



COMMONWEALTH AUTOMOBILE REINSURERS

100 SUMMER STREET – BOSTON, MASSACHUSETTS 02110

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

RALPH A. IANNACO
President

- MEMORANDUM -

TO: All Recipients of the CAR Operational Reports

FROM: Lisa Traynham

DATE: September 14, 2006

RE: Operational Reports

The 2nd quarter 2006 Operational Reports follow this memorandum. They include data reported from May 16, 2006 through August 15, 2006 for the accounting months of April 2006 through June 2006. If you have any comments or suggestions to improve the usefulness of these reports, please contact me.

Section I – Accounting/Statistical Shipments:

There have been no requests for changes to either the Private Passenger or the Commercial Statistical Plans since the last changes made back on April 19, 2006. The pages that follow display the last changes approved at that time.

CAR assessed a total of \$61,200 to the Statistical Penalty Programs in the 2nd Quarter 2006 Settlement of Balances report.

Section II – Cessions:

CAR recently posted the results of the February 1, 2006 CA5010 Cancellation Audit and assessed penalties totaling \$48,200 for any late, missing or invalid documentation. CAR recently mailed the next Cancellation Audit report on July 29, 2006. This report is due back on October 31, 2006.

As of August 15, 2006 the Private Passenger cession rate equaled 4.8%; the commercial cession rate equaled 26.8%.

OPERATIONAL REPORTS 2ND QUARTER 2006

Section III – Quarterly Participation Reports:

CAR posted the June 2006 Quarterly Member Participation Reports to the website on September 8, 2006.

CAR produced 2nd quarter 2006 Critical Error Write-Offs and 10% Loss of Investment Fees totaling \$492,681 and \$10,361 respectively.

CAR will be running the 2nd Quarter 2006 Rule 12 credit edit reports in Mid-September. At its last meeting, the Operations Committee directed CAR Staff to update the edits so that companies would not gain credits based on the change using a credit matrix.

Section IV – Accounting System Processing:

Relative to the Audit Review, CAR lists the "Audit Review" actual and potential penalties against 2005 and 2006 policy effective years following the monthly accounting shipments due the 15th of every month for all companies remaining over the tolerance level of 1% and 10 policies in error.

CAR assessed penalties totaling \$86,460 for the \$60 Cession/No Premium after May 28, 2006 which were included in the 2nd quarter 2006 Settlement of Balances.

The Company Profile reports for December 2005 are now available online. Please note that CAR will no longer be mailing this document to the industry. The six month Company Profiles are expected to be posted to CAR's on-line system by the end of October 2006.

The Penalty Forecasting exhibits will be available on-line by Mid-September 2006.

Section V - Statistical Agent Functions:

The Reconciliation Responses for 4th Quarter 2005 were due on May 11, 2006. Penalties for late responses amounted to \$5,350 and were assessed in the 2nd quarter 2006 Settlement of Balances. The Statutory Page 14 report for 1st Quarter 2006 was due at CAR on June 15, 2006 and the Reconciliation Responses were due on August 5, 2006.

The 2nd Quarter 2006 Statutory Page 14 entries will be due at CAR on September 15, 2006. The Reconciliation Responses for 2nd Quarter 2006 are due November 4, 2006.

All companies that exceed the commercial and private passenger rate edit tolerances are listed on pages 27-28.

Section VI – Communications:

CAR completed the implementation of performance standards for the Claims Reform and the accrual application to collect unreported private passenger premium. CAR moved the S040 – Fatal/Converted report on-line.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 2006 as of the second quarter. That is, it reflects those companies whose submissions were not complete by the due date indicated below.

2006 CALL SCHEDULE		
Submission	Due Date	Quarter
January 2006	March 15, 2006	1 st Qtr
February 2006	April 17, 2006	
March 2006	May 15, 2006	
April 2006	June 15, 2006	2 nd Qtr
May 2006	July 17, 2006	
June 2006	August 15, 2006	
July 2006	September 15, 2006	3 rd Qtr
August 2006	October 16, 2006	
September 2006	November 15, 2006	
October 2006	December 18, 2006	4 th Qtr
November 2006	January 15, 2007	
December 2006	February 15, 2007	

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 second quarter, 2006.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

I. STATISTICAL SYSTEM (continued)

2006 Timeliness Report

<i>CO NO</i>	<i>Jan 3/15</i>	<i>Feb 4/18</i>	<i>Mar 5/15</i>	<i>Apr 6/15</i>	<i>May 7/15</i>	<i>Jun 8/15</i>	<i>July 9/15</i>	<i>Aug 10/16</i>	<i>Sep 11/15</i>	<i>Oct 12/15</i>	<i>Nov 1/15</i>	<i>Dec 2/15</i>
025						COM						
044						COM						
065						COM						
100		COM	COM									
101						COM						
127						COM						
179						COM						
230						COM						
259			COM									
295	COM											
309	PP		PP	PP								
316			COM	COM	BO	COM						
325						COM						
326			COM	COM								
333						COM						
362				BOTH		BOTH						
366						COM						
366			COM									
402		COM										
407						COM						
417			COM									
436			COM	BOTH	COM	COM						
439						COM						
468		COM										
619	COM											
622			COM									
625			COM									
633			COM	COM								
664		BOTH										
667					COM	COM						
711	COM	COM	COM	COM	COM	COM						
715						COM						
742		COM										
743		COM										
770			COM									
828				BOTH								
837			COM			COM						
874	COM											
894			COM			COM						

**OPERATIONAL REPORTS
2ND QUARTER 2006**

I. STATISTICAL SYSTEM (continued)

2006 Timeliness Report

<i>CO NO</i>	<i>Jan 3/15</i>	<i>Feb 4/18</i>	<i>Mar 5/15</i>	<i>Apr 6/15</i>	<i>May 7/15</i>	<i>Jun 8/15</i>	<i>July 9/15</i>	<i>Aug 10/16</i>	<i>Sep 11/15</i>	<i>Oct 12/15</i>	<i>Nov 1/15</i>	<i>Dec 2/15</i>
895	COM											
941						COM						
963	COM					COM						
971			COM									

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 2nd quarter 2006, CAR assessed a total penalty amount of \$61,200. The table below shows the detail penalties for each company.

Penalty Assessments
2nd Quarter 2006

Co #	Company Name	Assessment	Assessment Amount
100	Acadia Insurance Company	Late 3/06 MAS	\$ 300
155	Argonaut Insurance Company	Non-Compliance Penalty	\$ 10,000
229	Clarendon National Insurance Co.	Late Annual Statement	\$ 100
230	Insurance Corp. of Hannover	Late Annual Statement	\$ 850
259	Cincinnati Insurance Company	Late 3/06 MAS	\$ 300
283	Commerce & Industry Ins. Co.	Stat Err > 5% 3/06	\$ 100
283	Commerce & Industry Ins. Co.	Stat Err > 5% 3/06	\$ 100
309	Electric Insurance Company	Late 3/06 MAS	\$ 300
309	Electric Insurance Company	Late 4/06 MAS	\$ 300
316	Empire Fire & Marine Ins. Co.	Late 2/06 MAS	\$ 2,000
316	Empire Fire & Marine Ins. Co.	Late 3/06 MAS	\$ 4,000
316	Empire Fire & Marine Ins. Co.	Late 4/06 MAS	\$ 2,000
326	Excelsior Insurance Company	Late 3/06 MAS	\$ 800
354	Amica Mutual Insurance Co.	Late Expense Call	\$ 50
362	Farm Family Casualty Ins. Co.	Late 4/06 MAS	\$ 300
362	Farm Family Casualty Ins. Co.	Late Annual Statement	\$ 400
366	Arch Insurance Company	Late 3/06 MAS	\$ 300
380	Federated Mutual Insurance Co.	Late Annual Statement	\$ 1,600
417	General Insurance Co. of America	Late 3/06 MAS	\$ 300
436	General Casualty Co. of Wisconsin	Rescinded Stat Err > 5% 1/06	\$ (200)
436	General Casualty Co. of Wisconsin	Stat Err > 5% 1/06	\$ 300
436	General Casualty Co. of Wisconsin	Late 3/06 MAS	\$ 800
436	General Casualty Co. of Wisconsin	Late 4/06 MAS	\$ 300
436	General Casualty Co. of Wisconsin	Late 5/06 MAS	\$ 300
437	Regent Insurance Company	Rescinded Stat Err > 5% 1/06	\$ (200)
437	Regent Insurance Company	Stat Err > 5% 2/06	\$ 100
559	Maryland Casualty Company	Stat Err > 5% 2/06	\$ 100
582	Merchants Mutual Insurance Co.	Stat Err > 5% 2/06	\$ 100
619	National Fire Insurance Hartford	Stat Err > 5% 1/06	\$ 100
619	National Fire Insurance Hartford	Stat Err > 5% 2/06	\$ 100

**OPERATIONAL REPORTS
2ND QUARTER 2006**

I. STATISTICAL SYSTEM (continued)

B. Statistical Plan Penalty Fee Program (continued)

Penalty Assessments
2nd Quarter 2006

Co #	Company Name	Assessment	Assessment Amount
619	National Fire Insurance Hartford	Stat Err > 5% 3/06	\$ 200
622	National Interstate Insurance Co.	Late 3/06 MAS	\$ 300
622	National Interstate Insurance Co.	Late Annual Statement	\$ 150
625	American States Insurance Co	Late 3/06 MAS	\$ 300
625	American States Insurance Co	Stat Err > 5% 3/06	\$ 600
633	The Netherlands Insurance Co.	Late 3/06 MAS	\$ 800
633	The Netherlands Insurance Co.	Late 4/06 MAS	\$ 800
633	The Netherlands Insurance Co.	Late Annual Statement	\$ 500
711	Peerless Insurance Company	Late 1/06 MAS	\$ 8,000
711	Peerless Insurance Company	Late 2/06 MAS	\$ 8,000
711	Peerless Insurance Company	Late 5/06 MAS	\$ 800
711	Peerless Insurance Company	Late Annual Statement	\$ 500
753	Redland Insurance Company	Late Annual Statement	\$ 450
837	T.H.E. Insurance Co	Late 3/06 MAS	\$ 800
856	TIG Insurance Company	Late Expense Call	\$ 100
894	Twin City Insurance Company	Late 3/06 MAS	\$ 800
895	Lancer Insurance Company	Late Annual Statement	\$ 250
941	Universal Underwriters Ins. Co.	Late Annual Statement	\$ 500
954	Virginia Surety Company	Non-Compliance Penalty	\$ 10,000
971	Zurich Insurance Company	Stat Err > 5% 2/06	\$ 100
971	Zurich Insurance Company	Late 3/06 MAS	\$ 300
971	Zurich Insurance Company	Late Annual Statement	\$ 50
979	American Bankers Ins. Co.	Late Expense Call	\$ 1,000
			\$ 61,200

**OPERATIONAL REPORTS
2ND QUARTER 2006**

I. STATISTICAL SYSTEM (continued)

Massachusetts Commercial Statistical Plan
Approved Modifications

Approved Effective Date	Description	Status
Optional July 1, 2006 – December 31, 2006 (Mandatory January 1, 2007)	On December 22, 2005, the Terrorism Risk Insurance Act of 2005 was extended for two years, until December 31, 2007. However, certain commercial lines of business were specifically not renewed under the extension legislation and effective January 1, 2006, the Terrorism Risk Insurance Act (TRIA) no longer applies to Commercial Automobile business. Accordingly, the existing Terrorism Coverage Code values no longer apply to this business. These codes have been replaced by new values that identify whether terrorism coverage exists on the underlying policy (at no charge or for an additional premium charge) and identify any premium associated with terrorism coverage on a separate terrorism coverage record. The approved codes are similar to those added to the ISO Commercial Automobile Statistical Plan.	Approved by the Division of Insurance on April 19, 2006.
Optional July 1, 2006 – December 31, 2006 (Mandatory January 1, 2007)	References to “certified” Type of Loss Codes have been removed from the Statistical Plan. The existing “all other terrorism” and “not certified” Type of Loss Codes will now be referred to as “Terrorism” losses.	

**OPERATIONAL REPORTS
2ND QUARTER 2006**

I. STATISTICAL SYSTEM (continued)

Massachusetts Private Passenger Statistical Plan
Approved Modifications

Approved Effective Date	Description	Status
January 1, 2007	For loss records, it is now required that SDIP status be reported in the fifth and sixth positions of the classification code. Currently, code 00 is reported in these positions on all loss records. It is anticipated that this information will provide the AIB with important data that can be used to perform additional SDIP analysis.	Approved by Division of Insurance on April 19, 2006.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 2006, CAR accepts cession records and cession corrections for policy years 2004-2006.

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 have been no "intent-to-cede" appeals since the last publication of the Operational Reports.

2. TX5 Cession Backdate Appeals

In instances where a company intended to write a policy voluntary, it can appeal for a transaction 5 (uncede) 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 June 12, 2006.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

II. CESSION SYSTEM (continued)

TX5 Cession Backdate Log

DATE SUBMITTED	CO NO	NUMBER OF CESSIONS	DATE REQUESTED	BACKDATE GRANTED?	REASON FOR APPROVAL/ DISAPPROVAL
5/17/06	312	7	Various	Yes	Decision to retain policies as voluntary business was made prior to the policy effective dates.
5/17/06	279	1	5/15/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
5/18/06	153	1	5/16/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
5/22/06	279	18	Various	Yes	Decision to retain policies as voluntary business was made prior to the policy effective dates.
5/22/06	279	1	10/28/05	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
5/26/06	773	1	5/3/06	Yes	Antique Auto cannot be ceded to CAR
6/15/06	279	1	11/28/05	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
6/15/06	612	1	12/22/05	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
7/26/06	402	1	7/1/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
8/3/06	612	1	2/27/06	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
8/8/06	612	4	Various	Yes	Decision to retain policy as voluntary business was made prior to the policy effective date.
8/31/06	773	1	7/13/06	Yes	Antique Auto cannot be ceded to CAR
9/5/06	455	3	8/2/06	yes	Decision to retain policy as voluntary business was made prior to the policy effective date.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

II. CESSION SYSTEM (continued)

3. CR215 Cessions Automatically Backdated

On a quarterly basis, CAR produces the CR215 report that shows the volume of cessions backdated for involuntary producer business. The program monitors the three current reporting years for cession activity. Accordingly, CAR monitored policy years 2004, 2005 and 2006.

CAR produced the second quarter 2006 CR215R and notified those companies who had exceeded the over 5% and 25 policies tolerance. Companies contacted must respond in writing with an explanation and corrective actions as to why the volume of backdated business is high. The due date for the response is October 27, 2006.

The following exhibits show 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
2ND QUARTER 2006**

II. CESSION SYSTEM (continued)

Policy Year 2004
Private Passenger

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
045	730	23	3.2	0.0	0	0
153	870	55	6.3 *	0.0	2,272	0
279	4,277	20	0.5	0.0	0	0
514	29	1	3.4	0.0	0	0
585	105	6	5.7 #	0.0	0	0
602	68	1	1.5	0.0	0	0
612	526	7	1.3	0.0	0	0
723	6,110	62	1.0	0.0	0	0
773	9,827	39	0.4	0.0	1,512	0
826	1,117	6	0.5	0.0	0	0
908	5,115	183	3.6	0.0	0	0
Totals	28,774	403	1.4%	N/A	3,784	0

Commercial

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATE D	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
049	337	10	3.0	0.0	0	0
102	199	11	5.5 #	0.0	0	0
152	329	23	7.0 #	0.0	23,820	0
194	187	52	27.8 *	0.0	1,092	0
279	384	4	1.0	0.0	0	0
333	319	83	26.0 *	0.0	506	0
438	261	4	1.5	0.0	915	0
455	232	16	6.9 #	0.0	2,345	0
514	286	30	10.5 *	0.0	2,140	0
612	29	15	51.7 #	0.0	0	0
644	32	1	3.1	0.0	0	0
734	519	25	4.8	0.0	635	0
735	37	4	10.8 #	0.0	0	0
767	22	1	4.5	0.0	0	0
773	350	1	0.3	0.0	0	0
887	1,453	230	15.8 *	0.0	30,226	0
919	32	1	3.1	0.0	0	0
929	29	1	3.4	0.0	0	0
Totals	5,037	512	10.2% *	N/A	61,679	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
2ND QUARTER 2006**

II. CESSION SYSTEM (continued)

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	5,399	36,600
Totals	21,441	380	1.8%	N/A	8,267	36,600

Commercial

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% 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	262	15	5.7 #	-0.4	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	6.8 #	0.0	0	0
514	338	41	12.1 *	0.0	834	0
612	29	21	72.4 #	0.0	0	0
644	32	1	3.1	3.1	0	0
734	448	24	5.4 #	0.0	382	0
735	31	5	16.1 #	0.0	0	0
751	7	5	71.4 #	0.0	0	0
773	307	2	0.7	0.0	0	0
887	1,678	158	9.4 *	-0.1	18,320	0
929	47	1	2.1	0.0	0	0
Totals	4,982	337	6.8% *	N/A	19,873	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
2ND QUARTER 2006**

II. CESSION SYSTEM (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	2,809	8	0.3	-0.2	0	0
514	8	0	0.0	0.0	0	0
585	44	2	4.5	0.0	0	0
602	0	0	0.0	0.0	0	0
612	25	0	0.0	0.0	0	0
723	964	7	0.7	0.7	0	0
773	14	0	0.0	0.0	0	0
826	0	0	0.0	0.0	0	0
908	4,137	41	1.0	0.0	0	0
Totals	8,142	58	0.7	N/A	0	0

Commercial

CO NO	POLICIES ELIGIBLE	BACKDATE D POLICIES	PERCENT BACKDATED	% CHANGE	PD LOSSES COVERED	O/S LOSSES COVERED
049	0	0	0.0	0.0	0	0
102	0	0	0.0	0.0	0	0
152	142	5	3.5	0.0	0	0
245	114	1	0.9	0.9	0	0
279	79	3	3.8	1.9	0	0
333	0	0	0.0	0.0	0	0
438	0	0	0.0	0.0	0	0
455	1,262	164	13.0 *	7.1	1,469	0
514	8	0	0.0	0.0	0	0
612	0	0	0.0	0.0	0	0
644	0	0	0.0	0.0	0	0
734	287	13	4.5	1.5	0	0
735	21	3	14.3 #	-8.8	0	0
751	0	0	0.0	0.0	0	0
773	83	0	0.0	0.0	0	0
887	674	49	7.3 *	0.9	0	0
929	0	0	0.0	0.0	0	0
Totals	2,670	238	8.9% *	N/A	1,469	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
2ND QUARTER 2006**

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 February 1, 2006 and the documentation was due back at CAR by April 24, 2006. CAR assessed penalties after reviewing the documentation amounting to \$48,200 and rescinded penalties totaling (-\$300) posted in the second quarter Settlement of Balances Reports. CAR recently ran the next CA5010 on July 31, 2006 and the documentation is due back at CAR on October 31, 2006. The results after reviewing the documentation will be posted within the next 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
2001	7.7%	23.4%	Final Result
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	4.8%	26.8%	As of June 2006

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
2ND QUARTER 2006**

III. QUARTERLY PARTICIPATION

A. Production of Quarterly Participation Reports

CAR posted the June 2006 Quarterly Member Participation Reports to its website on September 8, 2006. From CAR's home page, click Reports, Financial, and then Settlement of Balances. These are secure reports that require a user id and password to view. Please contact your company's security administrator to request access.

B. Participation Base Data

The 2nd Quarter 2006 estimated Participation Ratios using data reported through June 30, 2006, will be posted to CAR's website by September 30, 2006.

C. Rule 12 Participation Credits

CAR will be running the Rule 12 credit edit reports for 2nd Quarter 2006 in Mid-September. These reports were delayed so that CAR could update the system. At its last meeting, the Operational Committee directed CAR Staff to modify the Rule 12 edit so that companies aren't unfairly receiving credits.

The Rule 12 tolerance level is set on an annual basis. For accounting years 2005 and 2006, the Governing Committee approved a tolerance level of 0.15%. The decrease in the tolerance level reflects the implementation of the credit matrix methodology which combines territory and class credits. The new tolerance level also provides for a consistent allowance for total credits in error. 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(2 nd Quarter)	0.15%	1.75%	1.71%

**OPERATIONAL REPORTS
2ND QUARTER 2006**

III. QUARTERLY PARTICIPATION (continued)

D. CAR Financial Results

The ultimate policy year deficit projections, as of June 2006, for the latest three policy years are as follows:

(Numbers are in \$000s)

Policy Year	Private Passenger	Commercial
2003	(236,473)	22,350
2004	(164,565)	24,116
2005	(124,863)	19,613

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
2ND QUARTER 2006**

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 2006	May 15, 2006	May 16, 2006
2nd Quarter 2006	August 15, 2006	August 16, 2006
3rd Quarter 2006	November 15, 2006	November 16, 2006
4th Quarter 2006	February 15, 2007	February 16, 2007

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 second quarter 2006.

Lastly, CAR also provides loss data eligible for future loss write-offs. The potential loss write-offs for June 2006 through November 2006 are shown following the 2nd quarter write-off exhibit.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

IV. ACCOUNTING SYSTEM (continued)

B. Critical Error Write-Off (continued)

Write-Off – 2nd Quarter 2006

Company	May 2006	June 2006	July 2006	Total
049	3,555	0	20,311	23,866
152	0	0	1,107	1,107
153	0	644	0	644
154	-322	0	0	-322
194	4,107	-28,875	37,065	12,297
209	-1,703	424	-1,074	-2,353
312	0	4,488	0	4,488
331	1,536	21,520	76,459	99,515
333	0	483	26,630	27,113
455	74	0	-302	-228
481	0	-8,379	1,557	-6,822
575	1,106	-449	132,997	133,654
612	0	-228	0	-228
723	353	15,249	13,968	29,570
767	0	0	-463	-463
887	6,087	0	2,905	8,992
894	44,082	38,570	78,993	161,645
963	-500	0	706	206
INDUSTRY	58,375	43,447	390,859	492,681

**OPERATIONAL REPORTS
2ND QUARTER 2006**

IV. ACCOUNTING SYSTEM (continued)

B. Critical Error Write-Off (continued)

2nd Quarter 2006 – 10% Loss of Investment Fees

Co No	May 2006	June 2006	July 2006	Total
049	356	0	0	356
153	0	1	0	1
194	0	8	0	8
209	0	424	-69	355
312	0	322	0	322
331	0	0	2,369	2,369
455	36	0	-80	-44
602	-65	0	0	-65
767	0	0	-55	-55
773	0	-32	0	-32
887	578	0	-549	29
894	320	372	6,354	7,046
963	0	0	71	71
Total	1,225	1,095	8,041	10,361

**OPERATIONAL REPORTS
2ND QUARTER 2006**

IV. ACCOUNTING SYSTEM (continued)

B. Critical Error Write-Off (continued)

Potential Loss Write-Off September 2006 through February 2007

Company	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	Grand Total
045	111	0	0	553	0	0	664
049	157	5,013	1,001	17,739	0	363	24,273
152	8,032	0	0	0	-200	0	7,832
153	0	0	0	195,033	74,578	0	269,611
154	8,011	7,878	0	5,772	13,737	0	35,398
194	0	48,467	82,883	13,868	0	2,125	147,343
209	-99	0	0	-15,687	0	14,444	-1,342
312	12,331	13,074	0	3,775	0	0	29,180
331	10,265	989	0	19,819	50,252	0	81,325
333	7,730	3,586	0	73,686	0	0	85,002
402	0	2,878	0	0	0	29,513	32,391
455	5,080	4,205	0	0	347	0	9,632
481	0	0	0	0	0	195	195
514	0	0	0	232	0	0	232
575	10,962	2,213	0	360	600	0	14,135
585	0	-2,100	0	0	542	0	-1,558
612	0	0	0	0	553	0	553
664	0	0	26,739	322	0	0	27,061
723	21,084	546	0	23,136	0	0	44,766
743	0	0	0	0	0	11	11
751	-4,150	0	0	631	3,842	0	323
767	0	-6,500	0	0	0	0	-6,500
773	0	0	0	4,986	5	0	4,991
887	766	0	2,364	323	0	325	3,778
894	62,532	39,955	44,627	11,234	2,711	40,426	201,485
963	1,079	0	28,752	0	26,325	0	56,156
Totals	143,891	120,204	186,366	355,782	173,292	87,402	1,066,937

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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
2005 & 2006 Policy Effective Year

2005 Non-Critical Errors Over Tolerance Potential Penalty

Times Identified	Company	Error Code	Percent in Error	# Policies in Error	Potential Penalty
1	049	03	1.26	16	\$150
4	312	10	1.21	87	\$750
6	331	12	1.41	124	\$1,800
15	894	04	3.45	16	\$550
13	963	02	3.72	42	\$1,550

2006 Non-Critical Error Over Tolerance Potential Penalty

Times Identified	Company	Error Code	Percent in Error	# Policies in Error	Potential Penalty
3	153	04	4.08	674	\$25,450
2	153	05	2.63	434	\$13,450
2	354	12	1.59	66	\$1,250

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 posted the twelve-month 2005 company profile reports in June 2006. Accordingly, CAR will now be producing these reports to be viewed online for the industry each of these time periods and will no longer be mailing out hard copies of this report.

E. Penalty Forecasting Program

CAR produces the Penalty Forecasting exhibits in March, June, September, and December. CAR will be posting the June 2006 at the end of September 2006 to be located on CAR's website as a secure report under the Data Quality & Data Reporting Reports. 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.

F. Cession/No Premium Penalties

On May 28, 2006 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	\$60
049	\$420
194	\$720
331	\$3,720
333	\$600
402	\$60
514	\$12,780
575	\$720
585	\$60
602	\$180
664	\$240
751	\$180
767	\$60
773	\$180
887	\$1,800
894	\$1,620
963	\$120
971	\$62,880
988	\$60
Total	\$86,460

**OPERATIONAL REPORTS
2ND QUARTER 2006**

IV. ACCOUNTING SYSTEM (continued)

G. 2005 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 2005 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

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 2006	May 15, 2006	May 16, 2006
2nd Quarter 2006	August 15, 2006	August 16, 2006
3rd Quarter 2006	November 15, 2006	November 16, 2006
4th Quarter 2006	February 15, 2007	February 16, 2007

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 according to the schedule below.

Quarter	Due Date Quarterly Annual Statement	Run Date of the Reconciliation Program	Due Date Reconciliation Response
1st 2006	June 15, 2006	July 3, 2006	Approx. August 4, 2006
2nd 2006	September 15, 2006	October 6, 2006	Approx. November 3, 2006
3rd 2006	December 15, 2006	January 5, 2007	Approx. February 2, 2007
4th 2006	March 15, 2007	April 6, 2007	Approx. May 4, 2007

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 on May 11, 2006. CAR assessed penalties totaling \$5,350 to those late responses in the second quarter Settlement of Balances.

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 2005 effective year was June 1, 2006. For all late filings, CAR assessed statistical data quality penalties of \$50 per business day until it receives the completed expense call. Late penalties amount to \$1,150 in the second quarter Settlement of Balances.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

V. STATISTICAL AGENT FUNCTION (continued)

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 2005 EFF YEAR	Liability	22,588,307	61,852	0.27%
	No Fault	18,378,439	16,763	0.09%
	Physical Damage	17,600,319	59,000	0.23%
	Total	58,567,065	137,615	0.23%
PP 2006 EFF YEAR	Liability	9,070,359	18,547	0.20%
	No Fault	7,504,794	13,579	0.18%
	Physical Damage	7,095,128	20,510	0.29%
	Total	23,670,281	52,636	0.22%
COMM 2005 EFF YEAR	Liability	222,877	682	1.20%
	No Fault	147,687	492	1.01%
	Physical Damage	179,351	4,060	2.26%
	Total	549,915	8,234	1.50%
COMM 2006 EFF YEAR	Liability	75,964	789	1.04%
	No Fault	56,556	710	1.26%
	Physical Damage	59,700	787	1.32%
	Total	192,220	2,286	1.19%

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 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 table on the following page shows those companies that are currently over tolerance and the corresponding due dates to avoid rate edit penalties.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

V. STATISTICAL AGENT FUNCTION (continued)

D. Rate Edit Processing (continued)

Rate Edit - Over Tolerance Exhibit

Co No	PP/Comm	Policy Year	Subline	Due Date	Err %	# Records in Error
049	Comm	2005	Physical Dam	5/15/2006	2.34%	119
152	Comm	2006	Liability	03/15/2007	4.50%	69
194	Comm	2005	Liability	4/15/2006	10.90%	221
194	Comm	2005	No Fault	3/15/2006	8.60%	132
194	Comm	2005	Physical Dam	1/15/2006	26.53%	700
245	Comm	2006	No Fault	3/15/2007	23.21%	123
309	PP	2006	Liability	12/15/2006	8.89%	4,639
309	PP	2006	No Fault	12/15/2006	24.51%	7,224
309	PP	2006	Physical Dam	12/15/2006	16.38%	5,996
333	Comm	2005	No Fault	2/15/2006	2.22%	213
455	Comm	2006	Physical Dam	2/15/2007	2.16%	244
575	Comm	2005	Physical Dam	11/15/2006	2.71%	55
773	Comm	2006	Liability	3/15/2007	2.02%	201
887	Comm	2005	Physical Dam	2/15/2007	2.04%	1,228
887	Comm	2006	No Fault	12/15/2006	4.36%	339
894	Comm	2005	Liability	7/15/2006	2.43%	92
894	Comm	2005	No Fault	11/15/2006	2.25%	81
894	Comm	2005	Physical Dam	11/15/2006	16.64%	460
963	Comm	2005	No Fault	02/15/2006	3.02%	119
963	Comm	2005	Physical Dam	12/15/2006	5.10%	365

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 20% 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 6/06

COMPANY NUMBER	RECORD COUNT	WASHOUT COUNT	WASHOUT PERCENT
011	4	20	20.00
099	1,714	6,387	26.84
101	384	1,414	27.16
156	838	4,176	20.07
261	754	1,412	53.40
417	18	38	47.37
424	1,442	7,027	20.52
511	912	1,040	87.69
625	1,670	6,771	24.66
643	162	571	28.37
701	182	669	27.20
751	95	242	39.26
752	494	2,111	23.40
828	63,170	291,269	21.69
884	224	974	23.00
885	4,582	15,453	29.65
927	2,332	7,023	33.21
948	3,643	12,773	28.52
Total Industry	40,809,069	1,830,720	4.49

The 2005 washout total following the 6/2005 shipments was 4.64%.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

V. STATISTICAL AGENT FUNCTION (continued)

F. Distributional Analysis

Distributional analysis reports are produced three times a year starting with the close of the June quarter. Therefore the next distribution of reports to the industry will be as of June, 2006 and occur in Mid-September.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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 an accrual application to its website to collect unreported statistical data. This was developed in anticipation of some companies having difficulty reporting their 2006 private passenger data as a result of changes to the SDIP program. In 2007, CAR plans to expand this application to include all data, both private passenger and commercial, that is either late or rejected by a shipment's due date. More information will be provided with the implementation of the 2007 Statistical System.

Also, CAR added the S040W – Unprocessable Fatal Error and Converted Records reports to its website. This report will replace the paper copies that CAR mailed out and will provide and ongoing history of fatal records and records that CAR has converted.

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.

**OPERATIONAL REPORTS
2ND QUARTER 2006**

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	Started May 2006	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	To Begin in October 2006	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.