



NATALIE A. HUBLEY  
PRESIDENT

COMMONWEALTH AUTOMOBILE REINSURERS

101 Arch Street, Suite 400 Boston, Massachusetts 02110

[www.commauto.com](http://www.commauto.com)

617-338-4000

**ADDITIONAL INFORMATION**

**TO MEMBERS OF THE GOVERNING COMMITTEE**

**FOR THE MEETING OF:**

**Wednesday, April 13, 2022, at 10:30 a.m.**

**GC**

**22.06 Compliance and Operations Committee**

The Records of the Compliance and Operations Committee meeting of April 6, 2022 are attached.  
(Docket #GC22.06, Exhibit #2)

The Records of the Compliance and Operations Committee meeting of April 6, 2022 have been distributed and are on file.

NATALIE A. HUBLEY  
President

Attachment

Boston, Massachusetts  
April 11, 2022



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## RECORDS OF MEETING

### COMPLIANCE AND OPERATIONS COMMITTEE – APRIL 6, 2022

#### Members Present

Mr. Jerry Sleeper – Chair	Safety Insurance Company
Ms. Erin Cummings	Norfolk & Dedham Group
Mr. Thomas Harris	Quincy Mutual Group
Ms. Annmarie Hassan	Arbella Insurance Group
Ms. Sharon Murphy	Acadia Insurance Company
Mr. Kenneth Olivieri	J.K. Olivieri Insurance Agency, Inc.
Mr. Henry Risman	Risman Insurance Agency, Inc.
Ms. Kelsey Thraem <sup>(1)</sup>	Allstate Insurance Company
Ms. Brenda Williams	MAPFRE U.S.A. Corporation

Substituted for:

<sup>(1)</sup>Ms. Kara Boehm

Not in Attendance:

Mr. Barry Tagen, Pilgrim Insurance Company

Mr. Christopher Taylor, The Hanover Insurance Company

#### 22.01 Records of Previous Meeting

On a roll call vote, the Committee unanimously voted to approve the Records of the Compliance and Operations Committee meeting of February 2, 2022. The Records have been distributed and are on file.

#### 22.04 Informational Items

Ms. Wendy Browne informed the members that updates to Chapter IX – Compliance Audit of the Manual of Administrative Procedures (MAP) and Chapter XI – Compliance Audit of the Assigned Risk Company (ARC) Procedures Manual were approved by the Governing Committee at its February 16<sup>th</sup>, 2022 meeting. She noted that the updates strengthened documentation requirements, include traffic light audit assessments and other procedural language. Ms. Browne noted that the updates have been incorporated into the MAP and the ARC Procedures Manual available on CAR's website.

#### 22.05 Compliance Audit Program

Mr. Matthew Hirsh presented Hybrid Audit (HAP) results for GEICO, and two informational only reports on the quota share data quality audits of Berkley Insurance Company and Foremost Property and Casualty Insurance Company.

The GEICO Hybrid Audit scope included \$443,000 in written premium. Associated loss dollars, including paid losses and allocated loss adjustment expenses, totaled \$1,178,000. Mr. Hirsh noted six recurring statistical reporting issues not in compliance with the Statistical Plan. He also referenced that GEICO's response letter indicated that four of the six overall recurring data quality issues have either been corrected or are being reviewed to ensure that its data reporting is accurate. In accordance with the Traffic Light Assessment Rating System in the Assigned Risk Company Procedures Manual, staff assessed a green light value to GEICO's audit results indicating that no further auditing should be required, and the ARC remains in the five-year Hybrid Audit schedule.

On a roll call vote, the Committee voted unanimously to accept the audit report without further consideration.

The Committee next considered GEICO's request in its response letter to waive the \$24,000 fee for not providing system access to CAR auditors. Mr. Mark Alves began by acknowledging that GEICO eventually provided the necessary documentation required to complete testing of all Hybrid Audit components, and that the process to provide the documentation was certainly time consuming for GEICO. However, the Assigned Risk Company Procedures Manual requires that companies not granting direct access to the premium, claim, or adjunct systems used to access source documents be assessed a fee of \$24,000, and that if system access is not established timely resulting in delays to the audit, the fee be assessed in consideration of the additional time needed to complete testing. GEICO decided to have staff access a remote server and transfer documentation individually for the entire sample of 400 policies and 270 claims. This process was significantly more time consuming than direct system access and required additional steps for policies and claims that were missing documentation. The notice of audit was distributed on March 23, 2021 with a start date of April 19<sup>th</sup>. GEICO did not inform staff until June 18<sup>th</sup> that system access would not be granted, with or without a signed non-disclosure agreement. GEICO submitted the required documentation in several separate submissions, with its final submission received on July 26<sup>th</sup>, more than three months after the scheduled April 19<sup>th</sup> audit start date. The documentation was not provided via direct system access, but rather staff was required to access a server and download the reports.

Ms. Samantha Freedman spoke on behalf of GEICO. She noted that GEICO had recently completed a new policy system implementation and that most of the sampled policies were already archived. GEICO investigated whether remote system access to the archived system was possible. After taking some time to decide the best approach, GEICO determined that using its staff to manually obtain and load documentation to a remote server, with CAR staff then accessing and storing documentation to its server was the fastest approach. Ms. Freedman also noted that GEICO does not provide direct access for any audits and will work proactively with CAR for future audits. She asked that given the effort exercised by GEICO, and that it didn't ultimately impact the ability to conduct the audit, that the Committee reconsider all or a portion of the fee.

Mr. Jerry Sleeper reviewed the ARC Procedures Manual language with the Committee. He noted the reference to the need for system access as of the start date of the audit, and that staff had acknowledged that GEICO's efforts were eventually sufficient but not timely.

Mr. Henry Risman commented that he was in support of the fee assessment, noting that staff resources are limited, and that GEICO has resources available to it to fulfill its responsibility for timely access to the required documentation.

On a roll call vote, the Committee voted unanimously to deny GEICO's appeal and uphold the \$24,000 system access fee. Ms. Wendy Browne of CAR staff informed Ms. Freedman that GEICO has the right to appeal this decision and should notify CAR within 30 days if it chooses to pursue this option.

Mr. Hirsh then provided an overview of quota share focus audit reports of Berkley Insurance Company and Foremost Property and Casualty Insurance Company. Both reports were distributed informationally to the Committee.

Ms. Sharon Murphy, referencing the relationship between Berkley and Acadia Insurance Company, recused herself from participating in the discussion regarding the Berkley results.

Mr. Hirsh explained that both are newly writing companies that CAR's Actuarial and Statistical Services Department requested be audited to test the accuracy of quota share data. The Berkley audit sampled reported statistical data and the Foremost audit tested interim summary data. Both companies were audited using procedures that were consistent to the Hybrid Audit procedures. Mr. Hirsh noted relatively high error rates for both companies and that both would be eligible to undergo Hybrid Audit procedures within one complete year of statistical reporting.

Ms. Wendy Browne then provided a status report on companies that have recently been brought to the Committee's attention due to statistical reporting issues in need of corrective action. Both PURE and Esurance were given deadlines of the January 2022 monthly accounting submissions to correct issues detailed in recent focus audit results. Ms. Browne indicated that both companies have made significant progress to correct the identified reporting problems. While some issues remain open, staff continues to work with both as correction efforts continue. Ms. Browne advised that, as both companies have demonstrated good faith efforts, staff will delay potential penalty assessments due to the significant progress and the anticipation of continued correction efforts.

Ms. Browne advised that the deadline established for Foremost Insurance of Grand Rapids Michigan to correct its reporting issues is the March 2022 monthly accounting submissions due at CAR by mid-May. The company has indicated that system correction efforts are ongoing with the goal of meeting the deadline.

Ms. Browne also noted that staff is working with both Berkley and Foremost to resolve problems identified in their quota share focus audits. Staff has also identified statistical reporting issues with Berkley's data and has communicated those issues to the company. Berkley has indicated that corrective action has been taken and anticipates improved data reporting soon. However, Foremost has not yet begun to report statistical data.

## **22.09 Merit Rating Reporting**

Mr. Hirsh provided an update relative to the industry audit of merit rating values. As a result of ongoing discussions, the Committee directed CAR to conduct an industry-wide focus audit of reported merit rating values. Mr. Hirsh noted that because this will result in auditing nearly 40 ARCs, CAR has developed procedures to conduct each audit consistently and accurately, while also minimizing the impact to the audit schedule. Mr. Hirsh noted that the procedures CAR has developed are an extension of procedures currently in use when conducting a Hybrid Audit. That is, CAR will request a license number for every operator listed on each sampled policy. In addition, CAR will include the sampled VIN, class code, and merit rating, and CAR will request that the company populate a reported operator indicator. This indicator will allow CAR to make an accurate comparison of audited and reported class code and merit rating values. When returned to CAR, the file will be uploaded to the RMV batch-query, exported, and incorporated into a class code calculator spreadsheet which will generate class codes for all operators included in the list and automatically compare the audited class codes and merit rating values to those values reported.

Mr. Hirsh concluded by stating that currently, the class code calculator spreadsheet and audit control spreadsheets are built and ready for use, that the process of taking samples for each ARC is underway, and that when samples are finalized, CAR will begin to contact the ARCs and commence work on the audits.

## **22.10 Procedures Manuals Updates**

Ms. Wendy Browne presented the Committee with modifications to Chapter VII – Participation of the Manual of Administrative Procedures, Chapter VIII – Data Reporting, Accounting Edit and Correction Procedures of the Manual of Administrative Procedures, and Chapter III – Assigned Risk Company Responsibilities of the Assigned Risk Company Procedures Manual. Ms. Browne noted that references to the run-off of private passenger pool and associated calculations were removed, and updates were made to document current procedures for sharing in CAR’s statistical agent-related administrative expenses. In addition, changes were also made to improve readability, terminology, and remove obsolete language.

**On a roll call vote, the Committee voted unanimously to recommend to the Governing Committee adoption of the updates to Chapter VII – Participation of the Manual of Administrative Procedures, Chapter VIII – Data Reporting, Accounting Edit and Correction Procedures of the Manual of Administrative Procedures, and Chapter III – Assigned Risk Company Responsibilities of the Assigned Risk Company Procedures Manual.**

## **21.09 Special Investigative Unit System Development**

Mr. Alves stated that CAR and the industry have focused on improving the quality and completeness of the industry Special Investigative Unit (SIU) data reported to CAR. Over the two previous biennial review cycles of the Claims Performance Standards (the Standards), changes have been implemented to require standardization in the reporting to CAR of referrals to the SIU for investigation. Changes occurred in April 2021 that improved the standardization of data and the ability to measure industry compliance to two separate requirements.

The first modification allowed for the reporting of underwriting referrals investigated by the company’s SIU due to suspicious circumstances surrounding underwriting, rating, and premium issues. These could now be combined with the preexisting claims referrals eligible towards the minimum sample of 25 at the time of an SIU audit.

The second change requires that companies transmit to CAR an example of the SIU completed representative sample audit reports verifying garaging and policy facts in accordance with CAR Rule 10.C.2 and 32.C.2. This change allows for determining industry compliance with CAR Rule 10.C.2 or 32.C.2 annually.

Mr. Alves noted that the Committee received an informational-only report based on the partial reporting of 2021 SIU data. The report identifies industry compliance with the minimum requirement of 25 referrals to the SIU for investigation and adherence to the Rule 10.C.2 or 32.C.2. requirement. CAR’s intention is to distribute this report annually to the Division of Insurance beginning in February 2023.

Ms. Alison Ruggiero of CAR staff provided an overview of steps taken to work with the industry and improve awareness at the SIU level to the updated requirements. She advised that staff communicated with 34 companies and provided all relevant material, including Bulletins, CAR Rules, and the applicable appendices of the Standards. CAR and company staff frequently met virtually to discuss the changes. Commonly asked questions included understanding the difference between underwriting referrals to the

SIU for investigation and Rule 10.C.2 and 32.C.2 SIU completed audits, and the obligations of Newly Writing Companies with Limited Assignment Distribution Agreements.

Ms. Ruggiero noted that staff has completed efforts to develop standardized procedures to monitor the SIU data provided by the industry and create automated reports with SIU referral counts for each company. Beginning next year, staff intends to distribute an annual report to the Division that identifies compliance with these new reporting requirements.

## **20.12 Ceded Commercial Reporting Issues**

Ms. Browne informed the Committee that the CAR's commercial rate filing is currently under review by the Division of Insurance. She also noted that the Commercial Automobile Committee is in the process of evaluating several new endorsements and other changes recently adopted by the AIB to determine if these changes are appropriate for the residual market. Ms. Browne stated that while discussions are ongoing, more information will be provided to the Committee for consideration at a future meeting including potential changes that could impact not only the reporting of ceded commercial data, but also the reporting of voluntary commercial and private passenger data.

MATTHEW HIRSH  
Compliance Audit Supervisor

Boston, Massachusetts  
April 11, 2022

CAR Compliance and Operations Committee – April 6, 2022  
Memorandum of Changes  
Manual of Administrative Procedures Modifications  
Chapter VII – Participation  
Chapter VIII - Data Reporting, Accounting Edit and Correction Procedures

Chapter VII – Participation of the Manual of Administrative Procedures (MAP) is updated to remove references to the run-off of private passenger pool and to document current procedures for sharing in CAR's administrative expenses. Additional modifications are made for clarification.

Section A – Introduction:

This section is amended to remove references to subsequent sections describing the private passenger pool run-off. Additional editorial changes are included to improve readability.

Section B – Quarterly Cash Flow:

- The description of CAR's cash flow process is modified and references to the quarterly cash flow schedule are moved to improve readability.
- The description of data to be included in the sharing of CAR's underwriting results is updated to reflect current procedures reflective of the Commercial Servicing Carrier Program.
- The description of sharing in CAR's administrative expense and miscellaneous income is modified to improve readability.
- The description of CAR's Settlement of Balances Reports is updated to remove references to the private passenger pool run-off, to remove scheduling references moved to other sections, and to remove descriptions of calculations that are included elsewhere in the chapter.
- An explanation of the calculation of CAR's Statistical Agent Assessment, which was previously documented in CAR Bulletin 912, is added to this section.
- The Loss of Investment Income assessment process is obsolete in light of CAR's current Commercial Servicing Carrier Program, and therefore has been eliminated.
- Exhibit VII-B-1 is updated to reflect the current Settlement of Balances Report with references to the private passenger pool eliminated.

Section C – Member's Participation Reports:

- The description of the Member's Participation Reports is updated to improve readability.
- Descriptions of the distribution schedule and close out of older policy years have been moved to Section B.

Chapter VIII - Data Reporting, Accounting Edit and Correction Procedures Section B.1 is updated to replace references to loss of investment income penalty removed from Chapter VII with a late fee for missing data.

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**A. Introduction**

This chapter describes the procedures for determining a Member's share in the Commonwealth Automobile Reinsurers' ceded underwriting results and in ~~all reinsurance and statistical agent related~~ the administrative expenses associated with operating all CAR residual market and statistical agent functions.

Section ~~B~~ of this chapter describes the quarterly cash flow procedures for distributing CAR's ceded underwriting results~~deficit~~ to its Members, for collecting CAR's ~~reinsurance operating expenses and statistical agent related~~ administrative expenses, and for collecting any necessary special assessments ~~and for the disbursement of withdrawal settlements~~. This information is provided to Members via the quarterly Settlement of Balances report, the Statistical Agent Expense Assessment report, and if applicable, a Special Assessment report. Also, included in Section ~~B~~ are the procedures for a company to ~~use to~~ verify its quarterly cash flow reports.

Section ~~C~~ of this Chapter describes the Member's Participation Report, which documents each Member's assumed share of CAR's underwriting results. The Member's Participation Report net results are displayed in Section ~~Bs C and D~~ of the Settlement of Balances report.

Section ~~D~~ of this Chapter describes the formulas for determining a Member's participation ratios for sharing in CAR's ceded underwriting results and administrative expenses.

**B. Quarterly Cash Flow**

1. Sharing in Commonwealth Automobile Reinsurers' ~~Deficit~~ Ceded Underwriting Results and Administrative Expenses

To reduce the unnecessary cash flow of funds for each Member, CAR will accumulate ceded balances due to Servicing Carriers and balances due CAR or company associated with each Member's assumed share in CAR's underwriting results, administrative expenses, and miscellaneous income. The net balances due CAR or company will be shared quarterly in accordance with the procedures described in this chapter.

Members are notified via email when the current quarter's reports are available. Additionally, at the beginning of each calendar year, a projected schedule of dates on which the quarterly cash flow reports will be available is included on the Schedules page of CAR's website under the Settlement of Balances link. The reports are generally released in accordance with the following schedule:

<u>Quarter Ending</u>	<u>Release Date</u>
<u>December 31</u>	<u>March 5</u>
<u>March 31</u>	<u>June 5</u>
<u>June 30</u>	<u>September 5</u>

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September 30

December 5

~~the balance due each Servicing Carrier based on that Servicing Carrier's actual writings. CAR will net these balances with the balance due a Servicing Carrier (or due CAR) on an assumed basis. Each Member, in addition to the Servicing Carriers will generate an assumed share. The assumed basis is determined by multiplying the Member's underwriting results participation ratios, as calculated in Section D of this Chapter, by the total industry CAR experience of written premium, losses paid, and ceding expense allowances. The administrative expenses and miscellaneous income are determined by multiplying the Member's administrative expense participation ratios by the CAR reinsurance and statistical agent expenses and miscellaneous income.~~

a. ~~Underwriting Results Calculations~~

Each policy year will be held open for sharing in CAR's underwriting results until it is determined that the volume of open claims and outstanding loss reserves for a particular policy year are sufficiently low to warrant the final close-out of that policy year. The close-out of a policy year will take place as of the September quarter for financial purposes and as of the following January accounting/statistical shipment for statistical reporting purposes.

A Member may request reimbursement for a ceded claim paid on a policy year that has been closed-out. Reimbursement requests should be sent to CAR's Operations Services Department. Paid loss activity submitted in or subsequent to the quarter in which the close-out occurs will be shared using the participation ratios for the oldest policy year that remains open.

~~In performing the underwriting calculations~~For cash sharing purposes, CAR will only use a Servicing Carrier's acceptable data that is reported in accordance with the shipment due dates published in the annual Call Schedule for each accounting/statistical month. Accordingly, if a portion of a Servicing Carrier's data submission is unacceptable or missing it will not be included in that quarter's cash flow. CAR will only use the timely and acceptable reported data for participation purposes.

~~The~~The Servicing Carrier must provide CAR with accrual information for the unacceptable or missing portion of the submission. Accrual information includes written premium, written exposure, paid losses, and outstanding losses, broken down by policy effective year, accident year and line of business (i.e. bodily injury, property damage, no-fault, collision, and other-than-collision). ~~Failure to provide this information within four business days of the published due date will result in the assessment of a \$50 per business day late accrual fee. If incomplete data results in material impact to the pool, CAR will process a bulk adjustment based on the accrual information. CAR will verify the accrual information upon receipt of the statistically reported data. If it is determined that the accrual information is materially different from the statistically reported data, the Servicing Carrier will~~

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be assessed a late fee of \$50 per business day through the receipt date of the statistical submission.

~~To discourage companies from submitting erroneous accrual data to avoid a penalty, CAR will verify the accuracy of the accrual information once the data has been statistically reported to CAR. If it is determined that erroneous accrual information had been provided, CAR will assess the Servicing Carrier the \$50 per business day late accrual fee up until the date that the statistical shipment was received at CAR.~~

If, after the shipment due date, CAR discovers that a submission is incomplete or incorrect, CAR will work with the Servicing Carrier to determine the extent of the problem. CAR will document the reporting problem, and will provide the Servicing Carrier with a deadline for responding to CAR's request for an explanation, the deadline for reporting corrections (if data correction is necessary), and the potential penalty for failure to comply with CAR's request.

~~If incomplete data results in a negative impact to the pool, loss of investment income will be billed to the Servicing Carrier. Refer to Section B.6. of this Chapter.~~

b. Administrative Expense and Miscellaneous Income ~~Calculations~~

CAR will assess for its current fiscal year's administrative expenses in advance, ~~on a quarterly basis.~~ The calculations will be trued-up with each during the September quarter cash flow of each fiscal year, using final expenses ~~and miscellaneous income.~~ The portion of expenses ~~and income~~ related to CAR's reinsurance functions, as well as any miscellaneous expenses and income, are collected through the Settlement of Balances report (refer to Section B.2. of this Chapter). ~~and~~ The portion related to CAR's statistical agent function are collected through the Statistical Agent Expense Assessment report (refer to Section B.3. of this Chapter). A single invoice is then generated to net balances due for the quarterly cash flow.

2. Settlement of Balances Report

The Settlement of Balances (SB) Report summarizes ~~the~~ Servicing Carrier's ceded balances reported during the current quarter, and the Member's current quarter assumed share in CAR's deficit share ceded underwriting results, a Member's share in CAR's reinsurance operating expenses, and miscellaneous expenses and income. ~~The report also identifies the Member's prior quarter payment activity and the Member's net settlement balance due CAR or company share of the quarter's reinsurance participation.~~

The Settlement of Balances Report consists of the SB-5 report which displays balances for all prior policy years ~~experience~~, the SB-4 report which displays balances for the current policy year, ~~experience~~ and the SB-1 report which displays all policy years combined. Refer to Exhibit VII-B-1.

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In accordance with Rule 11.C.1. – Assessments and Participation of CAR’s Rules of Operation, cash shared in the quarters ending March 31 and June 30 is based on prior policy years’ ~~experience-balances~~ (SB-5 ~~pagebalances~~). For the quarters ending September 30 and December 31, cash distribution is based on all policy years’ ~~experience-balances~~ (SB-1 ~~balanceespage~~).

The SB reports are produced on a quarterly basis and ~~Members with a valid user id name and password may be accessed the reports by logging intoon the Reports page of~~ CAR’s website ~~from the Reports page and clicking onunder~~ 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 SB reports will be available will posted to CAR’s website. The schedule may be accessed by clicking on the Schedules tab and then the Settlement of Balances link.~~

~~Each-The~~ Settlement of Balances Reports consists of the following Sections:

Section A – Servicing Carrier Commercial Ceded Experience

Section A displays the commercial business that a Servicing Carrier ceded to CAR for the current accounting quarter.

~~b. Section B – Servicing Carrier Run-off Private Passenger Ceded Experience~~

~~Section B displays the run-off private passenger business that a Servicing Carrier ceded to CAR for the current accounting quarter.~~

To verify Sections A ~~and B of the Settlement of Balances Report~~ for all policy years combined, the figures displayed on each line of Sections A ~~and B~~ should be compared to the total accounting/statistical data reported by the Servicing Carrier and accepted by CAR for that quarter ~~as reflected on monthly confirmation reports~~. Additionally, ~~these balances may include any~~ adjustments, ~~for including~~ net negative premium write-offs, ~~insolvency fund reimbursements~~, paid loss write-offs, ceding expense true-ups, and other miscellaneous ~~written~~ premium and paid loss bulk adjustments applied for the current accounting quarter, ~~as will be detailed-identified~~ in the "Circular Letter to All Member Companies (Circular Letter)". ~~These adjustments should be used in the verification process.~~

Section ~~C-B~~ - Member Commercial Assumed Share

Section ~~C-B~~ displays ~~athe~~ Member's assumed share of the industry's ~~paid~~ ceded commercial ~~business-underwriting results~~ for the current accounting quarter ~~as reflected on the company’s Member’s Participation Reports, described in Section C of this chapter., based on the company's underwriting results participation ratios.~~

~~d. Section D – Member Run-Off Private Passenger Assumed Share~~

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~~Section D displays a Member's assumed share of the industry's ceded run-off private passenger business for the current accounting quarter, based on the company's underwriting results participation ratios.~~

~~Sections C and D are derived by subtracting a Member's inception to date figures as of the prior quarter from the Member's inception to date figures as of the current quarter. This process also provides for the truing-up of prior quarters' policy year results from current quarter changes in participation ratios.~~

~~To verify Sections C and D of the Settlement of Balances Reports, a Member should multiply its current underwriting results participation ratios (from the MPR-6 report), by policy year and by pool, by the industry inception to date ceded activity as of the current quarter less inactive companies' frozen assumed shares, if any, as indicated on the Frozen Balance Summary report. This report may be accessed by logging into CAR's website from the Reports page and then clicking on the Settlement of Balances link. A Member's prior quarter's underwriting results participation ratios, by policy year and by pool, should then be multiplied by the prior quarter's industry inception 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.~~

Section EC – Operating Expense Assessment

Section EC displays a Member's assumed ~~reinsurance~~ share of CAR's residual market-related operating administrative expenses.

Section FD – Miscellaneous Expense and Income

Section FD displays a Member's assumed share of CAR's non-administrative miscellaneous expenses not related to CAR operations, as well as the investment income and other miscellaneous income earned by CAR, and other miscellaneous income earned by CAR. Assumed shares are based on the company's administrative expense participation ratios, described in Section D.2.b of this chapter.

The Member's assumed share is calculated by (1) multiplying CAR's current quarter fiscal-year-to-date expenses, as identified by line of business in the Circular Letter, times the Member's administrative expense participation ratios described in Section D.2.b of this chapter, (2) multiplying CAR's prior quarter fiscal-year-to-date expenses times the Member's prior quarter administrative expense participation ratio, and (3) subtracting the result from (2) from (1). ~~may verify Sections E and F of the Settlement~~

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~~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) from the MPR-5 report, to the current and prior quarters' industry fiscal year-to-date miscellaneous expenses and income.~~

Section ~~GE~~ - Account Activity During Last Period

Section ~~GE~~ 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, a~~Any ~~reinsurance-residual market-related~~ penalties and processing fees incurred by the company during the current quarter ~~as documented in the Circular Letter~~ are ~~also~~ identified.

Section ~~HF~~ - Net Settlement Amount Due CAR (Company)

Section ~~HF~~ displays the total amount due the Member or due CAR. This amount is ~~carried forward to~~ ~~included on~~ the Member's quarterly invoice.

To verify Section ~~HF~~, combine the net balances from Sections A through ~~GE~~.

3. Statistical Agent Assessment

The Statistical Agent Expense Assessment report identifies a Member's share of CAR's statistical agent-related ~~administrative operating~~ expenses. This report is produced on a quarterly basis and may be accessed ~~with a valid userID and password on by logging into CAR's website from~~ the Reports page ~~of CAR's website under and clicking on~~ the Settlement of Balances link ~~and then the Statistical Assessment link~~. Refer to Exhibit VII-B-2.

A portion of the ~~CAR's operating~~ expenses related to ~~performing CAR's~~ statistical agent function is collected as ~~the~~ Statistical Agent Fee. ~~The In accordance with an established fee schedule below is approved by the Governing Committee, each Member is assessed a Statistical Agent Fee on a quarterly basis. This fee is assessed according to the level of and is based on~~ CAR resources that are required to collect and process ~~the Member's~~ Massachusetts private passenger ~~run-off~~ and commercial automobile statistics and to provide other statistical agent services. The balance of CAR's administrative expenses associated with its statistical agent function, representing overhead expenses that are shared according to ~~market share~~ ~~company size~~, will be assessed based upon a Member's Administrative Expense Ratios.

<u>Statistical Agent Fee Schedule</u>		
<u>Reporting Company Type</u>	<u>Annual Fee</u>	<u>Quarterly Assessment</u>
<u>Inactive Company Group<sup>(1)</sup></u>	<u>\$1,000</u>	<u>N/A</u>
<u>PP NR Company<sup>(2)</sup> &lt; Reporting Threshold</u>	<u>\$7,000</u>	<u>\$1,750</u>
<u>PP NR Company &gt; Reporting Threshold</u>	<u>\$35,000</u>	<u>\$8,750</u>

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<u>PP Quarterly Reporting Company</u>	<u>\$35,000</u>	<u>\$8,750</u>
<u>PP Monthly Reporting Company</u>	<u>\$45,000</u>	<u>\$11,250</u>
<u>CM NR Company &lt; Reporting Threshold</u>	<u>\$2,000</u>	<u>\$500</u>
<u>CM NR Company &gt; Reporting Threshold</u>	<u>\$6,000</u>	<u>\$1,500</u>
<u>CM Quarterly Reporting Company</u>	<u>\$6,000</u>	<u>\$1,500</u>
<u>CM Monthly Reporting Company</u>	<u>\$8,000</u>	<u>\$2,000</u>
<sup>(1)</sup> A company that is not actively writing but is part of a group which includes at least one actively writing company eligible to be assessed a statistical agent fee will not be separately assessed a fee.		
<sup>(2)</sup> NR Company means non-reporting company		

The Statistical Agent Expense Assessment report consists of the following sections:

Section I – Determination of Total Industry Quarterly Market Share Based Assessment

Section I displays the derivation of the total industry amount due CAR for the quarterly Statistical Agent Assessment, including the total industry Statistical Agent Fees, Statistical Plan Data Quality Penalties and the remaining total market based statistical agent expenses to be assessed on a market share basis.

Section II – Company Quarterly Assessment

Section II displays the derivation of the Member’s quarterly statistical agent expense assessment including its -share of the industry statistical agent assessment identified in Section I and its - The Member’s quarterly market share based assessment displayed on Line (2), is determined by multiplying the Member’s administrative expense ratio from Line (1) by the total industry market share based assessment from Section I, Line (4). The Member’s Statistical Agent Fee is included on Line (3). Line (4) displays the total quarterly assessment due from the Member.

Section III – Prior Activity and Penalties

Section III identifies the Member’s prior quarter balance, the payment received and any current quarter Statistical Plan Data Quality Penalties assessed the Member.

Section IV - Net Quarterly Assessment Due

Section IV displays the net balance due CAR or the Member for the quarter. This amount is included on the Member’s quarterly invoice.

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

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each Member's Massachusetts direct written Motor Vehicle Insurance premiums, as reported on the Member's Statutory Page 14 for Massachusetts 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 ~~all applicable cash flows as described above is due CAR, 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 ~~all applicable cash flows as described above is due the Member, 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.87. 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.

If a Member fails to pay assessments, late payment fees, or compensatory damages or expenses on a timely basis the Division of Insurance may be notified.

For specific late payment details, refer to Rule 3.A.2. – Insurer Obligations of CAR's Rules of Operation.

~~6. Loss of Investment Income~~

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~~When a Servicing Carrier successfully appeals the exclusion of monthly accounting/statistical data from the Settlement of Balances Report for a given quarter, CAR will reimburse the Servicing Carrier for loss of investment income. The rate of interest to be used will be the prime rate as established by the Federal Reserve Bank of Boston on the date that CAR disburses payments to its Members for balances owed them in the quarter. The term of investment will be 90 days for each quarter from which the data was excluded.~~

~~Correspondingly, a Servicing Carrier may be billed for investment income when the pool experiences a significant adverse impact due to the Servicing Carrier's incorrect reporting. For example, when a Servicing Carrier's accounting/statistical data is either not received or rejected as of the end of the quarter, and is therefore excluded from the Settlement of Balances Report for the given quarter, and the exclusion results in a significant loss of investment income to Members, the Servicing Carrier may be billed for the interest income due CAR. The interest rate to be used will be the prime rate as established by the Federal Reserve Bank of Boston on the date that CAR disburses payments to its Members for balances owed them in the quarter. The principal amount on which the interest calculation is made will be the balance due the Servicing Carrier resulting from the net of ceded written premiums less the sum of ceding expense allowances, losses paid, and allocated expenses.~~

~~A Servicing Carrier may also be assessed for investment income lost by the pool due to the incorrect reporting of data by the Servicing Carrier which the Servicing Carrier does not correct on a timely basis. When CAR initially identifies a reporting problem and notifies the Servicing Carrier, the Servicing Carrier has until the next full reporting quarter to correct the problem. If the reporting problem remains uncorrected at the close of the next quarter, CAR may assess the Servicing Carrier for loss of investment income retroactive to the first day of the calendar quarter after the problem was first identified until the date that cash on the quarterly distribution containing the correction shipment is settled.~~

~~These procedures have been developed as an incentive to assure that Servicing Carriers resolve reporting problems in a timely manner, rather than as a means to penalize companies for incorrect reporting.~~

67. Interim Settlement to a Servicing Carrier

Interim settlements will normally not be granted. However, requests for interim settlements from a Servicing Carrier will be considered by CAR. Servicing Carriers are permitted to apply for an interim settlement in the event that the Servicing Carrier is experiencing significant negative cash flow in its ceded book of business, specifically, if the Servicing Carrier is in a run-off position. In such cases, reimbursements will be limited to the loss of investment income on the funds, computed from the last day of the accounting month in which the negative cash flow occurred to the expected cash flow date of the quarterly cash flow reports for that quarter.

78. Electronic Transfer of Funds

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CAR will disburse all quarterly settlement funds due Members via wire transfer and each Member is required to pay all quarterly settlement invoices due CAR via wire or ACH transfer. Note that CAR will not accept check payments from Members. Invoice balances will be considered outstanding and subject to a loss of investment income penalty (refer to Rule 3 – Insurer Obligations of CAR’s Rules of Operation or Section B.6. of this Chapter) until they are wired or ACH transferred to CAR.

The Member Company Wire Transfer Instructions form should be submitted by each Member to CAR’s Financial Department via email. This form may be accessed by logging into CAR’s website from the Reports page and clicking on the Settlement of Balances link and then the Wire Transfer Bank Account Information link.

A separate agreement may be signed for any Member wishing to allow CAR to directly debit their bank account.

| 89. Minimum Invoice Payment Procedures

Invoices and payments for CAR's quarterly cash flow will not be issued or required if the amount due CAR or the Member is less than \$1,000. However, a Member whose balances are below this minimum level will continue to receive its quarterly Member’s Participation and Settlement of Balances reports, and the cumulative amount due CAR or the Member will be reflected on the Settlement of Balances reports.

Additionally, CAR has the authority to not pursue collection or disbursement of balances which remain below \$1,000 at the time of the close-out of participation reporting for the policy year(s) for which the balance is owed.

CAR is also authorized to waive late payment penalty fees which amount to \$25 or less.



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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>
<b>A. Servicing Carrier Commercial Ceded Experience</b>	
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)	<b>(\$566,471.00)</b>
<b>B. Member Commercial Assumed Share</b>	
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)	<b>\$566,387.00</b>
<b>C. Operating Expense Assessment</b>	
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)	<b>\$1,151,788.00</b>
<b>D. Miscellaneous Expense and Income</b>	
1. Miscellaneous Expense	\$13,511.00
2. Miscellaneous Income	(\$3,165.00)
3. Balance Due CAR(Company) (1 - 2)	<b>\$16,676.00</b>
<b>E. Account Activity During Last Period</b>	
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)	<b>\$26,736.00</b>
<b>F. Net Settlement Amount Due CAR (Company)</b>	<b>\$1,195,116.00</b>

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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**

<b>Total balance due C.A.R. (Company)</b>	<b>\$1,067,070</b>
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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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Members may also request to receive Member's Participation Reports data via FTP transmission file. To establish an FTP account, log into CAR's website from the Reports page, click on the Settlement of Balances link and complete and submit the Financial FTP User Account Request form.

If a company that had previously shared in CAR's underwriting results is declared insolvent, the remaining Members must assume the insolvent company's unpaid balances. —To accomplish this, CAR removes the company's underwriting results participation ratios from the industry's participation base and the industry inception to date ceded balances are then reduced by the frozen or "inactive" company's paid assumed balances. The remaining companies' assumed share in CAR's underwriting results is then calculated by applying Member participation ratios.

The industry MP reports distributed to Members each quarter include an "All Companies Combined" report, which reflects the total industry assumed shares, and the "All Active Companies Combined" report, which represents the sum of the active members' assumed shares. These reports will be needed for a company to verify its assumed share of CAR's underwriting results.

~~Each policy year will be held open until all claims are settled and final distribution has been made, or until it is determined that the volume of open claims and outstanding loss reserves for a particular policy year are sufficiently low enough to warrant the final close-out of that policy year. —Paid loss activity submitted in, or subsequent to, the quarter in which the close-out occurs will be shared using the participation ratios for the oldest policy year that remains open. —The close-out of a policy year will take place as of the September quarter for financial purposes and as of the following January's accounting/statistical shipment for statistical reporting purposes. —A Member may request reimbursement for a ceded claim paid on a policy year that has been closed-out. Reimbursement requests should be sent to CAR's Operations Services Department.~~

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**EXHIBIT VII-C-1**  
**MEMBER'S PARTICIPATION REPORT**

QUARTER ENDING: SEPTEMBER 30, 2015

COMMONWEALTH AUTOMOBILE REINSURERS

REPORT: MP-1

MEMBERS PARTICIPATION REPORT

Data: 1/27/2016

POLICY YEAR 2015

ALL COMPANIES COMBINED

OTHER THAN PRIVATE PASSENGER

***** ACCOUNTS *****	*****LIABILITY*****				***** PHYSICAL DAMAGE *****			***ALL COV***
	BI	PIP	PD	TOTAL	COLL	OTC	TOTAL	
PREMIUMS WRITTEN	18,233,352	1,258,408	9,060,989	28,552,749	6,612,189	2,727,736	9,339,925	37,892,674
UNEARNED PREMIUMS (PRIOR)	26,999,749	1,800,859	13,741,361	42,541,969	9,686,729	3,795,218	13,481,947	56,023,916
UNEARNED PREMIUMS (CURR)	33,729,118	2,292,867	17,022,129	53,044,114	12,161,935	4,873,975	17,035,910	70,080,024
PREMIUMS EARNED (1)	11,503,983	766,400	5,780,221	18,050,604	4,136,983	1,648,979	5,785,962	23,836,566
CEDING EXPENSE ALLOWANCE (2)	4,719,182	317,689	2,350,975	7,387,846	1,719,766	712,222	2,431,988	9,819,834
LOSSES PAID TOTAL	252,370	474,664	2,317,859	3,044,893	3,182,890	1,126,415	4,309,305	7,354,198
ACCIDENT YEAR 2015	252,370	474,664	2,317,859	3,044,893	3,182,890	1,126,415	4,309,305	7,354,198
LOSSES O/S (PRIOR) TOTAL	2,761,236	420,454	1,445,750	4,627,440	0	0	0	4,627,440
ACCIDENT YEAR 2015	2,761,236	420,454	1,445,750	4,627,440	0	0	0	4,627,440
LOSSES O/S (CURR) TOTAL	6,290,178	789,782	2,744,136	9,824,096	0	0	0	9,824,796
ACCIDENT YEAR 2015	6,290,178	789,782	2,744,136	9,824,096	0	0	0	9,824,796
LOSSES O/S IBNR (PRIOR) TOTAL	4,358,002	25,996	1,065,005	5,449,003	282,998	61,002	344,000	5,793,003
ACCIDENT YEAR 2015	4,358,002	25,996	1,065,005	5,449,003	282,998	61,002	344,000	5,793,003
LOSSES O/S IBNR (CURR) TOTAL	9,306,001	238,001	2,158,998	11,703,000	306,000	362,995	668,995	12,371,995
ACCIDENT YEAR 2015	9,306,001	238,001	2,158,998	11,703,000	306,000	362,995	668,995	12,371,995
LOSSES INCURRED TOTAL (5)	8,729,311	1,055,997	4,710,238	14,495,546	3,205,892	1,428,408	4,634,300	19,129,846
ACCIDENT YEAR 2015	8,729,311	1,055,997	4,710,238	14,495,546	3,205,892	1,428,408	4,634,300	19,129,846
ALLOCATED LOSS ADJ EXP (6)	10,860	8,610	8,240	27,530	7,463	2,505	9,968	37,498
ACCIDENT YEAR 2015	10,860	8,610	8,240	27,530	7,463	2,505	9,968	37,498
NET UNDERWRITING RESULTS	(1,955,190)	(615,896)	(1,289,232)	(3,860,318)	(796,138)	(494,156)	(1,290,294)	(5,150,612)

\* NET UNDERWRITING RESULTS = (1) - (2) + (3) - (4) - (5) - (6)

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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 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 Motor Vehicle Insurance premiums, which are reported on its Statutory Page 14 for Massachusetts 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-1**  
**UNDERWRITING RESULTS PARTICIPATION RATIO CALCULATION REPORT**

COMMONWEALTH AUTOMOBILE REINSURERS  
PARTICIPATIONBASE DATA AND CALCULATION OF PARTICIPATION RATIOS  
ALL OTHER THAN PRIVATE PASSENGER  
UNDERWRITING RESULTS RATIOS  
CALENDAR YEAR 2014 DATA - POLICY YEAR 2014 RATIOS  
FINAL

GROUP: 999

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**SECTION I**  
ACTUAL GROUP DATA

<u>DESCRIPTION</u>	<u>COMPANY</u>	<u>INDUSTRY</u>	<u>COMPANY</u>	<u>INDUSTRY</u>
	<u>LIABILITY</u>	<u>LIABILITY</u>	<u>PHYS DAM</u>	<u>PHYS DAM</u>
A) VOLUNTARY RETAINED PREMIUM (CAR ID 0)	\$52,404,581	\$434,725,096	\$19,364,387	\$143,116,563
B) ERP RETAINED PREMIUM (CAR ID 1)	\$1,620,123	\$3,629,448	\$580,964	\$1,280,415

**SECTION II**

REPORTING COMPANY DATA ANNUALIZED TO ESTIMATE CALENDAR YEAR

<u>DESCRIPTION</u>	<u>COMPANY</u>	<u>INDUSTRY</u>	<u>COMPANY</u>	<u>INDUSTRY</u>
	<u>LIABILITY</u>	<u>LIABILITY</u>	<u>PHYS DAM</u>	<u>PHYS DAM</u>
A) VOLUNTARY RETAINED PREMIUM (CAR ID 0)	\$52,404,581	\$434,725,096	\$19,364,387	\$143,116,563
B) ERP RETAINED PREMIUM (CAR ID 1)	\$1,620,123	\$3,629,448	\$580,964	\$1,280,415

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COMPANY/GROUP: 999      ABC INSURANCE COMPANY

**SECTION III**  
CALCULATION OF PARTICIPATION RATIO

	<u>LIABILITY</u>	<u>PHYS DAM</u>	<u>SOURCE</u>
A) TOTAL RETAINED PREMIUMS	\$54,024,704	\$19,945,351	SECTION II, ITEM (A)+(B)
B) INDUSTRY FINAL RETAINED PREMIUMS	\$438,354,544	\$144,409,328	INDUSTRY TOT LESS NET NEGATIVE
C) PARTICIPATION RATIO	0.1232443	0.1381168	(A) / (B)

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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 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

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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