



COMMONWEALTH AUTOMOBILE REINSURERS

MASSACHUSETTS AUTOMOBILE INSURANCE PLAN

2011 ANNUAL REPORT





ABOUT US.....

Pursuant to G.L. c. 175, § 113H, Commonwealth Automobile Reinsurers (CAR) was created to administer the following functions for the industry operated residual market for motor vehicle insurance in the Commonwealth of Massachusetts and appointed as the designated Statistical Agent for the Division of Insurance.

Statistical Agent

In its role as Statistical Agent, CAR collects, edits, analyzes, and disseminates Massachusetts statistical data for the Division of Insurance. To verify the quality, accuracy, and completeness of the statistical database, CAR reconciles reported statistical data to company financial statements and performs an analysis that compares each company's distribution of data to the industry's distribution.

Commercial Automobile and Taxi/Limousine Programs

CAR manages the commercial automobile pooling mechanism of the residual market through the Commercial Automobile and Taxi/Limousine Programs. A limited number of Servicing Carriers are selected to service the ceded policies of both programs, which are reviewed annually to ensure that the equitable distribution of residual market business is maintained.

Massachusetts Automobile Insurance Plan

CAR administers the Massachusetts Automobile Insurance Plan (MAIP), which provides access to private passenger motor vehicle insurance to eligible risks who seek, and are unable to obtain, such insurance through the voluntary market, and ensures that the risks written through the MAIP are distributed equitably based on the quota share of each Member.

Every company licensed to write motor vehicle liability insurance in Massachusetts is required to become a Member of CAR.¹ A Member is appointed as an Assigned Risk Company (ARC), pursuant to the Plan and Rules of Operation to issue private passenger motor vehicle insurance policies assigned through the MAIP. All licensed producers are required to be certified as an Assigned Risk Producer (ARP).

Private Passenger Pool Run-Off

CAR continues to administer the private passenger automobile pooling mechanism run-off. Member Companies writing private passenger business will continue to participate financially in the residual market pool until their obligations are completed.

¹A complete list of Member Companies is available on CAR's website under About CAR/Corporate Documents.

GOVERNING COMMITTEE MEMBERS

OCTOBER 1, 2010

Mr. William J. Cahill, Jr. – Chairman
The Hanover Insurance Company

Mr. Richard P. Jones – Vice Chairman
Leslie S. Ray Insurance Agency, Inc.

Mr. Andrew J. Carpentier
Quincy Mutual Fire Insurance Company

Mr. David H. Cochrane
The Commerce Insurance Company

Ms. Karen A. Cora
Deland Gibson Insurance Associates, Inc.

Ms. Paula W. Gold
Plymouth Rock Assurance Corporation

Mr. Joseph P. Leahy, Jr.
Leahy & Brown Insurance and Realty

Mr. Raymond A. Lukas
Chase, Clarke, Stewart & Fontana

Mr. James M. MacPhee
Liberty Mutual Group

Mr. Robert P. Suglia
Amica Mutual Insurance Company

Ms. Marie-Armel Theodat
R. Theodat Insurance Agency, Inc.

Mr. Joseph A. Vargas
Vargas & Vargas Insurance

JANUARY 1, 2011

Mr. William J. Cahill, Jr. – Chairman
The Hanover Insurance Company

Mr. Richard P. Jones – Vice Chairman
Leslie S. Ray Insurance Agency, Inc.

Mr. Andrew J. Carpentier
Quincy Mutual Fire Insurance Company

Mr. David H. Cochrane
The Commerce Insurance Company

Ms. Paula W. Gold
Plymouth Rock Assurance Corporation

Mr. Joseph P. Leahy, Jr.
Leahy & Brown Insurance and Realty

Mr. Raymond A. Lukas
Chase, Clarke, Stewart & Fontana

Mr. James M. MacPhee
Liberty Mutual Group

Mr. Robert P. Suglia
Amica Mutual Insurance Company

Ms. Marie-Armel Theodat
R. Theodat Insurance Agency, Inc.

Mr. Joseph A. Vargas
Vargas & Vargas Insurance

MARCH 1, 2011

Mr. William J. Cahill, Jr. – Chairman
The Hanover Insurance Company

Mr. Richard P. Jones – Vice Chairman
Leslie S. Ray Insurance Agency, Inc.

Mr. Andrew J. Carpentier
Quincy Mutual Fire Insurance Company

Mr. David H. Cochrane
The Commerce Insurance Company

Mr. Sumner D. Gilman (*replaced Karen Cora*)
Economy Insurance Agency, Inc.

Ms. Paula W. Gold
Plymouth Rock Assurance Corporation

Mr. Joseph P. Leahy, Jr.
Leahy & Brown Insurance and Realty

Mr. Raymond A. Lukas
Chase, Clarke, Stewart & Fontana

Mr. James M. MacPhee
Liberty Mutual Group

Mr. Robert P. Suglia
Amica Mutual Insurance Company

Ms. Marie-Armel Theodat
R. Theodat Insurance Agency, Inc.

Mr. Joseph A. Vargas
Vargas & Vargas Insurance

SEPTEMBER 1, 2011

Mr. William J. Cahill, Jr. – Chairman
The Hanover Insurance Company

Mr. Richard P. Jones – Vice Chairman
Leslie S. Ray Insurance Agency, Inc.

Mr. Andrew J. Carpentier
Quincy Mutual Fire Insurance Company

Mr. David H. Cochrane
The Commerce Insurance Company

Mr. Sumner D. Gilman
Economy Insurance Agency, Inc.

Ms. Paula W. Gold
Plymouth Rock Assurance Corporation

Mr. Joseph P. Leahy, Jr.
Leahy & Brown Insurance and Realty

Mr. Raymond A. Lukas
Chase, Clarke, Stewart & Fontana

Mr. Paolo V. Abelli (*replaced James MacPhee*)
Liberty Mutual Group

Mr. Robert P. Suglia
Amica Mutual Insurance Company

Ms. Marie-Armel Theodat
R. Theodat Insurance Agency, Inc.

Mr. Joseph A. Vargas
Vargas & Vargas Insurance

ADVISORY COMMITTEES

Under the provision of Article 1, of the Plan of Operations, the administration of Commonwealth Automobile Reinsurers shall be vested in the Governing Committee. The Governing Committee has the authority to appoint standing or temporary committees from among Member Companies and any producers. In an effort to develop sound and effective policy, the Governing Committee in consultation with the Commissioner of Insurance, established the following standing Advisory Committees for calendar year 2011.

Actuarial Committee	Mr. Joseph F. Cofield, Chairman Metropolitan P & C Insurance Company
ARP Certification Committee	Ms. Paula W. Gold, Chairperson Plymouth Rock Assurance Corporation
Budget Committee	Mr. William J. Cahill, Jr., Chairman The Hanover Insurance Company
Commercial Automobile Committee	Mr. Richard P. Jones, Chairman Leslie S. Ray Insurance Agency, Inc.
Compliance Audit Committee	Mr. Gerard T. McDermott, Chairman, Norfolk & Dedham Group
Governing Committee Review Panel	Mr. Andrew J. Carpentier, Chairman Quincy Mutual Group
Loss Reserving Committee	Mr. Michael A. DeConti, Chairman Travelers Insurance
MAIP Steering Committee	Mr. John V. Kelly, Chairman The Commerce Insurance Company
Market Review Committee	Mr. Richard P. Jones, Chairman Leslie S. Ray Insurance Agency, Inc.
Operations Committee	Mr. Bruce A. Cregger, Chairman Encompass Insurance
Personnel Committee	Mr. William J. Cahill, Jr. Chairman The Hanover Insurance Company

A current listing of Advisory Committees' Membership is available on CAR's website in the Committee Section.

CAR ACTIVITIES

In November 2010, CAR's President Ralph (Buddy) Iannaco informed the Governing Committee of his intent to retire as of March 1, 2011, the end date of his contract. He agreed to a contract extension to June 30, 2011 and beyond that date, was retained as a consultant to CAR, while the search process continued to find his successor.

On November 1, 2011, Mr. Daniel R. Judson received a warm welcome from staff on his first day as the new President of CAR.

The following is an account of CAR's activities during fiscal year 2011 (October 1, 2010 - September 30, 2011) under the oversight of President Iannaco.

MAIP Initiatives

During this period, a number of procedures have been put in place as MAIP continues to evolve. In addition, several enhancements have been implemented relative to the oversight of Assigned Risk Producers (ARPs) and Assigned Risk Companies (ARCs). The Assigned Risk Company Procedures Manual, developed by staff and approved by the Governing Committee, is available on CAR's website.

Modifications to the Rules of Operation have resulted in specific requirements relating to the non-renewal of MAIP policies, which have reached the expiration of the three-year assignment period. Other rule amendments require the ARC to make any supplemental or additional information available through the MAIP Policy Application in order to calculate an accurate premium upon receipt of an assignment. An analysis on the availability of voluntary rates and the determination of an appropriate down payment for assigned business has been initiated.

CAR's private passenger motor vehicle insurance rate and rule filings were placed on file by the Division of Insurance with an effective date of April 1, 2011. The ISO vehicle series rating was replaced with the VRG Program.

Six newly appointed ARC's were added to the Quota Share model, with requisite preparation to confirm data quality and assistance to the carriers in their planning efforts.

Commercial Market

Early in this fiscal year, the Governing Committee voted to reduce the number of Commercial Servicing Carriers from six to four. This resulted in the redistribution of a number of producers to a new Servicing Carrier. Every effort was made to reassign the producer to a company with which an existing relationship was in place, while maintaining equity on a written premium and loss ratio basis among the Servicing Carriers. This effort was successfully completed in March, for policies effective July 1, 2011 and subsequent.

In September, commercial residual market rates were filed with a proposed January 1, 2012 effective date, including revisions to the Manual Rules. Both are under review by the Division of Insurance.

Thirty-six modifications were implemented to the MAIP Policy Application this past year. In addition, 40,117 assignments were made to Assigned Risk Companies.

Information Technology Development

Data protection efforts were addressed with the addition of copyright notations to all web pages and reports.

Activity centered on the development of the Producer Management System; a rewrite of the Experience Rating System; updates to the Statistical System; and, modifications and updates to the Hybrid Audit System.

Infrastructure improvements included the acquisition and installation of all production printers, acquisition, and installation of new LAN centralized storage facilities, the acquisition and installation of new accounting software, upgrade to the current release of the VMWare operating system, and the research and acquisition of four dedicated servers.

Audit Functions

The Hybrid Audit Plan (HAP) audits continue to examine data used for ratemaking and quota share, ensure compliance with statutory requirements, and provide a foundation for the Market Conduct Reviews performed by the Division of Insurance.

Revisions to the Private Passenger Claims Performance Standards were approved in May and the Commercial Claims Performance Standards in September by the Commissioner of Insurance. The Claims and SIU reviews have been incorporated into the HAP procedures and reported under the Adherence to Statutory Requirements section and CAR Rules.

The Governing Committee approved the retention of PricewaterhouseCoopers to conduct an independent audit of CAR's Financial Statements and issue an unqualified financial and reserve opinion for fiscal year ending September 30, 2011.

Business Operations

In light of the substantial reduction in staff, the process to exercise the lease contraction option to vacate CAR's 14th floor office space was initiated. The transaction was completed in October 2011, and a cost saving in excess of \$850,000 in rent will be realized over the next five years.

2011 Financials Summary

The estimated financial statements included with this report reflect the ongoing commercial pooling mechanism and the run-off of the private passenger deficit. The fiscal year result is attributed to the continued reduction in the size of the commercial residual market, as well as a reduction of prior year private passenger and commercial loss reserves.

FISCAL YEAR 2011 FINANCIAL STATEMENTS

- CONSOLIDATED BALANCE SHEET
- COMPARATIVE STATEMENT OF DEFICIT (COMBINED)
- PRIVATE PASSENGER/COMMERCIAL ULTIMATE UNDERWRITING DEFICIT

CONSOLIDATED BALANCE SHEET

Fiscal Year 2010 and Projected 2011

<u>ASSETS</u>	<u>2010</u>	<u>2011</u>
Cash and Investments	\$ 13,992,841	\$ 11,649,000
Furniture, Fixtures and Leasehold Improvements	695,164	566,000
Capitalized Software Development Costs, net	398,851	345,000
Accounts Receivable-Miscellaneous	-	-
Accounts Receivable-Member Company Balances	21,591,119	19,104,000
Other Assets	177,600	178,000
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Total Assets	\$ 36,855,575	\$ 31,842,000
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<u>LIABILITIES</u>		
Reserve for Unearned Premium	\$ 46,844,753	\$ 43,717,000
Reserve for Outstanding Losses	168,890,665	138,095,000
Reserve for Defaulted Brokers	17,500	17,500
Accounts Payable-Miscellaneous	7,002,911	4,795,000
Accounts Payable-Advance Exp Assessment	6,832,854	6,539,000
Accounts Payable-Member Company Balances	28,470,527	24,555,000
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Total Liabilities	\$ 258,059,210	\$ 217,718,500
Participating Member Companies' Equity	(221,203,635)	(185,876,500)
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Total Liabilities and Members' Equity	\$ 36,855,575	\$ 31,842,000
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Unaudited Balance Sheet subject to change, reflects a projection of the September quarter for 2010.

COMPARATIVE STATEMENT OF DEFICIT
COMBINED PRIVATE PASSENGER AND COMMERCIAL

Fiscal Year 2010 Vs. Estimated Fiscal Year 2011

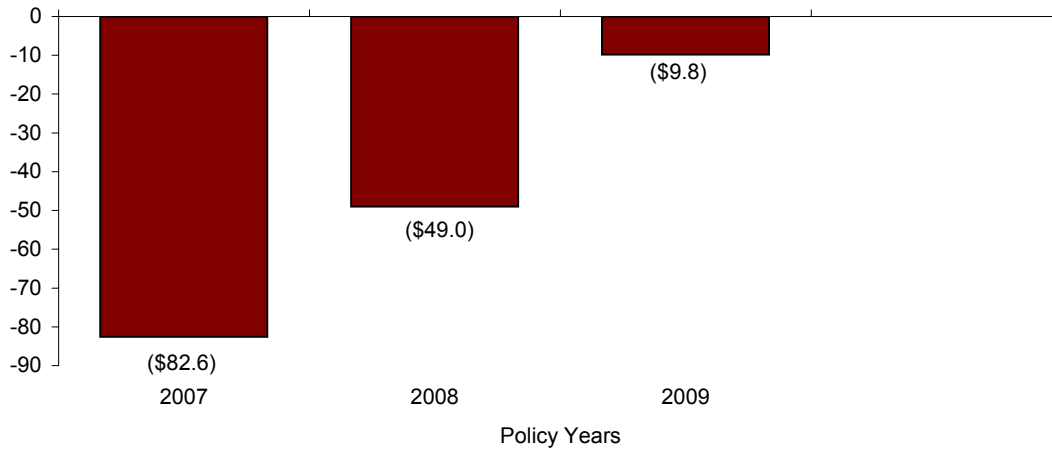
	FISCAL YEAR 2010		FISCAL YEAR 2011	
	<u>Amount</u>	<u>% Premium*</u>	<u>Amount</u>	<u>% Premium*</u>
Underwriting Income				
Premiums Written	\$84,360,664		\$87,201,000	
Unearned Premiums (Prior)	\$66,205,488		\$46,845,000	
Unearned Premiums (Current)	(\$46,844,753)		(\$43,717,000)	
Premiums Earned	\$103,721,399		\$90,329,000	
Underwriting Deductions				
Losses Incurred & LAE	\$72,558,181	70.0%	\$54,529,000	60.4%
Ceding Expense	\$26,753,607	31.7%	\$26,596,000	30.5%
Rate Deviation Adjustment	(\$497,869)	-0.6%	\$6,000	0.0%
Total Underwriting Deductions	\$98,813,919	95.3%	\$81,131,000	89.8%
NET UNDERWRITING GAIN (LOSS)	\$4,907,480	4.7%	\$9,198,000	10.2%
Miscellaneous Income (Expenses)				
Operating Expense	(\$14,586,214)	-14.1%	(\$14,324,000)	-15.9%
Interest Income	(\$10,684)	0.0%	(\$13,000)	0.0%
All Other Misc. Income/Expense	\$66,495	0.1%	\$7,000	0.0%
Total Misc. Income (Expense)	(\$14,530,403)	-14.0%	(\$14,330,000)	-15.9%
NET OPERATING GAIN (LOSS)	(\$9,622,923)	-9.3%	(\$5,132,000)	-5.7%

*Percent of Earned Premium, except for Ceding & General Expense, and Rate Deviation Adjustment.

PRIVATE PASSENGER ULTIMATE UNDERWRITING DEFICIT

Policy Years 2007 - 2009

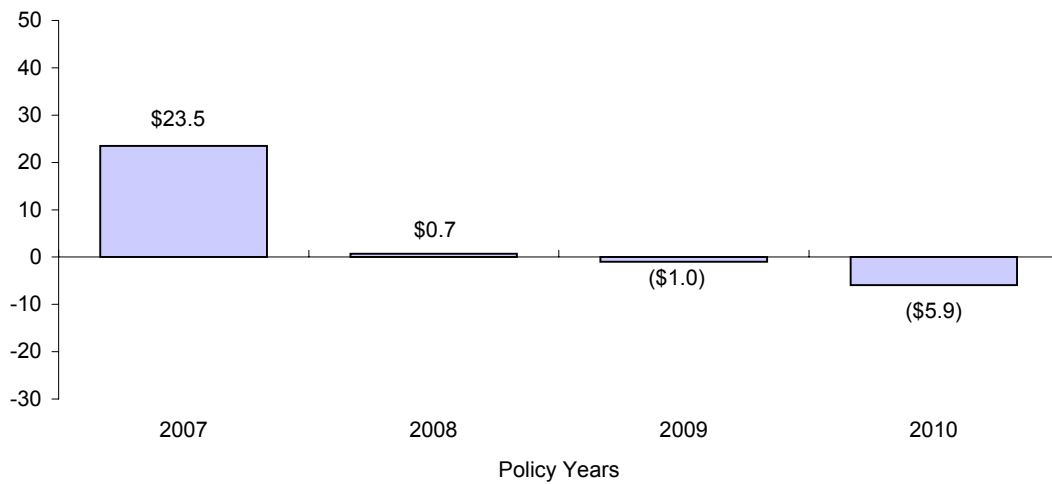
As Projected by Loss Reserving Committee @ June 2011*
(in millions)



COMMERCIAL ULTIMATE UNDERWRITING DEFICIT

Policy Years 2007 - 2010

As Projected by Loss Reserving Committee @ June 2011*
(in millions)



* Policy year 2011 ultimate deficit balances will be projected by the Loss Reserving Committee in December 2011.