



COMMONWEALTH AUTOMOBILE REINSURERS

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RALPH A. IANNACO
PRESIDENT

RECORDS OF MEETING

AUDIT COMMITTEE – DECEMBER 9, 2009

Members Present

Mr. Andrew J. Carpentier – Chairman	Quincy Mutual Fire Insurance
Mr. Gary A. Aarons	Plymouth Rock Assurance Corporation
Mr. William J. Begley, Jr.	Safety Insurance Company
Mr. Christopher F. Malone	Premier Insurance Company of Mass
Mr. Gerard T. McDermott	The Norfolk & Dedham Group

Substituted for:
N/A

Not in Attendance:
Mr. Lee D. Davidson, The Hanover Insurance Company
Mr. A. Carmen Marciano, Appleby & Wyman Insurance Agency, Inc
Mr. Robert E. McKenna, The Commerce Insurance Company

09.01 Records of Previous Meeting

The Committee unanimously voted to approve the Records of the Audit Committee meeting of September 8, 2009. The Records have been distributed and are on file with CAR's Secretary.

09.05 Annual Audit of CAR for Fiscal Year Ending 2009

Mr. Mark Alves gave an overview of audits being conducted by the staff in support of the unqualified opinion of CAR's 2009 Financial Statements. Audits on private passenger and commercial premium claim and reserves were requested for ten companies by PricewaterhouseCoopers (PwC). Nine of the ten audits have been completed. The preliminary audit results are expected to be sent to PwC by December 18, 2009 and the finalized results by January 15, 2010. The PwC auditors will do a pre-performance review on December 10 and 14, 2009. The increased use of staff in the PwC audit process realized a cost savings to CAR of \$30,000.

09.06 Statistical Audit Plan for 2010

Mr. Alves reviewed the details of Hybrid Audit Plan, which was adopted at the September 16, 2009 Governing Committee meeting and will take effect April 2010. Changes in the Plan include moving from a two-year cycle to a three-year audit cycle, reduction in confidence level to 90%, and reviewing Newly Writing Companies in full. In addition, only fields that impact rates would be verified back to source documentation and the audits will be at a policy and claim level rather than a record level. The

Reinsurance Audits will continue through 2011 for private passenger business and Commercial Reinsurance Audits will remain unchanged. CAR anticipates that the Division of Insurance will continue to reference the Statistical Audits as part of its market conduct reviews. The Division of Insurance has also requested that CAR perform audits of two companies regarding their use of MAIP rates as opposed to the company's voluntary rates. In addition, CAR should develop procedures, and begin auditing summary data of Newly Writing Companies for participation and quota share purposes; and perform industry wide ad hoc audits of 2009 changes to the Private Passenger Automobile Insurance Manual relating to Part 5 and the implicit surcharge factor.

Ms. Valerie Gedziun reviewed the legislation and rules that established the Performance Standards claim reviews that are currently conducted on an annual basis. She advised that the Ad Hoc Budget Subcommittee requested that the Claims Advisory Committee consider the Performance Standards Claims, SIU, and Newly Writing Company Reviews as they pertain to the MAIP function and the MAIP Steering Committee requested that CAR's counsel develop a legal opinion as to the necessity of performance standard reviews under the MAIP. Mr. Andrew Carpentier stated that the Committee needs to be aware of the actions of the MAIP Steering Committee, be aware of their own company claim practices and remain familiar with statutory and rule obligations.

09.07 Administrative Expense Allocation by Function

Ms. Natalie Hubley reviewed the administrative expense allocation by function. She provided a schedule for review that identified the adjusted final true up of expenses for 2009 by CAR's four main functions. The schedule also provided initial projections for fiscal year 2010 and noted the anticipated downward trend of private passenger residual market run-off activity.

The Committee discussed the measures being taken by the Claims Advisory, Loss Reserving, and Operations Committees relative to shortening the 10-year reporting close out timeframe for the private passenger residual market run-off and will be provided with updates on related activity by staff.

JANET A. KOPEC
Audit & Data Quality Specialist

Boston, Massachusetts
February 11, 2010

ATTACHMENT LISTING

Docket #AU09.02, Exhibit #3

Attendance Listing

Docket #AU09.07, Exhibit #1

Administrative Expense Allocation by Function Report

**Commonwealth Automobile Reinsurers - Audit Committee Report (12/09/2009)
Administrative Expense Allocation by Function**

Fiscal Year 2009 - Final True-Up of Expense

	Private Passenger Liability	Private Passenger Physical Damage	Commercial Liability	Commercial Physical Damage	Total	
Calendar Year 2008						
Annual Statement Written Premium	\$2,300,765,525	\$1,406,436,525	\$426,277,338	\$136,423,826	\$4,269,903,214	
Percent of Total	54%	33%	10%	3%	100%	
Private Passenger Percent	62%	38%				
Commercial Percent			76%	24%		
	Private Passenger Liability	Private Passenger Physical Damage	Commercial Liability	Commercial Physical Damage	Total	
Fiscal Year 2009 Expenses						
Statistical Agent	\$1,976,172	\$1,208,016	\$366,138	\$117,177	\$3,667,503	28%
Massachusetts Assigned Risk Plan	\$2,449,330	\$1,497,253			\$3,946,583	31%
Private Passenger Deficit Run-Off	\$1,599,490	\$977,754			\$2,577,244	20%
Commercial Automobile Plan			\$2,056,497	\$658,152	\$2,714,649	21%
Total	\$6,024,993	\$3,683,022	\$2,422,635	\$775,329	\$12,905,979	100%
	47%	28%	19%	6%		

Fiscal Year 2010 Interim Expense Allocation

	Private Passenger Liability	Private Passenger Physical Damage	Commercial Liability	Commercial Physical Damage	Total	
Fiscal Year 2010 Budget						
Statistical Agent	\$1,945,401	\$1,189,206	\$360,437	\$115,353	\$3,610,396	28%
Massachusetts Assigned Risk Plan	\$2,519,066	\$1,539,882			\$4,058,948	31%
Private Passenger Deficit Run-Off	\$1,344,044	\$821,602			\$2,165,646	17%
Commercial Automobile Plan			\$2,287,985	\$732,236	\$3,020,221	22%
Total	\$5,808,512	\$3,550,689	\$2,648,422	\$847,589	\$12,855,211	99%
	45%	28%	21%	6%		
Statistical Agent Fee	\$2,224,000					
Stat Agent Market Share Assessmt	\$1,386,396					
Residual Market/SB Assessment	\$9,244,815					
Legal/Benefits Review (Mkt Share)	\$180,000					