



COMMONWEALTH AUTOMOBILE REINSURERS

225 FRANKLIN STREET – BOSTON, MASSACHUSETTS 02110

TEL: 617-338-4000 FAX: 617-338-5422 www.commauto.com

RALPH A. IANNACO
President

- M E M O R A N D U M -

TO: All Recipients of the CAR Operational Reports

FROM: Lisa Traynham, Data Analyst III

DATE: June 14, 2007

RE: Operational Reports

The 1st quarter 2007 Operational Reports follow this memorandum. They include data reported from February 16, 2007 through May 15, 2007 for the accounting months of January 2007 through March 2007. If you have any comments or suggestions to improve the usefulness of these reports, please contact me.

Section I – Accounting/Statistical Shipments:

On February 16, 2007 revisions to the Massachusetts Private Passenger Statistical Plan were approved by the Division of Insurance, pursuant to the provisions of Massachusetts General Laws Chapter 175A, Section 15. Accounting and Statistical Notice No. 456 dated January 30, 2007 initially announced these proposed revisions. The summaries of the approved Statistical Plan modifications are included in Section I – Statistical System of the Operational Report.

- For clarification only, language for the Business Use classification codes has been updated for consistency with Rule 28 of the AIB's Private Passenger Automobile Insurance Manual.
- For clarification only, language relative to the reporting of multi-vehicle policies has been updated to reference Rule 28 of the AIB's Private Passenger Automobile Insurance Manual.
- The word “principal” has been removed from the descriptions of classification codes 115 and 116 codes since these classes can now represent both principal and occasional operators.

On May 7, 2007, the Division of Insurance approved the following modification to the Commercial Statistical Plan:

- For consistency with the recent modifications made to the Private Passenger Statistical Plan and in order to specifically identify Bodily Injury, Uninsured and Underinsured Liability Limits of 500,000/500,000, code 15 has been added to the appropriate limits tables.

CAR assessed a total of \$34,450 in statistical penalties in the 1st quarter 2007 Settlement of Balances.

OPERATIONAL REPORTS 1ST QUARTER 2007

Section II – Cessions:

CAR currently is reviewing the documentation from the results of the CA5010 audit. Any outstanding results against companies will be noted in the next quarterly Operational Reports.

As of May 15, 2007 the Private Passenger cession volume rate equaled 3.9%; the commercial cession volume rate equaled 24.5%.

Section III – Quarterly Participation Reports:

1st quarter 2007 Critical Error Write-Offs and 10% Loss of Investment Fees totaled \$217,238 and \$5,040 respectively.

For 2007, the Rule 12 tolerance is at 0.15%. CAR will not be mailing the 1st Quarter reports due to necessary program modifications which are the result of the change in the rating year to April 1.

Section IV – Accounting System Processing:

Relative to the Audit Review, CAR assessed the "Audit Review" penalties against 2005 and 2006 policy effective year following the March 2007 monthly accounting shipments due at CAR on May 15, 2007 for all companies remaining over the tolerance level of 1% and 10 policies in error. These penalties were included in the 1st quarter 2007 Settlement of Balances.

CAR assessed penalties totaling \$340,000 for Cession/No Premium Write-Offs and -\$25,760 for Net-Negative Premium Write Off penalties against all of 2004 policy effective year in April 2007. The \$60 Cession/No Premium Penalties ran on May 29, 2007 with penalties totaling \$140,820 to be posted within the next Quarterly Settlement of Balances report.

Section V - Statistical Agent Functions:

The Statutory Page 14 for 4th Quarter 2006 reporting was due at CAR on March 15, 2007. Penalties for those late returns amounted to \$10,350 and were assessed in the 1st quarter 2007 Settlement of Balances. Reconciliation Responses for 4th Quarter 2006 were due on May 11, 2007. Those companies with late responses will have assessments posted within the next Quarterly Settlement of Balances.

All companies that exceed the commercial and private passenger rate edit tolerances are listed on pages 30-31.

The Distributional Analysis Reports are currently being automated for accessing on CAR's website and will circulate in September of 2007.

Section VI – Communications:

CAR added reports and cubes relative to the Rule 12 Credit Edit. These reports will replace the paper copies that CAR mailed out and will provide additional comparison information.

The Company Reporting Profile Twelve-month reports have been posted as of late April 2007.

**OPERATIONAL REPORTS
1ST QUARTER 2007**

I. STATISTICAL SYSTEM

A. Reporting of Company Shipments

The monthly submission of statistical data is due at CAR according to the Call Schedule contained in the table below. The timeliness exhibit on the following page reflects the timeliness status of all companies for 2007 as of the first quarter. That is, it reflects those companies whose submissions were not complete by the due date indicated below.

2007 CALL SCHEDULE		
Submission	Due Date	Quarter
January 2007	March 15, 2007	1 st Qtr
February 2007	April 16, 2007	
March 2007	May 15, 2007	
April 2007	June 15, 2007	2 nd Qtr
May 2007	July 16, 2007	
June 2007	August 15, 2007	
July 2007	September 17, 2007	3 rd Qtr
August 2007	October 15, 2007	
September 2007	November 15, 2007	
October 2007	December 17, 2007	4 th Qtr
November 2007	January 15, 2008	
December 2007	February 15, 2008	

In instances where a company's ceded loss dollars are complete by quarter's end but its ceded premium dollars are not, CAR will assess "loss of investment income" penalties to reimburse the pool for the missing premium dollars. CAR did not assess any "loss of investment income" penalties in first quarter, 2007.

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1ST QUARTER 2007**

I. STATISTICAL SYSTEM (continued)

2007 Timeliness Report

<i>CO NO</i>	<i>Jan 3/15</i>	<i>Feb 4/16</i>	<i>Mar 5/15</i>	<i>Apr 6/15</i>	<i>May 7/16</i>	<i>Jun 8/15</i>	<i>July 9/17</i>	<i>Aug 10/15</i>	<i>Sep 11/15</i>	<i>Oct 12/17</i>	<i>Nov 1/15</i>	<i>Dec 2/15</i>
096		COM										
194			COM									
261			COM									
263			COM									
316		COM										
331			PP									
486	COM											
499			COM									
828	PP											
837			COM									
894	COM		COM									
907		PP										
943		PP										
963	COM	COM										
989			PP									

**OPERATIONAL REPORTS
1ST QUARTER 2007**

I. STATISTICAL SYSTEM (continued)

B. Statistical Plan Penalty Fee Program

CAR assesses various statistical penalties as outlined in the Data Quality Penalty Section of the Private Passenger and Commercial Statistical Plans. These penalties include items such as incomplete monthly submissions, late submission of page 15 data, and failure to reduce a shipment's error percent to below 5%.

For 1st quarter 2007, CAR assessed a total penalty amount of \$34,450. The table below shows the detail penalties for each company.

Penalty Assessments
1st Quarter 2007

Co #	Company Name	Assessment	Assessment Amount
096	American Hardware Mutual Ins Co	Late 1/07 MAS	\$ 4,000
096	American Hardware Mutual Ins Co	Late 2/07 MAS	\$ 800
100	Acadia Insurance Company	Late 1/07 MAS	\$ 800
230	Praetorian Insurance Company	Stat Err >5% 12/06	\$ 300
259	Cincinnati Insurance Company	Late 12/06 MAS	\$ 300
309	Electric Insurance Company	Rescinded Penalty 4 th qtr	\$ (100)
316	Empire Fire & Marine Insurance	Stat Err >5% 04/06	\$ 800
316	Empire Fire & Marine Insurance	Stat Err >5% 06/06	\$ 400
316	Empire Fire & Marine Insurance	Stat Err >5% 07/06	\$ 1,200
316	Empire Fire & Marine Insurance	Stat Err >5% 08/06	\$ 400
316	Empire Fire & Marine Insurance	Stat Err >5% 09/06	\$ 500
316	Empire Fire & Marine Insurance	Stat Err >5% 11/06	\$ 600
316	Empire Fire & Marine Insurance	Late 1/07 MAS	\$ 2,000
316	Empire Fire & Marine Insurance	Late 2/07 MAS	\$ 800
325	Employers Fire Insurance	Late 1/07 MAS	\$ 300
362	Farm Family Casualty Insurance	Stat Err >5% 01/07	\$ 600
380	Federate Mutual Insurance Co.	Stat Err >5% 12/06	\$ 100
400	Axis Insurance Company	Late Return Pg 15 Data	\$ 650
402	Firemen's Ins. Co. of Wash. DC	Late 1/07 MAS	\$ 300
424	Graphic Arts Mutual Insurance Co.	Stat Err > 5% 10/06	\$ 100
424	Graphic Arts Mutual Insurance Co.	Stat Err >5% 11/06	\$ 100
486	Harleysville Preferred Ins. Co.	Late 1/07 MAS	\$ 300
582	Merchants Mutual Insurance Co.	Stat Err >5% 10/06	\$ 400
622	National Interstate Insurance Co.	Late Return Pg 15 Data	\$ 100
625	American States Insurance Co.	Stat Err > 5% 09/06	\$ 400
650	Coregis Insurance Company	Late Return Pg 15 Data	\$ 550

**OPERATIONAL REPORTS
1ST QUARTER 2007**

I. STATISTICAL SYSTEM (continued)

B. Statistical Plan Penalty Fee Program (continued)

Penalty Assessments
1st Quarter 2007

<u>Co #</u>	<u>Company Name</u>	<u>Assessment</u>	<u>Assessment Amount</u>
667	The North River Insurance Company	Late Return Pg 15 Data	\$ 2,050
686	Occidental Fire & Casualty Co of NC	Late Return Pg 15 Data	\$ 100
695	Old Republic Insurance Company	Late Return Pg 15 Data	\$ 400
748	QBE Insurance Corporation	Late Return Pg 15 Data	\$ 300
752	Republic Franklin Insurance Co.	Stat Err > 5% 07/06	\$ 100
752	Republic Franklin Insurance Co.	Stat Err > 5% 10/06	\$ 100
753	Redland Insurance Company	Stat Err > 5% 12/06	\$ 200
757	RLI Indemnity Company	Late Return Pg 15 Data	\$ 50
828	State Farm Mutual Auto Insurance	Late 1/07 MAS	\$ 300
831	Axis Reinsurance Company	Late Return Pg 15 Data	\$ 650
833	Stonewall Insurance Company	Late Return Pg 15 Data	\$ 600
845	Tower Insurance Company of N.Y.	Late Return Pg 15 Data	\$ 550
837	T.H.E. Insurance Company	Stat Err > 5% 06/06	\$ 800
837	T.H.E. Insurance Company	Stat Err > 5% 09/06	\$ 100
837	T.H.E. Insurance Company	Stat Err > 5% 12/06	\$ 100
837	T.H.E. Insurance Company	Late 9/06 MAS	\$ 1,000
837	T.H.E. Insurance Company	Late 12/06 MAS	\$ 1,000
894	Twin City Fire Insurance	Stat Err > 5% 11/06	\$ 500
894	Twin City Fire Insurance	Stat Err >5% 12/06	\$ 100
898	Seaton Insurance Company	Late Return Pg 15 Data	\$ 600
907	United Services Automobile Assoc	Late 02/07 MAS	\$ 800
927	United States Fire Insurance Co.	Late Return Pg 15 Data	\$ 2,050
943	United Services Automobile Assoc	Late 02/07 MAS	\$ 800
948	Utica Mutual Insurance Company	Stat Err > 5% 11/06	\$ 500
951	Vanliner Insurance Company	Stat Err > 5% 11/06	\$ 100
951	Vanliner Insurance Company	Stat Err > 5% 01/07	\$ 300
954	Virginia Surety Company, INC	Late Return Pg 15 Data	\$ 850
963	Harleysville Worcester Ins. Co.	Late 12/06 MAS	\$ 800
963	Harleysville Worcester Ins. Co.	Late 1/07 MAS	\$ 300
980	Westport Insurance Corporation	Late Return Pg 15 Data	\$ 550
984	Hingham Mutual Fire Insurance Co.	Late Return Pg 15 Data	\$ 300
985	DaimlerChrysler Insurance Co.	Late 12/06 MAS	\$ 800
			\$ 34,450

**OPERATIONAL REPORTS
1ST QUARTER 2007**

I. STATISTICAL SYSTEM (continued)

Massachusetts Commercial Statistical Plan
Approved Modifications

Approved Effective Date	Description	Status
January 1, 2008	For consistency with the recent modifications made to the Private Passenger Statistical Plan and in order to specifically identify Bodily Injury, Uninsured and Underinsured Liability Limits of 500,000/500,000, code 15 has been added to the appropriate limits tables.	Approved by Division of Insurance on May 7, 2007.

**OPERATIONAL REPORTS
1ST QUARTER 2007**

I. STATISTICAL SYSTEM (continued)

Massachusetts Private Passenger Statistical Plan
Approved Modifications

Approved Effective Date	Description	Status
Optional January 1, 2007 – December 31, 2007	Language for the Business Use classification codes has been updated for consistency with Rule 28 of the AIB’s Private Passenger Automobile Insurance Manual.	Approved by the Division of Insurance on February 16, 2007.
Mandatory January 1, 2008 and subsequent	Language relative to the reporting of multi-vehicle policies has been updated to reference Rule 28 of the AIB’s Private Passenger Automobile Insurance Manual.	
	The word “principal” has been removed from the descriptions of classification codes 115 and 116 since these classes can now represent both principal and occasional operators. Additional classification codes for inexperienced occasional operators aged 65 and older have been added to the Valid Statistical Class Code Reporting Table.	

**OPERATIONAL REPORTS
1ST QUARTER 2007**

II. CESSION SYSTEM

A. Cession Submission

CAR accepts cession data via three different methods: cartridge, on-line telecommunications, and FTP transmission. Please contact your company's Data Analyst if you need assistance in gaining access to CAR's telecommunications system. In 2007, CAR accepts cession records and cession corrections for policy years 2005-2007.

For more information regarding cession reporting via FTP, please reference Bulletin Number 380.

B. Cession Backdates

1. TX1/TX2 Cession Backdate Appeals based on Intent to Cede

In instances where a company provides documentation showing its intent to cede a specific policy, CAR maintains the authority to act upon those appeals provided the backdate request does not exceed 25 policies. Furthermore, the appeal and associated documentation must meet the criteria outlined in Chapter 2 of the Manual of Administrative Procedures. For any policy that does not meet the criteria, CAR does not have the authority to grant the appeal; the company then can present the appeal before the Operations Committee.

There were no "intent-to-cede" backdate appeals during the first quarter.

2. TX5 Cession Backdate Appeals

In instances where a company intended to write a policy voluntary, it can appeal for a transaction 5 (un-cede) backdate. CAR maintains the authority to approve these types of appeals when the documentation provided clearly shows the company made the decision to write the policy voluntary prior to the policy effective date.

The table on the following page reflects the log of cession backdate requests CAR Staff processed since the last publication of the Operational Reports on March 13, 2007.

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II. CESSION SYSTEM (continued)

TX5 Cession Backdate Log

DATE SUBMITTED	CO NO	NUMBER OF CESSIONS	DATE REQUESTED	BACKDATE GRANTED?	REASON FOR APPROVAL/ DISAPPROVAL
2/26/07	455	1	2/15/07	yes	Decision to retain policy as voluntary business made prior to the policy effective date.
3/13/07	279	9	Various	Yes	Decision to retain policies as voluntary business was made prior to the policy effective dates.
3/7/07	612	5	Various	Yes	Decision to retain policies as voluntary business was made prior to the policy effective dates.
3/22/07	279	3	Various	Yes	Decision to retain policies as voluntary business was made prior to the policy effective dates.
3/23/07	279	1	10/31/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
4/2/07	279	1	3/9/07	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
4/5/07	279	1	11/20/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
4/17/07	279	1	11/22/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
4/18/07	773	1	3/15/07	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
4/30/07	312	1	3/30/07	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
5/3/07	279	10	Various	Yes	Decision to retain the policies as voluntary business was made prior to the policy effective dates.
5/7/07	455	1	5/2/07	yes	Hanover retaining voluntary. Hanover is not Commercial carrier for producer
5/8/07	279	1	12/1/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
5/8/07	279	1	11/17/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
5/9/07	279	1	12/15/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.

**OPERATIONAL REPORTS
1ST QUARTER 2007**

II. CESSION SYSTEM (continued)

3. CR215 Cessions Automatically Backdated

On a quarterly basis, CAR produces the CR215 report that monitors the volume of cessions backdated for involuntary producer business. The program shows the three current reporting years for cession activity. Accordingly, CAR recently sent the latest report to the industry in early May 2007 monitoring policy years 2005, 2006 and 2007 for the 1st quarter 2007.

The following exhibits show the latest in the industry's volumes of backdated cessions. On the report itself, the column to the right of percent backdated indicates if the volume of backdated producers exceeds the tolerance level. Accordingly:

- an asterisk (*) indicates that more than 5% of the total new business cessions for the company are backdated.
- a pound symbol (#) indicates more than 5% are backdated but fall within the tolerance level. (*The tolerance level is 5% and 25 policies in error*).

**OPERATIONAL REPORTS
1ST QUARTER 2007**

II. CESSION SYSTEM (continued)

3. CR215Q Cessions Automatically Backdated

Policy Year 2005
Private Passenger

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
045	685	20	2.9	0.0	642	0
279	2,434	9	0.4	0.0	0	0
514	60	1	1.7	0.0	0	0
585	103	2	1.9	0.0	0	0
602	273	15	5.5 #	0.0	2,226	0
612	24	0	0.0	0.0	0	0
723	2,924	13	0.4	0.0	0	0
773	6,619	24	0.4	0.0	0	0
826	570	1	0.2	0.0	0	0
908	7,749	295	3.8	0.0	37,952	6,600
Totals	21,441	380	2.7%	N/A	40,820	6,600

Commercial

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATE D	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
049	291	8	2.7	0.0	0	0
102	149	9	6.0 #	0.0	0	0
152	260	15	5.8 #	0.0	337	0
194	113	6	5.3 #	0.0	0	0
279	344	9	2.6	0.0	0	0
333	332	6	1.8	0.0	0	0
438	369	12	3.3	0.0	0	0
455	205	14	6.9 #	0.0	24,018	0
514	338	41	12.1 *	0.0	1,986	0
612	29	21	72.4 #	0.0	0	0
644	32	1	3.1	0.0	0	0
734	448	24	5.4 #	0.0	1,887	0
735	31	5	16.1 #	0.0	0	0
751	7	5	71.4 #	0.0	631	0
773	307	2	0.7	0.0	0	0
887	1,680	160	9.5 *	0.0	19,018	0
929	47	1	2.1	0.0	0	0
Totals	4,982	339	6.8% *	N/A	47,877	0

* indicates that more than 5% of the total new business cessions for the company are backdated.

indicates more than 5% are backdated but fall within the tolerance level. (*The tolerance level is 5% and 25 policies in error*).

**OPERATIONAL REPORTS
1ST QUARTER 2007**

II. CESSION SYSTEM (continued)

3. CR215Q Cessions Automatically Backdated (continued)

Policy Year 2006
Private Passenger

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
045	141	0	0.0	0.0	0	0
279	3,928	15	0.4	0.0	0	0
514	14	0	0.0	0.0	0	0
585	105	3	2.9	0.0	0	0
612	28	1	3.6	0.0	0	0
723	1,684	8	0.5	0.0	0	0
773	14	0	0.0	0.0	0	0
908	5,742	61	1.1	0.0	0	0
Totals	11,656	88	0.8%	N/A	0	0

Commercial

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
152	239	14	5.9 #	0.0	0	0
245	625	40	6.4 *	0.0	0	0
279	121	5	4.1	0.0	0	0
455	1,915	218	11.4 *	0.0	10,509	17,850
734	465	19	4.1	0.0	0	0
735	29	3	10.3 #	0.0	0	0
773	126	0	0.0	0.0	0	0
887	673	51	7.6 *	0.0	0	0
Totals	4,193	350	8.3% *	N/A	10,509	17,850

* indicates that more than 5% of the total new business cessions for the company are backdated.

indicates more than 5% are backdated but fall within the tolerance level. (*The tolerance level is 5% and 25 policies in error.*)

**OPERATIONAL REPORTS
1ST QUARTER 2007**

II. CESSION SYSTEM (continued)

3. CR215Q Cessions Automatically Backdated (continued)

Policy Year 2007
Private Passenger

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
153	3	1	33.3 #	0.0	0	0
279	1,418	2	0.1	0.0	0	0
514	9	0	0.0	0.0	0	0
585	21	8	38.1 #	0.0	0	0
612	8	0	0.0	0.0	0	0
723	827	1	0.1	0.0	0	0
773	0	0	0.0	0.0	0	0
826	0	0	0.0	0.0	0	0
908	700	11	1.6	0.0	0	0
Totals	2,986	23	0.8%	N/A	0	0

Commercial

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
152	121	0	0.0	0.0	0	0
245	438	20	4.9	0.0	0	0
279	36	0	0.0	0.0	0	0
455	439	24	5.5 #	0.0	0	0
734	150	14	9.3 #	0.0	0	0
735	14	1	7.1 #	0.0	0	0
773	39	0	0.0	0.0	0	0
Totals	4,987	339	6.8% *	N/A	18,957	0

* indicates that more than 5% of the total new business cessions for the company are backdated.

indicates more than 5% are backdated but fall within the tolerance level. (*The tolerance level is 5% and 25 policies in error*).

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1ST QUARTER 2007**

II. CESSION SYSTEM (continued)

C. CA5010 Flat Cancellation Audit

Twice per year CAR runs the CA5010 - Flat Cancellation Documentation Listing. Its purpose is to randomly sample flat-canceled policies to verify that the industry is using flat-cancellation transactions properly. CAR ran the CA5010 on January 29, 2007 and the documentation was due back at CAR by April 23, 2007. CAR is currently reviewing the documentation and will post the results in the next quarterly Operational Reports.

D. Cession Volumes

The private passenger and commercial cession volume results for the past six years are highlighted in the chart below. The cession rate for the current year is based on statistically reported data only and does not include estimates for missing data.

Effective Year	Private Passenger Cession %	Commercial Cession %	Time Period
2002	7.5%	28.0%	Final Result
2003	6.9%	27.9%	Final Result
2004	6.7%	26.9%	Final Result
2005	6.2%	26.2%	Final Result
2006	4.9%	25.4%	Final Result
2007	3.9%	24.5%	As of March 2007

You can view your company's cession volume figures via CAR's telecommunications system. The On-line Telecommunications Manual provides the specific instructions for accessing the reports. Additionally, this information is available on CAR's website (www.commauto.com).

**OPERATIONAL REPORTS
1ST QUARTER 2007**

III. QUARTERLY PARTICIPATION

A. Production of Quarterly Participation Reports

CAR posted the March 2007 Quarterly Member Participation Reports to its website on June 8, 2007. From CAR's home page, click Reports, Financial, and then Settlement of Balances. These are secure reports that require a user id and password in order to view. Please contact your company's security administrator to request access.

B. Participation Base Data

The 1st Quarter 2007 estimated Participation Ratios using data reported through March 31, 2007, will be posted to CAR's website by June 30, 2007.

C. Rule 12 Participation Credits

CAR ran the final Rule 12 credit edit reports for the 2006 accounting date in early-May. These reports are available on CAR's website under the Data Reporting and Quality Reports page. CAR expects to run 1st Quarter 2007 Rule 12 reports in late June 2007. The delay in running 1st quarter is the result of needed programming changes to implement the mid-year rate change to April 1.

The Rule 12 tolerance level is set on an annual basis. For rating year 2007, the Governing Committee approved a tolerance level of 0.15%. The table below shows a six-year history of the Rule 12 tolerance level and the industry's error percent.

Accounting Year	Tolerance Level	Industry Error %	
		LIAB	PHYS
2000	0.50%	1.65%	1.76%
2001	0.25%	1.45%	1.54%
2002	0.25%	1.49%	1.57%
2003	0.25%	1.45%	1.62%
2004	0.25%	1.14%	1.30%
2005	0.15%	0.43%	0.52%
2006 (4 th Qtr)	0.15%	1.54%	1.57%
2007	0.15%	N/A	N/A

**OPERATIONAL REPORTS
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III. QUARTERLY PARTICIPATION (continued)

D. CAR Financial Results

The ultimate policy year deficit projections, as of March 2007, for the latest three policy years are as follows:

(Numbers are in \$000s)

Policy Year	Private Passenger	Commercial
2004	(152,002)	25,869
2005	(103,462)	26,482
2006	(100,282)	17,391

E. CAR Commercial Rates

The schedule of commissions for ceded commercial policies effective of October 1, 2005 and subsequent is as follows:

Taxis	5.86%
Limousine/Car Service	3.72%
All Other Classifications	9.52%

CAR's Experience Rating Plan is available on CAR's website at www.commauto.com under the "Manuals".

**OPERATIONAL REPORTS
1ST QUARTER 2007**

IV. ACCOUNTING SYSTEM

A. Update of the Online Accounting System

CAR updates the online accounting system every Friday night. Accordingly, all new premiums and loss activity and all correction activity are posted to the system on Friday evenings and viewable to the industry on Monday mornings. This schedule deviates four times per year following the end of a quarter. The table below shows the quarter ending schedule for updates to the CAR accounting system.

Quarter	MAS Due Date	Accounting System Update
1st Quarter 2007	May 15, 2007	May 16, 2007
2nd Quarter 2007	August 15, 2007	August 16, 2007
3rd Quarter 2007	November 15, 2007	November 16, 2007
4th Quarter 2007	February 15, 2008	February 16, 2008

B. Critical Error Write-Off

To ensure that each company's cession, premium, and loss reporting is accurate and timely, CAR edits all ceded data through three edits that are deemed "critical" to sound reporting procedures. If any ceded record fails critical error code 1, 6, or 7 it lists on the critical error list. (You can find a description of these error codes in the Policy Edit Package).

For losses specifically, CAR requires every record to be fixed within one year of falling into critical error. If a loss record has not been fixed after a year of remaining in critical error, CAR writes-off that loss record and assesses an interest fee of 10%. This write-off process occurs the last Saturday of every month. The table on the following page shows the write-off amounts and associated 10% fees for first quarter 2007.

Lastly, CAR also provides loss data eligible for future loss write-offs. The potential loss write-offs for June 2007 through November 2007 are shown following the 1st quarter write-off exhibit.

**OPERATIONAL REPORTS
1ST QUARTER 2007**

IV. ACCOUNTING SYSTEM (continued)

B. Critical Error Write-Off (continued)

Write-Off – 1st Quarter 2007

Company	Feb 2007	March 2007	April 2007	Total
045	0	22,163	0	22,163
049	363	0	0	363
096	0	6,752	0	6,752
153	-290	2,172	4,354	6,236
154	0	10,536	6,628	17,164
194	5,721	5,114	12,324	23,159
209	0	0	-13,083	-13,083
312	0	4,924	0	4,924
331	-2,004	15,591	11,432	25,019
333	20,334	21,742	4,938	47,014
402	29,513	0	0	29,513
481	195	0	0	195
612	0	9	0	9
723	0	4,854	0	4,854
743	11	0	0	11
751	0	3,120	0	3,120
773	0	0	15	15
887	325	8,478	3,260	12,063
894	16,051	9,733	0	25,784
963	0	0	1,963	1,963
INDUSTRY	70,219	115,188	31,831	217,238

**OPERATIONAL REPORTS
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IV. ACCOUNTING SYSTEM (continued)

B. Critical Error Write-Off (continued)

1st Quarter 2007 – 10% Loss of Investment Fees

Co No	Feb- 07	Mar- 07	Apr- 07	Total
045	0	2	0	2
049	36	0	0	36
096	0	50	0	50
153	0	-53	0	(53)
194	213	0	586	799
209	0	0	-1,308	(1,308)
312	0	353	0	353
331	0	584	266	850
333	0	38	357	395
402	2,927	0	0	2,927
481	20	0	0	20
723	0	18	0	18
743	1	0	0	1
751	0	399	0	399
887	33	65	326	424
894	-19	146	0	127
Total	3,211	1,602	227	5,040

**OPERATIONAL REPORTS
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IV. ACCOUNTING SYSTEM (continued)

B. Critical Error Write-Off (continued)

Potential Loss Write-Off June 2007 through November 2007

Company	June 2007	July 2007	August 2007	September 2007	October 2007	November 2007	Grand Total
045	0	0	0	6,587	353	0	6,940
049	5,303	7,347	72,465	0	169	245	85,529
152	0	6,881	582	4,045	0	0	11,508
153	38,509	30,954	21,508	79,830	51,944	2,777	225,522
154	0	43,739	938	2,756	12,447	1,150	61,030
194	2,833	0	872	0	788	9,481	13,974
209	682	20,693	0	1,165	-8,332	1,350	15,558
312	0	0	0	7,243	296	0	7,539
317	0	0	967	0	1,429	991	3,387
331	56,025	0	-51,090	8,473	3,705	0	17,113
333	7,702	0	22,936	0	0	0	30,638
455	0	0	0	0	3,537	-1,849	1,688
481	0	5,000	0	0	19,453	0	24,453
514	0	0	0	0	0	9,128	9,128
585	0	0	0	0	0	4,598	4,598
602	0	10,345	0	10	709	0	11,064
612	0	228	0	0	0	0	228
664	0	0	0	18,636	-6,195	0	12,441
723	23,936	-574	45,110	6,096	-16,660	0	57,908
767	0	0	0	0	0	163,252	163,252
773	2	245	0	0	0	0	247
826	0	0	0	0	764	0	764
887	215	-233	-249	-6022	-174	0	-6,463
894	0	0	0	0	8,000	601	8,601
988	0	0	0	0	65	0	65
Totals	135,207	124,625	114,039	128,819	72,298	191,724	766,712

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IV. ACCOUNTING SYSTEM (continued)

C. Non-Critical Error "Audit Review" Program

Unlike critical errors, non-critical errors do not prevent loss coverage on a policy. However, they could cause a financial impact if the volume of non-critical errors exceeds the established tolerance levels. The tolerance level is 1% and 10 policies in error for each error code per effective year. If the volume of errors for a specific error code exceeds the tolerance level, the company has up to nine months to reduce the volume of errors before facing a penalty. Please reference the Policy Edit Package for more specific information. The exhibits below show year-to-date penalties and potential penalties.

Audit Review Penalties
2005 Policy Effective Year

Times Identified	Company	Error Code	Percent in Error	# Policies in Error	Penalty
10	312	10	1.45	104	\$1,600
2	331	10	1.17	103	\$750
12	331	12	1.48	130	\$2,100
21	894	4	3.22	15	\$500
19	963	2	3.81	43	\$1,600

Audit Review Penalties
2006 Policy Effective Year

Times Identified	Company	Error Code	Percent in Error	# Policies in Error	Potential Penalty
10	153	4	1.95	407	\$9,950
10	354	12	6.09	376	\$15,700

2006 Non-Critical Error Over Tolerance Potential Penalty

Times Identified	Company	Error Code	Percent in Error	# Policies in Error	Potential Penalty
1	153	4	1.39	106	\$1,500
5	153	5	1.52	323	\$5,500

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IV. ACCOUNTING SYSTEM (continued)

D. Company Reporting Profiles

The company reporting profile provides an overview of each company's reporting during a six-month and twelve-month period per accounting year. It highlights the areas to which a company must devote more resources in order to improve its data reporting.

CAR produced and posted the 12-month 2006 company profile reports to its website in April 2007. The reports are located under the Data Reporting and Quality tab on the reports page and then under company status reports.

E. Penalty Forecasting Program

CAR produces the Penalty Forecasting exhibits in March, June, September, and December. The program helps companies in their correction efforts and helps Servicing Carriers track potential future penalties if corrective actions are not taken by the companies. If you do not have access to the reports, please contact your company's Security Administrator to request access.

CAR will post the 1st quarter 2007 forecasting reports in early-June 2007.

F. \$60 Cession/No Premium Penalties

On May 29, 2007 CAR assessed \$60 Cession/No Premium penalties against all cessions that listed on the penalty list. A cession qualifies for the penalty list when the premium amount on the policy totals to less than or equal to \$0 for five or more months. The table below shows those penalty results.

Co. No.	Penalty Amount
045	\$420
049	\$120
194	\$480
245	\$540
331	\$6,060
333	\$600
402	\$120
514	\$21,960
575	\$840
602	\$60
664	\$120
723	\$240
751	\$120
887	\$2,400
894	\$60
948	\$60
963	\$540
971	\$104,580
988	\$1,500
Total	\$140,820

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IV. ACCOUNTING SYSTEM (continued)

G. 2004 Cession/No Premium Write-Off

The annual Cession/No Premium Write-Off amounts are based on a policy count (excluding flat cancelled and cession/no premium policies) divided by the corresponding full premium (rather than deviated), at 15 months. Please reference the table below for the write-off penalty amount for 2004 effective date policies and for historical information.

Year	PP Penalty	Commercial Penalty	Taxi/Limo/CAR Service Penalty
2005	\$1,600	\$6,200	\$10,800
2004	\$1,600	\$6,200	\$11,100
2003	\$1,500	\$6,500	\$9,900
2002	\$1,400	\$6,300	\$9,600
2001	\$1,300	\$5,300	\$8,800
2000	\$1,300	\$4,000	\$7,800

CAR closed out cession and premium reporting for policy effective year 2004 following the 12/2006 monthly accounting/statistical submission due at CAR on February 15, 2007. Accordingly, CAR assessed this penalty against 2004 policies in the first quarter 2007 Settlement of Balances reports.

2004 Cession/No Premium Write-Off

Company	Write-Off Amount
049	\$24,800
194	\$49,600
331	\$11,200
333	\$18,600
402	\$6,200
514	\$4,800
575	\$12,400
664	\$1,600
767	\$6,200
887	\$43,400
894	\$24,800
963	\$6,200
971	\$130,200
Total	\$340,000

**OPERATIONAL REPORTS
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IV. ACCOUNTING SYSTEM (continued)

H. 2004 Net Negative Premium Write-Off

Following the close of premium and cession reporting for a specific year, CAR assesses a net-negative premium write-off against each policy that contains an overall premium amount of less than \$0. To correct the negative condition, CAR adds offsetting records to each policy to bring the total premium amount up to \$0 – in essence correcting the policy. The amount that CAR adds to each policy and collects back from the industry is reflected in the first quarter, 2007 Settlement of Balances reports.

Co. No.	Penalty Amount
049	(\$5,262)
153	(\$1,579)
154	(\$4,704)
194	(\$1,097)
209	(\$118)
331	(\$4,134)
514	(\$2,105)
664	(\$29)
767	(\$15)
887	(\$2,462)
894	(\$117)
963	(\$4,131)
971	(7)
Total	(\$25,760)

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V. STATISTICAL AGENT FUNCTION

A. Update of the Online Statistical System

CAR loads statistical data to its permanent database files and updates the online statistical system every Wednesday night. Accordingly, all new premiums and loss activity and all correction activity are posted to the system on Wednesday evenings and viewable to the industry on Thursday mornings. This schedule deviates four times per year following the end of a quarter. The table below shows the quarter ending schedule for updates to the statistical system.

Quarter	MAS Due Date	Statistical System Update
1st Quarter 2007	May 15, 2007	May 16, 2007
2nd Quarter 2007	August 15, 2007	August 16, 2007
3rd Quarter 2007	November 15, 2007	November 16, 2007
4th Quarter 2007	February 15, 2008	February 16, 2008

B. Annual Statement and Annual Statement Reconciliation

CAR collects the quarterly annual statement figures from the industry according to the schedule below. Those companies that have greater than a 5% dollar difference between the data statistically reported and the financial data entered on the Page 14 must respond to this difference by the due date listed below.

With the 4th quarter annual statement submission only, companies must provide a copy of the data submitted to the NAIC. For the final reporting quarters, CAR assessed a statistical data quality penalty of \$50 per business day until it received the completed annual statement filings. CAR assessed penalties in the amount of \$10,350 for any late page 14 filings for the 4th quarter 2006 due on March 15, 2007.

Quarter	Due Date Quarterly Annual Statement	Run Date of the Reconciliation Program	Due Date Reconciliation Response
1st 2007	June 15, 2007	July 2, 2007	Approx. August 1, 2007
2nd 2007	September 17, 2007	October 1, 2007	Approx. November 1, 2007
3rd 2007	December 17, 2007	January 2, 2008	Approx. February 1, 2008
4th 2007	March 17, 2008	April 1, 2008	Approx. May 1, 2008

CAR balances the reported electronic page 14 data to the statistically reported data and corresponds to any company above the 5% tolerance in which to submit a response to reconcile. The due date of those responses was due on May 11, 2007. CAR will assess a statistical data quality penalty of \$50 per business day for those late responding companies within the next quarterly Operational Reports.

**OPERATIONAL REPORTS
1ST QUARTER 2007**

V. STATISTICAL AGENT FUNCTION (continued)

C. Annual Call for Expense

CAR uses this data to determine the final ceding expense allowance for each calendar year.

The due date for filing the expense data for the 2006 effective year is June 1, 2007. For all late filings, CAR will assess a statistical data quality penalty of \$50 per business day until it receives the completed expense call. Companies were to respond to the Expense Call through the AIB system.

D. Rate Edit Processing

CAR processes both private passenger and commercial data through separate rate editing routines for the latest two policy effective years. The table below shows the industry results by line of business and policy effective year.

	Line of Business	Eligible Records	Records in Error	Error %
PP 2006 EFF YEAR	Liability	22,127,664	48,714	0.22%
	No Fault	18,227,479	20,165	0.11%
	Physical Damage	17,444,856	55,347	0.32%
	Total	57,799,999	124,226	0.21%
PP 2007 EFF YEAR	Liability	217,886	215	0.10%
	No Fault	185,307	51	0.03%
	Physical Damage	179,114	90	0.05%
	Total	582,307	356	0.06%
COMM 2006 EFF YEAR	Liability	108,496	1,787	1.65%
	No Fault	74,133	1,281	1.73%
	Physical Damage	80,373	1,675	2.08%
	Total	263,002	4,743	1.80%
COMM 2007 EFF YEAR	Liability	21,365	1,266	5.93%
	No Fault	14,072	507	3.60%
	Physical Damage	15,015	447	2.98%
	Total	50,452	2,220	4.40%

Both the private passenger and commercial rate edit programs incorporate a tolerance level to ensure the quality of the data the industry reports to CAR. For private passenger business, the tolerance level is 2% and 200 records in error. For commercial business, the tolerance level is 2% and 50 records in error. If a company exceeds either of the rate edit tolerance levels on any

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V. STATISTICAL AGENT FUNCTION (continued)

D. Rate Edit Processing (continued)

one line of business, CAR notifies the company via its website of the over tolerance status and the company then has six months to reduce its volume of rate edit errors. The following table shows those companies that are currently over tolerance and the corresponding due dates to avoid rate edit penalties.

Rate Edit - Over Tolerance Exhibit

Co No	PP/Comm	Policy Year	Subline	Due Date	Err %	# Records in Error
045	PP	2006	Liability	9/15/2007	2.33%	2,410
045	PP	2006	Physical Dam	8/15/2007	2.49%	2,105
154	Comm	2007	Liability	12/15/2007	2.03%	58
245	Comm	2006	No Fault	3/15/2007	5.46%	283
245	Comm	2007	Physical Dam	11/15/2007	2.30%	83
455	Comm	2007	Liability	11/15/2007	2.96%	124
734	Comm	2006	Physical Dam	10/15/2007	4.15%	62
734	Comm	2007	Liability	11/15/2007	25.25%	434
734	Comm	2007	No Fault	11/15/2007	11.05%	62
735	Comm	2006	Liability	09/15/2007	2.17%	351
735	Comm	2006	No Fault	08/15/2007	2.21%	250
735	Comm	2007	Liability	11/15/2007	15.48%	576
735	Comm	2007	No Fault	11/15/2007	15.47%	388
735	Comm	2007	Physical Dam	11/15/2007	13.07%	236
773	Comm	2006	Liability	08/15/2007	2.99%	372
773	Comm	2006	Physical Dam	08/15/2007	3.42%	349
887	Comm	2006	No Fault	12/15/2006	5.89%	410
887	Comm	2006	Physical Dam	08/15/2007	3.33%	342

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V. STATISTICAL AGENT FUNCTION (continued)

E. Deleted Washout Records

During the weekly statistical load, CAR deletes those records that washout within the same file. The table below shows those companies whose volume of deleted washout records exceeds 10% and it shows the overall industry total for all companies combined. If you would like to know your own company's washout total, please contact your Data Analyst.

Periodically, CAR contacts those companies that have an excessive volume of washout activity to encourage them to reduce their volume.

Deleted Washout Totals
For All Shipments Received Through 3/07

COMPANY NUMBER	RECORD COUNT	WASHOUT COUNT	WASHOUT PERCENT
099	1,478	4,440	33.29
100	1,378	7,298	18.88
101	192	685	28.03
156	378	2,320	16.29
230	1,254	4,004	31.32
261	98	645	15.19
424	527	3,301	15.96
465	58	282	20.57
476	552	2,827	19.53
625	586	2,420	24.21
643	40	206	19.42
701	30	34	88.24
734	2,180	11,960	18.23
735	9,000	59,661	15.09
751	2	12	16.67
752	295	1,247	23.66
828	22,114	80,165	27.59
885	1,854	6,883	26.94
927	1,376	3,054	45.06
929	58	144	40.28
948	1,306	4,821	27.09
Total Industry	769,099	21,547,329	3.57

The 2006 washout total following the 3/2006 shipments was 3.62%.

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V. STATISTICAL AGENT FUNCTION (continued)

F. Distributional Analysis

The Distributional Analysis Reports are currently being automated to CAR's system to be accessed from CAR's website and to update the functions for the use of this report. Therefore the next circulation of these reports is expected to be distributed to the industry on or about September of 2007.

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VI. COMMUNICATIONS

A. CAR's Website

CAR regularly updates its website when there are updates to existing reports, new accounting and statistical notices, or meeting announcements among many other things. Please reference the change board on the website for the latest updates.

CAR added reports and cubes relative to the Rule 12 Credit Edit. These reports will replace the paper copies that CAR mailed out and will provide additional comparison information. Please contact your company's security administrator if you need access to these reports.

During the summer, CAR will be adding a secure report of error records when a company exceeds the initial 15% error threshold. Currently, CAR creates an Excel spreadsheet and mails it to the affected company. This secure report will replace those Excel spreadsheets.

B. Telecommunications

The telecommunications system is available to the industry from 7:00 am to 6:00 pm Monday through Friday. It allows users to access data housed on CAR's mainframe such as policy history information and producer code information.

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VII. PROJECT STATUS REPORTS

CAR works on a variety of projects throughout the year. The table below shows the current projects CAR is working on and their current status.

Project	Status	Description
Cession Volume	Near completion	Automate the cession volume process for efficiency. The reports will remain on-line but will open as Crystal Reports rather than PDF documents.
Distributional Analysis	In Progress	Automate the Distributional Analysis process and move the reports onto CAR's website.
Experience Rating	In Progress	Move the mainframe pieces of the Experience Rating application to CAR's website so that companies don't need to toggle between systems.
2007 Statistical System	Completed	Update CAR's system to accept 2007 statistical data. This includes adding new class codes for private passenger loss SDIP data. Also, will look at moving additional reports to CAR's website.
MAIP	Suspended	Create and implement necessary programs to generate an assigned risk program for the State of Massachusetts.