CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 1 of 21

A. Verification of Reported Data

Commonwealth Automobile Reinsurers (CAR) edits a Servicing Carrier's ceded data on a policy level basis to verify that the Servicing Carrier has accurately reported all cession, cession correction, premium, paid loss and outstanding loss data and that proper relationships exist between the cession, premium, and loss records reported for each ceded policy.

However, a Servicing Carrier is ultimately responsible for assuring the accuracy of its own data and CAR expects that prior to reporting data submissions to CAR, the Servicing Carrier will perform edits within its own systems to assure the validity and completeness of its reported data submissions.

1. Cession Edits

Cession and cession correction records are edited for fatal and non-fatal errors as described in Sections E., F. and G. of Chapter IV – Cession Rules and Procedures of this Manual.

2. Statistical Edits and Data Reporting Requirements

Premium, paid loss and outstanding loss submissions are edited for statistical errors and other data reporting requirements. For further information, refer to the Massachusetts Commercial Automobile Statistical Plan and CAR's Statistical Edit Package, which are both available on CAR's website under the Manuals tab.

3. Reporting Losses Which Exceed Cedeable Limits or Coverages

For a loss that exceeds the cedeable limits or coverages identified in Chapter V – Premium of this Manual, two separate statistical loss records must be reported. The portion of the loss within the cedeable limits or coverages must be reported on one record with a ceded CAR Identification Code, and in accordance with the statistical reporting requirements specified in the Commercial Statistical Plan. The portion of the loss amount in excess of the limit or coverage must be reported on another record using classification code 800000 (Non-Cedeable Limits) and a voluntary CAR Identification Code. Refer to the Decision Table of the Massachusetts Commercial Automobile Statistical Plan for additional coding requirements for this classification code. The Plan is available on CAR's website under the Manuals tab.

Note that if a Servicing Carrier does not conform to this reporting requirement and reports losses exceeding the cedeable limits or coverages, the Servicing Carrier will be required to offset the losses and reenter the records as specified. For further information, refer to Section C – Accounting Error Screens of this

CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 2 of 21

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 assess 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 Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date 2021.09.08 Page 3 of 21

The four accounting errors are as follows:

a. Error Code 1 – No Valid In-Force Cession

An active in-force Transaction Code 1 (New Business) or Transaction Code 2 (Renewal) cession record must exist on every ceded policy. The cession record must have the same company number, policy number and policy effective year as the ceded premium and loss records. Any premium or paid loss records reported on a policy which does not contain an active in-force cession will be flagged with Error Code 1.

b. Error Code 4 – Premium Not Found/Premium Record Date Discrepancy and/or Unmatched Reinstatement Records

Every premium record must be reported with a valid premium Transaction Code. Every policy must have at least one active Transaction Code 11 (New or Renewal Business) premium record. The transaction effective date of the Transaction Code 11 premium record must equal the policy effective date. If a Transaction Code 15 (Cancelled Flat) premium record exists, its transaction effective date must equal the policy effective date. Premium records not meeting these requirements will be flagged with Error Code 4.

If a policy contains Transaction Code 14 (Reinstatement) premium transactions, it must also contain matching Transaction Code 13 (Cancellation of Policy Pro Rata or Short Rate) or Transaction Code 15 (Cancelled Flat) premium transactions. Unmatched Reinstatement records will result in the overall policy cancellation status remaining active (rather than the policy being reinstated). Premium records not meeting these requirements will be flagged with Error Code 4.

c. Error Code 6 – No Positive Premium for Loss Records

For any policy containing a loss record, net positive premium must exist. If the net premium for the policy is less than or equal to zero, CAR will flag the loss record(s) with Error Code 6. If the term of a policy was not sufficient to generate earned premium, and a loss occurred during this period, the Servicing Carrier must report a token premium record containing \$1 or \$2 to avoid an Error Code 6 condition.

d. Error Code 7 – Loss Record Date Discrepancies/Accident Date Outside Cession Bounds

The accident date of every reported paid loss record must be a valid date. The policy effective date of the loss record must be prior or equal to the

CAR | Manual of Administrative Procedures Chapter VIII | Data Reporting, Accounting Edit and Correction Procedures Revision Date | 2021.09.08 | 4 of 21

accident date. The accident date must be prior or equal to the accounting date.

The accident date must fall within the policy's cession effective date and policy expiration date or, if the policy is cancelled via Transaction Code 13 (Cancellation of Policy Pro Rata or Short Rate) premium records, the policy's cancellation date.

If a policy is flat cancelled with either a Transaction Code 4 (Policy Not Taken or Cancelled) cession record or Transaction Code 15 (Cancelled Flat) premium records, all reported loss records are invalid and will be flagged with Error Code 7.

C. Accounting Error Screens

1. General Information

Servicing Carriers can view policies containing accounting errors, and policies that are in a warning or penalty status using CAR's online accounting application. On CAR's website, from the Reports tab, (refer to Exhibit VIII-C-1), log in and click on the CAR Accounting link (refer to Exhibit VIII-C-2) to access the accounting error and informational screens.

2. Data Included on the Accounting Error Screens

Each policy that contains an accounting error will appear on the Error Policies screen and will include the following data:

- a. Ceded premium and paid loss data extracted from CAR's statistical database files and loaded to CAR's Accounting System on a weekly basis.
- b. Cession and cession correction records received since the prior load to the Accounting System.
- c. Statistical data reported for the current (and any prior) accounting months as defined in the Annual Call Schedule, published annually by CAR as an Accounting and Statistical Notice.

3. Accounting Errors

Servicing Carriers can review their accounting errors via CAR's online accounting application by clicking on the error policies link (refer to Exhibit VIII-C-3). By doing this, the list of policies that contains one or more of the four accounting error codes appears (refer to Exhibit VIII-C-4).

CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 5 of 21

4. Other Accounting and Informational Screens

Within the online CAR accounting application, Servicing Carriers are also able to access a series of informational screens as follows:

- a. The Policy Year Error Summary screen identifies a Servicing Carrier's percentage and volume of policies and records containing each of the error codes (refer to Exhibit VIII-C-5).
- b. The Cession/No Premium Warning and Penalty screen identifies those policies for which a cession has been reported but no corresponding positive ceded premium exists. For additional information relative to the warning and penalty program, including the cession/no premium write-off and associated penalties, refer to Chapter V Premium of this Manual and CAR's Policy Edit Package which is available on CAR's website under the Manuals tab.
- c. The Net Negative Premium screen identifies those policies that have an overall premium value of less than \$0. For additional information relative to the net negative premium listing and write-off procedures, refer to Chapter V Premium of this Manual and CAR's Policy Edit Package which is available on CAR's website under the Manuals tab.
- d. The High Loss Policies screen identifies policies that have a paid loss total above \$1M or the combination of paid loss dollars and outstanding reserves reported for the current quarter that exceed \$1M. It also identifies policies where a loss occurrence exceeds the liability limits on the policy. This informational listing may be used to assist Servicing Carriers in the verification of loss reporting on all policies with large dollar claims and to assist CAR in verifying the liability loss reporting relative to the liability limits written on the policy. Servicing Carriers may use this screen to identify loss records that exceed the cedeable limits on a policy that must be reported using classification code 800000 (Non Cedeable Limits) and a voluntary CAR Identification Code (refer to Exhibit VIII-C-6).
- e. The Premium and Losses Written-Off screen identifies premium and loss records that have been written-off in accordance with the accounting error and net negative premium write-off procedures. For additional information relative to the error loss write-off, refer to Section F.1. of this Chapter and relative to the net negative premium write-off, refer to Chapter V Premium of this Manual.

From the online accounting application on CAR's website (refer to Exhibit VIII-C-3), Servicing Carriers may access the CAR Policy History screens to assist in the error review process. Refer to Section D. of this Chapter for information relative to accounting error correction procedures.

CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 6 of 21

4. Aging of Accounting Errors

When a policy is identified as having an accounting error, it is assigned an error list date equal to the date that the record was initially flagged in error. The policy will appear on the Error Policies screen and will remain on the Error Policies screen for 12 calendar months from the error list date unless the Servicing Carrier submits records such that the policy becomes free of accounting errors. The policy will then no longer appear on the Error Policies screen. However, if the policy is still in error after the 12-month time period, all loss records on the policy in error will become eligible for write-off. Note that if subsequent losses with errors are reported on the policy during the 12-month period, those losses will also be eligible for write-off at the end of the 12-month period, regardless of whether the losses have been in error for the full 12 months. The Accounting Error Loss Write-Off is described in further detail in Section F.1. of this Chapter.

If the Servicing Carrier submits records and the policy becomes free of accounting errors, the policy will no longer appear on the Error Policies screen. However, if the policy returns to an accounting error status, then the policy will be assigned a new error list date and will begin a new 12-month time period in which the accounting error condition must be corrected.

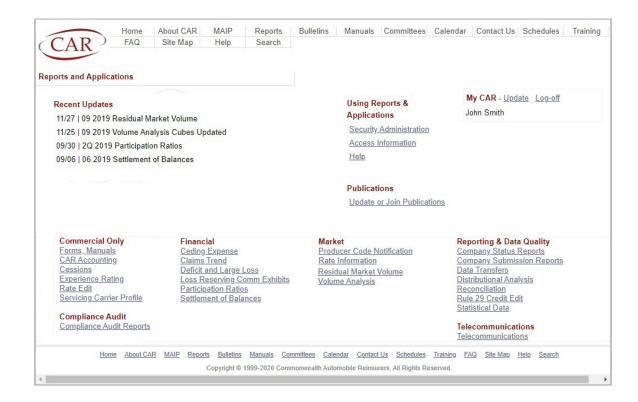
CAR | Manual of Administrative Procedures
Chapter VIII | Data Reporting, Accounting Edit and Correction Procedures
Revision Date | 2021.09.08 | 7 of 21

EXHIBIT VIII-C-1 COMMAUTO.COM REPORTS SCREEN

CAR	Home FAQ	About CAR Site Map		deports B Gearch	Bulletins	Manuals	Committees	Calendar	Contact Us	Schedules	Training
Reports and Applica	tions										
Recent Updates 11/27 09 2019 Residual Market Volume 11/25 09 2019 Volume Analysis Cubes Updated 09/30 2Q 2019 Participation Ratios 09/06 06 2019 Settlement of Balances						Using Reports & Applications Security Administration Access Information Help		[Secure Access User ID Password Log-on		
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Commercial Only Forms, Manuals CAR Accounting Cessions Experience Rating Rate Edit Servicing Carrier Pro	rfile	Claims Deficit Loss R Particip	Expense	Exhibits	Rate Ir	t eer Code N <u>nformation</u> <u>aal Market</u> e Analysis		Col Col Dat Dis Re- Rul	porting & Dat mpany Status mpany Submis ta Transfers tributional Ana conciliation le 29 Credit Ec titistical Data	Reports ssion Reports	
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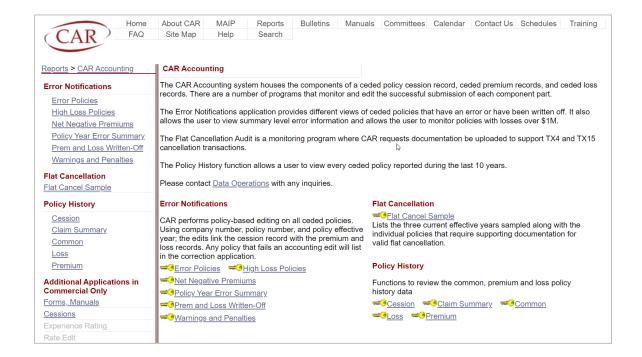
CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 8 of 21

EXHIBIT VIII-C-2 LOG-IN SCREEN



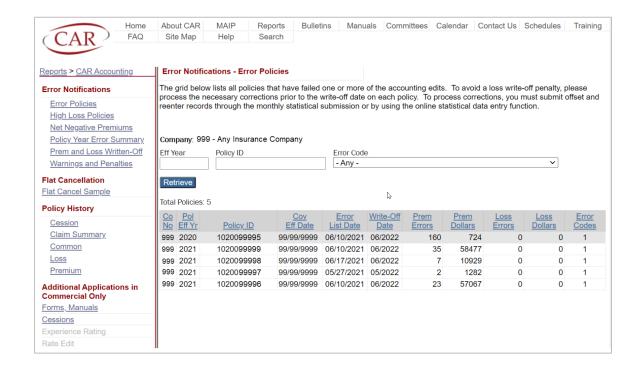
CAR Manual of Administrative Procedures
Chapter VIII Data Reporting, Accounting Edit and Correction Procedures
Revision Date Page 9 of 21

EXHIBIT VIII-C-3 CAR ACCOUNTING SCREEN



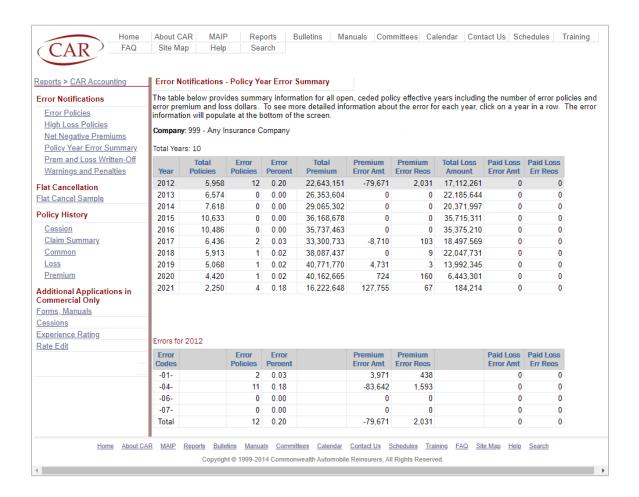
CAR Manual of Administrative Procedures
Chapter VIII Data Reporting, Accounting Edit and Correction Procedures
Revision Date Page 10 of 21

EXHIBIT VIII-C-4 ERROR POLICIES SCREEN



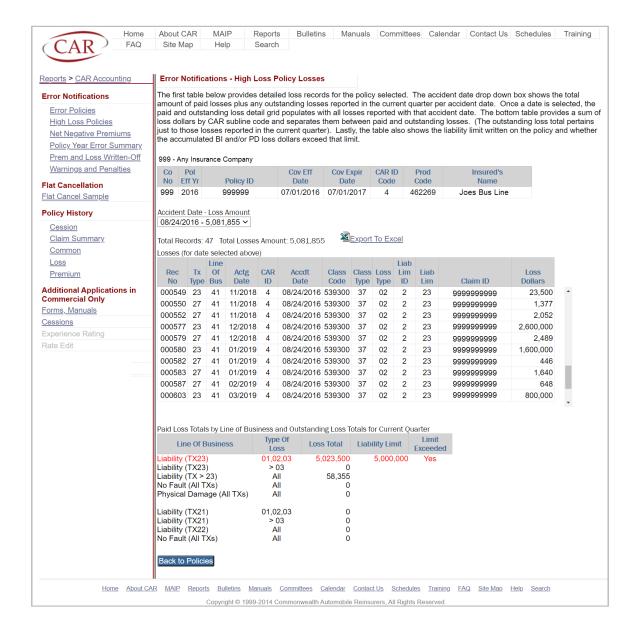
CAR | Manual of Administrative Procedures Chapter VIII | Data Reporting, Accounting Edit and Correction Procedures Revision Date | 2021.09.08 | 11 of 21

EXHIBIT VIII-C-5 POLICY YEAR ERROR SUMMARY SCREEN



CAR | Manual of Administrative Procedures Chapter VIII | Data Reporting, Accounting Edit and Correction Procedures Revision Date | 2021.09.08 | 12 of 21

EXHIBIT VIII-C-6 HIGH LOSS POLICY DETAIL SCREEN



CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 13 of 21

D. Correcting Accounting Errors

From the Reports page of CAR's website (refer to Exhibit VIII-C-1), Servicing Carriers should use the online accounting application to access the Error Policies screen (refer to Exhibit VIII-C-4) to view its accounting errors. The application also provides links to various error and informational screens that may be helpful for review and correction purposes. A Servicing Carrier may also use the Policy History screens within the online accounting application to assist in its error correction process.

A Servicing Carrier is able to correct records with accounting errors until the effective year of the policy that is in error has been closed-out. Servicing Carriers are notified of the close-out of a particular policy effective year via a published CAR Bulletin and Accounting and Statistical Notice, which are available on CAR's website under the Bulletins tab. However, note that cession and ceded premium records are only reportable for the latest three policy effective years and this may impact available correction methods. Ceded loss data may be reported for a policy until the policy effective year is closed-out for statistical reporting purposes. Refer to Section G. of this Chapter for additional information relative to the close-out of older policy years for ceded loss reporting.

The online accounting application (refer to Exhibit VIII-C-3) provides an error summary by policy effective year of a Servicing Carrier's accounting error records for monitoring the volume of errors (refer to Exhibit VIII-C-5).

If a policy is flagged with an accounting error (refer to Exhibits VIII-D-1 and VIII-D-2) as a result of an error on the premium or loss record, the policy may be corrected as follows:

1. Submit Offset/Re-Enter Records

A Servicing Carrier must offset the premium or loss record(s) in error and re-enter the corrected record(s) in a subsequent monthly accounting/statistical submission. For detailed instructions relative to the reporting of offset and re-enter records, refer to CAR's Policy Edit Package and the Massachusetts Commercial Automobile Statistical Plan which are available on CAR's website under the Manuals tab.

If the policy is in error as a result of a missing cession record or there exists an error on the reported cession record, the policy may be corrected as follows:

2. Submit a Cession Record

If the policy is in error due to a missing cession record, a Servicing Carrier should correct the policy by submitting a cession record. For instructions relative to reporting cession records, refer to Chapter IV – Cession Rules

CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 14 of 21

and Procedures of this Manual and CAR's Cession Edit Package which is available on CAR's website under the Manuals tab.

3. Process Cession Corrections via the Online Cession Application

If the policy is in error due to an error on the reported cession record, a Servicing Carrier may make any necessary correction(s) to the cession record via the correction grids provided on the cession correction listing. On a weekly basis, CAR will process the corrections made and will load the correction records to CAR's cession database file. For detailed cession correction instructions, refer to Chapter IV – Cession Rules and Procedures of this Manual and CAR's Cession Edit Package which is available on CAR's website under the Manuals tab.

If the policy is in error as a result of missing or negative ceded premium, the policy may be corrected by submitting the appropriate premium records.

A policy that has a paid loss with an accounting error will remain on the Error Policies screen until it becomes free of error or until the loss record in error becomes eligible for accounting error write-off. Refer to Section F.1. of this Chapter for further accounting error write-off information.

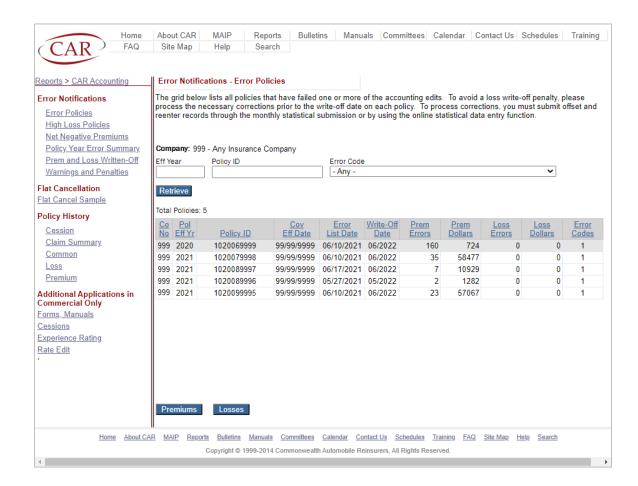
4. Submission of Loss Records on a Policy after the Accounting Error Write-Off

After a loss record with an accounting error has been written off, a Servicing Carrier is still able to report paid loss records on the policy. However, the Servicing Carrier must assure that the situation that initially caused the error condition has been rectified prior to the submission of the new loss record. If not, the new record may also be subject to write-off.

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.

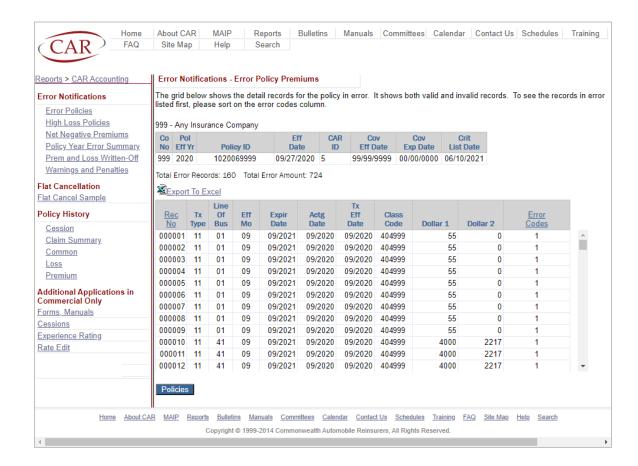
CAR Manual of Administrative Procedures
Chapter VIII Data Reporting, Accounting Edit and Correction Procedures
Revision Date Page 15 of 21

EXHIBIT VIII-D-1 ERROR POLICIES SCREEN



CAR | Manual of Administrative Procedures
Chapter VIII | Data Reporting, Accounting Edit and Correction Procedures
Revision Date | 2021.09.08 | 16 of 21

EXHIBIT VIII-D-2 ERROR POLICY PREMIUM/LOSS



CAR | Manual of Administrative Procedures Chapter VIII | Data Reporting, Accounting Edit and Correction Procedures Revision Date | 2021.09.08 | 17 of 21

E. Request for Loss Reimbursement on Ceded Policies for which Cession and Premium Reporting has been Discontinued

For cession and premium records, only the latest three policy effective years may be reported to CAR.

After the discontinuation of reporting for a particular policy effective year, if a Servicing Carrier becomes aware of a situation where cession and/or premium records should have been reported to CAR, only in the following instances may the Servicing Carrier request reimbursement for losses paid on that policy:

- 1. 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.
- 2. 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 cession and premium records was outside the control of the Servicing Carrier, then CAR will process bulk adjustments (both premium and losses) to the Servicing Carrier's Settlement of Balances and Member's Participation reports to reimburse the Servicing Carrier.

F. Penalty Procedures for Uncorrected Accounting Errors

1. Eligibility Criteria

A paid loss record with an uncorrected accounting error will be considered eligible for write-off if both of the following criteria are met:

- a. Twelve calendar months have elapsed since the policy was first flagged with an accounting error.
- b. The Servicing Carrier fails to correct the accounting error condition by the assigned write-off eligible date. The write-off eligible date is equal to the assigned error list date (the date that the record was first flagged in error) plus twelve months.

2. Accounting Error Loss Write-Off – Penalty and Procedures

The Accounting Error Loss Write-Off takes place on a monthly basis following the load of ceded premium and loss data reported in the current accounting/statistical shipment to CAR's Accounting System.

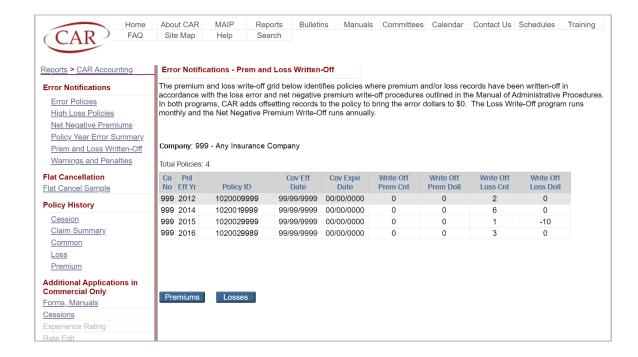
CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 18 of 21

A paid loss record that meets the eligibility criteria noted in Section F.1. will be written-off. CAR will create an offset to the paid loss record to net the dollar amount to \$0. From the online accounting application (refer to Exhibit VIII-C-3), select Premium and Loss Written-Off. Servicing Carriers are able to view a list of policies that have been written off (refer to Exhibit VIII-F-1). Servicing Carriers are also able to view the detail loss records and loss dollars written-off (refer to Exhibit VIII-F-2) for each policy.

For a loss record that has been in error for the entire 12-month period, CAR will also assess the Servicing Carrier a penalty fee equal to 10% of the dollar value of the loss record being written-off. The penalty fee is intended to encourage timely correction of losses with accounting errors prior to the write-off, and to reimburse the pool for investment income lost as a result of the invalid loss reporting. The fee will be processed as a bulk adjustment to the Servicing Carrier's Settlement of Balances and Member's Participation Reports. However, for a loss record that was reported during the 12-month period, but after the error list date was established, CAR will not assess the 10% penalty fee.

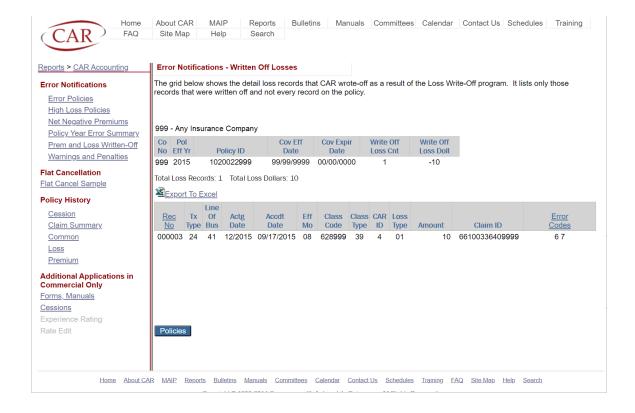
CAR Manual of Administrative Procedures
Chapter VIII Data Reporting, Accounting Edit and Correction Procedures
Revision Date Page 19 of 21

EXHIBIT VIII-F-1 PREMIUM AND LOSS WRITTEN OFF



CAR Manual of Administrative Procedures Chapter VIII Data Reporting, Accounting Edit and Correction Procedures Revision Date Page 20 of 21

EXHIBIT VIII-F-2 WRITTEN OFF – LOSSES



CAR Manual of Administrative Procedures
Chapter VIII Data Reporting, Accounting Edit and Correction Procedures
Revision Date Page 21 of 21

G. Close-Out of Older Policy Effective Years

When the volume of open claims for a particular policy effective year has decreased to \$100,000 or less, CAR will perform a final close-out of the policy effective year for financial and statistical reporting purposes. Any paid loss record reported to CAR for an effective year that has been closed-out will be considered a fatal error, and the record will be deleted from the submission.

Correction activity on a policy with an effective year that has been closed-out is not allowed. However, if a Servicing Carrier pays a claim on a policy whose policy effective year has been closed-out, the company may contact CAR to request reimbursement for the claim. If the policy was validly ceded, CAR will reimburse the Servicing Carrier for the loss via a bulk adjustment that will be reflected on the Servicing Carrier's Settlement of Balances and Member's Participation reports.