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PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

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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, APRIL 6, 2022, 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
Ms. Annmarie Hassan
Ms. Sharon Murphy
Mr. Kenneth Olivieri
Mr. Henry Risman
Mr. Barry Tagen
Mr. Christopher Taylor
Ms. Brenda Williams

Allstate Insurance Group
Norfolk and 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

22.01 Records of Previous Meeting

The Records of the Compliance and Operations Committee meeting of February 2, 2022 should be read and approved.

COPC

22.03 CAR Conflict of Interest Policy

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

COPC

22.04 Informational Items

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

COPC

22.05 Compliance Audit Program

Staff will present an overview of the most recent private passenger Hybrid and Interim Summary Focus Audit results conducted in accordance with the Compliance Audit Program.

COPC

22.09 Merit Rating Reporting

Staff will provide an update relative to the procedures and the status of the upcoming Merit Rating Audits.

COPC

22.10 Procedures Manuals Updates

Modifications to Chapter VII – Participation and to Chapter VIII – Data Reporting, Accounting Edit and Correction Procedures of the Manual of Administrative Procedures to remove references to the run-off of private passenger pool and to document current procedures for sharing in CAR's administrative expenses will be presented to the Committee. Updates to the Assigned Risk Company Procedures Manual that refer companies to the Manual of Administrative Procedures for information relative to sharing in CAR's administrative expenses will also be presented to the Committee. (Docket #COPC22.10, Exhibit #1)

COPC

21.09 Special Investigative Unit System Development

Staff will provide an update regarding the industry's efforts in complying with recent changes to the Special Investigations Unit (SIU) reporting requirements pursuant to the Claims Performance Standards approved in 2021. (Docket #COPC21.09, Exhibit #2)

COPC

20.12 Ceded Commercial Reporting Issues

Staff will provide a status report relative to proposed rating changes anticipated for the commercial automobile residual market and the potential impacts to statistical reporting.

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
March 23, 2022

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EXHIBIT VII-B-1
SETTLEMENT OF BALANCES REPORT

Quarter Ending: December 31, 2021 Commonwealth Automobile Reinsurers Date: 3/15/2022
Settlement Of Balances Report: SB-1
All Policy Years Combined Industry
ALL COMPANIES COMBINED

<u>Description</u>	<u>Balance</u>
A. Servicing Carrier Commercial Ceded Experience	
1. Premiums Written	\$47,063,977.00
2. Ceding Expense Allowance	\$9,905,052.00
3. Losses Paid	\$36,311,170.00
4. Allocated Loss Adjustment Expense	\$1,414,228.00
5. Balance Due CAR(Company) (1) - (2+3+4)	(\$566,471.00)
B. Member Commercial Assumed Share	
1. Premiums Written	\$47,064,020.00
2. Ceding Expense Allowance	\$9,905,044.00
3. Losses Paid	\$36,311,162.00
4. Allocated Loss Adjustment Expense	\$1,414,201.00
5. Balance Due CAR(Company) -(1) + (2+3+4)	\$566,387.00
C. Operating Expense Assessment	
1. Advance Operating Expense Assessment	
(a) MAIP	\$514,048.00
(b) Commercial	\$637,740.00
2. True-Up of Prior Fiscal Year	
(a) MAIP	\$0.00
(b) Commercial	\$0.00
3. Balance Due CAR(Company) (1a + 1b + 2a + 2b)	\$1,151,788.00
D. Miscellaneous Expense and Income	
1. Miscellaneous Expense	\$13,511.00
2. Miscellaneous Income	(\$3,165.00)
3. Balance Due CAR(Company) (1 - 2)	\$16,676.00
E. Account Activity During Last Period	
1. Net Settlement as of Last Period (Line "H" From Last Statement)	\$1,890,904.00
2. Payments to CAR (Company) During Last Period	\$1,670,243.00
3. Penalties and Other Adjustments	\$6,075.00
4. Balance Due CAR(Company) (1) - (2) + (3)	\$26,736.00
F. Net Settlement Amount Due CAR (Company)	\$1,195,116.00

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EXHIBIT VII-B-2
STATISTICAL AGENT EXPENSE ASSESSMENT REPORT

Commonwealth Automobile Reinsurers
Statistical Agent Expense Assessment
Advanced Fiscal Year 2016 Assessment - Second Quarter
Quarter Ending September 30, 2015
Industry Summary

Effective for FY 2010, CAR has adopted separate assessment procedures for administrative expenses relating to its statistical agent and residual market administrator functions. A detailed explanation of the modified procedures and implementation process is documented in CAR Bulletin No. 912. Additional information relative to the identification of expenses by function is referenced in the circular letter.

The following report illustrates the determination of your company's Statistical Agent Expense Assessment. The assessment includes the quarterly statistical agent fee, with the remaining expenses assessed on a market-share basis. Section I of the report identifies the derivation of the industry market-share-based assessment, and Section II identifies the determination of your company's assessment.

The balance due CAR will be reflected as a separate line item on your company's invoice accompanying the Settlements of Balance for the quarter ending September 30, 2015. Questions may be directed to [Robbins at krobbins@commauto.com](mailto:Robbins@krobbins@commauto.com) or 617.880.2329.

Section I

Determination of Industry FY 2016 Market Share Based Assessment

(1) Advanced Statistical Agent Assessment (Based on FY2016 Administrative Budget)	\$1,057,568
Less:	
(2) FY 2016 Statistical Agent Fees Assessed	\$749,250
(3) Statistical Plan Penalties	\$0
Equals:	
(4) Net Market Based Quarterly Assessment	\$308,318

Section II

Determination of Your Company's Assessment

(1) Final 2014 Administrative Expense Ratio (MPR-5)	1.0000002
(2) Company Market Share Based Assessment (1) x (Section 1, Line 4)	\$308,315
(3) Company Statistical Agent Fee	\$749,250
(4) Total Quarterly Statistical Agent Assessment	\$1,057,565

Section III

Account Activity During Current Period

(1) Balance Due Last Quarter	\$1,086,962
(2) Balance Paid Last Quarter	\$1,077,457
(3) Statistical Plan Penalties and Other Adjustments	\$0
(4) Net Due C.A.R. (Company)	\$9,505

Section IV

Total balance due C.A.R. (Company)	\$1,067,070
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C. Member’s Participation Reports

The Member’s Participation (MP) Reports display a Member's assumed share by policy year and participation pool of CAR's ceded premium, expenses, and losses ~~and net associated with CAR’s~~ underwriting results, ~~by policy year and participation pool~~. Refer to Exhibit VII-C-1. The inception-to-date commercial assumed share (MP3) is calculated by multiplying the Member's underwriting results participation ratios, as calculated in Section D. of this Chapter, by the total industry ceded premium, expenses and losses. The assumed commercial quarter activity (MP1) is derived by subtracting the prior quarter inception-to-date results (MP3) from the current quarter inception-to-date results (MP3). The MP4 report summarizes the cash balances from the MP1 report that are shared through Section B of the Settlement of Balances report, as described in Section B of this chapter. The MP1, MP2, and MP3 reports display, by policy year and pool, the current quarter activity, fiscal year-to-date activity, and inception-to-date results, respectively. The MP4, MP5, and MP6 reports display a summary by policy year of the cash balances reflected on the MP1, MP2, and MP3 reports, respectively.

~~–The MP reports are produced on a quarterly basis and may be accessed by Members with a valid user id name and password on the Reports page of ~~by logging into~~ CAR’s website ~~from the Reports page~~ and clicking on the Settlement of Balances link. Members are notified via email when the current quarter’s report is available. ~~Additionally, at the beginning of each calendar year, a projected schedule of dates on which the quarterly MP reports will be available will be posted to CAR’s website. The schedule may be accessed by clicking on the Schedules tab and then the Settlement of Balances link.~~~~

~~The MP1, MP2, and MP3 reports display, by policy year and pool, current quarter activity (MP1), fiscal year to date activity (MP2), and inception to date results (MP3). The MP4, MP5, and MP6 reports display a summary by policy year of the cash balances reflected on the MP1, MP2, and MP3 reports.~~

~~The Member’s Participation Reports are released to Members on a quarterly basis, in accordance with the approximate distribution dates listed in the following schedule:~~

Quarter Ending	Approximate Distribution Date	Reports Produced	
		Individual Member Company	Industry Totals
December 31	March 5	MP 1,4	MP 1,3,4,6
March 31	June 5	MP 1,4	MP 1,2,3,4,5,6
June 30	September 5	MP 1,4	MP 1,2,3,4,5,6
September 30	December 5	MP 1,2,3,4,5,6	MP 1,2,3,4,5,6

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chapter and CAR's Policy Edit Package, which are both available on CAR's website under the Manuals tab.

B. Accounting Verification

1. General Information

All acceptable ceded premium and paid loss records are loaded to CAR's Accounting System on a weekly basis, and outstanding loss records are loaded on a quarterly basis, regardless of the completeness of the monthly submission. That is, if a Servicing Carrier submits its monthly accounting shipment and CAR rejects one or more lines of business due to reporting errors, CAR will still load the ceded data contained in the other acceptable lines of business to its accounting system. CAR will verify that the Servicing Carrier resubmits the rejected line(s) of business in a timely manner. To ensure that the pool is not adversely impacted by the missing data, CAR ~~will~~ may take further action as outlined in Chapter VII – Participation of this manual. assess a loss of investment income as appropriate. For additional information relative to loss of investment income, refer to Section B.6. of Chapter VII – Participation of this Manual.

Using company number, policy number and policy effective year as a key, reported cession records are linked to the corresponding premium and loss records.

Each policy is run through four accounting edits which verify that proper relationships exist between the cession, premium and loss records reported on the policy. These edits are described in Section B.2. of this Chapter. CAR's Policy Edit Package, which is available on CAR's website under the Manuals tab, contains a complete description of each of the accounting error edits.

Additionally, each policy with an active in-force cession is edited to ensure that positive policy premium has been reported. Likewise, each policy with ceded premium is edited to ensure that an active in-force cession exists. Also, each policy with a ceded loss is edited to ensure that an active in-force cession and positive policy premium exists. The Cession/No Premium editing process, including available online screens, penalty program and write-off procedures are described in Chapter V – Premium of this Manual and in the Policy Edit Package, which is available on CAR's website under the Manuals tab.

2. Accounting Errors

Accounting errors are those errors that identify that CAR coverage does not exist on a policy or that there is a problem with the reported premium relating to proper transactions codes and transaction dates or related to reinstatement premium transactions. A Servicing Carrier is required to correct every error identified.

CAR Compliance and Operations Committee – April 6, 2022
Memorandum of Changes
Assigned Risk Carrier Procedures Manual Modifications
Chapter III - Assigned Risk Carrier Responsibilities

Section B.7 of Chapter III – Assigned Risk Carrier Responsibilities of the Assigned Risk Carrier Procedures Manual has been modified to include a reference to Chapter VII - Participation of the Manual of Administrative Procedures in order to provide Assigned Risk Companies with a more detailed and accurate description of CAR's administrative expense assessment procedures.

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- e. For all other Miscellaneous Vehicle Types such as motor homes, low speed vehicles and campers, if merit rating status applies, use the MAIP commission schedule. If merit rating status is not applicable to the vehicle type, a commission rate of 11.7% applies.

(2) Voluntary Writing of Former MAIP Risks

An ARC who writes a policy on a voluntary basis that it previously insured through the MAIP must pay a commission to the producer of record in accordance with its commission structure for business written at voluntary rates in the voluntary market, regardless of whether there is a contract between the ARC and the producer of record.

6. Quota Share Responsibilities

A Quota Share is developed for each Member appointed as an ARC in accordance with Rule 29 – Assignment Process of CAR’s Rules of Operation. Applications will be assigned to the most undersubscribed Member based on the most recent Quota Share calculation. For assignment purposes, a Member that has executed a LADA with an ARC will maintain its own Quota Share. Quota Share is adjusted after each MAIP assignment.

For additional information relative to the development of a Member’s Quota Share, refer to Rule 29, Chapter VIII – Assignment Process and Chapter X – Quota Share and Credit Programs of this Manual.

7. Responsibilities Relative to Sharing in MAIP Operating Costs

On a quarterly basis or as frequently as the Governing Committee deems necessary, ARCs will share in MAIP expenses as defined in Rule 35 – Assessments of CAR’s Rules of Operation. ~~based upon the proportion that the private passenger premiums reported on each company’s Statutory Page 14 for Massachusetts for the most recent calendar year, bear to the total of such premiums for all companies. Note that premium from those classifications and/or coverages that are not statistically reportable to CAR (those classes or coverages not specified in the Massachusetts Private Passenger Automobile Statistical Plan) and premium from Antique Vehicles (reported as Classification Code 0483) is excluded from this calculation.~~ These expenses will be included on the company’s quarterly Settlement of

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Balances Report. ~~To verify this information, companies should apply their calculated expense ratios to the industry fiscal year to date operating expenses for both the current and prior quarters. The difference between these totals will be reflected on the Settlement of Balances Report. A detailed explanation of the calculation of each Member's share in CAR's operating expenses, including its expenses relating to CAR's statistical agent function, may be found in Chapter VII – Participation of CAR's Manual of Administrative Procedures on the Manuals page of CAR's website under the Administrative Procedures link.~~

8. ARC Performance Standards Responsibilities

ARCs must adhere to all practices and procedures as required by the established ARC Performance Standards. ARPs will report an ARC's alleged non-compliance with the ARC Performance Standards to CAR and CAR will review the complaint to determine the validity of the reported violation and what course of remedial action may be necessary. For additional details regarding the ARC Performance Standards, including CAR's violation review process and applicable non-compliance penalties, refer to Chapter V – Assigned Risk Company Performance Standards Compliance of this Manual.

C. Take-Out/Credits

At policy expiration, an ARC may choose to voluntarily write a policy that is currently in the MAIP, subject to specific requirements in accordance with Rule 29 – Assignment Process of CAR's Rules of Operation and identified in this Section. The policy may currently be assigned to the ARC or may be written by another ARC. If the voluntary policy has been in effect for at least 90 days, the policy may qualify for a take-out credit as further defined in Chapter IX – MAIP Placement Record Reporting Requirements and Chapter X – Quota Share and Credit Programs of this Manual.

1. Offer to Write

The kinds and amounts of coverage to be offered for the voluntary policy must be at least equal to those afforded by the MAIP policy being replaced and the premium for such coverage must be provided at the company's voluntary rate for which the risk qualifies.

2. Notification to the Producer of Record

Special Investigations Unit
Industry Data Reporting Update
Compliance Audit

Overview:

Modifications to the Performance Standards (the Standards) are biennially considered by the Compliance and Operations Committee as part of its charter responsibilities. Two of the most recent changes approved on April 6, 2021 by the Division of Insurance (DOI) were designed, in part, to improve the quality and completeness of industry Special Investigations Unit (SIU) data reported to CAR. These changes included the requirement that all Assigned Risk Companies (ARC) and Servicing Carriers (SC) must now report to CAR all underwriting referrals investigated by the company's SIU due to suspicious circumstances surrounding underwriting, rating, and premium issues (CAR Rule 10.C.1 and Rule 32.C.1). All companies are also now required to provide to CAR an example of SIU-completed audits on a representative sample of policies to verify garaging and policy facts in accordance with CAR Rule 10.C.2 (commercial) or Rule 32.C.2 (private passenger). These changes allow for an annual determination of adherence to two separate requirements in the Standards.

Annual determination of the minimum of 25 SIU referrals:

- Appendix A of the Standards applicable to the SIU now requires that companies maintain SIU Quarterly Activity Logs of both claims and underwriting referrals that have been uploaded quarterly into CAR's SIU System.
- Appendix J of the Standards defines required audit procedures utilized by CAR to evaluate and measure the effectiveness of fraud screening and the quality of the SIU investigations of member companies, as outlined in Massachusetts G.L. c. 175 § 113H.
 - The audit sample of 25 claim or underwriting referrals is derived from policies and claims from the SIU Quarterly Activity Logs uploaded quarterly into CAR's SIU System.
 - The number and type of referrals are counted and stored in the SIU System, allowing for verification that the company has met or exceeded the minimum number of referrals on an annual basis.

Annual determination of SIU completed CAR Rule 10.C.2 or 32.C.2 audits:

- Appendix J of the Standards now requires that an example of the SIU completed audit reports, that verify garaging and policy facts, be emailed to siulog@commauto.com (CAR's internal group email for all SIU relevant communications).
 - Requiring that the SIU completed audit reports be transmitted to CAR allows for the annual industry verification of adherence to CAR Rule 10.C.2 or 32.C.2
 - Previously, this obligation was only considered at the time of the Hybrid Audit scheduled once every five years.

CAR's SIU System:

The SIU System now allows for the upload of both claims and underwriting referrals using separate but consistent templates. The referral data uploaded by the company is compared to statistically reported data, and if matched, the associated data is brought into the SIU System. The SIU System has replaced what was an entirely manual process since 2018. The SIU System now allows for:

- Ability for companies to report all SIU data into one system
- Automation of referral totals reports by company and type of referral
- Creation of audit samples from the eligible uploaded data
- Storing of auditor controls of notes, comments, and outcomes
- Building of an automated status report inserted into the complete Hybrid Audit status report
- Generating an audit result table inserted into the completed audit report

Examples of Future Reports to the Committee and the DOI

Beginning early in 2023, staff plans to provide the Committee and DOI with industry reports annually, documenting ARC and SC adherence to both reporting requirements. These will be the first SIU data-specific reports of this kind distributed by CAR that identify industrywide reporting compliance in a single report. The reports will include January through December SIU reported data.

Examples of these reports using 2021 reported data will be provided to the COPC members prior to the April 6, 2022 meeting. CAR notes that these reports are intended for information only at this time. While the reports will be based on a full year of reporting, the changes to the Standards did not take effect until after the close of the first quarter of 2021, reducing the time available for companies to adjust their procedures. Companies also could not upload underwriting SIU referrals into CAR's system until CAR completed the necessary programming changes. The Bulletin notification was distributed to the industry on June 17, 2021. CAR developed internal procedures to monitor reporting and contacted companies by the close of the third quarter to ensure awareness of the reporting changes for those companies that had not reported the minimum 25 referrals, or did not provide the SIU completed CAR Rule 10.C.2 or 32.C.2 audits. Even with these caveats, the reports identify that 29 of 38 ARCs and all 4 SCs successfully achieved compliance with the new reporting requirements by the close of the first year of reporting.