



NATALIE A. HUBLEY
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

www.commauto.com

617-338-4000

NOTICE OF MEETING

COMPLIANCE AND OPERATIONS COMMITTEE

A meeting of the Compliance and Operations Committee will be held virtually via Zoom video conferencing software, on

WEDNESDAY, JUNE 2, 2021 AT 10:00 A.M.

If you plan to attend this meeting and are not a member of this Committee, please RSVP by completing the Visitor Security Form located in the Contact Us/Visitor Information section of CAR's website. CAR will then forward to you, via email, meeting access information. Please do not share access information provided by CAR, but refer others wishing to attend the meeting to CAR's Visitor Security Form.

MEMBERS OF THE COMMITTEE

Mr. Jerry Sleeper – Chair
Safety Insurance Company

Ms. Kara Boehm
Ms. Erin Cummings
Mr. Thomas Harris
Mr. Robert Littlewood
Ms. Sharon Murphy
Mr. Kenneth Olivieri
Mr. Henry Risman
Mr. Barry Tagen
Mr. Christopher Taylor
Ms. Brenda Williams

Allstate Insurance Group
Norfolk & Dedham Group
Quincy Mutual Group
Arbella Insurance Group
Acadia Insurance Company
J.K. Olivieri Insurance Agency, Inc.
Risman Insurance Agency, Inc.
Pilgrim Insurance Company
The Hanover Insurance Company
MAPFRE U.S.A. Corporation

AGENDA

COPC

21.01 Records of Previous Meeting

The Records of the Compliance and Operations Committee meeting of April 7, 2021 should be read and approved.

COPC

21.03 CAR Conflict of Interest Policy

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

COPC

21.04 Informational Items

The Chair will report on any Governing Committee actions that impact the Compliance and Operations Committee.

COPC

21.05 Compliance Audit Program

Staff will provide an overview of results of the enhanced audit procedures pertaining to the Commercial Servicing Carrier Program. The third completed audit focuses on residual market eligibility of Trucks, Tractors, and Trailers (TTT) risks. The Committee should be prepared to discuss the audit findings.

COPC

20.07 CAR Accounting System Rewrite

Staff will provide a status report on the system development efforts related to the CAR Accounting System Rewrite.

COPC

21.07 Updates to the Manual of Administrative Procedures

Updates to Chapter VII – Participation of the Manual of Administrative Procedures to reflect consistent references to the Annual Statement will be presented to the Committee. (Docket #COPC21.07, Exhibit #2)

COPC

21.08 Impacts to the Reporting Requirements Under a Combined Commercial Servicing Carrier Program

At its meeting on April 7, 2021, the Committee agreed with staff's recommendations relative to several reporting issues impacted by the combining of the Taxi/Limousine/Car Service and the Commercial Servicing Carrier Programs. The recommendations have been incorporated into Chapter IV – Cession Rules and Procedures and Chapter V – Premium of the Manual of Administrative Procedures. The Committee should be prepared to discuss the draft updates. (Docket #COPC21.08, Exhibit #2)

COPC

21.09 Special Investigative Unit System Development

Staff will provide an update regarding the systems development efforts related to the Special Investigations Unit (SIU) System. (Docket #COPC21.09, Exhibit #1)

Other Business

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

Executive Session

The Compliance and Operations Committee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

MATTHEW HIRSH
Compliance Audit Supervisor

Attachments

Boston, Massachusetts
May 21, 2021

May 21, 2021

Manual of Administrative Procedures Updates

Memorandum of Changes

Modifications to the following chapter of the Manual of Administrative Procedures are proposed:

Chapter VII – Participation

For consistency with terminology in the Massachusetts Private Passenger and Commercial Automobile Statistical Plans, all references to the Annual Statement have been updated to read Statutory Page 14 for Massachusetts.

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to-date ceded activity less inactive companies' frozen assumed shares, if any, as indicated on the Frozen Balance Summary report. The balances identified in Sections C and D of the Settlement of Balances reports reflect the difference between these two products. For additional information relative to the handling of insolvent companies' frozen balances, refer to Section C. of this Chapter.

Note that CAR performs the Sections C and D calculations each quarter and the results are reflected on each company's Member Participation (MP) reports, which are described in more detail in Section C. of this Chapter.

e. Section E – Operating Expense Assessment

Section E displays a Member's assumed reinsurance share of CAR's administrative expenses.

f. Section F – Miscellaneous Expense and Income

Section F displays a Member's assumed share of CAR's non-administrative expenses, the investment income earned by CAR, and other miscellaneous income earned by CAR, based on the company's administrative expense participation ratios.

Members may verify Sections E and F of the Settlement of Balances Reports in a manner similar to that described above for Sections C and D, except that Members should apply their administrative expense participation ratios (which are based on the Member's [Statutory Page 14 for Massachusetts Annual Statement Page 15](#)) from the MPR-5 report, to the current and prior quarters' industry fiscal-year-to-date miscellaneous expenses and income.

g. Section G - Account Activity During Last Period

Section G identifies any outstanding balances owed to CAR or to the company. A Member Company's net balance from the prior quarter is netted with payments made by the company or by CAR in the prior quarter. Additionally, any reinsurance penalties and processing fees incurred by the company during the current quarter are identified.

h. Section H - Net Settlement Amount Due CAR (Company)

Section H displays the total amount due the Member or due CAR. This amount is included on the Member's quarterly invoice.

To verify Section H, combine the net balances from Sections A through G.

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4. Special Assessments Due

If CAR's cash flow is not sufficient to fund necessary operating costs, payment of a special operational cost is required, or if the balances owed to CAR by an insolvent company are substantial enough to disrupt the quarterly cash distribution process, it may become necessary to secure cash funds in order to support CAR operations.

Assessments related to CAR expenses which are not properly chargeable to the profit or loss of risks ceded to CAR, will be shared by Members in the same proportion that each Member's Massachusetts direct written Motor Vehicle Insurance premiums, as reported on the Member's Statutory Page 14 for Massachusetts ~~Annual Statement Page 15~~ for the most recent calendar year, bear to the total of such premiums for all Members. Commercial ceded premium is excluded from this calculation.

Assessments related to profits and losses on risks ceded to CAR will be shared by Members according to each Member's underwriting results participation ratios for the policy years affected.

5. Net Balance Due

If the net balance from Section H of the Settlement of Balances Report, the net quarterly assessment amount due from Section IV of the Statistical Agent Expense Assessment report, and, if applicable, the amount due from special assessments represent a balance due CAR, the payment must be electronically transferred and received by CAR by the due date specified on the invoice and in the "Circular Letter to All Member Companies".

If the net balance from Section H of the Settlement of Balances Report, the total amount due CAR from the Statistical Agent Report, and, if applicable, the total amount due CAR or due the company from special assessments represent a balance due to a Member, CAR will wire transfer the payment on the date specified in the "Circular Letter to All Member Companies."

Refer to Section B.8. for additional information relative to the wire transfer of funds.

Groups of affiliated companies may elect to net the amounts receivable and/or payable for all of the companies within the group, so that only one payment is due either the group or CAR.

Each Member agrees to pay late payment fees and compensate CAR for all damages and expenses incurred by the residual market as a result of the Member's failure to remit timely payment. A Member is entitled to appeal to CAR's Governing Committee, any assessment or late payment fees, damages or expenses which were levied. However, the Member will be required to pay the amount invoiced before such appeal will be considered. If the Governing Committee rules in favor of the Member, an adjustment, including interest, will be made by CAR to the Member's account.

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D. Basis for Distributing Commonwealth Automobile Reinsurers Experience to Participating Members

1. Experience Used in Participation Determination

The ratios used for distribution will be based on reported statistical data for the most current full calendar year of data available, until the calendar year data relative to a specific policy year is available in its entirety. At that point, retroactive adjustments to each Member's inception-to-date share will be made so that the current policy year distribution is based on the calendar year writings for that year.

2. Participation Determination

a. Underwriting Results

A Member's statistical data, as required to be reported in accordance with CAR's Rules of Operation, will be used as a basis for calculating the participation ratios used to allocate industry ceded commercial premiums, losses and expenses. If a Member does not exceed CAR's established statistical reporting thresholds and therefore is not required to report statistical data to CAR, CAR will instead use the Member's [Statutory Page 14 for Massachusetts Annual Statement](#) data as a basis for determining underwriting results participation ratios. Note, however, if CAR determines that the Member's reported statistical data is invalid or incomplete and has the potential to significantly impact the Member's participation ratios, appropriate data adjustments may be made by CAR, as necessary.

Member participation shall be calculated on an annual basis in accordance with the procedures in Rule 11.B. – Assessments and Participation of CAR's Rules of Operation.

Refer to Exhibit VII-D-1 for an example of the All Other Liability and All Other Physical Damage underwriting results participation ratio calculation report.

b. Administrative Expenses

Expenses, including all costs of operating CAR, and all costs, charges, expenses and liabilities and all income, property and other assets which the Governing Committee determine not to be properly chargeable to the profit or loss of risks ceded to CAR by Servicing Carriers, shall be shared by Members. Sharing is based upon the proportion that each Member's Massachusetts direct written direct written Motor Vehicle Insurance premiums, which are reported on its [Statutory Page 14 for Massachusetts Annual Statement](#) for the most recent calendar year, bear to the total of such premiums for all Members. For additional details regarding these calculations, refer to Rule 11.A. – Assessments and Participation of CAR's Rules of Operation.

Refer to Exhibit VII-D-2 for an example of the All Other Liability and All Other Physical Damage administrative expense participation ratio calculation report.

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EXHIBIT VII-D-2
ADMINISTRATIVE EXPENSE PARTICIPATION RATIO CALCULATION REPORT

COMMONWEALTH AUTOMOBILE REINSURERS
 PARTICIPATION BASE DATA AND CALCULATION OF PARTICIPATION RATIOS
 ADMINISTRATIVE EXPENSE RATIOS

CALENDAR YEAR 2014 DATA - POLICY YEAR 2014 RATIOS
 FINAL
 COMPANY/GROUP:-999

This report displays the base data used to determine your company's/group's participation ratios for sharing in the Commonwealth Automobile Reinsurers' Administrative Expenses, and also displays the calculation of these ratios. The data used to calculate these ratios consists of your company's direct written premium totals from the [Statutory Page 14 for Massachusetts Annual Statement Page 15](#) according to the lines listed below. Data for all the companies in your group have been combined to produce this report. Liability totals include no-fault.

The following companies have been included to calculate your group totals:

ABC ABC Insurance Company
 XYZ XYZ Insurance Company

BASE DATA AND PARTICIPATION RATIOS FOR SHARING IN C.A.R.'S ADMINISTRATIVE EXPENSES AND CONTINGENCY FUND

	COMPANY DIRECT WRITTEN PREMIUM	INDUSTRY DIRECT WRITTEN PREMIUM	PARTICIPATION RATIO (RATIO TO INDUSTRY)
PRIVATE PASSENGER LIABILITY (LINES 19.1 AND 19.2)	\$648,110,819	\$2,575,523,929	0.2516423
ALL OTHER LIABILITY (LINES 19.3 AND 19.4)	\$53,729,816	\$438,295,174	0.1225882
PRIVATE PASSENGER PHYSICAL DAMAGE (LINE 21.1)	\$468,849,759	\$1,893,961,208	0.2475498
ALL OTHER PHYSICAL DAMAGE (LINE 21.2)	\$19,950,563	\$143,871,464	0.1386694

May 21, 2021

Memorandum of Changes
Manual of Administrative Procedures
Combined Commercial Servicing Carrier Program Updates

The Manual of Administrative Procedures (MAP) has been updated to reflect the combining of the Taxi, Limousine, and Car Service Program (Taxi Program) and the Commercial Servicing Carrier Program into a single program to service all classes of commercial automobile residual market business.

The Compliance and Operations Committee, at its meeting on April 7, 2021, reviewed staff's recommendations relative to several reporting aspects of the two programs. The Committee's consensus on these issues have been incorporated into the MAP chapters noted below. Additionally, certain examples have been updated to reflect more current effective years.

Chapter IV – Cession Rules and Procedures

- Section A.2.a – Electing a 100% Cede Option has been updated to indicate that the automatic backdate of cessions for taxi, limousine, and car service policies is provided for policies prior to January 1, 2022. Beginning with policies effective January 1, 2022 and subsequent, the automatic backdate of cessions is for all commercial policies as long as a Servicing Carrier has elected to cede 100% of an ERP's new business policies.
- Section A.3 – Submission Methods has been updated to reflect that risk indicator values 1 and 2 are valid for policies effective December 31, 2021 and prior and risk indicator value 2 is valid for policies effective January 1, 2022 and subsequent.
- Section F – Fatal Cession Edits has been updated to reflect that beginning with policies effective January 1, 2022 and subsequent, CAR will convert any cessions reported with risk indicator value 1 to risk indicator value 2 as part of the Fatal Error Code 7 – Risk Indicator Code invalid routine.

Chapter V – Premium

- Section C.3 – Cession/No Premium Write-Off has been updated to indicate that beginning with policies effective January 1, 2022 and subsequent, only one cession/no premium write-off amount will be calculated. Additionally, the effective years in the examples have been updated.
- Section C.4 – Example of Cession/No Premium and Write-Off Process has been updated to reflect more current effective years in the examples.

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Otherwise, the cession effective date will equal the date CAR receives the cession record. However, if CAR receives Transaction Code 11 (New or Renewal) premium prior to receipt of the cession record, the receipt date of the earliest reported premium record will be the cession effective date. Note that in the case where the earliest premium records reported on a ceded policy are washout records, CAR will not use those premium records to determine the cession effective date.

2. Automatic Cession Backdate

a. Electing a 100% Cede Option

A Servicing Carrier may elect to cede 100% of an Exclusive Representative Producer's (ERP's) new business. If a Servicing Carrier elects this option, the cession effective date of all reported Transaction Code 1 (New Business) cession records will be automatically backdated to the policy effective date, regardless of the date that CAR received the cession record.

CAR must receive the Servicing Carrier's notification of its election to cede 100% of an ERP's new business within the timeframes specified in Rule 13.B.7.c. of CAR's Rules of Operation.

For policies with effective dates prior to January 1, 2022, ~~Note that~~ all reported Transaction Code 1 (New Business) cession records from producers assigned to the Servicing Carriers appointed to service residual market taxi, limousine and car service business are provided with automatic cession backdates. For policies with effective dates January 1, 2022 and subsequent, the automatic backdate of all commercial cessions, including taxi, limousine, and car service business, will only occur if the Servicing Carrier has elected to cede 100% of the Exclusive Representative Producer's new business.

If the automatic backdate option is not selected, all reported Transaction Code 1 (New Business) and 2 (Renewal Business) cession records will receive a cession effective date using the cession effective date calculation procedures noted in Section A.1.b. of this Chapter.

b. Monitoring Servicing Carrier Compliance with 100% Cede Option

For those ERPs for which a Servicing Carrier has elected the 100% cede option, CAR monitors the latest three reporting years for cession activity. On a quarterly basis, information that identifies the industry volume, by company, of backdated cessions is published in CAR's Operational Reports which is available on Reports page of CAR's website under the Company Status Reports link. The information provided includes the

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number of each Servicing Carrier's policies that are eligible for backdate and the number and percentage of cessions backdated. If more than 5% of the Servicing Carrier's total new business cessions are backdated, or if more than 5% are backdated but fall within the 5% and 25 policies in error tolerance level, that information will also be identified.

After the second quarter of the calendar year, if CAR determines that more than 5% and 25 policies of a Servicing Carrier's new business cessions from ERPs for a particular policy effective year have been automatically backdated, CAR will request the Servicing Carrier to provide CAR with a written description of the cause of their reporting problem, including an action plan for timely reporting in the future.

Any problematic reporting patterns will be brought to the attention of the Compliance and Operations Committee.

3. Submission Methods

A Servicing Carrier may not submit a cession record more than 90 calendar days prior to the policy effective date. Cession records submitted outside that time period will not be accepted by CAR's cession system. Cession records may be reported to CAR using the following methods:

a. Reporting Cession Records via CAR's Online Cession Application

Cession records may be reported using CAR's online cession application. For additional information relative to the specific cession screens to be utilized by Servicing Carriers, refer to Section D. of this Chapter.

On CAR's website, from the Reports tab (Exhibit IV-A-1), log in and click on the CAR Accounting link (Exhibit IV-A-2) to access the cession data and reports screens.

From the CAR Accounting screen (Exhibit IV-A-3), click on the Cession Entry link to add a cession record. Enter the following fields on the Cession Entry screen (Exhibit IV-A-4). Note that the application does not allow for blank fields. If a field is left blank, the application will provide a prompt to complete the field.

The following instructions apply:

- 1) Company Code – The three digit company code associated with the user's log-on ID is displayed. This code is also the three digit code used to report premium and loss accounting/statistical data.

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- 2) CAR ID Code – Select the code that reflects the type of relationship that exists between the Servicing Carrier and the producer writing the policy. Acceptable codes are as follows:

4 = Ceded Business from Voluntary Agents

This includes ceded business from voluntary agents, or written directly by the company.

5 = Ceded Business from ERPs (No voluntary contract)

This includes ceded business from an ERP with whom the Servicing Carrier does not have a voluntary motor vehicle insurance contract.

- 3) Policy Identification Number – Enter the complete policy number consisting of three to sixteen alphabetic and/or numeric characters. This number must be the same number and in the same format used to identify premium and loss transactions for the policy as reported in the detailed statistical shipments reported to CAR on a monthly basis.
- 4) Policy Effective Date – Enter the policy effective date (month/day/year) of the policy. The effective year must equal a valid cession reporting year and the policy effective date must be no later than the current date plus 90 calendar days.
- 5) Policy Expiration Date – Enter the policy expiration date (month/day/year). This date cannot be greater than two years after the policy effective date.
- 6) Risk Indicator – Select the one digit code applicable to the risk(s) written on the policy. Acceptable codes are as follows:

[Policies with effective dates December 31, 2021 and prior:](#)

1 = Taxicab, Limousine or Car Service Policy

All risks on the policy must have a Taxicab, Limousine or Car Service classification code, as listed in the Commercial Statistical Plan.

2 = Other Commercial Policy (Not Taxicab, Limousine or Car Service)

All risks on the policy must have a classification code, listed in the Commercial Statistical Plan that is not a Taxicab, Limousine or Car Service classification code.

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Policies with effective dates January 1, 2022 and subsequent:

2 = Commercial Policy

All risks on the policy must have a classification code listed in the Commercial Statistical Plan.

- 7) Transaction Code – Select the one digit numeric code. Acceptable codes are as follows:

1 – New Business (to the company)

2 – Renewal Business (to the company)

4 – Policy Not Taken or Cancelled

Note that if the Servicing Carrier has already reported premium for the policy, a Transaction 4 cession record must not be reported. Instead, cancellation premium records should be reported in a monthly accounting/statistical shipment. For additional information, refer to Section C.1. of this Chapter.

5 – Policy Not Ceded

Note that if the Servicing Carrier has already reported premium for the policy, a Transaction 5 cession record must not be reported. Instead, cancellation premium records should be reported in a monthly accounting/statistical shipment. For additional information, refer to Sections C.1. and C.3. of this Chapter.

- 8) Insured's Name – Enter the last name first, followed by the first name and middle initial. For partnerships, corporations, etc., enter the full name. The name must be at least one and no more than sixteen alphabetic and/or numeric characters.
- 9) Producer Code – Enter the unique producer code number as assigned by the Servicing Carrier. The Producer Code must consist of three to six alphabetic and/or numeric characters.

The application will not allow Servicing Carriers to add a cession record that contains a fatal error. The field containing the fatal error will be identified and the cession record will not be added unless the fatal error condition is corrected. If the Servicing Carrier creates a non-fatal error when adding a cession record, the field in error will be identified and the Servicing Carrier will be given the option to either correct the field in error or to continue and add the error record to CAR's cession database. If the

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Servicing Carrier chooses to add a cession record that contains a non-fatal error, the record will be immediately loaded to the cession database, and will display on the Cession Correction screen (Exhibit IV-D-3). For additional information relative to cession error correction procedures, refer to Section E. of this Chapter.

Note that all cession records entered via the cession reporting application in a single day are considered one batch.

b. Reporting Cession Records via FTP Transmission

To report cession records to CAR via FTP transmission, Servicing Carriers must complete the FTP User Account Request Form located on CAR’s website, under the Data Transfers link. Once the FTP Account has been established, cession record transmissions can be submitted directly via CAR’s FTP site.

Servicing Carriers can report cession records via FTP transmission on a continual basis with no more than 15 batches allowed in one day and with transmissions not to exceed one hour of transmission time.

CAR will assign a receipt date to a cession transmission submission according to the date and time that the transmission was started. All transmissions submitted to CAR on a weekend or holiday, or submitted on a CAR business day after 7:00 p.m. Eastern Standard Time will be assigned a receipt date equal to the following CAR business day. All transmissions submitted to CAR before 7:00 p.m. Eastern Standard Time on a CAR business day will be assigned a date received equal to the date of transmission. Cessions reported via FTP transmission are processed nightly for formatting verification and loaded to the permanent database file the following day.

The record layout for cession records reported via FTP transmission is as follows:

Location	Field Length	Field Name	Contents
1	1	Kind of Record	Numeric: 1 – indicates cession record
2 – 3	2	State Code	Numeric: 20 – indicates Massachusetts
4 – 9	6	CAR Use Only	
10	1	CAR ID Code	Numeric: 4 – Voluntary Agent Business 5 – ERP Business
11 – 14	4	Company Code	Numeric: Three digit code as assigned by CAR preceded by a zero (0). This should be the same three digit code used to report premium and loss statistical data.

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Location	Field Length	Field Name	Contents
31 – 36	6	Effective Date	Numeric: Effective date of the policy in month/day/year order: Month: two digits, 01 through 12 Day: two digits, 01 through 31 Year: two digits, valid effective year The policy effective date cannot be later than the current date plus 90 calendar days.
37 – 42	6	Expiration Date	Numeric: Expiration date of the policy in month/day/year order. Month: two digits, 01 through 12 Day: two digits, 01 through 31 Year: two digits, valid expiration year
43	1	Risk Indicator	Numeric: <u>Policies effective December 31, 2021 and prior:</u> 1 – Taxi, Limousine or Car Service Policy 2 – All Other Commercial Policy <u>Policies effective January 1, 2022 and subsequent:</u> <u>2 – Commercial Policy</u>
44	1	Transaction Code	Numeric: 1 – New Business 2 – Renewal Business 4 – Policy Not Taken or Cancelled 5 – Policy Not Ceded
45 – 49	5	Reserved for Future Use	
50 – 55	6	Producer Code	Alpha-Numeric: The unique company assigned code number for each producer, consisting of at least three, but no more than six, alphabetical and/or numeric characters. Must be left justified.
56 – 64	9	Reserved for Future Use	
65 – 80	16	Insured's Name	Alpha-Numeric: The last name first followed by the first name and middle initial. Must be left justified and consist of at least two characters. For partnerships, corporations, etc., enter a name that clearly identifies the insured.

Cession record FTP transmissions must also contain certain shipment identification records that will be used by CAR to control the processing of the data submitted, including a begin transmission record, batch control record(s) and an end of transmission record. The following coding instructions should be used:

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E. Cession Correction Procedures

CAR performs fatal and non-fatal edit routines against all cession records and cession corrections. Cession records added via FTP transmission that contain a fatal error (refer to Section F. of this Chapter), will be rejected and will not be loaded to CAR's permanent cession database file. The Servicing Carrier must resubmit the corrected record in a future submission. Cession records added through CAR's online Cession Entry screen are rejected at point of entry and will not be accepted if the information entered creates a fatal error. Cession records that are flagged with a non-fatal cession error (refer to Section G. of this Chapter) may be corrected as follows:

1. Processing a Cession Correction

A cession record with a non-fatal cession error may be corrected via CAR's online Cession Correction screen (Exhibit IV-D-4). Servicing Carriers should change only those field(s) which they are correcting, and do not need to enter all the fields of the cession record. If a Servicing Carrier attempts to change a field for which a correction is not allowed (refer to Fatal Error Code 14 in Section F. of this Chapter), an error message will be displayed. The cession receipt date of the corrected cession record will remain equal to the cession receipt date assigned to the original cession record.

2. Acknowledgment of Cession Corrections

To verify cession correction activity, a Servicing Carrier should reference the online Cession Records screen (Exhibit IV-D-1) on a regular basis. Additionally, the online Batch Totals screen (Exhibit IV-D-7) provides a summary of the manner by which the cession record was reported and the type of action taken and may be used by the Servicing Carrier for balancing purposes.

Servicing Carriers must report any identified cession correction problems to CAR as soon as possible so that CAR may process the necessary adjustments.

F. Fatal Cession Edits

If a Servicing Carrier attempts to add, via CAR's online Cession Entry screen (Exhibit IV-D-2) or via FTP transmission, a cession record containing one of the following fatal cession errors, the records will not be accepted or added to CAR's cession database. If a Servicing Carrier attempts to correct a cession record via CAR's online Cession Correction (Exhibit IV-D-4) or Cession Update (Exhibit IV-D-5) screens and creates one of the following fatal cession errors, the system will display the error created and will not allow the correction to be made.

Those cession records added via FTP transmission that were rejected and therefore not loaded to CAR's cession database file because the cession

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records contained a fatal cession error, will be displayed on the Fatal Cessions screen (Exhibit IV-D-6).

Refer to the Cession Edit Package for detailed cession edit information, including cession correction options. A link to the Cession Edit Package can be found on CAR's website under the Manuals tab.

The fatal cession add and cession correction errors are as follows:

1. Fatal Error Code 1 – Effective Year Invalid

The effective year must be one of the three currently reportable years.

2. Fatal Error Code 2 – Company Number/Policy Effective Date Invalid

The company number must be a valid three digit company number.

The policy effective date must be valid. The effective month must be 01-12 and the effective day must be 01-31.

3. Fatal Error Code 3 – Reserved for Future Use

4. Fatal Error Code 4 – Ineligible to Report Policy Effective Date

The policy effective date must fall within the cession eligible start and stop dates for each company, based upon the information contained on CAR's Company File.

5. Fatal Error Code 5 – Date Received Invalid

Servicing Carriers may report a cession no more than ninety days prior to the policy effective date.

6. Fatal Error Code 6 – CAR ID Code Invalid

The CAR ID Code must be a valid CAR ID Code for that effective year, effective month and company number.

7. Fatal Error Code 7 – Risk Indicator Code Invalid

For policies effective December 31, 2021 and prior, the reported risk indicator must be 1 (Taxicab, Limousine, or Car Service), or 2 (Other Commercial (Not Taxicab, Limousine, or CAR Service)).

For policies effective January 1, 2022 and subsequent, CAR will convert any risk indicator with value 1 to a value of 2.

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effective date and which generates policy premium of less than \$5. The Servicing Carrier should provide CAR with proper documentation to substantiate its appeal, including, but not limited to, the policy number and effective year of each policy for which a \$60 cession/no premium penalty is being appealed, the policy's Coverage Selections Page, and any existing cancellation documentation. If the appeal of a \$60 penalty has been previously approved for a particular policy, a copy of correspondence between CAR and the Servicing Carrier is sufficient documentation for any further \$60 penalty appeals for the same policy.

3. Cession/No Premium Write-Off

The reporting of ceded premium for a particular policy effective year is discontinued two years following the end of a policy effective year. For example, the ceded premiums for policy effective year 2021+6 may only be reported through the December, 2023+8 monthly accounting/statistical shipment. If CAR has not received the premium for the cession by the time the reporting of ceded premium for a particular policy effective year has been closed out, the cession will be subject to write-off.

On a yearly basis, following the close-out of reporting for a specific policy effective year, a Servicing Carrier will be assessed a penalty based upon the average ceded statewide premium for the policy year for each cession written-off. For policies effective prior to January 1, 2022, the write-off amount for each policy effective year will be calculated separately for taxi/limousine/car service business and all other commercial business. For policies effective January 1, 2022 and subsequent, one write-off amount for all policies will be calculated for each policy effective year. Servicing Carriers are notified of the established cession/no premium write-off penalty amounts via a CAR Bulletin that is posted to CAR's website. The cession/no premium write-off penalties are in addition to any semi-annual \$60 cession/no premium penalties that may have already been assessed. Penalties will be processed as bulk adjustments to a Servicing Carrier's Settlement of Balances and Member's Participation Reports for the quarter ending March 31.

Servicing Carriers may appeal for the reversal of a Cession/No Premium Write-Off penalty in the instance where a policy is cancelled subsequent to the policy effective date and which generates policy premium of less than \$5. The Servicing Carrier should provide CAR with proper documentation to substantiate its appeal, including, but not limited to, the policy number and effective year of each cession/no premium write-off error being appealed, the policy's Coverage Selections Page, and any existing cancellation documentation. For those appeals for which \$60 cession/no premium penalties had been previously approved for a particular policy, a copy of correspondence between CAR and the Servicing Carrier is sufficient documentation for any further write-off penalty for the same policy.

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4. Example of Cession/No Premium Penalty and Write-Off Process

A cession record with a policy effective date of February 7, 2021+6 is reported. Ceded policy premium is due in the February, 2021+6 monthly accounting/statistical shipment which is due at CAR on April 15, 2021+6. If positive premium is not reported for the policy by the shipment due date, the policy will be flagged with a cession/no premium error. The following table identifies the dates that the policy would appear on the Cession/No Premium Warning and Cession/No Premium Penalty Listings and the associated penalty amounts.

Example: Policy with Effective Date of February 7, 2021+6			
If positive premium not reported:			
Policy Lists on Cession/No Premium Warning Listing	Policy First Lists on Cession/No Premium Penalty Listing	Policy Assessed \$60 Cession/No Premium Penalty	Policy is Eligible for Cession/No Premium Write-Off
May 28, 2021+6	Oct. 28, 2021+6	Nov. 28, 2021+6	April 2024+9
June 28, 2021+6		May 28, 2022+7	
July 28, 2021+6		Nov. 28, 2022+7	
Aug. 28, 2021+6		May 28, 2023+8	
Sept. 28, 2021+6		Nov. 28, 2023+8	

Note that a late reported cession may not list on the Cession/No Premium Warning or Cession/No Premium Penalty Listings for the full listing cycle prior to the policy being written-off.

5. Net Negative Premium Listing

A Servicing Carrier may select the Net Negative Premium (CO500) function from the Accounting Online Access System – Menu Selections (CO100) screen to view a listing of policies reported with net negative premium (refer to Exhibit V-C-6). The Net Negative Premium Policies screen (CO510) displays the detail premium records that have created the net negative premium condition. A summary report by effective year is also available. Corrections must be made by submitting offset and re-enter records in a monthly accounting/statistical shipment.

Note that policies with Net Negative Premium errors may also appear on other listings. Policies with net negative premium which have an active in-force cession will appear on the Cession/No Premium Warning Listing or on the Cession/No Premium Penalty Listing. Policies with net negative premium which do not have an active in-force cession appear will appear on the Critical Accounting Error Listing flagged with an Error Code 1 – No Valid In-Force Cession. The policies will also be flagged with non-critical Error Code 5 – Net Premium Not Positive and may also potentially contain other accounting

To: Compliance and Operations Committee
From: Compliance Audit
Re: Special Investigative Unit System Development
Date: June 2, 2021

Overview:

The Claims Performance Standards that were considered by the Compliance and Operations Committee in September 2020 were approved by the Division of Insurance on April 6, 2021. Most of the changes focused on the responsibilities of the Special Investigative Unit (SIU) and audit procedures that measure adherence to statutory requirements referenced in both the Private Passenger and Commercial Standards. The modifications were designed to improve the quality and completeness of the logs of SIU referral activity provided to CAR in accordance with the Standards and CAR's Rules of Operation.

CAR recently transitioned to an automated SIU System that requires all companies to maintain and upload the SIU Claim Quarterly Activity Log of SIU-referred cases into the system. The claim referral upload and referral template were approved by the Division of Insurance as a result of the 2019 review of the Standards. With the recently approved changes, underwriting SIU referrals will also be uploaded into the SIU System by Member Companies and will be included in SIU testing samples in accordance with Appendix J of the Standards that detail audit procedures.

Updates to Appendix A – CAR SIU Standards – Systems Development Status

- CAR Rule 10 and Rule 32 require that the SIU investigate suspicious circumstances surrounding underwriting, rating, and premium issues.
- These underwriting SIU referrals will be uploaded into the SIU System with a template (CSV format) and process that is similar but separate from the claims referral template.
- CAR's programming staff has been working on the template as phase one.
- The underwriting referral record populated by the company must be consistent with the corresponding statistically reported data for the following fields (this data quality requirement is consistent with the requirements for the claims referrals):
 - Company Number, Policy Number and Policy Effective Year
 - If the underwriting referral record does not match the statistically reported premium record, the system will automatically reject the underwriting referral record.
 - Rejected records will be stored temporarily.
- Other fields will include the use of pre-set validated formats to get consistent general descriptions:
 - Line of Business, Referral Reason and Investigation Outcome
- Other fields on the referral log include:
 - Insured Name and Investigation Closed Date
- Staff plans to have the underwriting referral template and an updated Help Manual available on CAR's website for industry use by June 15th.
- CAR's Compliance Audit staff will be available to provide assistance to companies that experience issues with the upload and to help navigate corrections.
- In June 2021, CAR will publish a Bulletin to announce the implementation of the system updates to the industry.
- Phase two of this process will include updates to enable the sample procedure to include both claim and underwriting referrals in the SIU evaluation samples in accordance with the Performance Standards.
- Staff plans to have the ability to include underwriting referrals in the SIU sample by October 15th.