled 10/11/2019
AAP16-030	Pulliam	06/04/2019	cancelled 9/22/19
AAP16-031	Rottner	06/05/2019	
AAP16-032	Wadlington	06/10/2019	
AAP16-033	Martin	06/14/2019	cancelled 6/14/19
AAP16-034	Perry	07/02/2019	cancelled 3/9/20
AAP16-035	Blackburn	07/09/2019	cancelled 8/27/19
AAP16-036	Reed	07/24/2019	
AAP16-037	Buford	07/30/2019	
AAP16-038	Arroyo	08/13/2019	cancelled 9/29/19
AAP16-039	Maize	08/22/2019	cancelled 11/18/19
AAP16-040	Baker	09/27/2019	cancelled 3/11/20
AAP16-041	Frillman	10/01/2019	cancelled 2/7/20
AAP16-042	Pulliam	10/02/2019	cancelled 11/12/19
AAP16-043	Bolling	10/02/2019	
AAP16-044	Darnell	10/25/2019	
AAP16-045	Broadus	11/01/2019	
AAP16-046	Brooks	11/01/2019	
AAP16-047	Durham	11/01/2019	
AAP16-048	Brown	12/03/2019	

<b>Inforce Count</b>	<b>30</b>
<b>Total Written</b>	<b>67</b>

**Kentucky Book of Business  
As of 04/30/2020**

Report Date: 05/11/2020

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<b>#</b>	<b>Last Name</b>	<b>Effective</b>	<b>Column1</b>
AAP16-049	Jones	12/02/2019	
AAP16-050	Young	12/06/2019	
AAP16-051	Jones	12/04/2019	
AAP16-052	Petty	12/11/2019	cancelled 1/31/20
AAP16-053	Kaelin	01/03/2020	
AAP16-054	King	01/06/2020	
AAP16-055	Pulliam	01/03/2020	
AAP16-056	Thornton	01/03/2020	
AAP16-057	Morris	01/18/2020	
AAP16-058	James	02/25/2020	
AAP16-059	Dale	02/28/2020	
AAP16-060	Cheatham	02/28/2020	
AAP16-061	White	03/04/2020	
AAP16-062	Forney	03/09/2020	
AAP16-063	Petty	03/16/2020	
AAP16-064	Davis	3/19/2020	
AAP16-065	White	3/23/2020	
AAP16-066	Ford	3/23/2020	
AAP16-067	Yates	3/28/2020	
AAP16-068	Burk	4/8/2020	
AAP16-069	Sloss	4/21/2020	
<b>67</b>			<b>37</b>



*“Serving the Insurance Industry”*

May 8, 2020

Members of the Kentucky Governing Committee  
c/o Mr. Mark Hillis, Manager  
Kentucky Automobile Insurance Plan  
10605 Shelbyville Road, Suite 100  
Louisville, KY 40223-3167

**Kentucky Automobile Insurance Plan**  
**Private Passenger Auto Rate Review**

Dear Committee Members:

The following is a proposal for your review and action.

**BACKGROUND**

Provided below is a brief history of the rate level changes in Kentucky:

<u>Effective Date</u>	<u>Rate Change</u>
01/01/2016	+11.0%
01/01/2017	+4.7%
01/01/2018	+6.4%
01/01/2019	+23.0%
01/01/2020	+13.2%

In addition to the above information, the table below provides a comparison of new applications to the Plan.

**New Applications – Private Passenger Liability**

	<u>03/19</u>	<u>03/20</u>	<u>% Change</u>
12 Months Ending	421	41	-90.3%
YTD Ending	27	14	-48.1%
Month Ending	12	9	-25.0%

Last year we developed an experience-based indication of +13.8% that used trend as the ballast to credibility. We capped the changes at 25%, resulting in a proposed change of +13.2%. The change was approved as filed.

**PROPOSAL**

We have developed an experience-based indication using accident years 2014 through 2018 and proposed effective dates of January 1, 2021 for new business and February 1, 2021 for renewal business. The overall indication is +9.8%. Taking the full indicated change would result in a monetary impact of \$24,254 based on 2018 earned premiums. Please see Exhibit 1 for details.

If the Committee decides to file, we would request allowance of a small deviation from what is shown here. It is possible that new information becomes available between the time in which this rate review is prepared and a rate filing is made. Our filings should reflect the most current information, which may mean the grand total shown above may change slightly, either upward or downward. We request that the Committee allow AIPSO a small deviation from the grand total in the event updated information becomes available. If the Committee agrees, any revision that does not adjust the proposed grand total by more than 2.5% points will be filed without returning to the full Committee for additional review and approval.

## ATTACHMENT

- Exhibit 1 - Summary of Rate Level Change

Please keep us advised as to the action taken by the Committee with respect to this proposal.

Sincerely,



Timothy Messier, FCAS, MAAA  
 Assistant Vice President & Actuarial Team Leader  
 (401) 528-1353  
[Timothy.Messier@aipso.com](mailto:Timothy.Messier@aipso.com)



Lauren Singh  
 Actuarial Analyst  
 (401) 429-1566  
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pc: Mr. Thomas Assad, AIPSO  
 Mr. Robert Powers, AIPSO

**Kentucky**  
Automobile Insurance Plan

Summary of Base Rate Change

(1)	(2)	(3) Exhibit 2 Row 6	(4) Exhibit 3 Column 14	(5) Appendix 7 Sheet 1	(6) (3)x(4)+ (5)x{1.0-(4)}	(7)	(8)
Coverage	5 Year Premium at Current Level	Experience Based Indicated Change	1,084 Claim Credibility	Loss Trend	Credibility Weighted Indicated Change	Base Rate Change	Estimated Dollar Change Based on CY 2018 Premium*
Residual Bodily Injury	2,623,381	40.0%	40%	1.0%	16.6%	16.6%	113,587
Bodily Injury	0	40.0%	40%	1.0%	16.6%	16.6%	0
Property Damage	1,482,029	-1.3%	48%	-0.5%	-0.9%	-0.9%	(3,456)
Personal Injury Protection	1,343,428	18.2%	53%	-3.0%	8.2%	8.2%	27,285
Medical Payments	0	44.7%	53%	-3.0%	22.3%	22.3%	0
Uninsured BI (UMBI)	14,741	104.5%	6%	1.0%	7.2%	7.2%	146
Underinsured BI (UIMBI)	20,846	104.5%	6%	1.0%	7.2%	7.2%	280
<b>LIABILITY</b>	<b>5,484,426</b>	<b>23.9%</b>		<b>-0.4%</b>	<b>9.8%</b>	<b>9.8%</b>	<b>24,254</b>
<b>TOTAL</b>	<b>5,484,426</b>	<b>23.9%</b>		<b>-0.4%</b>	<b>9.8%</b>	<b>9.8%</b>	<b>24,254</b>

**NOTES:**

Proposed Effective Dates: January 1, 2021 New; February 1, 2021 Renewal

Most Recent Rate Change: 13.2% on January 1, 2020

\* Calendar Year 2018 Premium at Current Level is \$1,406,964



*"Serving the Insurance Industry"*

May 8, 2020

Members of the Kentucky Governing Committee  
c/o Mr. Mark Hillis, Manager  
Kentucky Automobile Insurance Plan  
10605 Shelbyville Road, Suite 100  
Louisville, KY 40223-3167

**Kentucky Automobile Insurance Plan  
Commercial Auto Rate Review**

Dear Committee Members:

The following is a proposal for your review and action.

**BACKGROUND**

Provided below is a brief history of the rate level changes in Kentucky:

<u>Effective Date</u>	<u>Rate Change</u>
01/01/16	-2.2%
01/01/17	-4.9
01/01/18	+5.7
01/01/19	+9.1
01/01/20	+18.2

In addition to the above information, the table below provides a comparison of new applications to the Plan.

	<u>New Applications – Commercial</u>	
	<u>03/19</u>	<u>03/20</u>
12 Months Ending	20	19
YTD Ending	3	6
Month Ending	0	3

Last year we developed a rate indication of +40.0% based on financial data. We capped changes at +/-25% resulting in a proposed change of +18.2%. The change was approved as filed.

**PROPOSAL**

We continue to use our financial indication methodology. It uses Kentucky data to the greatest extent possible. The previous methodology relied on a countrywide benchmark that was applied to ISO's loss costs. The financial methodology develops a 10-year all sub-lines combined indication based on financial data from policy years 2009 through 2018 evaluated as of November 30, 2019. Since this data is not fully credible, we have blended it with the Kentucky rate changes taken by ISO since our last rate change.

The resulting overall rate indication is +9.2% based on assumed effective dates of January 1, 2021 for new business and February 1, 2021 for renewals. In order to develop changes by coverage and sub-line, we have

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<https://www.aipso.com>

reproduced the overall indicated change in our loss cost template. Capping the rate changes at the usual 25% would result in a change of +1.9% with a monetary impact of \$34,645. Given the recent rate changes and the modest capped change, we propose to take no change at this time.

## ATTACHMENT

- Summary - Summary of Indicated and Proposed Rate Level Change
- Exhibit 1 - Financial Indication

Please keep us advised as to the action taken by the Committee with respect to this proposal.

Sincerely,



Timothy Messier, FCAS, MAAA  
Assistant Vice President and Actuarial Team Leader  
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Lauren M. Singh  
Actuarial Analyst  
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pc: Mr. Thomas Assad, AIPSO  
Mr. Robert Powers, AIPSO

Kentucky  
Automobile Insurance Plan

Summary of Proposed Rate Level Change

LIABILITY

Subline		2018 Premium at Current Level	Indicated Percent Change	Capped Percent Change	Estimated Dollar Impact Based on 2018 Premium
Trucks, Tractors, and Trailers	CSL	198,953	-9.3%	-9.3%	
	PIP	2,872	-18.1%	-18.1%	
	Total	201,825	-9.4%	-9.4%	-19,036
Taxis and Limos	CSL	0	-9.1%	-9.1%	
	PIP	0	-9.9%	-9.9%	
	Total	0	-9.5%	-9.5%	0
School and Church Buses	CSL	0	-9.2%	-9.2%	
	PIP	0	-9.7%	-9.6%	
	Total	0	-9.4%	-9.4%	0
Other Buses	CSL	71,183	-9.1%	-9.1%	
	PIP	4,987	-9.9%	-9.8%	
	Total	76,170	-9.1%	-9.1%	-6,955
Van Pools	CSL	0	-9.1%	-9.1%	
	PIP	0	-10.3%	-10.1%	
	Total	0	-9.7%	-9.6%	0
Zone Rated Risks	CSL	1,084,407	8.3%	8.3%	
	PIP	37,902	8.1%	8.3%	
	Total	1,122,309	8.2%	8.3%	92,635
Garages	CSL	232,363	-14.2%	-14.2%	
	PIP	9,713	-14.3%	-14.1%	
	Total	242,076	-14.2%	-14.2%	-34,332
Employer Non- Owned	CSL	29,906	447.9%	25.0%	
	Total	29,906	447.9%	25.0%	7,477
Hired Auto	CSL	2,558	-10.9%	-10.9%	
	Total	2,558	-10.9%	-10.9%	-280
Uninsured Motorists	CSL	41,671	-16.0%	-16.0%	
	Total	41,671	-16.0%	-16.0%	-4,864
Underinsured Motorists	CSL	0	6.3%	6.3%	
	Total	0	6.3%	6.3%	0
<b>Liability Total</b>	<b>CSL</b>	<b>\$1,661,041</b>	<b>9.5%</b>	<b>1.9%</b>	
	<b>PIP</b>	<b>\$55,473</b>	<b>1.2%</b>	<b>1.3%</b>	
	<b>Total</b>	<b>\$1,716,514</b>	<b>9.2%</b>	<b>1.9%</b>	<b>\$34,645</b>

Notes: Most recent rate change (01/01/2020): 18.2%  
Proposed effective date: 01/01/2021

\* Reflects the capping of the loss cost multiplier at 25% and -25%.

Kentucky Commercial Auto Program  
Statewide Rate Level Indication

EARNED PREMIUM				INCURRED LOSSES AND ALAE				STATE EXPENSES			RATIOS TO PREMIUM			
(1)	(2)	(3) Exhibit 2	(4) (2)x(3)	(5) Exhibit 3	(6)	(7) Appendix 4	(8) [(5)+(6)]x(7)	(9)	(10)	(11)	(12) (8)/(4)	(13) (9)/(2)	(14) (10)/(2)	(15) (11)/(2)
Policy Year	Premium Earned	Premium On-Level Factor	Premium at Current Level	Adjusted Incurred Losses Incl. IBNR	Incurred ALAE	Loss Trend Factor	Projected Incurred Losses and ALAE	Comm.	Premium Taxes	Premium Charge-Offs	Projected Loss and ALAE Ratio	Comm. Ratio	Premium Taxes Ratio	Premium Charge-Offs Ratio
2009	141,502	1.019	144,191	5,909	0	1.693	10,005	14,150	1,289	(24,561)	6.9%	10.0%	0.9%	-17.4%
2010	78,434	1.019	79,924	3,276	0	1.623	5,316	7,736	2,219	(10,055)	6.7%	9.9%	2.8%	-12.8%
2011	99,412	1.185	117,803	96,362	5,107	1.556	157,885	9,879	3,093	1,176	134.0%	9.9%	3.1%	1.2%
2012	230,796	1.264	291,726	204,125	196	1.492	304,847	20,035	5,266	1,714	104.5%	8.7%	2.3%	0.7%
2013	320,477	1.304	417,902	47,776	0	1.431	68,367	26,676	6,910	1,925	16.4%	8.3%	2.2%	0.6%
2014	822,785	1.311	1,078,671	630,856	68,777	1.372	959,897	56,652	16,556	9,842	89.0%	6.9%	2.0%	1.2%
2015	617,689	1.268	783,230	498,184	15,926	1.315	676,056	45,534	12,354	1,459	86.3%	7.4%	2.0%	0.2%
2016	843,449	1.296	1,093,110	646,700	42,953	1.261	869,652	57,830	16,869	355	79.6%	6.9%	2.0%	0.0%
2017	1,294,566	1.363	1,764,493	941,066	13,863	1.209	1,154,509	82,362	25,816	32,328	65.4%	6.4%	2.0%	2.5%
2018	1,408,185	1.290	1,816,559	896,643	5,837	1.159	1,045,974	89,260	27,988	2,860	57.6%	6.3%	2.0%	0.2%
Total	5,857,295		7,587,609	3,970,896	152,660		5,252,508	410,114	118,358	17,042	69.2%	7.0%	2.0%	0.3%
5-Year	4,986,674		6,536,063	3,613,448	147,357		4,706,088	331,638	99,582	46,843	72.0%	6.7%	2.0%	0.9%
3-Year	3,546,200		4,674,162	2,484,408	62,654		3,070,136	229,452	70,672	35,542	65.7%	6.5%	2.0%	1.0%
SELECTED											69.2%	6.7%	3.8%	0.3%

CONTRACTUAL AND OTHER EXPENSES						STATEWIDE RATE LEVEL INDICATION					
(16)	(17)	(18) Appendix 3	(19)	(20)	(21) Sum of (13) to (20)	(22) 1.0-(21)	(23) (12)/(22)-1.0	(24)	(25) 3,000 Claim Credibility=26%, Minimum=25%	(26) Exhibit 1 Sheet 2	(27) (23)x(25)+ (26)x[1.0-(25)]
Admin. Fees	ULAE Provision	Misc. Expenses (Income)	Contingency	Investment Income	Expense Ratio	Expected Loss and ALAE Ratio	Plan Indicated Change	10-Year Number of Claims	Credibility	Industry Indicated Change	Statewide Rate Level Indication
18.8%	8.9%	2.0%	5.0%	-1.9%	43.6%	56.4%	22.7%	203	26%	4.5%	9.2%



**CAIP INSPECTED UNITS FORM REQUIREMENT****Defining the Issue**

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To improve premium development at the time of application, a new CAIP requirement is recommended for applicants and insureds requiring Federal Highway Administration or Federal Motor Carrier Safety Administration filings and endorsements. Producers must complete and submit a CAIP Inspected Units Form with vehicle/unit information obtained from the Safety and Fitness Electronic Records System (SAFER) offered by the Federal Motor Carrier Safety Administration (FMCSA).

**Action Needed**

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Please review this proposal and, if appropriate, approve the amendments, commercial application revisions, policy change request revisions and new form provided.

**Proposal**

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We propose a new CAIP supporting documentation requirement introducing an Inspected Units Form. Producers are required to complete the form when a commercial risk requires Federal Highway Administration or Federal Motor Carrier Safety Administration filings or endorsements. The producer must access the Safety and Fitness Electronic Records System (SAFER) offered by the Federal Motor Carrier Safety Administration (FMCSA) to review inspected vehicle/unit information and verify the number of vehicles/units involved.

**Impact**

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Adoption of this amendment will have the following impact:

- The Inspected Units Form must be completed by the producer for all commercial risks requiring federal filings and/or endorsements.
- The form requires that the producer insert the number of vehicles/units, their ownership status, whether the vehicles/units are included on the application or policy change request form, and cost of hire information.
- The producer must review the information obtained from SAFER with the applicant or insured for accuracy.
- The producer is asked to certify on the form that the information provided is accurate to the best of their knowledge.
- The completed, signed Inspected Units Form must accompany the EASi or plain paper commercial application submitted to the Plan. It should also accompany any policy change request sent to the servicing carrier for insureds requiring Federal Highway Administration or Federal Motor Carrier Safety Administration filings or endorsements.
- The CAIP Inspected Units Form is available on the Plan website and may be downloaded and printed.
- New language is introduced on the commercial application and the policy change request requiring completion of the CAIP Inspected Units Form when the risk requires Federal Highway Administration or Federal Motor Carrier Safety Administration filings or endorsements.

- Premium development at the time of application or completion of a policy change request may be more accurate due to the additional vehicle information. This increases the likelihood that the deposit check with an application or additional premium with a policy change request may be more adequate, eliminating deposit premium shortages.
- The frequency and size of CAIP eligible premium charge-offs attributed to these types of risks may be reduced.

**AIPSO Systems Impact:** The proposed effective date needs to be coordinated with ISPS.

## Background

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In many Plans, the number and size of CAIP premium charge-offs has increased within the past two years. Many of the premium charge-offs can be attributed to cost of hire coverage. When the application is completed, Federal Highway Administration or Federal Motor Carrier Safety Administration filings or endorsements are required for certain commercial risks. Instructions on the application require completion of the Cost of Hire and Nonowned Auto Liability Coverage sections when Federal Highway Administration or Federal Motor Carrier Safety Administration filings or endorsements are required. In some instances, the fields are completed but the number of vehicles/units is not accurate. In other instances, the fields are not completed. The estimated annual premium on the application does not reflect the required coverages and the deposit check is not adequate.

As a result of the underwriting process, the policy is written by the servicing carrier with the necessary coverages, including filings and endorsements, at a much higher premium. Any deposit shortfall is immediately billed and, if not paid, may result in cancellation with an earned premium. Similarly, vehicle/unit policy changes may result in an increase in premium that, if not remitted, results in cancellation. The servicing carrier attempts to collect any earned premium due the CAIP, but may not be successful. Procedures for the handling of CAIP premium charge-offs are included in the CAIP Accounting and Statistical Requirements Manual.

To provide more accurate premium development at the time of application or completion of a policy change request, a new CAIP requirement is suggested that requires the producer to access SAFER to verify vehicle/unit information. Fields are provided on the CAIP Inspected Units Form for ownership status (i.e., owned, hired, sold), whether the vehicle is included on the application or policy change request, documents provided (i.e., bill of sale), and the amount of cost of hire.

## Proposed Changes

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### **PLAN OF OPERATION**

#### **Introduction**

The documentation requirements in What to Send to the Plan are expanded to include completion of the CAIP Inspected Units Form for commercial applications that require federal filings or endorsements.

How to Apply for Additional Coverages or Changes in the Policy is revised to state that a completed CAIP Inspected Units Form must accompany a policy change request submitted for a risk who requires federal filings or endorsements.

The list of Plan forms that may be downloaded and printed from the Plan website in The Availability of Forms, Manuals, Etc. section is expanded to include the CAIP Inspected Units Form.

**Section 23. Application for Assignment, Designation of Servicing Carrier, Evidence of Insurance, and Effective Date of Coverage**

Paragraphs B and C are amended to include a new requirement that a completed CAIP Inspected Units Form accompany applications and policy change requests submitted for commercial insureds who require federal filings or endorsements.

**Section 33. Performance Standards for Producers Writing Kentucky Automobile Insurance Plan Commercial Risks**

Producer performance standards in Paragraph A.1 pertaining to commercial application submission are expanded to include a new requirement that the producer complete and submit a CAIP Inspected Units Form with each application.

In Paragraph D, the producer performance standards for submission of policy changes is expanded to require that the producer submit a completed CAIP Inspected Units Form with policy change requests for risks who require federal filings or endorsements.

**APPLICATIONS/FORMS**

**Commercial Application – AIP 7551 (Rev. xx/20)**

Section 12 – Filings or Certificates: New language is introduced to provide producers with guidance regarding the completion of Sections 11.b (Hired Auto Coverage) and 11.c (Nonowned Auto Liability Coverage). When federal filings and endorsements are required, Sections 11.b and 11.c must be completed. A CAIP Inspected Units Form must be completed and submitted with the application.

**Commercial Policy Change Request– AIP 7553 (Rev. xx/20)**

A new Section named “Filings or Certificates” is added to the policy change request to capture the information necessary for a servicing carrier to issue filings or certificates. It is noted in this section that when federal filings and endorsements are required, a CAIP Inspected Units Form must be completed and submitted with the policy change form.

**CAIP Inspected Units Form – AIP 3504 (9/19)**

A new countrywide CAIP Inspected Units Form is introduced for concurrent use with the Plan amendments.

**Attachments**

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- Exhibit A - Proposed amendments to the Introduction and Sections 23 and 33
- Exhibit B - Commercial Application - AIP 7551 (Rev. xx/20)
- Exhibit C - Policy Change Request - AIP 7553 (Rev. xx/20)
- Exhibit D - CAIP Inspected Units Form - AIP 3504 (9/19)

## INTRODUCTION

### WHAT TO SEND TO THE PLAN

A new **bullet** is added in the commercial application submission paragraph, reading as follows:

Commercial applications should be accompanied by the following documents:

- Deposit check
- Supplemental Vehicle Schedule, if applicable
- A CAIP Inspected Units Form must be completed and submitted with the application if the applicant requires federal filings or endorsements

### HOW TO APPLY FOR ADDITIONAL COVERAGES OR CHANGES IN THE POLICY

*This section is amended as follows:*

All requests for changes to a policy must be submitted in writing on an approved Policy Change Request form. If a service provider or servicing carrier has been assigned, the Policy Change Request form should be forwarded directly to the service provider or servicing carrier no later than the first working day after completion, NOT to the Kentucky Automobile Insurance Plan. Be certain the insured's policy number and other identification numbers, if any, are included in your written request on the approved Policy Change Request form. If a reduction or elimination of coverage is requested, the completed approved Policy Change Request form must be signed by the applicant.

For commercial risks requiring federal filings or endorsements, a completed CAIP Inspected Units Form must accompany the policy change request.

Only those coverages shown in Sections 5 and 21 of the Plan are available.

### AVAILABILITY OF FORMS, MANUALS, ETC.

*A new seventh bullet is added as follows:*

The following Plan materials are available in electronic format and may be printed after logging into [www.aipso.com](http://www.aipso.com) and accessing the Plan Sites link:

- Commercial Automobile Insurance Procedure (CAIP) Inspected Units Form

## COMMERCIAL AUTOMOBILE PART

### Sec. 23. APPLICATION FOR ASSIGNMENT, DESIGNATION OF SERVICING CARRIER, EVIDENCE OF INSURANCE, AND EFFECTIVE DATE OF COVERAGE

*New Paragraph B.6 is introduced. Current paragraphs B.6 through B.8 are re-designated as B.7 through B.9. New Paragraph C.6 is introduced. Current Paragraph C.6 is re-designated as C.7.*

#### B. Original Application

6. A completed, signed CAIP Inspected Units Form must accompany all commercial applications submitted for applicants who require Federal Highway Administration (FHWA) or Federal Motor Carrier Safety Administration (Motor Carrier Act of 1980 or Bus Regulatory Act of 1982 – Motor Carrier Endorsement – MCS 90 or 90B) filings or endorsements.

#### C. Additional Vehicles or Coverages

6. In the event a Policy Change Request form is submitted for a CAIP risk who requires federal filings or endorsements, a CAIP Inspected Units Form must be completed. The completed, signed form must accompany the policy change request submitted to the servicing carrier.

### Sec. 33. PERFORMANCE STANDARDS FOR PRODUCERS WRITING KENTUCKY AUTOMOBILE INSURANCE PLAN COMMERCIAL RISKS

*Paragraph A.1.e is introduced, reading as follows:*

#### A. Original Applications

1. Applications shall be fully completed and must include

- e. A completed, signed CAIP Inspected Units Form must accompany all commercial applications submitted for applicants who require Federal Highway Administration (FHWA) or Federal Motor Carrier Safety Administration (Motor Carrier Act of 1980 or Bus Regulatory Act of 1982 – Motor Carrier Endorsement – MCS 90 or 90B) filings or endorsements. If the completed form does not accompany the application, the Plan shall charge the producer with a complaint.

*Paragraph D is amended as follows:*

**D. Policy Change Request**

Producers must use the prescribed Policy Change Request form or the one provided by the servicing carrier when making a policy change request.

For CAIP risks who require a Federal Highway Administration (FHWA) or Federal Motor Carrier Safety Administration (Motor Carrier Act of 1980 or Bus Regulatory Act of 1982 – Motor Carrier Endorsement – MCS 90 or 90B) filing or endorsement, the producer must complete and submit a CAIP Inspected Units Form with the policy change request. If a completed form does not accompany a policy change request, the Plan shall charge the producer with a complaint.

## COMMERCIAL/TRUCKERS APPLICATION KENTUCKY AUTOMOBILE INSURANCE PLAN

EASi Reference #

Transmission Date:

## OFFICE USE ONLY – DO NOT WRITE OR ALTER INFORMATION IN THIS BLOCK

The Kentucky Automobile Insurance Plan is a Residual Market Mechanism. Applications should only be submitted if you have been unable to find coverage in the standard insurance market. This plan provides limited basic coverage and is not intended to be a competitive market, used for quotes or to place business if other coverage exists. Misrepresenting information as part of this application process is subject to KRS 304.47-030. The Kentucky Automobile Insurance Plan reserves the right to seek proof of rejection by the voluntary insurance market as part of our underwriting process. By proceeding with this application process, you are attesting that you have attempted to secure insurance coverage through the standard market without success. Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance containing any materially false information or conceals, for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime.

By checking this box, I affirm that I have read the statement above and am attesting that I have attempted to secure coverage in the standard market without success.

### NOTICE: PRODUCER MUST READ THIS STATEMENT BEFORE PROCEEDING

Applicants requiring filings or a limit of liability in excess of \$350,000 Combined Single Limits will be subject to a 15 day delay in the effective date as specified in Section 23 of the Kentucky Automobile Insurance Plan.

#### SECTION 1. PRODUCER OF RECORD

Producer Last Name/Agency Name		Producer First Name			MI
Mailing Address		Ste./Apt. No.	City	State	Zip Code
Tax ID or Social Security No.	Producer License No.	Telephone No. (incl. area code)		Fax No. (incl. area code)	

#### SECTION 2. SIGNING PRODUCER

(Complete if the producer completing and signing this application differs from Section 1.)

Last Name	First Name	MI	Producer License No.
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#### SECTION 3. APPLICANT

Owner/Contact Person - Last Name		First Name			MI
DBA				Self Employed <input type="checkbox"/> Yes <input type="checkbox"/> No	
Business Telephone No. (incl. area code)	Alternate Telephone No. (incl. area code)		Tax ID or Social Security No.		
Street Address	Ste./Apt. No.	City	County	State	Zip Code
Headquarters Street Address (if different from above)	Ste./Apt. No.	City		State	Zip Code

Description of Primary Operations

**SECTION 4. OWNERSHIP AND CONTROL OF APPLICANT'S ORGANIZATION**

Named insured is a: <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Sole Proprietor <input type="checkbox"/> Other _____	State of Incorporation	Date of Incorporation	Date actual operations commenced
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------	-----------------------	----------------------------------

Management, Ownership and Control (List names of principals and also anyone with more than a 10% ownership interest.)

President	Date in Position	Percent Ownership
Vice President		
Secretary		
Treasurer		
General Manager		
Others		

List all affiliated companies

**SECTION 5. OPERATOR INFORMATION** (List all full-time, part-time, and all other operators that usually drive a vehicle.) **TOTAL OPERATORS**

Last Name	First Name	MI	Birth Date Mo./Day/Yr.	Driver's License No.	State

**For applicants with more than four operators, all additional operators must be listed on an AIP 3502 EASi Supplemental Operator Schedule and mailed with the original application to the Plan.**

**SECTION 6. ACCIDENTS**

Has applicant, or anyone who usually drives the applicant's vehicle(s), been involved, either as owner or operator, in ANY motor vehicle accident during the past THIRTY-SIX months?  Yes  No If "Yes", complete the following.

Name of Operator	Accident Date Mo./Day/Yr.	Place of Accident		Bodily Injury or Death	Prop. Damage (incl. your own) Amount	Penalty Points	Codes *
		City	State				
				<input type="checkbox"/> Yes <input type="checkbox"/> No	\$		
				<input type="checkbox"/> Yes <input type="checkbox"/> No	\$		
				<input type="checkbox"/> Yes <input type="checkbox"/> No	\$		
				<input type="checkbox"/> Yes <input type="checkbox"/> No	\$		

- \*Accident Codes
1. Applicant's motor vehicle lawfully parked.
  2. Damaged by "Hit and Run" driver and accident reported to police within 24 hours from time of accident.
  3. Applicant reimbursed by or on behalf of person responsible for the accident or has judgement against such person.
  4. Other person involved in accident was convicted. Applicant or operator was not convicted.
  5. Police or Fire Department or First Aid Squad responding to an emergency call.
  6. Other type of accident - non-chargeable under provisions of the Plan. Describe accident in space provided.

**SECTION 7. CONVICTIONS**

Has the applicant or anyone who usually drives the applicant's vehicle(s) been **CONVICTED** or **FORFEITED BAIL** at any time during the immediately preceding THIRTY-SIX months? Convicted  Yes  No Forfeited Bail  Yes  No If "Yes", for either item, complete the following. NOTE: A paid ticket or fine is an admission of guilt and therefore constitutes a conviction.

Name of Operator	Date of Conviction or Bail Forfeiture Mo./Day/Yr.	Did Conviction Arise as a Result of an Accident?	Nature of Conviction	Place of Conviction		Penalty Points	Was License Suspended or Revoked?
				City	State		
		<input type="checkbox"/> Yes <input type="checkbox"/> No					<input type="checkbox"/> Yes <input type="checkbox"/> No
		<input type="checkbox"/> Yes <input type="checkbox"/> No					<input type="checkbox"/> Yes <input type="checkbox"/> No
		<input type="checkbox"/> Yes <input type="checkbox"/> No					<input type="checkbox"/> Yes <input type="checkbox"/> No
		<input type="checkbox"/> Yes <input type="checkbox"/> No					<input type="checkbox"/> Yes <input type="checkbox"/> No

**SECTION 8. COMMODITIES TRANSPORTED**

Identify any hazardous materials, waste or substances being hauled.

Identify radius of operations.

Identify routes - fixed and occasional (both outgoing and return).

Trips From Place of Origin To Place of Destination	% of Revenues	No. per Month	Principal Cities Entered	Commodities Carried

**SECTION 9. GROSS RECEIPTS**

(Required for Motor Carriers of Property or Passengers whether or not the policy is to be written on Gross Receipts basis.)

Gross Receipts	Current Year	1st Prior Year	2nd Prior Year	3rd Prior Year	4th Prior Year
Other than Truckers	\$	\$	\$	\$	\$
Truckers excluding receipts from trip leased equipment	\$	\$	\$	\$	\$

**SECTION 10. VEHICLE INFORMATION AND USE**

For long distance, list cities in which vehicles operate.

**TOTAL VEHICLES**

Veh No.	Year	Vehicle Identification No.	Load Capacity (2)	Type of Registration	Gross Vehicle Weight (GVW) Trucks only	Spec. Industry (M-T-FD-SD-WD-F-D-C-L-O)	Seating Capacity	Does unit have an extended weight decal? <input type="checkbox"/> Yes <input type="checkbox"/> No What is extended weight? _____ <input type="checkbox"/> Tandem <input type="checkbox"/> Tridem <input type="checkbox"/> Tractor-Trailer			
	Trade Name/ Model No.	Garage Location (Town/State)	State of Registration	Rating Classification	Gross Comb. Weight (GCW) Trucks-Tractors only	Bus. Rad. (L-I-LD)	Tank Capacity				
Type (1)		Name of Registered Owner of Vehicle	Rating Territory (3)	Orig. Cost New (4)	Comp. Sym.	Coll. Sym.	Size (L-M-H-EH-HT-EHT)	Purpose of Use (P or B) (S-R-C)	Final Rating	Where vehicle is permitted to operate	List all cities through and in which vehicles operate
Veh 1									Does unit have an extended weight decal? <input type="checkbox"/> Yes <input type="checkbox"/> No What is extended weight? _____ <input type="checkbox"/> Tandem <input type="checkbox"/> Tridem <input type="checkbox"/> Tractor-Trailer		
Veh 2									Does unit have an extended weight decal? <input type="checkbox"/> Yes <input type="checkbox"/> No What is extended weight? _____ <input type="checkbox"/> Tandem <input type="checkbox"/> Tridem <input type="checkbox"/> Tractor-Trailer		
Veh 3									Does unit have an extended weight decal? <input type="checkbox"/> Yes <input type="checkbox"/> No What is extended weight? _____ <input type="checkbox"/> Tandem <input type="checkbox"/> Tridem <input type="checkbox"/> Tractor-Trailer		
Veh 4									Does unit have an extended weight decal? <input type="checkbox"/> Yes <input type="checkbox"/> No What is extended weight? _____ <input type="checkbox"/> Tandem <input type="checkbox"/> Tridem <input type="checkbox"/> Tractor-Trailer		

Veh 5											Does unit have an extended weight decal? <input type="checkbox"/> Yes <input type="checkbox"/> No What is extended weight? _____ <input type="checkbox"/> Tandem <input type="checkbox"/> Tridem <input type="checkbox"/> Tractor-Trailer

(1) Type - Truck=T, Truck-Tractor=TT, Trailer=TR, Semi-Trailer=ST, Public Auto=PA  
(2) Truck-Type vehicles with Private Passenger or Combination registration and load capacities of 1500 pounds or less are eligible for Basic Reparatons Benefits coverage.  
(3) For public automobiles, use the highest rated territory where the vehicles pick up or discharge passengers.  
(4) Chassis and Body including Special Equipment.

**For applicants with more than five vehicles, all additional vehicles must be listed on an Easi Supplemental Vehicle Schedule and mailed with the original application to the Plan.**

**SECTION 11.a. COVERAGES AND PREMIUMS (As provided by the Rules of the Plan.)**

All vehicles written under the same policy shall have the same Limits of Liability. Check appropriate boxes to indicate limits/deductibles	Vehicle 1 Est. Prem.	Vehicle 2 Est. Prem.	Vehicle 3 Est. Prem.	Vehicle 4 Est. Prem.	Vehicle 5 Est. Prem.
Combined Single Limits of Liability <input type="checkbox"/> \$60,000 <input type="checkbox"/> \$125,000 <input type="checkbox"/> \$150,000 <input type="checkbox"/> \$325,000 <input type="checkbox"/> \$350,000 <input type="checkbox"/> Other _____					
Uninsured Motorists Liability <input type="checkbox"/> \$60,000 <input type="checkbox"/> \$125,000 <input type="checkbox"/> \$150,000 <input type="checkbox"/> \$325,000 <input type="checkbox"/> \$350,000					
Underinsured Motorists Liability <input type="checkbox"/> \$60,000 <input type="checkbox"/> \$125,000 <input type="checkbox"/> \$150,000 <input type="checkbox"/> \$325,000 <input type="checkbox"/> \$350,000					
Basic Personal Injury Protection (PIP) <input type="checkbox"/> Full PIP Deductible Options: <input type="checkbox"/> \$0 <input type="checkbox"/> \$250 <input type="checkbox"/> \$500 <input type="checkbox"/> \$1,000 Covered by Workers Comp? <input type="checkbox"/> No <input type="checkbox"/> Yes (If Yes, attach documentation) <input type="checkbox"/> Guest PIP <input type="checkbox"/> Pedestrian PIP (Mandatory for motorcycles if Full PIP is not selected)					
Added Personal Injury Protection (PIP) <input type="checkbox"/> \$10,000 <input type="checkbox"/> \$20,000 <input type="checkbox"/> \$30,000 (Not available on policy with Guest PIP only)					
Medical Payments Coverage <input type="checkbox"/> \$1,000 <b>Note:</b> Medical payments is only available to four-wheel, not for hire, private passenger vehicles.					
<input type="checkbox"/> I Accept Uninsured Motorist Coverage <input type="checkbox"/> I Reject Uninsured Motorist Coverage: <input type="checkbox"/> I Accept Underinsured Motorist Coverage <input type="checkbox"/> I Reject Underinsured Motorist Coverage PIP Coverage: <input type="checkbox"/> Accepted <input type="checkbox"/> Rejected Does Municipal Tax Apply? <input type="checkbox"/> Yes <input type="checkbox"/> No <b>City taxing authority</b> _____ <b>County taxing authority</b> _____ If rejecting Uninsured Motorist (UM) coverage, you must complete the Uninsured Motorist (UM) Coverage Rejection below.					
Pollution Liability					
Estimated Total Premium per vehicle	\$	\$	\$	\$	\$
Total Estimated Premium for vehicles 1 - 5	\$				
Total Estimated Premium for supplemental vehicles	\$				
Total Estimated Premium for all vehicles	\$				
Hired Auto Coverage (Complete Section 11.b. if requested.)					
Nonowned Auto Liability Coverage (Complete Section 11.c. if requested.)					
Registration Plates Not Issued for a Specific Auto Number of plates: _____					
<b>Total Estimated Premium for All Vehicles and Coverages: (KY taxes not incl.)</b>	\$				

**KENTUCKY NO-FAULT REJECTION: IMPORTANT**

IF ANY OTHER REGULAR OPERATOR OF THE INSURED'S VEHICLE NOT IDENTIFIED BY NAME AS AN INSURED IN ANY OTHER CONTRACT OF BASIC REPARATIONS INSURANCE REJECTS TORT LIMITATIONS, ALL OF THE FOLLOWING QUESTIONS MUST BE COMPLETED.

- Applicant accepts Tort Limitations  Applicant rejects Tort Limitations
- Regular Operators of Insured's Vehicles accepting \_\_\_\_\_ (number) Tort Limitations  
 Regular Operators of Insured's Vehicles rejecting \_\_\_\_\_ (number) Tort Limitations
- Total Number of Regular Operators of Insured's Vehicles \_\_\_\_\_

**UNINSURED MOTORIST (UM) COVERAGE REJECTION: IMPORTANT****If filings are requested, this coverage must be added.**

KRS 304.20.020 provides that all motor vehicle liability insurance policies shall contain insurance, "for the protection of persons insured thereunder who are legally entitled to recover damages from owners or operators of uninsured motor vehicles because of bodily injury, sickness or disease, including death, resulting therefrom." It further provides that any named insured has the right to reject in writing such coverage. Such rejection will be valid for all insureds under the policy. If you desire to reject such coverage, indicate this by signing below.

I do not desire to have insurance protection for bodily injury, sickness or disease, including death, resulting from owners or operators of uninsured motor vehicles and hereby reject Uninsured Motorist (UM) Coverage.

Signature \_\_\_\_\_ Date \_\_\_\_\_

**SECTION 11.b. HIRED AUTO COVERAGE****If filings are requested, this coverage must be added.**

<input type="checkbox"/> Check here if desired.	Estimated Annual Cost of Hire	Rates Per \$100		Estimated Premium	
		B.I.	P.D.	B.I.	P.D.
<b>Cost of Hire (For policies rated under Trucker's Cost of Hire.)</b>	Current Year	1st Prior Year	2nd Prior Year	3rd Prior Year	4th Prior Year
Indicate the total Cost of Hire, including wages, for vehicles leased or hired on a long term basis and specifically insured by applicant as an owned automobile.	\$	\$	\$	\$	\$
Indicate the total Cost of Hire, including wages, which are <i>not</i> specifically insured by the applicant as an owned vehicle.	\$	\$	\$	\$	\$
Cost of Hire – Represents Total Long and Short Term Cost of Hire.	\$	\$	\$	\$	\$

**SECTION 11.c. NONOWNED AUTO LIABILITY COVERAGE****If filings are requested, this coverage must be added.**

Are nonowned autos used in the applicant's business?  Yes  No If yes, complete the following:

Total No. Employees	What percentage of the applicant's employees operate their vehicles in the business? _____				
<b>FOR PREPARED FOOD DELIVERY SERVICES ONLY:</b>	<b>FOR AUTO REPAIR SHOPS AND AUTOS HELD FOR INSPECTION BY AN OFFICIAL INSPECTION STATION:</b>				
	Location	Address	No. of Employees	Rating Territory	Premium
	1.				
Average No. Drivers _____	2.				

Why is nonowned auto liability coverage being requested?

Who owns the nonowned autos?

What types of nonowned autos will be used in the applicant's business?

How will nonowned autos be used?

How often are nonowned autos used in the applicant's business?  Daily  Weekly  Monthly Estimated number of hours per month \_\_\_\_\_

What is the estimated annual mileage for use of all nonowned autos? \_\_\_\_\_ miles

Total number of nonowned autos used in the applicant's business \_\_\_\_\_

If a social service operation, indicate total number of volunteers furnishing autos in the applicant's operation: \_\_\_\_\_

Does the applicant require employees and volunteers to have their own insurance?  Yes  No If yes, what are minimum limits required? \_\_\_\_\_

Does the applicant obtain motor vehicle records for all drivers?  Yes  No

Has the applicant had any nonowned auto losses in the past?  Yes  No

**SECTION 11.d. HOLD HARMLESS AGREEMENTS**

Has the insured signed any hold harmless agreements? If yes, describe.

**SECTION 11.e. WAIVER OF SUBROGATION**

Does applicant require a Waiver of Subrogation to fulfill a contractual agreement?  Yes  No

Name(s) and Address(es) of Person(s) or Organization(s) Requiring Waiver of Subrogation:

**When a Waiver of Subrogation Endorsement is requested, a copy of the agreement between the applicant and the person(s) or organization(s) requiring the endorsement must accompany the application.**

**SECTION 11.f. PRIMARY AND NONCONTRIBUTORY—OTHER INSURANCE CONDITION**

Does applicant require a Primary and Noncontributory—Other Insurance Condition to fulfill a contractual agreement?  Yes  No

Name(s) and Address(es) of Person(s) or Organization(s) Requiring Primary and Noncontributory—Other Insurance Condition:

**When a Primary and Noncontributory—Other Insurance Condition Endorsement is requested, a copy of the agreement between the applicant and the person(s) or organization(s) requiring the endorsement must accompany the application.**

**SECTION 12. FILINGS OR CERTIFICATES** **Commercial Auto Application Filings Supplement Required**

**NOTE:** Producers completing this application and section must be guided by the following:  
 (a) If a filing is requested in this Section, the Hired Auto (Section 11.b) and Nonowned Auto Liability (Section 11.c) Coverage Sections of this application must be completed. (b) The applicant's name must be identical to the name as it appears on the Department of Transportation (DOT) or Department of Public Safety (DPS) permit. (c) A CAIP Inspected Units Form must be completed, signed, and submitted for any applicant who requires a Federal Highway Administration (FHWA) or Federal Motor Carrier Safety Administration (FMCSA) filing or endorsement.

Is a federal filing or specific limit(s) of liability needed?  Yes  No If "Yes" to comply with:  
 (Answering "Yes" to any of the 4 filings below will require completion of the CAIP Inspected Units form.)

- Motor Carrier Act of 1980      Type:  1  2  3  4
- Bus Regulatory Act of 1982       ICC Regulation - Docket No. \_\_\_\_\_
- U. S. DOT No. \_\_\_\_\_

Is a state or local filing or specific limit(s) of liability needed?  Yes  No If "Yes" to comply with:

- Local Ordinance (attach copy)  State Regulation
- (Insert state specific item) \_\_\_\_\_
- PUC No. \_\_\_\_\_  Other \_\_\_\_\_

If block(s) are checked, list state(s) and city(ies) requiring filings or limits of liability required by law.

Is applicant required to file evidence of financial responsibility?  Yes  No If "Yes", complete the following.

Last Name	First Name	MI	Tax ID or Social Security No.
-----------	------------	----	-------------------------------

Type of Filing  Owner's (operation of owned vehicles)  Operator's (operation of nonowned vehicles)  Both

State(s) where Filing required	Case or File No.	Reason for Filing
--------------------------------	------------------	-------------------

**SECTION 13. ADDITIONAL INFORMATION**

Are any other vehicles owned by the Applicant? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes" complete the following.	Are any vehicles hauling exclusively for one firm/carrier? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes", complete the following.
---------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------

Name of Insurance Company	Policy No.	Name of Firm/Carrier
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Address of Insurance Company	Type of Business
------------------------------	------------------

Description of any owned, leased, hired, and nonowned vehicles which are *not* to be insured.

Year	Trade Make	Body Type	Vehicle Identification No.

SECTION 14. PAYMENT PLANS			
<input type="checkbox"/> Option 1 - Full Annual Premium <input type="checkbox"/> Option 2 - 40% Premium Deposit with Single Bill Balance <input type="checkbox"/> Option 3 - Installment Premium Payments (40% Premium Deposit)* ⇨ No Interest/\$4.00 per installment charge <input type="checkbox"/> Premium to be Financed – Name of Premium Finance Company** _____		Payment by: <input type="checkbox"/> Certified Funds <input type="checkbox"/> Money Order	
		Check/Draft No. _____	
		Total Estimated Premium	\$ _____
		Amount Submitted with Application	\$ _____
* Not Available on Premium Financed Policies. ** Attach a copy of Premium Finance contract.			
SECTION 15. PREVIOUS AUTOMOBILE INSURANCE CARRIER			
Information for the past three years. (If a fleet, information for the past five years required.) Attach loss statements from previous carrier.			
Name of latest carrier _____		Policy No. _____	Termination date _____
Was coverage through Plan? <input type="checkbox"/> Yes <input type="checkbox"/> No		If "Yes", give reason terminated. _____	
Complete the following for Carriers of property and passengers.			
Year	Policy No.	Policy Period From           To	Name of Insurance Company
1st Prior			
2nd Prior			
3rd Prior			
4th Prior			
SECTION 16. EVIDENCE OF INSURANCE AND REQUESTED EFFECTIVE DATE OF COVERAGE			
This application shall be evidence of temporary insurance subject to the following conditions:			
<ol style="list-style-type: none"> <li>1. The application must be fully completed and duly executed.</li> <li>2. Coverage under this evidence of automobile insurance is to be effective for a period not to exceed 30 days from the effective date and time stated herein. Within such 30 day period coverages under this evidence of automobile insurance will terminate immediately upon: (a) The issuance of the policy applied for, (b) The issuance of any policy affording similar insurance, or (c) The cancellation of the coverages of insurance afforded hereunder in accordance with the rules of the Kentucky Automobile Insurance Plan.</li> <li>3. A premium charge will be made for these coverages if the policy, when and as issued, is not accepted by the insured.</li> <li>4. The insurance afforded hereunder shall be subject to all the terms and conditions of the Plan and the Policy Form prescribed for use.</li> <li>5. The Producer of Record must forward this application to the Plan in accordance with Plan rules.</li> </ol>			
<b>NOTE:</b> In the event there is no U.S. postmark (a metered mail stamp, electronic stamp, or other postage service or stamp are not considered a U.S. postmark), coverage will become effective pursuant to Plan rules.			
Applicants requiring filings or a limit of liability in excess of \$350,000 Combined Single Limits will be subject to a 15 day delay in the effective date as specified in Section 23 of the Kentucky Automobile Insurance Plan.			
Requested Effective Date and Time:  _____		IN NO EVENT SHALL COVERAGE BE EFFECTIVE PRIOR TO THE DATE AND HOUR OF COMPLETION OF THIS APPLICATION.	
Example: 09/ 01/2019 11:30 AM			
SECTION 17. PRODUCER OF RECORD STATEMENT			
I hereby certify that I am a licensed broker/agent of the State of Kentucky. I have tried and failed to obtain automobile insurance in this state for this applicant within the preceding 60 days. I have read the Kentucky Plan, have explained the provisions to the applicant. I acknowledge that I am acting on behalf of the applicant in submitting this application and have no authority to establish or revise the terms or conditions of coverage. This application includes all required information given to me by the applicant. In the event of cancellation or change to the policy resulting in a reduction of premium, I agree to return the unearned premium to the insured (net of any minimum premium due the carrier) and also to return to the carrier unearned compensation for this insurance received by me as required by the Plan.			
My signature hereon represents certification of the Producer of Record Statement AND I certify this application is submitted pursuant to the effective date provisions contained in the Automobile Insurance Plan of this state.			
_____		Date: _____ Hour: _____ <input type="checkbox"/> A.M. <input type="checkbox"/> P.M.	
(Producer's Signature)			

**SECTION 18. APPLICANT'S STATEMENT**

I, the Applicant, declare and certify that:

1. It has duly authorized the undersigned to execute this application on its behalf if the Applicant is not a natural person.
2. The Applicant has tried without success to obtain automobile insurance in this state within the preceding 60 days.
3. To the best of the Applicant's knowledge and belief that all statements contained in this application are true and that these statements are offered as an inducement to issue the policy for which the Applicant is applying.
4. The Applicant realizes that any misleading information or failure to disclose required information will be considered lack of good faith on Applicant's part and may void the application or cause cancellation of the Applicant's coverage.
5. The Applicant agrees that no coverage will be in effect if the premium remittance, which accompanies this application, is justifiably dishonored by any financial institution.
6. The Applicant understands that the premiums shown on this application is an estimated premium. The servicing carrier reserves the right to adjust the premium either prior to or after the issuance of the policy, whenever applicable.
7. The Applicant will pay all premiums when due.
8. I hereby certify that I do not owe any insurance company for automobile premiums due or contracted.
9. The Applicant designates as Producer of Record of this insurance the Producer or firm named in this application. The Applicant understands that any designated Producer cannot act as an agent of the Automobile Insurance Plan or any servicing carrier for the purposes of this insurance and that the Producer has no authority to establish, alter or amend terms or conditions of coverage.
10. The Applicant hereby certifies that it does not owe any insurance company for any automobile insurance premiums due or contracted during the preceding 12 months.
11. I hereby certify that Kentucky No-Fault Rejection Form KY.N.F.-1 has been available.

The Applicant hereby authorizes any insurer that may previously have provided coverage to the Applicant or to an additional named insured to provide records, data or information concerning prior coverage to the Plan or any carrier designated by the Plan. The Applicant agrees that a reproduction of this authorization shall be considered as effective and valid as the original.

\_\_\_\_\_  
Date: \_\_\_\_\_ Hour: \_\_\_\_\_  A.M.  P.M.  
(Person authorized to sign for Applicant)

If additional named insureds are to be covered under a policy issued to the Applicant, authorized signatures for each such additional named insured shall be provided below. Such additional named insureds agree to be bound by the statements made by the Applicant in this form.

\_\_\_\_\_  
Date: \_\_\_\_\_ Hour: \_\_\_\_\_  A.M.  P.M.  
(Person authorized to sign for Additional Named Insured)

**NOTICE TO APPLICANT AND PRODUCER**

In the event acknowledgement of coverage is not received within 30 days, contact the Plan Office at 1-800-555-0513.

**FAIR CREDIT REPORTING ACT NOTICE**

In addition to routine verification of information pertinent to the insurance applied for, if the application is by an individual for insurance primarily for personal or family purposes, the insurer to which it is assigned may have an investigative consumer report made including information bearing on character, general reputation, personal characteristics or mode of living and, upon the individual's written request, will disclose in writing the nature and scope of the investigation requested, if such report is procured.

**WARNING**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime.

**MAILING INFORMATION**

Send original, signed application, with certified funds/money order and required attachments to:

Kentucky Automobile Insurance Plan  
PO Box 6530  
Providence, RI 02940-6530

Include the following attachments, if applicable:

1. Supplemental Operator Schedule
2. Supplemental Vehicle Schedule
3. Commercial Automobile Application Filings Supplement
4. Hold Harmless Agreement(s)
5. Copy of Premium Finance Contract
6. Last 3 years' loss statements
7. CAIP Inspected Units Form

**REMARKS SECTION**

MAIL DIRECTLY TO COMPANY
KENTUCKY AUTOMOBILE INSURANCE PLAN

POLICY CHANGE REQUEST
AUTOMOBILE INSURANCE PLAN
Name of Insurance Company
Policy No.
Name of Insured (Last Name, First Name, M.I.)

Producer
Telephone No. (Incl. area code)
Producer's License No.
Producer's IRS or Social Security No.
Street Address
City
State
Zip Code

1. VEHICLE INFORMATION
DELETED VEHICLE
Year
Make
Vehicle Identification No.

REPLACEMENT VEHICLE or ADDED VEHICLE
Year
Make
Model Name & Body Style
Vehicle Identification No.
Cyls.
H.P./Cub. In./CC
Purchased: Mo. Yr.
New Used

Use and Classification
Pleasure Business Comm. Farm
Principal Place of Garaging
Miles to Work or to Transportation
Est Annual Mileage
State Registered in
Address of Applicant as Appears on Registration
Territory
Rate Class
Penalty Points

2. COVERAGES
In Accordance with Plan Rules
Add Change No Change Delete
Applicable Year Make
Vehicle Identification No.

Check Applicable Box
Bodily Injury Liability
Property Damage Liability
Basic (Full) Personal Injury Protection Coverage
Deductibles \$0 \$250 \$500 \$1,000
I Reject No-Fault/Tort Limitations
Guest PIP
Buy back PIP
Pedestrian PIP
Added Personal Injury Protection (PIP)

Limits
Premium
Estimated Annual Premium \$
Deposit (30% of Estimated Annual Premium or Pro Rata Premium for the Remainder of Policy Period, whichever is less.)

3. DRIVER INFORMATION
Delete Driver Name
Name
Relationship To Insured
% Use of Veh. 1 Veh. 2
Date of Birth Mo. Day Yr.
Sex M-F
Marital Status
Driver's License No. and State

3a. ACCIDENTS
Have additional drivers been involved as owner or operator in any motor vehicle accident during the past thirty-six months?
Yes No
If "Yes", complete the following. (If necessary, use a separate sheet.)
Accident Date
Place of Accident
Town State
Personal Injury Protection Claim
Bodily Injury or Death
Property Damage Amount
Chargeable

Give Reason(s) if the Above Accident(s) Not Chargeable Under the Rules of the Plan.
Yes No
Yes No
Yes No

<b>3b. CONVICTIONS</b>	Have additional Drivers been convicted or forfeited bail at any time during the immediately preceding thirty-six months? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes", complete the following. (If necessary, use a separate sheet.) Note: A paid ticket or fine constitutes a conviction.			
	Date of Conviction	Did conviction arise as a result of an accident? <input type="checkbox"/> Yes <input type="checkbox"/> No	Nature of Violation	Place of Accident Town State
		<input type="checkbox"/> Yes <input type="checkbox"/> No		
		<input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>4. CHANGE</b>	<input type="checkbox"/> Name	New Name	Street	Apt. City State Zip Code
	<input type="checkbox"/> Address			

**5. FILING OR CERTIFICATES**

**NOTE:** When federal filings or endorsements are required, a CAIP Inspected Units Form must be completed and accompany this Policy Change Request Form. The insured's name must be identical to the name as it appears on the Department of Transportation (DOT) or Department of Public Safety (DPS) permit to avoid rejection.

Is a federal filing or specific limit(s) of liability needed?  Yes  No If "Yes" to comply with:  
(Answering "Yes" to any of the 4 filings below will require completion of the CAIP Inspected Units form.)

- Motor Carrier Act of 1980 Type:  1  2  3  4
- Bus Regulatory Act of 1982  ICC Regulation - Docket No. \_\_\_\_\_
- U. S. DOT No. \_\_\_\_\_

Is a state or local filing or specific limit(s) of liability needed?  Yes  No If "Yes" to comply with:

- Local Ordinance (attach copy)  State Regulation
- PUC No. \_\_\_\_\_  Other \_\_\_\_\_

If block(s) are checked, list state(s) and city(ies) requiring filings or limits of liability required by law.

Is insured, or any additional operator, required to file evidence of financial responsibility?  Yes  No If "Yes", complete below.

Name \_\_\_\_\_ Social Security No. \_\_\_\_\_

- Owner's (To allow for operation of owned vehicles)  Operator's (To allow for operation of non-owned vehicles)  Both

State where filing required \_\_\_\_\_ Case of File No. \_\_\_\_\_ Reason for filing \_\_\_\_\_

**6. POLICY CANCELLATION**

- Cancel policy

Reason for cancellation:

**EFFECTIVE DATE:** This request form having been completed and duly executed shall be, from the effective date and time shown below, evidence of changes as specified subject to all the terms and conditions of the policy and the rules of the Automobile Insurance Plan of this State.

Effective Date and Time \_\_\_\_\_  
 A.M.  P.M.      Month      Day      Year      Hour

**IN NO EVENT SHALL ADDITIONAL COVERAGE BE EFFECTIVE PRIOR TO THE DATE AND HOUR OF COMPLETION OF THIS REQUEST FORM.**

Producer's Signature \_\_\_\_\_ Date \_\_\_\_\_ Hour \_\_\_\_\_  A.M.  P.M.

**APPLICANT'S STATEMENT**

I declare and certify that: To the best of my knowledge and belief that all statements contained in the Policy Change Request are true.

**WARNING**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime.

Applicant's Signature \_\_\_\_\_ Date \_\_\_\_\_ Hour \_\_\_\_\_  A.M.  P.M.

**COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE (CAIP)  
INSPECTED UNITS FORM**

<b>APPLICANT</b>					
Last Name			First Name		MI
DBA					
Street Address		Ste./Apt. No.	City	County	State Zip Code
Assignment No. (if known)		Policy No. (if known)		Insurer Name (if known)	
<b>PRODUCER OF RECORD</b>					
Producer Last Name			Producer First Name		MI
Mailing Address		Ste./Apt. No.	City	County	State Zip Code
Producer License No.		Telephone No. (incl. area code)		Email Address	
<b>SIGNING PRODUCER</b> (Complete if the producer completing and signing this application differs from above)					
Last Name		First Name		MI	Producer License No.
<b>INSPECTED UNITS INFORMATION</b>					
Vehicle No.	Vehicle Identification No.	Vehicle Status Hired, Owned, Sold		Included on <input type="checkbox"/> Application <input type="checkbox"/> Policy Change Request	
1					
2					
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I certify that the information contained in this form and supplement (if applicable) is true and accurate to the best of my knowledge.

\_\_\_\_\_  
Producer Signature

\_\_\_\_\_  
Producer Name (print)

\_\_\_\_\_  
Date

**COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE (CAIP)  
INSPECTED UNITS FORM SUPPLEMENT**

Vehicle No.	Vehicle Identification No.	Vehicle Status Hired, Owned, Sold	Included on <input type="checkbox"/> Application <input type="checkbox"/> Policy Change Request
21			
22			
23			
24			
25			
26			
27			
28			
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## **COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE (CAIP) INSPECTED UNITS FORM**

Plan rules require that a completed signed CAIP Inspected Units Form (AIP 3504) be submitted when a Federal Highway Administration (FHWA) or Federal Motor Carrier Safety Administration (FMCSA) filing or endorsement is requested. Federal Motor Carrier Safety Administration endorsements include those required by the Motor Carrier Act of 1980 or Bus Regulatory Act of 1982 (Motor Carrier Endorsement MCS 90 or 90B). The completed form must be submitted with the CAIP commercial application or policy change request.

### **Instructions:**

To complete this form, you must review the applicant's/insured's inspected unit information that is available through the Federal Motor Carrier Safety Administration. To obtain this information you must login to <http://safer.fmcsa.dot.gov> and key in the applicant's/insured's US DOT or MC number. The list of all inspected units must be reviewed with the applicant/insured. All owned units should be scheduled on the policy. All cost of hire and/or nonowned units should be included in the appropriate coverage premium calculation. If there are inspected units that were recently sold, or that are no longer in the applicant's/insured's possession, a properly endorsed bill of sale or lease or rental termination document must be provided with the application or policy change request.

The following information should be provided:

Vehicle No: To list inspected unit information for additional vehicles, complete a CAIP Supplemental Inspected Units Form (AIP 3504 (9/19)).

Vehicle Identification Number: Insert VIN number for each vehicle.

Vehicle Status Column: Insert whether vehicle is Hired, Owned, or Sold.

Included on Application or Policy Change Request Column: Check either Application or Policy Change Request. Indicate "Yes" or "No" whether included. If "No," indicate Bill of Sale (BOS), lease termination document (LTD), or rental termination document (RTD) is included. For any vehicles requiring cost of hire coverage, insert COH and the amount.

### **Producer Signature**

The completed form must be signed and dated by the producer.



## KANSAS AUTOMOBILE INSURANCE PLAN

August 2, 2019

AIPSO  
302 Central Ave  
Johnson, RI 02919

Attention: Charles P. Kwolek, Jr.  
President

Dear Mr.Kwolek

On behalf of the Kansas Automobile Insurance Plan Governing Committee, the Kentucky Automobile Insurance Plan Governing Committee, and the Indiana Automobile Insurance Plan, we would like to thank you and your staff for all the help you have and continue to provide the industry.

During discussions in the Kansas meeting, its Governing Committee opined that for the time being York may be able to handle claims to everyone's satisfaction, but of vital importance was that AIPSO should begin working to obtain their own claims system. This is echoed by the Governing Committees of the Indiana and Kentucky Plans.

As such, the request of the Plans, is that AIPSO should have its own claims platform operational and available prior to the expiration of the current York contract, which we believe to be a 3 year term. In this manner, the PAIP operation and the AIO will be able to provide a platform which can allow for multiple claims vendors based upon the needs of each state, or jurisdictions within each state. We do not know of carriers who turn solely to an independent 3<sup>rd</sup> party claims vendor with complete systems control, and while there may be some, we believe these to be actions taken as a last resort. With a required focus on the AIO's Loss Ratio, making sure that claims are properly managed and reported within the AIO's own system would appear to be critical.

A system for the AIO will benefit the insurance industry in functionality, performance, and long term cost controls. Allowing various pieces to exist separate from each other, and to allow all assignments to funnel through a single claims vendor, does not appear to reflect the industry itself, nor the industry needs. We would hope that the platform selected would be a complete policy and claims administration system to inclusively handle underwriting, policy, billing, claims and financial reporting needs to meet any insurance department requirements.

We recognize that there is a lot wrapped up in these requests. We also recognize that the institutional knowledge required here may be best served in echoing the industry trend in

purchasing a basic system, rather than attempting to build an in-house solution. The industry has been moving away from house built systems which tend to require long term maintenance and support which typically proves to be excessively costly.

As you know, the FAIR Plan residual markets have successfully proven the ability to purchase cost effective solutions provided by Beyontec and Finys. Many of which are hosted by AIPSO.

In order that we may communicate effectively to our Governing Committees, we would ask for the response from AIPSO to the request of our committees. As part of this, and in maintaining open communication and dialogue in the quest for a solution, we would also seek a proposed time frame for solutions to be in place. We also seek and volunteer our efforts to assist in any manner requested by the AIPSO leadership and board.

Sincerely,



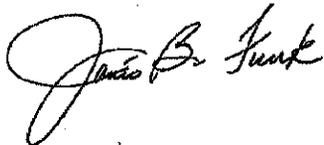
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Gary L. Domer, CIE, AMCM  
Manager, Kansas Automobile Insurance Plan



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Mark Hillis  
Manager, Kentucky Automobile Insurance Plan



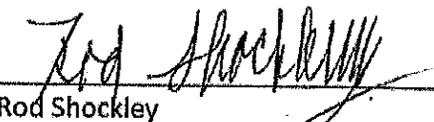
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Jan B. Funk  
Vice President, Quad Assoc. LLC  
Manager, Indiana Automobile Insurance Plan



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George Moore  
CNA Insurance Companies  
Chairperson, Kentucky Automobile Insurance plan  
Governing Committee



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Rod Shockley  
Kentucky National Insurance Companies  
Vice Chairperson, Kentucky Automobile Insurance Plan  
Governing Committee

*Anne Novak*

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Anne Novak  
Nationwide Insurance Company  
Kentucky Automobile Insurance Plan

*Mike Donovan*

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Mike Donovan  
National Continental Insurance Company  
Kentucky Automobile Insurance Plan

*Angie Haston*

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Angie Haston  
State Farm Insurance Company  
Kentucky Automobile Insurance Plan

*Kristen Mellinger*

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Kristen Mellinger  
Kentucky Farm Bureau Insurance  
Kentucky Automobile Insurance Plan

*Brian Schmidt*

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Brian Schmidt  
Farmers Alliance Mutual Insurance Company  
Kansas Automobile Insurance Plan

*Kim Decker*

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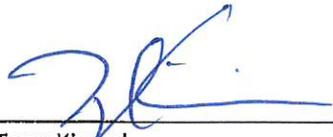
Kim Decker  
Farmers Insurance Company  
Kansas Automobile Insurance Plan

*Scott Herridge*

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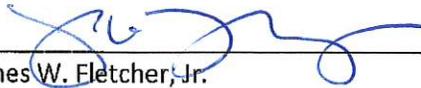
Scott Herridge  
State Farm Insurance Company  
Kanas Automobile Insurance Plan

Governing Committee



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Tony Kimmi  
Farm Bureau Financial Services  
Kansas Automobile Insurance Plan



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James W. Fletcher, Jr.  
Med James, Inc.  
Kansas Automobile Insurance Plan



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Kent Anthony  
First Group Insurance  
Kansas Automobile Insurance Plan



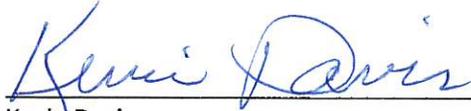
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Tom Foltz  
Kansas Automobile Insurance Plan



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Marvin Smith  
Kansas Automobile Insurance Plan



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Kevin Davis  
Kansas Automobile Insurance Plan

Enc.



*"Serving the Insurance Industry"*

March 9, 2020

Kansas Automobile Insurance Plan  
2704 NW Topeka Blvd, Suite B  
PO Box 8789  
Topeka, KS 66608

Dear Mr. Domer,  
Mr. Hillis,  
Ms. Funk

Thank you for your letter of August 2, 2019 and our various subsequent in-person meetings and teleconferences.

First of all, let me state we are highly committed to handle all residual market business to the highest standard and equally address the needs of all state residual markets, small or large. Our Board of Directors and staff are in total support of this. More and more the industry is relying on AIPSO and local plans to handle this business so they can concentrate on their core voluntary business.

Currently, continued use of a Third-Party Administrator (TPA) provides AIPSO with the infrastructure necessary to handle claims on a national basis. Unlike an Independent Adjusting Firm (IA), our TPA provides us with a full-service Claims Department along with all of the support functions necessary to process and handle claims. They provide adjusters licensed in every state, 24/7/365 loss reporting, and a claims system that AIPSO employees access on a daily basis. The TPA interacts with our Financial Services Department and Information Systems and Processing Department on a regular basis by providing daily check registers, and monthly bordereaux that enable us to report required financial and statistical data. They not only provide claim adjusting services, they provide all of the other functions necessary to the operation of a Claims Department.

We understand the concerns expressed in your letter of August 2, 2019 and have put a work around in place as requested by Kentucky and Kansas. This work around, which involves assignment to a VeriClaim Field Adjuster in the local jurisdiction, is being closely monitored by AIPSO. Further, AIPSO's use of a TPA does not limit necessary resources to a single claims vendor. Our TPA utilizes local resources in the same manner that most carriers do. Assignments to Independent Appraisers, Independent Adjusters, Attorneys and Experts are made when necessary. The TPA can and will utilize vendors specifically requested by the Kansas, Kentucky and Indiana Plans, provided they are properly licensed.

We continue to monitor our TPA and demand excellence from them. We are open to any and all conversation in exploring additional measures that can be taken to provide you with a comfort level and confidence in our expanding claims operation. Most recently, we have had very preliminary discussions with national insurance companies concerning possible claim services.

The status of our system is as follows:

#### **Current**

As of January 2020, the AIPSO Insurance Operation processes private passenger or commercial policies in 21 states, with premium totaling over \$40 million.

302 Central Avenue, Johnston, RI 02919  
(401) 946-2310 • Fax (401) 528-1350  
<https://www.aipso.com>

Commercial policies are processed in the CGI Edge system for:

New Jersey	New Hampshire
Georgie	District of Columbia

Florida private passenger is also in CGI Edge.

Rhode Island private passenger is processed in Sapiens Stingray.

Fifteen private passenger states are processed in an AIPSO built system called ATLAS:

Arkansas	Kentucky	Ohio
Illinois	Minnesota	Oklahoma
Indiana	Missouri	South Dakota
Iowa	Nebraska	Virginia
Kansas	North Dakota	Wisconsin

Two more states are to start in Atlas in January 2021 (Louisiana and California)

## **Future**

Edge and Stingray are no longer being marketed by their respective companies. Both products will be maintained for the foreseeable future, but no significant future development is planned for them. Neither company has developed a system to migrate to for the future.

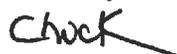
Both vendors had difficulty customizing their product to the residual market. There is no other market for them to sell a residual market system, so we do not get any economies of scale for this customization. Even though the basic functions are the same, there are several fundamental variations in the residual market that do not fit into these systems as written. In order to accommodate these differences, vendors will attempt to work around their systems core, so they don't have to make major structural changes. Though not ideal, this can be made good enough to function, but it is tricky and has in our experience caused problems in other functions such as monthly or financial output that also must be worked around. Also, once this workaround is in place, any further updates need to consider the modifications. Often, generic vendor updates will fail because while they work for their voluntary customers they didn't account for our special modifications, resulting in delays and rework. Recently, two of our Board companies terminated residual market system development with outside vendors due to increasing costs and timing/deadline issues.

After carefully reviewing all possible options, AIPSO has determined the best course of action is to build our own system for the Residual Market. To assist our effort, we bought base code from Jarus Technologies. This is not a policy management system but is what they term an "accelerator". It has an architecture and design blueprint but no set workflow, screens or reports. It is essentially the more technical foundation or framework that the specific business processes can be built upon. While Jarus will consult with us as we build out the system, we will own and maintain the system and will not be reliant on Jarus ongoing.

Our initial efforts will be to build a commercial system that can process the current states we serve plus be ready for any additional commercial business that AIPSO may be asked to process. Further down the line, we would evaluate the benefit of converting the private passenger to this platform also. The commercial system has recently been put on a fast track completion timeline.

I hope this letter addressed all your concerns. We are looking forward to our partnership going forward. Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Chuck". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Charles P. Kwolek, Jr. CPA, CFE, CPCU, AIS, CLU, ChFC, PMP, CGMA  
President & CEO