

Commonwealth Automobile Reinsurers

Manual of Administrative Procedures

Chapter X – Accounting Edit and Correction Procedures

A. General

1. Introduction

It is Commonwealth Automobile Reinsurers' (CAR's) responsibility to verify that Servicing Carriers report, completely and accurately, their cession, premium, paid loss, and outstanding loss data for ceded policies.

CAR loads all acceptable data for an accounting month to its accounting system, regardless of the completeness of the submission. That is, if a Servicing Carrier submits its monthly accounting shipment and CAR rejects one or more line of business (e.g., private passenger liability premium) due to a reporting error, CAR loads the remaining acceptable lines of business to its accounting system. CAR verifies that Servicing Carriers resubmit the rejected line(s) of business in a timely manner. Furthermore, CAR ensures the pool is not adversely impacted by this procedure by assessing Loss of Investment Income when appropriate.

CAR checks the data for accuracy via the policy edits. The policy edits verify that proper relationships exist between the cession, premium, and loss records reported for each ceded policy.

2. Servicing Carrier Responsibility

The Servicing Carrier's sole responsibility is to ensure the accuracy of their submissions. Therefore, CAR anticipates that Servicing Carriers perform various edits within their own systems to assure the validity of all submissions.

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B. Preliminary Verification of Data

1. Cession Edits

CAR performs cession edits on all cession and cession correction records Servicing Carriers submit prior to using the cession records in the accounting edit routines. Chapter II, Section E of this manual describes the preliminary edits of cessions and cession corrections.

2. Statistical Edits and Requirements

As CAR uses the monthly submissions reported for both accounting and statistical purposes, all submissions (voluntary and ceded) must pass preliminary statistical edits and requirements before CAR accepts and uses the submission for accounting purposes. As this manual references only those procedures relative to the performance of CAR's reinsurance functions, this manual does not contain a description of these statistical edits and requirements. The Massachusetts Automobile Statistical Plans and statistically-related industry publications, which CAR produces, provide information relative to the statistical edits and requirements.

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C. Accounting Verification

1. General

After CAR has balanced and accepted the premium, paid loss, and outstanding loss data for a particular month for accounting and statistical purposes, it loads the ceded policies to CAR's master file, with the exception of paid and outstanding loss data reported on closed-out policies (see Section G of this chapter for a detailed description of the close-out procedures). Weekly, the master file is edited for errors which reflect discrepancies in the reporting of cession, premium, and losses within each ceded policy. These policy-based edits are divided into three categories:

- critical accounting errors
- non-critical accounting errors
- cession/no premium errors

A description of these edits is provided below.

2. Critical Accounting Errors

Critical accounting errors are those errors which CAR has determined to be so critical in nature that the Servicing Carrier is required to correct every critical error identified. In general, critical errors indicate paid loss records for which CAR coverage cannot be granted. These critical errors are:

a. Error Code "1" - No Valid Inforce Cession

On every accounting record, an active inforce cession with the same policy number and policy effective year must exist. CAR will flag with Error Code 1 any premium or paid loss records reported on a policy which does not contain an active inforce cession.

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C. Accounting Verification (continued)

2. Critical Accounting Errors (continued)

b. Error Code "6" - No Positive Premium for Loss Records

For policies containing loss records, the policy must contain net positive premium. If the net premium for the policy is less than or equal to zero, CAR will identify the loss records with Error Code 6. If a policy's term was not sufficient to generate earned premium, yet a loss occurred during this term, the Servicing Carrier must report a token premium record (as little as \$1 or \$2) to avoid the Error Code 6 condition.

c. Error Code "7" - Accident Date Outside of Cession Bounds

The accident date of every paid loss record reported for a policy must be a valid date and must fall within the period of reinsurance coverage CAR provides for a policy. The period of reinsured coverage begins on the policy's cession coverage date and ends on the policy's expiration date or, if cancelled, the policy's cancellation date.

CAR's Policy Edit Package contains a complete description of the critical accounting error edits.

3. Non-Critical Accounting Errors

Non-critical accounting errors are those errors which CAR has determined create a minimal financial impact if they are maintained at reasonable levels. Prior to the reporting of data for a particular policy effective year, CAR establishes acceptable tolerance levels for each non-critical error code to ensure they do not result in a financial impact on the industry. CAR requires detail correction of non-critical errors only when the Servicing Carrier's percentage and volume of policies containing a particular non-critical error code exceed the established tolerances. The following pages list the non-critical error codes.

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C. Accounting Verification (continued)

3. Non-Critical Accounting Errors (continued)

a. Error Code "2" - CAR ID Code Discrepancy

The CAR ID Code on every cession, premium, and paid loss record submitted for a policy must be the same. Any discrepancies cause the inconsistent record(s) to be flagged with Error Code 2.

b. Error Code "3" - Policy Effective and/or Expiration Date Discrepancies

All cession, premium, and paid loss records submitted for a policy must contain the same policy effective and expiration dates. Any discrepancies cause the inconsistent record(s) to be flagged with Error Code 3.

c. Error Code "4" - Date Discrepancies on Premium Records; New/Renewal Premium Not Found

A logical relationship must exist among the dates coded on the premium records within a policy. New business or renewal premium transactions (TX11) must exist on a policy.

d. Error Code "5" - Net Premium Less Than Zero

For every line of business/class group combination within a policy, the net premium amount must be greater than or equal to zero. Premium records which do not meet this requirement are flagged with Error Code 5.

e. Error Code "8" - Accident Date and/or Class Group Discrepancy Within a Claim

All paid loss records must have a valid claim number. Additionally, all paid loss records within a policy which contain the same claim number must also contain the same accident date and class group. Any discrepancies cause the inconsistent paid loss records to be flagged with Error Code 8.

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C. Accounting Verification (continued)

3. Non-Critical Accounting Errors (continued)

f. Error Code "9" - Invalid Net Loss Amount

The net loss amount for all paid loss records within a policy which contain the same line of business and claim number must be greater than or equal to zero. If it is not, then the paid loss records are flagged in Error Code 9.

g. Error Code "10" - No Matching Claim for Subrogation

For every subrogation record within a policy, a corresponding paid loss record having the same line of business and claim number must exist. The net paid loss amount must be greater than or equal to zero, and the net paid loss plus subrogation amount must be greater than or equal to zero. Any loss records violating these requirements are flagged in Error Code 10.

h. Error Code "11" - Invalid Net Allocated Expense Amount

The net paid allocated expense amount for all paid allocated expense records within a policy which contain the same line of business and claim number must be greater than or equal to zero. If it is not, then the paid allocated expense records are flagged with Error Code 11.

i. Error Code "12" - Unmatched Reinstatements

If a policy contains reinstatement premium transactions, it must also contain corresponding cancellation premium transactions. Any premium records which violate these requirements are flagged with Error Code 12.

CAR's Policy Edit Package contains a complete description of the edits for the non-critical accounting errors.

4. Cession/No Premium Errors

Cession/no premium errors indicate instances where a Servicing Carrier has not reported a net positive premium amount for a policy which contains an active inforce cession. Please reference Chapter III, Section C of this manual for a complete description of cession/no premium editing, error listings, and penalty procedures.

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D. Accounting Error Listings

1. General

Servicing Carriers can view all their accounting error listings via the telecommunications system during the established hours of availability. CAR updates the on-line system following the extraction of ceded data from its statistical data base files.

2. Data Included in the Accounting Error Listings

Each time CAR extracts the ceded data from its statistical database file and loads the data to the master file, it will include the following items:

- a. Cession and cession correction records received one to two (1 to 2) weeks prior to the load to the master file.
- b. Accounting data for the current accounting month in which shipments are due. The current accounting month is defined in the Annual Call Schedule which CAR publishes. The shipment due date is the 15th of the month or, if the 15th falls on a weekend or holiday, the first business day following the 15th. Note: only the months of January, April, July and October include data reported on close-out policies. Refer to Section G of this chapter for information specific to closed-out policies.
- c. Error listings corrections made to the on-line accounting application that have not been applied since the last load to the master file.

3. Critical and Non-Critical Errors

a. Critical Accounting Errors

Servicing Carriers can review and correct their critical accounting errors via CAR's on-line accounting application (see Exhibit X-D-1). The on-line application lists, at all times, all policies which contain a critical accounting error. When a Servicing Carrier processes a correction which clears the critical error condition, the policy will no longer appear on the critical accounting error list. If the policy, after becoming free of critical errors, returns to a critical error state, then the policy will re-appear on the on-line critical error list.

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D. Accounting Error Listing Cycles (continued)

3. Critical and Non-Critical Errors (continued)
 - b. Non-Critical Errors

Servicing Carriers can review and correct their non-critical accounting errors via CAR's on-line accounting application (see Exhibit X-D-2). The on-line application lists all policies which contain a non-critical accounting error. When a Servicing Carrier processes a correction(s) which clears the non-critical error condition, the policy will no longer appear on the non-critical accounting error list. If the policy, after becoming free of non-critical errors, returns to a non-critical error state, then the policy will reappear on the on-line non-critical error list.

Also through the on-line accounting application, Servicing Carriers can review their percentage and volume of policies and records containing each non-critical error code for each policy effective year CAR is monitoring (see Exhibit X-D-3).

CAR monitors only the latest two (2) policy effective years for non-critical errors. This summary function within the on-line accounting application reflects all non-critical accounting errors residing on the master file. Any non-critical error code exceeding the established tolerance is specifically identified in the application.

4. Aging of Critical Accounting Errors

When a policy incurs a critical accounting error, the policy appears on CAR's on-line critical error list in the month which it is identified. The policy remains on the on-line critical error list for twelve (12) calendar months. After the twelve (12) month time period, the policy becomes eligible for the Critical Error Write-Off, described in Section F of this chapter.

If the Servicing Carrier submits records or processes corrections and the policy becomes free of critical error, then the policy disappears from the critical error list. If, after the policy has been free of critical error, the policy returns to a critical error state, then the Servicing Carrier begins a new twelve (12) month time period in which to correct the critical error condition. After the twelve (12) month time period, the policy becomes eligible for the Critical Error Write-Off, described in Section F of this chapter.

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EXHIBIT X-D-1
CRITICAL ACCOUNTING ERROR LISTING

SCREEN 1

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COMPANY 999          COMMONWEALTH AUTOMOBILE REINSURERS
CO210SA
                        ACCOUNTING ONLINE ACCESS SYSTEM
07/15/1999
NEXT WO 07/24/1999   CRITICAL- (ALL )EFF YR (ALL)ERRS
10:37 AM

FROM 0243460091     POLICY 1ST LIST === PREMIUM === ===== LOSS =====
MSG DATE
  YR POLICY NUMBER   STATUS MM/DD/YY ERRORS  DOLLARS ERRORS  DOLLARS
MM/DD/YY
=====
L 98 024346          11/19/98    48      0      2      289
- 98 032620          PREM  11/19/98    0      0      1      279
- 98 137442          11/19/98    42     -279    0      0
00 155661          11/19/98    0      0      0      1620
  
```

SCREEN 2

```

CO250SA          COMMONWEALTH AUTOMOBILE REINSURERS
07/15/1999
COMPANY 999          ACCOUNTING LOSS LISTING - ONLY ERRORS
10:40 AM

                        EFF DATE          COV EFF  COV EXP  CRITICAL
MSG DATE
POLICY NUMBER  MM/DD/YY C TX  PROD RSK MM/DD/YY MM/DD/YY MM/DD/YY
MM/DD/YY
024346          06/09/98 4 4  000008 0  99/99/99 00/00/00 11/19/98
07/06/99
( ..... )          INSUREDS NAME
LOGRASSO,ROCCO
LOSSES          ACTG  ACCIDENT
TX LB EFF SEQ  MM/YY MM/DD/YY TWN GRP  CLAIM ID          C  TP
LOSS AMT
00 15 05 00000000 00/00 00/00/00 000 1  000000000  1  00
  
```

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EXHIBIT X-D-2
NON-CRITICAL ACCOUNTING ERROR LISTING

SCREEN 1

```

COMPANY 999                COMMONWEALTH AUTOMOBILE REINSURERS
CO310SA
NEXT WO 07/24/1999        ACCOUNTING ONLINE ACCESS SYSTEM
07/15/1999
                            NON CRITICAL- (1998)EFF YR (ALL)ERRS
10:48 AM

FROM 024583                POLICY 1ST LIST === PREMIUM === ===== LOSS =====
MSG DATE
  YR POLICY NUMBER        STATUS MM/DD/YY  ERRORS  DOLLARS  ERRORS  DOLLARS
MM/DD/YY
=====
=====
P 98 024583                PREM   05/20/98    24      4      0      0
- 98 019729                F CANC 06/17/98    16     928    0      0
- 98 026385                PREM   06/17/98    13     630    0      0
 98 033368                R CANC 06/17/98    29     644    0      0
  
```

SCREEN 2

```

CO225SA                COMMONWEALTH AUTOMOBILE REINSURERS
07/15/1999
COMPANY 999                ACCOUNTING PREMIUM LISTING - ONLY ERRORS
10:51 AM

                            EFF DATE                COV EFF  COV EXP  NON CRIT
MSG DATE
  POLICY NUMBER        MM/DD/YY C TX  PROD RSK MM/DD/YY MM/DD/YY MM/DD/YY
MM/DD/YY
  0245835451            01/20/98 4 2   000004 0   01/20/98 01/20/99 05/20/98
( ..... )                INSUREDS NAME
MARTINEZ,ROSEMAR
PREMIUMS                ACTG   EXPIR        TRANS
TX LNE EFF SEQ          MM/YY  MM/YY TWN G  MM/YY CLASS  C   DOLL 1  DOLL 2 -
ERRORS--
  11 01 01 000001 03/98 01/99 300 1 01/98 110100 5    102      2
( 1. ) ( .. )                ( .. .. ) ( .. .. )
  
```

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EXHIBIT X-D-3
NON-CRITICAL ACCOUNTING ERROR SUMMARY REPORT

COMPANY 999		COMMONWEALTH AUTOMOBILE REINSURERS				
CO720SB		ACCOUNTING ONLINE ACCESS SYSTEM				
07/15/1999		NON CRITICAL ANALYSIS 1998 EFFEC YEAR(S)				
11:25:36						
	TOTAL	NON CRIT	PREMIUM	NON CRIT	LOSS	NON
CRIT						
YEAR	POLICIES	POLICIES	RECORDS	PREM REC	RECORDS	LOSS
REC						
=====						
1998	19,753	563	448,952	3,499	17,932	
521						
ERROR	NON CRIT	ERROR	=	OVER TOLERANCE	=	
CODES	POLICIES	PERCNT	1ST DATE	DEADLINE	LAST MAS TO BE	

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E. Correction Procedures

1. On-Line Applications

The on-line accounting application lists CAR's various error and informational listings for correction and browse purposes. Servicing Carriers can also use the on-line policy history application to facilitate the correction process. The on-line system is available to all Servicing Carriers. Please contact CAR for access.

If a Servicing Carrier or CAR experiences a system problem, CAR will ensure that the Servicing Carrier maintains a sufficient amount of time to correct any error records.

2. Critical Accounting Errors

A Servicing Carrier can correct critical errors in different ways depending on the nature of the error. If CAR has closed-out the policy, please refer to Section G of this chapter.

a. Method of Correction Prior to the Critical Error Write-Off

Servicing Carriers can correct critical accounting errors prior to the Critical Error Write-Off in three (3) ways:

1. Submitting offset/re-enter records

Using this option, the Servicing Carrier offsets the incorrect record and re-enters the corrected record in a subsequent monthly accounting/statistical submission. Please reference CAR's Policy Edit Package and the Massachusetts Automobile Statistical Plans for instructions relative to reporting offset and re-enter records.

2. Submitting cessions and cession corrections

Using this option, the Servicing Carrier submits a cession or cession correction to remove the error condition from the policy. Please reference Chapter II of this manual and CAR's Policy Edit Package for instructions relative to reporting cessions and cession corrections.

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E. Correction Procedures (continued)

2. Critical Accounting Errors (continued)

a. Method of Correction Prior to the Critical Error Write-Off (continued)

(3) Corrections processed via the on-line accounting application

Using this option, the Servicing Carrier makes the necessary correction in the correction grid provided on the on-line critical error list. CAR processes the corrections made to the on-line application weekly. When CAR processes the correction, it offsets the incorrect record, creates a corrected record, and loads it to the master file.

A critical error policy remains on the on-line critical error list until it becomes free of critical error or until CAR performs the Critical Error Write-Off against it after the twelve (12) month time period.

Corrections to policies containing effective years which CAR has closed-out are limited. Please refer to parts 4 and 5 of Section E of this chapter for more information.

b. Method of Correction After the Critical Error Write-Off

After a critical accounting error has been written-off, the Servicing Carrier can correct it using only the procedures described below.

- Do not submit offset and re-enter records to correct critical errors after CAR has written them off because this action will create additional critical error conditions.
- Do create only re-enter records for the written-off records (correcting the appropriate fields) and submit them in a Write-Off Correction Shipment. Only correction records for reportable years may be submitted (that is, write-off corrections will not be accepted for a policy effective year which has been determined to be a final close-out policy effective year). A Servicing Carrier may submit this type of submission in the February, May, August, and November accounting submissions only.

Furthermore, the Servicing Carrier must provide information relative to the write-off correction records it is submitting. Reference CAR's Policy Edit Package, the Massachusetts Automobile Statistical Plans, and CAR Staff for additional information regarding Write-Off Correction Shipments.

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E. Correction Procedures (continued)

3. Non-Critical Accounting Errors

Servicing Carriers may correct their non-critical errors in two ways:

a. Submitting offset/re-enter records

Using this option, the Servicing Carrier offsets the incorrect record and re-enters the corrected record in a subsequent monthly accounting/statistical submission. Please reference CAR's Policy Edit Package and the Massachusetts Automobile Statistical Plans for instructions relative to reporting offset and re-enter records.

b. Corrections processed via the on-line accounting application

Using this option, the Servicing Carrier makes the necessary correction in the correction grid provided on the on-line non-critical error list. CAR processes the corrections made to the on-line application weekly. When CAR processes the correction, it offsets the incorrect record, creates a corrected record, and loads it to the master file.

The on-line accounting application provides up-to-date information relative to each Servicing Carrier's non-critical error records. The on-line accounting application also provides a summary function so that Servicing Carriers can monitor the error percent of each non-critical error code to highlight any specific problem areas.

A non-critical error policy remains on the on-line non-critical error list until it becomes free of non-critical error.

4. Corrections for Policy Effective Years for which the Reporting of Cession and Premium Records has been Discontinued

CAR discontinues the reporting of cession and premium records for a particular policy effective year, two (2) years following the end of a policy effective year (e.g., reporting of premiums for policy effective year 1997 will cease following the December 1999 monthly accounting shipment due date and reporting of cessions policy year 1997 cessions will cease as of February 1, 2000). If a Servicing Carrier becomes aware of a situation where it needs to report ceded records after the discontinuation of reporting for a particular policy effective year, the Servicing Carrier may appeal in the following instances:

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E. Correction Procedures (continued)

4. Corrections for Policy Effective Years for which the Reporting of Cession and Premium Records has been Discontinued (continued)
 - a. The Servicing Carrier can document that its failure to report the original cession and/or premium records prior to the discontinuation of reporting was clearly outside of its control.
 - b. The Servicing Carrier can document that its failure to reinstate a previously flat-cancelled policy prior to the discontinuation of reporting was clearly outside of its control.

If CAR agrees that the failure to report the necessary records was outside the control of the Servicing Carrier, then CAR will process bulk adjustments (both premium and losses) to the Servicing Carrier's quarterly participation reports to assure that the uncorrected error does not result in a financial impact to the Servicing Carrier.

Although reporting may have been discontinued for a policy effective year, Servicing Carriers may continue to report loss data until the policy effective year is closed for statistical reporting.

5. Corrections for Policies with Effective Years That Have Been Closed-Out, but Which Do Not Meet the Close-Out Criteria

CAR closes out policies for effective years 1989 and prior only. Section G of this chapter contains a complete description of the close-out criteria. Corrections for policy effective year 1989 and prior policies that do not meet the close-out criteria will be limited to corrections within the policy. That is, policy number corrections will not be allowed. In instances where a policy number is in error, the record must be offset and re-entered under the correct policy number.

6. Corrections For Closed-Out Policies

If a Servicing Carrier reports a record containing a critical accounting error on a policy that has been closed-out, CAR will not process corrections to the policy. Instead, the record will be immediately written-off. A complete description of the write-off procedures for closed-out policies is contained in parts 2 and 3 of Section G of this chapter.

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F. Uncorrected Accounting Error Penalty Procedures

1. Critical Accounting Errors

a. Eligibility Criteria

For 1990 and subsequent policy effective year policies, a paid loss record with a critical error will be considered eligible for the Critical Error Write-Off Procedures if all of the following criteria have been met:

- (1) Twelve (12) calendar months have elapsed since the critical error first appeared on CAR's on-line accounting application. That is, the first list date noted on the on-line critical error list plus twelve (12) months.
- (2) The critical error condition remained uncorrected during the twelve (12) month period.

b. Critical Error Write-Off Procedures

The Critical Error Write-Off Procedures will take place each month following the load of ceded data to the master file after the shipment due date for a particular accounting month. That is, January submissions are due at CAR approximately March 15. After the 15th, CAR will load the ceded data to its master file and then perform the Critical Error Write-Off Procedures.

For every paid loss record meeting the above stated criteria, CAR will add an offsetting record to the master file and enter it into CAR's quarterly participation reports. Servicing Carriers can view the detail loss records written-off by using the on-line accounting application, which lists the detail write-off records by month. Servicing Carriers can also review on-line a summary of loss records and dollars written-off. Furthermore, CAR distributes a detail Listing of Records Written-Off (Exhibit X-F-1) after each monthly write-off showing all loss records included in the Critical Error Write-Off Procedures. Additionally, it distributes a Summary of Loss Records Written-Off report (see Exhibit X-F-2) of loss records and dollars written-off.

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F. Uncorrected Accounting Error Penalty Procedures (continued)

1. Critical Accounting Errors (continued)

b. Critical Error Write-Off Procedures (continued)

These procedures eliminate the critical error condition from the master file and decrease (or increase) the Servicing Carrier's reported paid losses in the next quarterly participation reports by the sum of the off-setting records generated.

Additionally, CAR assesses a penalty fee equal to 10% of the dollar value of the loss records being written-off against the Servicing Carrier. Note that CAR assesses a fee against those loss records that have remained in critical error for the entire twelve (12) month period only. That is, for those loss records that were reported during the 12-month period, CAR does not assess a 10% fee. This penalty fee is intended to encourage timely correction of losses with critical errors prior to the write-off, and to reimburse the pool for investment income lost as a result of the invalid loss reporting. Additionally, since losses reported on closed-out policies which contain critical errors are immediately written-off, CAR does not assess the penalty fee against those losses.

These 10% penalty fees are processed as bulk adjustments to the Settlement of Balances and Member's Participation Reports. They are reflected as a direct charge against the Servicing Carrier; all members share the total penalty dollars assessed against all Servicing Carriers based upon their percentage of the industry wide total Massachusetts Annual Statement, Page 15, direct automobile premium writings for the most current calendar year for which data is available.

Servicing Carriers may still correct critical errors after the errors are written-off. Reference Section E of this chapter for a description of the special correction procedures Servicing Carriers must follow for making corrections after the Critical Error Write-Off has occurred.

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F. Uncorrected Accounting Error Penalty Procedures (continued)

2. Non-Critical Accounting Errors

a. Eligibility Criteria

A Servicing Carrier's non-critical error condition will be considered eligible for the Non-Critical Error Audit Review Penalty Program if the Servicing Carrier's percentage and volume of policies for a particular policy effective year containing a particular non-critical error condition exceeds the established tolerance of 1% and ten (10) policies in error for that non-critical error code and policy effective year, and either:

- (1) the percentage and volume of non-critical error policies has exceeded the established non-critical error code tolerance for nine (9) months after the month in which the error condition was first identified as exceeding the tolerance, and/or
- (2) the percentage and volume of non-critical error policies exceeds the established non-critical error code tolerance as of the last month during which the particular policy effective year was monitored for non-critical errors. Normally, February represents the last month CAR monitors the older of the two (2) policy effective years being reviewed for non-critical errors.

b. Non-Critical Error Audit Review Penalty Procedures

The Non-Critical Error Audit Review Penalty Procedures assess penalties for excessive non-critical error conditions, as described below. An excessive non-critical error condition which remains uncorrected for a substantial period of time could be subject to both of the penalties described below.

- (1) If the excessive non-critical error condition is not corrected by the ninth (9th) month after the month in which the Servicing Carrier's policies containing the error code first exceeded the tolerance, CAR assesses a flat charge of \$50 per policy for each policy with the non-critical error code exceeding the established non-critical error code tolerance. If a Servicing Carrier exceeds the tolerance for a particular error code after the assessment of the initial nine (9) month penalty for that error code, then subsequent nine (9) month penalties will be assessed.

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F. Uncorrected Accounting Error Penalty Procedures (continued)

2. Non-Critical Accounting Errors (continued)

b. Non-Critical Error Audit Review Penalty Procedures (continued)

If the nine (9) month penalty for a particular error code exceeding the tolerance happens to coincide with the last month of reviewing a policy effective year, then only the last month penalty will be assessed.

(2) Last Month Penalty

If an excessive non-critical error condition exists as of the last time CAR monitors a particular policy effective year for non-critical errors, the Servicing Carrier will be assessed a flat charge of \$50 for each policy with a non-critical error code exceeding the established non-critical error code tolerances, previous assessments notwithstanding.

Servicing Carriers will be notified of all non-critical error code penalties, and the calculation for determining the penalty amount. Audit Review penalties will be processed as bulk adjustments to the Settlement of Balances and Member's Participation Reports. These penalties are reflected as a direct charge against the Servicing Carrier; all members share the total penalty dollars assessed against all Servicing Carriers based upon their percentage of the industry wide total Massachusetts Annual Statement, Page 15, direct automobile premium writings for the most current calendar year for which data is available.

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EXHIBIT X-F-1
DETAIL LISTING OF LOSSES WRITTEN OFF

SCREEN 1

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COMPANY 999          COMMONWEALTH AUTOMOBILE REINSURERS
CO810SA
NEXT WO 07/24/1999   ACCOUNTING ONLINE ACCESS SYSTEM
07/15/1999
WO YEAR 1999        POLICIES WRITTEN OFF - LOSS
11:33 AM
WO MONTH 06

                                COV EFF  COV EFF  === PREM WO === === LOSS WO
=== MSG DT
YR POLICY NUMBER     MM/DD/YY MM/DD/YY RECORDS DOLLARS RECORDS
DOLLARS MMDDYY
X 96 999207          12/31/96 09/30/97         0      0      7  -
2642
  96 999208          12/05/96 05/31/97         0      0      1  -

```

SCREEN 2

```

COMPANY 999          COMMONWEALTH AUTOMOBILE REINSURERS
CO850SA
NEXT WO 07/24/1999   ACCOUNTING ONLINE ACCESS SYSTEM
07/15/1999
EFF YR 1996          LOSSES WRITTEN OFF - LISTING
11:35 AM

                                COV EFF  COV EXP  === PREMIUM === == PAID LOSS ==
MSG DATE
POLICY NUMBER        MM/DD/YY MM/DD/YY RECORDS DOLLARS RECORDS DOLLARS
MM/DD/YY
999207                12/31/96 09/30/97         0      0      7  -2642

===== L O S S E S
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EXHIBIT X-F-2
SUMMARY REPORT OF LOSSES WRITTEN OFF

CA3200M	COMMONWEALTH AUTOMOBILE REINSURERS					RUN
DATE 06/26/1999	SUMMARY OF LOSS RECORDS WRITTEN-OFF					
	COMPANY 999 ANY INSURANCE COMPANY					
ALL YEARS	CLASS GROUP 1 - PRIVATE PASSENGER		CLASS GROUP 2&3-ALL OTHER BUSINESS			
TOTALS	RECORDS	DOLLARS	RECORDS	DOLLARS	RECORDS	
DOLLARS						
CAR ID 3	0	\$0	0	\$0	0	\$0
CAR ID 4	0	\$0		0	\$0 0	
\$0						
CAR ID 5	17	\$2,725-		9		\$5,115

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G. Close-Out of Older Policy Effective Years

1. Eligibility Criteria

CAR closes-out policy effective years 1984-1989 only. All policy effective years subsequent to 1989 remain on CAR's on-line and off-line database files until the year has been closed-out for statistical reporting (approximately ten to twelve (10 to 12) years subsequent to the policy effective year). For policy effective years 1984-1989, CAR removes all policies for which it expects no additional reportings. That is, it closes-out all policies except:

- a. Those policies containing current outstanding loss records, provided that the policy also contains an active inforce cession, net positive premium, and that the outstanding loss' accident date falls between the policy's cession effective and expiration or cancellation dates. For purposes of the close-out program, a "current" outstanding loss is defined as one whose accounting date corresponds to one (1) of the four (4) most recent quarters for which accounting/statistical data has been reported.
- b. Those policies containing paid loss records flagged with critical errors, for which CAR expects future correction or write-off activity.

For each policy removed from the master file, CAR maintains a policy-level summary record on a separate close-out tape file. This summary record contains sufficient information to edit any future loss activity for critical accounting errors.

2. Reporting Requirements for Closed-Out Policy Effective Years

After a policy effective year is closed-out, additional loss reporting will only be expected against policies that have current outstanding losses and/or critical errors (as described above). However, CAR will access the close-out file monthly to allow for processing of additional loss reporting that it may receive on closed-out policies. Loss records CAR accepted during the most recent quarter for policies not found on the master file will be processed against the close-out file with the following stipulations:

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G. Close-Out of Older Policy Effective Years (continued)

2. Reporting Requirements for Closed-Out Policy Effective Years (continued)

- a. Outstanding losses cannot be reported for open physical damage claims, or for closed claims where subrogation recoveries are still pending. Therefore, in these cases, Servicing Carriers cannot prevent the close-out of a policy, even though additional loss reportings will be forthcoming.
- b. Paid loss records that fail one or more of the critical edits will be immediately written-off.

The records written-off will not be included on the Detail Loss Records Written-Off (Exhibit X-F-1). Instead, they will appear on the Listing of Records Processed for Closed-Out Policies (described later in this section).

- c. If an outstanding loss record fails one or more of the critical edits, the Servicing Carrier will see the error condition on the Records Processed for Closed-Out Policies (described in part 3 of Section G of this chapter).

3. Listing of Records Processed for Closed-Out Policies

Servicing Carriers receive a detailed Listing of Records Processed for Closed-Out Policies (Exhibit X-G-1) after each quarterly access of the close-out file. It lists all records processed against the close-out file, including paid and outstanding liability, non-fault, and physical damage losses. Critical error records are flagged with a message indicating the existence of critical accounting errors. In addition, companies receive a Summary of Loss Records Written-Off for Closed-Out Policies (Exhibit X-G-2) to permit reconciliation to quarterly member participation report totals.

4. Outstanding Loss Reserves List

By using the on-line accounting application, Servicing Carriers can review their outstanding loss activity for all policy effective years via the Outstanding Loss Reserve function. This list (Exhibit X-G-3) is intended to assist Servicing Carriers verify they are correctly reporting outstanding loss records quarterly for all ceded policies having open claims, in order to avoid those policies with open claims from being closed-out.

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G. Close-Out of Older Policy Effective Years (continued)

5. Final Close-Out of Older Policy Effective Years

After the volume of open claims for a particular policy effective year has decreased to fifty (50) or fewer records and \$200,000 or less, or has decreased significantly as determined by the Operations Committee, CAR will perform a final close-out of the older policy effective year. Any data reported to CAR for an effective year that a final close-out has occurred will be considered a "fatal" error, and the record(s) will be deleted from the submission.

If a Servicing Carrier settles a claim for a policy whose policy effective year has experienced a final close-out, the company should contact CAR in writing to request reimbursement for the claim. If the policy was validly ceded, CAR will process a bulk adjustment to the Member Company participation reports to ensure the company is reimbursed for the loss. Any other correction activity for an effective year that has had a final close-out will not be accepted for reimbursement. Companies are responsible for correcting errors during the time during the timeframe that an effective year is reportable (prior to the final close-out of an effective year).

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EXHIBIT X-G-1
LISTING OF RECORDS PROCESSED FOR CLOSED-OUT POLICIES

CLAIM ERROR		CESSION EFFECTIVE	CESSION EXP/CANCL	TOTAL POLICY PREMIUM	C LN	G I	R TYP	EF	ACCTG	ACCIDENT	LOSS OR RESERVE	
TX POLICY NUMBER	NUMBER MESSAGE	MM/DD/YY	MM/DD/YY		BS	D	P	LOSS	MO	MM/YY	MM/DD/YY	AMOUNT
26 016347		01/01/88	01/01/89	\$2,712	41	4	1	06	01	03/99	07/23/88	\$50-
BD010	NO ERROR											
26 018544		11/12/88	11/12/89	\$1,159	45	4	1	09	11	03/99	01/11/89	\$197-
WB021	NO ERROR											
24 019687		99/99/99	00/00/00	\$0	45	4	1	03	01	03/99	01/02/88	\$4,467
AB345	1 6											

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EXHIBIT X-G-2

SUMMARY OF LOSS RECORDS WRITTEN-OFF FOR CLOSED OUT POLICIES

EFFECTIVE		CARRIER TYPE 4, 5, 6, OR 9				CARRIER TYPE 3 ONLY					
TOTAL		CLASS-1		CLASS-3		CLASS-1		CLASS-3			
YEAR		RECORDS	DOLLARS	RECORDS	DOLLARS	RECORDS	DOLLARS	RECORDS	DOLLARS		
RECORDS	DOLLARS										
1984	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	
1985	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	
1986	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	
1987	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	
1988	1	\$4,467	0	\$0	0	\$0	0	\$0	1	\$4,467	
1989	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	
TOTAL	1	\$4,467	0	\$0	0	\$0	0	\$0	1	\$4,467	

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EXHIBIT X-G-3
CURRENT OUTSTANDING LOSS RESERVES REPORTED ON CEDED POLICIES

SCREEN 1

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COMPANY 999          COMMONWEALTH AUTOMOBILE REINSURERS
CO610SA
CURR QTR 03/1999    ACCOUNTING ONLINE ACCESS SYSTEM
07/15/1999
                                OS LOSS RESERVES POLICIES - EFFECTIVE YEAR (ALL)
03:13 PM

                                POLICY COV EFF  COV EXP  PREMIUM  QTR RESERVE
MSG DATE
  YR POLICY NUMBER  STATUS MM/DD/YY MM/DD/YY DOLLARS RECORDS DOLLARS
MM/DD/YY
=====
=====
X 94 999207          99/99/99 00/00/00      0      2  12774
_ 94 999207          PREM 06/01/94 06/01/95  23904  2  37623
_ 95 000031          PREM 05/28/95 05/28/96   1422  2  13981
 95 004909          R CAN 09/18/95 12/31/95   519   2  13027
  
```

SCREEN 2

```

COMPANY 585          CAR ACCOUNTING ONLINE ACCESS SYSTEM
CO625SA
LIST QTR 03/1999    OS LOSS RESERVES LISTING
07/15/1999
                                03:52 PM
                                COV EFF  COV EXP  ===QTR RESERVED===
MSG DATE
POLICY NUMBER  YR  MM/DD/YY MM/DD/YY  PREM DOLL  RECORDS  DOLLARS
MM/DD/YY
999207          94  99/99/99 00/00/00      0      2  12774

===== L O S S E S
=====
                                EFF ACCIDENT PRM          CLS CAR LOSS          AMOUNT
ERROR
TX LINE MO  MM/DD/YY TWN  CLASS  GRP ID  TYPE  CLAIM NUMBER
RESERVED CODES
  
```

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