

A. Member Company, Servicing Carrier and Exclusive Representative Producer Responsibilities

1. Each Member, Servicing Carrier and Exclusive Representative Producer (ERP) must ensure that its own internal control and review procedures are sufficient to detect irregularities in the handling of Massachusetts commercial business. These procedures include, but are not limited to, the following:
 - a. Ensuring that all cessions, premiums, and claims are accurately and promptly reported to Commonwealth Automobile Reinsurers (CAR);
 - b. Ensuring that all reports, including those requested by special call, are completed accurately and promptly;
 - c. Ensuring that all policies retained as voluntary or ceded to CAR are rated accurately, consistent with reported statistical coding, and that voluntary or ceded claims are properly reported to CAR;
 - d. Ensuring full compliance with CAR's Plan and Rules of Operation.

Any internal irregularities identified must be immediately corrected.

2. Each Member, Servicing Carrier or ERP is subject to audit by CAR. For additional information relative to the audits performed in accordance with CAR's Compliance Audit Program, refer to Sections C. and D. of this Chapter.
3. All motor vehicle insurance policies are subject to review and audit in a manner and time approved by the Governing Committee. Statistical data subject to audit will include but shall not be limited to commercial business retained as voluntary and commercial business ceded to CAR through the Commercial Servicing Carrier Program, including premium and claim statistical data. Servicing Carriers are required to maintain all records for ceded policies for at least three calendar years following the last calendar year in which activity has occurred.
4. In accordance with Rule 9 – Audit Review of CAR's Rules of Operation, each Member or Servicing Carrier authorizes CAR to audit any portion of its commercial motor vehicle insurance business that has a bearing on participation in CAR's underwriting results, expenses, penalties, payment of claims or any other matter attributable to such member or Servicing Carrier.

B. Commonwealth Automobile Reinsurers' Procedures

1. Internal Procedures

CAR shall maintain records of all identified errors or violations of CAR's Plan or Rules of Operation. Any significant errors or violations will be reported to CAR's Compliance and Operations Committee.

2. Audits of the Commonwealth Automobile Reinsurers

a. Internal Audits

Internal quality control reviews may be conducted by CAR's Compliance Audit Department. These audits may include reviews of operational, financial, and information technology transactions, procedures and controls. CAR's Compliance Audit Department may also oversee or assist external auditors or consultants retained by CAR for CAR-specific projects.

b. Independent Audits

An independent audit of CAR will be conducted annually by a public accounting firm recommended by CAR's Financial Audit Committee and approved by CAR's Governing Committee. At the conclusion of the audit, an audit report and certified financial statements will be presented to the Financial Audit Committee. Upon request, copies of the financial statements will be made available.

C. Audits of Member Companies and Servicing Carriers

To fulfill its industry responsibilities as the Residual Market Administrator and Statistical Agent for motor vehicle insurance in the Commonwealth of Massachusetts, CAR conducts audits of reported statistical data as prescribed by the Compliance Audit Program approved by CAR's Governing Committee. The Commercial Audit is CAR's primary scheduled examination of commercial data.

Audited Members and Servicing Carriers that write or service commercial automobile insurance policies in Massachusetts and report statistical data to CAR, must make available to CAR all documentation needed to verify the accuracy of reported data.

1. Commercial Audit

The Commercial Audit reviews and tests the accuracy of reported premium and loss data and evaluates the audited company's compliance with statutory requirements and CAR's Rules of Operation. Premium and claim data is selected by policy year, accounting year, and classification code using a policy-level and claim-level sampling process. This data includes both voluntary and ceded records for premium and loss transactions.

In accordance with the Compliance Audit Program, the Commercial Audit of all Servicing Carriers must be completed once every two years and must sample both voluntary and ceded premium and loss records.

The Commercial Audit of a Member company's voluntary premium and loss records may be completed once every two years. A Member company's audit selection criteria shall be determined by CAR staff, and may include known data quality issues, or upon request by the Division of Insurance or a CAR committee.

Prior to the start of a Commercial Audit, the Member or Servicing Carrier to be audited must complete a Compliance Audit Claim Questionnaire that provides background information on its claims handling programs. Submission of the Compliance Audit Claim Questionnaire will certify that the company's claims handling practices comply at a minimum with the approved Commercial Claims Performance Standards. For additional information relative to the Compliance Audit Claim Questionnaire, refer to Appendix K – Compliance Audit Claim Questionnaire of the Commercial Claims Performance Standards which is available on CAR's website under the Manuals tab.

Refer to Section C.4. of this Chapter for specific details relative to the Commercial Audit components performed.

2. Documentation and System Access Requirements

Upon request, a company must make documentation and system access available to CAR. Documentation may include original documents, copies of scanned documents, or other reasonable facsimiles as required for audit completion. System access provides direct access to company computer systems on a read-only basis, to view information necessary to complete the audit. CAR will respect the level of supervision, confidentiality, and security that each Member or Servicing Carrier is willing to provide relative to the access of company documents and its computer systems.

Documentation and system access requirements for the Commercial Audit shall include but are not limited to the following:

- a) Access to the premium underwriting system which shows all necessary information involved in declarations and endorsements for premium determination, including coverages, limits, deductibles, classification and territory, etc.

However, if the company only provides or allows CAR partial or no system access, the following documentation should be substituted:

- (1) Access to an imaging system which shows all declarations and endorsements.
- (2) Hardcopies of declarations and endorsements.
- (3) A print-out of data stored in a computer, provided it includes all information found on the declaration page.
- (4) Primary commercial underwriting documentation, including new business applications, renewals, anti-theft documentation, pre-insurance inspection forms, cancellation forms, underwriter's notes, business type, size, weight and radius of operation for Truck, Tractor and Trailers, Private Passenger Types and Public Autos information, documentation relative to the number of and types of plates for Garage policies, and Hired Autos and Special Types information. Documentation also includes supporting experience rating calculations for ceded policies and all other rating modification calculations for voluntary policies.

This documentation may be provided through access to an imaging system or as an original hardcopy or a photocopy of the original document.

- (5) Printouts from the Registry of Motor Vehicles or access to the Registry of Motor Vehicles.
- b) Documentation and system access necessary to perform the claim statistical, Claims Performance Standards and SIU evaluation portions of the Commercial Audit, includes but is not limited to the following:
 - (1) Access to all source documentation within the claim system including check and payee information.
 - (2) Access to the claim file details including police reports, ACORD forms, appraisals and adjuster's running notes.
 - (3) Access to all source documentation related to legal, medical and all other expense details including explanation of expenses and costs.

- (4) Salvage/subrogation recovery records.
 - (5) Access to all total loss source documentation including salvage facility invoices, actual cash value figures, and title of vehicle.
- c) The audited Member or Servicing Carrier is required to supply its voluntary rates on file with the Division of Insurance within the accounting dates of the audit scope, including all applicable rules and discounts. If necessary, the Member or Servicing Carrier shall timely populate a data request developed by CAR that identifies each of the rating attributes noted in the applicable rate filings. Rate reperformance is then completed using the rating attributes as provided by the audited company as of the new business or renewal.

3. Compliance Audit Fees

a) System Access Fee

If the Member or Servicing Carrier determines that system access will not be made available to CAR, a fee will be assessed in consideration of the additional time and resources to be incurred by CAR in obtaining the documentation necessary to conduct the audit. The level of the fee is commensurate with the level of system access provided or allowed by the company.

Partial system access is defined as the company granting access to only the premium or claim, or any adjunct systems used to access source documents. The fee assessed will be \$12,000.

No system access is defined as the company not granting any direct access to the premium, claim, or any adjunct systems used to access source documents. The fee assessed will be \$24,000.

b) Late Access Fees

CAR will provide a minimum of 30 days between the Notice of Audit and the planned audit start date. If system access is not established timely, thus delaying the audit, a fee will be assessed in consideration of the additional time needed to complete testing. Delayed or late system access is defined as access that is not fully established and functioning as of the scheduled start date included in the Notice of Audit. The fee assessed will be \$1,000 per week.

c) Late Rate Data Fees

If completion of the data request is necessary to rate the voluntary policies, CAR will provide a minimum of 30 days between the date of distribution of the data request to the Member or Servicing Carrier and the due date for

receipt of the populated data request. If the data request is not returned by the due date thus delaying the ability to rate the sampled policies, a fee of \$1,000 per week will be assessed in consideration of the additional time needed to complete testing.

Assessed fees will be processed as bulk adjustments to a Member's or Servicing Carrier's Settlement of Balances and Member Participation Reports in the quarter subsequent to audit completion. Refer to Chapter VIII – Participation of this Manual for further information.

4. Components of the Commercial Audit

The Commercial Audit consists of six separate components:

(a) Premium and Claim Statistical Audit

A sample of commercial voluntary and ceded premium and claim data is selected from CAR's statistical files. The sample is verified at a 90% confidence level with a standard error rate of +/- 5% and consists of 270 unique policy numbers reported to CAR by the audited company and does not limit the number of selected policies with at least one claim. Depending on the reported classifications, a structured cross section of business vehicle classifications is sampled, including Trucks, Tractors, and Trailers, Private Passenger Types, Public Autos and Special Types. In addition, a cross section of classifications for Garages, non-Hired Auto, Hired Auto, and Drive Other Car coverage policies may be sampled.

The Premium and Claim Statistical Audit is designed to test the accuracy of statistical reporting by the audited company, in accordance with the Massachusetts Commercial Automobile Statistical Plan, and the consistency of the reported statistical data with the audited company's source documents. For each of the business vehicles or other classification types found on a selected policy, the reported statistical data, broken down by garaging territory, radius of operation, size, weight, type, dollar value, age, number of plates, exposure bases and CAR ID is compared to related information found on the source documentation. Examples of audited documents are new business applications, renewals, endorsements, underwriting notes (including experience rating calculation notes and all other rating modification calculation notes) and RMV data. All reported statistical premium and loss fields are audited. The Massachusetts Commercial Automobile Statistical Plan is available on CAR's website under the Manuals tab.

(b) Commercial Underwriting Audit

Using the same audit sample, the Commercial Underwriting Audit tests Member and Servicing Carrier's compliance with the rules, rates and

rating procedures detailed in the Massachusetts Commercial Automobile Insurance Manual.

Using the audited company's source documentation and premium underwriting reporting system, CAR calculates the appropriate policy premium. All reported premium dollar amounts are audited and all ceded policies in error require mandatory correction.

(c) Commercial Claims Performance Standards

G.L. c. 175, § 113H requires CAR to develop performance standards for the handling and payment of claims. As required by Rule 10 – Claim Practices of CAR's Rules of Operation, CAR conducts periodic audits of voluntary and ceded claims to evaluate a Member or Servicing Carrier's claim handling effectiveness, measure compliance with the Claims Performance Standards and identify potential differences in the claims handling of policies insured voluntarily and those ceded to CAR.

For additional details relative to the scope of the Commercial Claims Performance Standards compliance audit, including sample selection criteria and CAR audit procedures, refer to Appendix I – CAR Compliance Audit Claim Review Process of the Commercial Claims Performance Standards which is available on CAR's website under the Manuals tab.

(d) Special Investigative Unit (SIU) Evaluation

In accordance with G.L. c. 175, § 113H, every Member or Servicing Carrier is required to maintain a SIU to investigate suspicious claims on both voluntary and ceded policies. CAR, under the authority of Article III – Special Investigative Unit of CAR's Plan of Operation, monitors a Servicing Carrier's fraud control efforts and adherence to the established SIU Claims Performance Standards and provides assistance to Members and Servicing Carriers upon request. The SIU standards include requirements that encourage each Servicing Carrier to strongly support the activities of its own SIU department so as to resist the payment of fraudulent claims, establish fraud deterrents and reduce losses.

CAR's SIU evaluation provides measured audit results of suspected fraudulent claims, as outlined in G.L. c. 175, § 113H and identifies differences in claim handling of voluntary policies and those ceded to CAR.

For additional information relative to SIU standards, refer to Appendix A – CAR Special Investigative Standards of the Commercial Claims Performance Standards which is available on CAR's website under the Manuals tab.

For additional information relative to the scope of the SIU evaluation, sample selection criteria and CAR audit procedures, refer to Appendix J – CAR SIU File Review Process of the Commercial Claims Performance Standards which is available on CAR’s website under the Manuals tab.

(e) Duplicate Ceded Payment Identification (Servicing Carriers only)

CAR identifies potential ceded duplicate payments and produces listings, grouped as follows:

- Allocated Expenses
- Indemnity Subrogation Analysis
- Payments for PIP
- Payments Other Than PIP
- Negative Claim Balances

CAR uses payment history information and claim file documentation to research each payment identified on the listings. CAR will determine whether each ceded payment was incorrectly reported to CAR and whether any of the loss amounts are duplicate payments, are a duplicate reporting or have been statistically reported incorrectly. The Servicing Carrier is required to offset all incorrectly paid losses.

(f) Enhanced Procedures (Servicing Carriers only)

A minimum of ten policies are selected for Enhanced Procedures to evaluate the Servicing Carrier’s determination of commercial residual market eligibility. Audit procedures include documenting and cataloguing the supports used by the Servicing Carrier in its eligibility determination. Audit considerations include but not limited to:

- Documentation pertaining to Principal Place of Business and the nerve center of the risk, Non-Fleet Private Passenger Type vehicles, use of the Massachusetts Registry, the use of exclusion forms, and the required use of the Ineligible Risk Database.

The Commercial Audit Enhanced Procedures is dynamic allowing for consideration of any known company specific issues as well as any future developments that may require audit consideration.

5. Audit Conclusion Procedures

At various intervals during the Commercial Audit process, CAR provides the Member or Servicing Carrier with a Status Report that details the audit exceptions identified. Once the audit is complete, the audited company and CAR will review the issues identified and when possible, reach agreement on the results. The Status Report is modified as needed, based upon additional

source documentation provided and communication between the company and CAR. All unresolved issues will be clearly identified. Every error identified will be included in the company's final Status Report.

6. Commercial Audit Report

A report detailing the Commercial Audit findings will be provided to the audited Member or Servicing Carrier. Remedial action required will be identified. CAR will provide the audited company with a period of time to review the report and provide a response letter. In order to improve future reporting or claim handling practices, the response letter must outline the company's prospective plan of action to correct any identified irregularities. In addition, the response letter should address recurring errors resulting from a corporate decision not in agreement with the Massachusetts Commercial Automobile Statistical Plan, or the company filed voluntary rates, rules, and discounts.

The Compliance and Operations Committee will review and consider the results of the Commercial Audit report including any applicable remedial action required by CAR and the response provided by the audited company. The Committee will determine whether to accept the audit findings, direct CAR to develop a Corrective Action Plan for the audited company (refer to Section C.7. of this Chapter) or recommend potential punitive considerations to the Governing Committee.

The Commercial Audit report, including the company response letter, will be provided to the Division of Insurance.

7. Corrective Action Plan

If recommended by the Compliance and Operations Committee, CAR will develop and conduct further focus audits of a company specific to the areas of concern identified in the Commercial Audit Report. Results of the additional audits will be provided to the Compliance and Operations Committee.

8. Traffic Light Assessment Rating System

Audit results will be considered using a tiered approach:

A green light evaluation is assigned if no significant data issues are identified, and the Member or Servicing Carrier is compliant with all measured statutory requirements and CAR Rules. No further auditing is required, and the Member or Servicing Carrier remains in the audit schedule as previously defined.

A yellow light evaluation may be assigned if recurring statistical reporting and/or rating issues are identified, or any statutory requirement or CAR Rule measured during the audit is determined as noncompliant. Further focus

auditing within 12 to 18 months of the Commercial Audit completion may be recommended to the Compliance and Operations Committee. Potential future penalties would also be included in the recommendation.

A red-light evaluation is assigned if continued noncompliance with the Statistical Plan and/or statutory requirements exists after the follow-up focus audit. The Member or Servicing Carrier is then subject to future monthly accounting statistical data penalties in accordance with the Commercial Statistical Plan (VII: 7) until a monthly submission with accurate data is reported.

9. Focus Audits and Data Quality Reviews

Operational or statistical focus audits and data quality reviews specifically target Member or Servicing Carrier data quality issues that have an impact on ratemaking or equitability within the ceded commercial pool. The audits and reviews may apply to both voluntary and ceded business and focus on identified areas of concern which have a bearing on participation in CAR's underwriting results, expenses, penalties, payment of claims or any other matter attributable to such Member or Servicing Carrier.

CAR may design and implement focus audits or data quality reviews in accordance with a Division of Insurance or CAR Committee directive, or as determined necessary by CAR.

The same documentation and system access requirements as described in Section C.2. of this Chapter apply.

D. Audits of Exclusive Representative Producers

To ensure the integrity of the residual market mechanism and reported statistical data, additional audits or data quality summary reviews of ERPs will be conducted as determined necessary by CAR or as directed by the Division of Insurance or CAR committee.

The same documentation and system access requirements as described in Section C.2. of this Chapter apply.