



NATALIE A. HUBLEY  
PRESIDENT

## COMMONWEALTH AUTOMOBILE REINSURERS

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### NOTICE OF MEETING

#### COMPLIANCE AND OPERATIONS COMMITTEE

A meeting of the Compliance and Operations Committee will be held virtually via Zoom video conferencing software on

**WEDNESDAY, JUNE 4, 2025, AT 10:00 A.M.**

If you plan to attend this meeting and are not a member of this Committee, please RSVP by completing the Visitor Security Form located in the Contact Us/Visitor Information section of CAR's website. CAR will then forward to you, via email, meeting access information. Please do not share access information provided by CAR, but refer others wishing to attend the meeting to CAR's Visitor Security Form.

#### MEMBERS OF THE COMMITTEE

Ms. Erin Cummings– Chair  
Norfolk and Dedham Group

Mr. Cory Hansen  
Ms. Annmarie Hassan  
Ms. Nicole Martorana  
Ms. Sharon Murphy  
Mr. Henry Risman  
Mr. Barry Tagen  
Ms. Brenda Williams  
Mr. Kenneth Yeh

The Hanover Insurance Group  
Arbella Insurance Group  
FBInsure, LLC  
Acadia Insurance Company  
Risman Insurance Agency, Inc.  
Pilgrim Insurance Company  
MAPFRE U.S.A. Corporation  
Allstate Insurance Group

#### AGENDA

##### COPC

##### 25.01 Records of Previous Meeting

The Records of the Compliance and Operations Committee meeting of January 22, 2025 should be read and approved.

**COPC**

**25.03 CAR Conflict of Interest Policy**

The Chair will read a statement relative to CAR's Conflict of Interest Policy.

**COPC**

**25.04 Informational Items**

The Chair will report on any Governing Committee actions that impact the Compliance and Operations Committee.

**COPC**

**25.05 Compliance Audit Program**

Staff will present a status report regarding ongoing audits conducted in accordance with the Compliance Audit Program, as well as an update on company reporting problems being monitored due to issues identified through CAR's data quality program.

**COPC**

**22.09 Merit Rating Reporting**

Staff will present results of the follow-up audit on one of the two remaining companies identified in the 2022 merit rating audits as having a higher-than-average error rate.

**COPC**

**25.06 Operational Reports**

The 4<sup>th</sup> Quarter 2024 Operational Reports were posted to CAR's website in April 2025. Questions or comments regarding these reports will be discussed at the meeting.

**COPC**

**25.08 SIU Reporting**

Staff will present the annual report of industry results for the 2024 Special Investigative Unit (SIU) review of adherence with requirements detailed in CAR Rules 10.C and 32.C.

**COPC**

**25.09 Proposal for Changes to the Hybrid Audit Program**

Staff will present proposed changes to the private passenger Hybrid Audit Plan (Docket #COPC25.09, Exhibit #1).

**COPC**

**24.10 MAIP Placement Record Reporting**

At its last meeting, the COPC approved, in concept, proposed changes to the MAIP Placement Record reporting. To codify the proposed changes, staff has drafted applicable amendments to the ARC Procedures Manual for the Committee's consideration (Docket #COPC24.10, Exhibit #3).

**Other Business**

To transact any other business that may properly come before this Committee.

**Executive Session**

The Compliance and Operations Committee may convene in Executive Session in accordance with the provisions of G.L. c. 30A, § 21.

MATTHEW HIRSH  
Compliance Audit Supervisor

Attachments

Boston, Massachusetts  
May 21, 2025

**Audit Program Redesign**  
**Private Passenger (PP) Auditing**  
**Proposed Hybrid Audit Plan Changes**

**Overview:**

Hybrid Audit procedures originated in 2009 and were most recently adjusted in November 2020. The significant changes at that time included establishing a five-year audit schedule for all Assigned Risk Companies writing in Massachusetts and the adoption of the Traffic Light Assessment rating system. The rating system standardized recommendations to the Compliance and Operations Committee (COPC) based on audit report findings and error rates. Options include accepting an audit report without additional activity, further focus auditing, or assessment of noncompliance penalties (Late and Unacceptable Shipments eligible for penalty until a monthly submission with accurate data is reported (PP Statistical Plan VII: 7).

CAR considers these changes successful because most companies assessed a value other than a green light later achieved compliance within the targeted audit areas after only one focus audit. Only two companies have been assessed noncompliance penalties and required a second focus audit. This redesigned audit plan greatly improved the efficiency and timeliness of the audit process.

In the five years since the implementation of the redesigned plan, the private passenger market has experienced growth in the number of newly writing companies in Massachusetts and frequent changes to company affiliations. Both situations require adjustments to the audit plan.

CAR audits of these newly writing companies often identify significant reporting issues early in the audit process. Completing the initial Hybrid Audit in spite of known reporting issues has extended the time needed to close the audit, often requiring a full year between the audit notice and distribution of the completed audit report. The company is then provided an additional year to code system modifications and then statistically report data correctly prior to commencing the focus audit.

**Proposed Changes to the Hybrid Audit Plan and Intended Benefits:**

CAR's standard HAP samples are set at 400 policies with 270 of those policies including at least one associated claim. CAR notes that the frequency of errors while auditing companies with poor statistical reporting develop a pattern of results that is clearly recognizable early in the audit process and typically continues throughout until conclusion. Audits with higher error rates require increased audit resources and a longer duration to audit accurately and consistently. Each phase of auditing including quality assurance testing, auditor documentation of statistical errors, and distribution of status reports (50%, 100%, and Final Status) for company comments and challenges prior to closing the audit is impacted by the frequency of recurring errors.

Knowledge of the poor audit results so early in the audit process presents an opportunity to meaningfully reduce the duration of an audit while continuing to ensure corrective actions by the company without decreasing the quality or consistency of the overall audit program. Changes to the audit plan will also save valuable staff resources not only for CAR but also for the audited company.

CAR proposes to modify the Hybrid Audit Plan to improve the efficiency and timeliness of the overall audit program as follows:

1. Enable staff to make recommendations to the COPC for companies with high error rates after 100 policies with claims have been fully audited and quality-assurance tested.
  - CAR would then stop auditing and issue an abbreviated report along with a recommendation for the COPC's consideration.
2. All other audits will continue through to 100% completion.
3. Establish an updated average error rate that includes only audit results assessed a green light value since 2021 that is continually adjusted.
  - The updated benchmark will represent only companies reporting in compliance with the Statistical Plan (core reason for conducting Hybrid Audits).

Staff Request:

Staff requests that the Committee consider approval of this proposal. If the Committee supports the proposal, the changes to the plan would become effective immediately upon approval by the Governing Committee for those audits currently in progress. Staff would also return at a subsequent meeting with amendments to Chapter XI - Compliance Audit of the ARC Procedures Manual.

## **Assigned Risk Company Procedures Manual**

### **Chapter IX – MAIP Placement Record Reporting Requirements and Correction Procedures**

#### Summary of proposed changes:

Section A – Reporting Requirements – the instructions for reporting of Rating Company Number has been expanded to include value 002, which represents a voluntary rate used to rate the policy that is equal to the MAIP rate. Similarly, the record layout description has been expanded to include values 001 and 002.

Section B – MAIP Placement Record Errors and Correction Procedures – the description of Non-Fatal Error Code 12 – Rating Company/Risk Category Invalid has been expanded to include value 002 as a valid rating company number.

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If an ARC elects to report MPRs via the Add MAIP Placement screen (refer to Exhibit IX-A-11), each of the fields that appear on the screen must be entered. Note that the system does not allow for blank fields, except for the Producer Code field. If an ARC leaves a field blank, the system will provide a prompt to complete the record.

Additionally, the system will not allow ARCs to add MPRs that contain fatal or non-fatal errors, with the exception of a record flagged with Non-Fatal Error Code 4 – MAIP Agency and Sequence Number does Not Match Web Assignment File/Duplicate MPR. Records containing Non-Fatal Error Code 4 may be added to CAR's permanent MPR database file using a bypass function. For additional information regarding the bypass function, refer to Section B.2.d. of this Chapter.

Refer to Sections B.1. and B.2. of this Chapter for a description of the fatal and non-fatal error codes. Any field that is in error will be highlighted and an error message indicating the error condition will be displayed in red. The error must be corrected in order for further processing to occur. Once the error condition is corrected, click Add. MAIP Placement records added through CAR's website are immediately loaded to CAR's permanent MPR database file.

Also note that records containing Non-Fatal Error Codes 11 – Transaction Code 6 Received Prior to Cancellation Timeframe and 13 – Transaction Code 1 Received Prior to Void Timeframe will be accepted and initially loaded to the MAIP error file and will remain there until the records have reached their respective eligibility dates. Once the eligibility dates have been reached, the records will be moved to CAR's permanent MPR database file.

The following instructions apply:

- (1) MAIP Agency Number – Enter the five digit numeric agency code as assigned by CAR.
- (2) MAIP Sequence Number – Enter the nine digit numeric sequence number as assigned by CAR.
- (3) Transaction Code – From the dropdown menu, select the appropriate code. Acceptable codes are as follows:

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1 – New Business or Reinstatement (if the reinstatement was new business prior to the cancel/reinstate)

2 – Renewal Business or Reinstatement (if the reinstatement was renewal business prior to the cancel/reinstate)

4 – Policy Not Taken or Cancelled (both flat and pro rata/short rate)

6 – Business Taken out of MAIP/Take-Out Credit

(4) Policy Number – Enter the complete policy number consisting of 3 to 16 alphabetic and/or numeric characters. This number must be the same number and in the same format used to identify premium and loss transactions for the policy as reported in the monthly detail statistical shipments.

(5) Effective Date – Enter the effective date of the policy. The effective date must be no later than the current date plus 90 calendar days.

(6) Expiration Date – Enter the expiration date of the policy.

(7) Insured's Name – Enter the last name first, followed by the first name. The name must be at least one and no more than sixteen alphabetic and/or numeric characters in length.

(8) Producer Code – Enter the unique company assigned producer code number consisting of three to six alphabetic and/or numeric characters. May be left blank.

(9) Rating Company Number – Enter the three digit company code of the company whose voluntary private passenger rate was used to rate the policy. If the MAIP rate was used, report 001. If the voluntary rate used to rate the policy is equal to the MAIP rate, report 002.

(10) Risk Category – Enter the three character indicator for the rating category that was applied.

b. Reporting MAIP Placement Records via FTP Transmission

Those ARCs that have not yet established an account for the submission of data to CAR via FTP transmission must complete the

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FTP User Account Request Form located on CAR's website, under the Data Transfers link before they can report MPRs via FTP transmission. Once the FTP Account has been established, MAIP Placement Record transmissions can be submitted directly via CAR's FTP site. ARCs can report MPRs via FTP transmission on a continual basis with transmissions not to exceed one hour of transmission time.

Each evening, MAIP Placement Records submitted via FTP that day will be loaded to a suspense file. CAR will process acceptable MPRs to the permanent MAIP Placement Record database file within one business day. MPRs with non-fatal errors will be loaded to the MAIP Placement Record error file. At that point, ARCs can make the necessary corrections to MPRs via the Correct Rejected MAIP Placement Records screen (refer to Exhibit IX-A-12) which is available on the MAIP Company page of CAR's website, under MAIP Placement.

A MAIP Placement Record that contains a fatal error will not be loaded to CAR's permanent MPR database files. However, companies can view MAIP Placement Records that were reported with a fatal error on the Fatal MAIP Placement Records report (refer to Exhibit IX-A-13) which is available on the MAIP Company page of CAR's website, under MAIP Placement.

The record layout for MPRs reported via FTP transmission is as follows. Also refer to Exhibit IX-A-14.

Location	Field Length	Field Name	Contents
1	1	Kind of Record	Numeric: 1 – indicates MAIP Placement Record
2 – 3	2	State Code	Numeric: 20 – indicates Massachusetts
4 – 6	3	Rating Company Number	Numeric: Three digit code of the company whose voluntary private passenger rate was used to rate the policy <u>or value 001 or 002 as defined above.</u>
7 – 9	3	Risk Category	Alpha-Numeric: Three character indicator for the applied rating category.
10	1	CAR ID Code	Numeric: 9 – indicates MAIP Business

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The producer code must be valid for the company and effective year according to CAR's producer code file. Since the producer code may be optionally reported, it will only be edited if reported.

k. Non-Fatal Error Code 11 – Transaction Code 6 Received Prior to Cancellation Timeframe

A Transaction Code 6 that is submitted prior to the cancellation timeframe (40 days subsequent to expiration date of the prior Transaction Code 1 or 2), will be loaded to the MAIP error file. Once the cancellation timeframe has expired, and provided that the Transaction Code 1 or 2 has not been cancelled, the Transaction Code 6 will be accepted and moved from the error file to the MAIP Placement Record permanent database file.

l. Non-Fatal Error Code 12 – Rating Company/Risk Category Invalid

This edit applies to Transaction Codes 1 and 2 only. The rating company number must be a valid company number and must be three digits in length. For business written using MAIP rates, or for business where the MAIP rate equals the voluntary rate, the rating company ~~should use~~ must be 001 or 002, respectively as the rating company number. The risk category must be three digits in length and alpha-numeric characters only; no special characters or embedded spaces are allowed.

m. Non-Fatal Error Code 13 – Transaction Code 1 Received Prior to Void Timeframe

A Transaction Code 1 that is submitted prior to the expiration of the void timeframe (two business days subsequent to the date an application is assigned) will be loaded to the MAIP error file. Once the void timeframe has expired, and provided that the assignment had not been voided by the producer, the Transaction Code 1 will be accepted and moved from the error file to the MAIP Placement Record permanent database file. Note, however, that if the assignment is voided by the producer within the void timeframe, the record will remain on the error file, but will be flagged instead with Non-Fatal Error Code 4.

Companies are provided with an overview of industry MAIP Placement reporting errors via the MAIP Placement Records Analysis report (refer to Exhibit IX-B-5) which is available on the MAIP Company page of CAR's website, under MAIP Placement.