



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
COMMONWEALTH AUTOMOBILE REINSURERS

Boston, Massachusetts

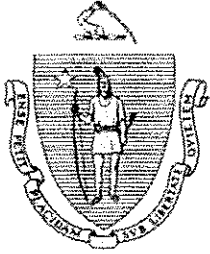
As of September 30, 2014
Updated to September 30, 2015

EMPLOYER ID NUMBER 04-2572141

COMMONWEALTH AUTOMOBILE REINSURERS

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	2
History	3
General	3
Management and Control	3
Annual Meeting	3
Governing Committee	4
Standing Advisory Committees	4
Officers	6
Holding Company	7
Territory and Plan of Operation	7
Commercial Motor Vehicle Market	8
Private Passenger Motor Vehicle Market	8
Statistical Agent Function	9
Reinsurance	10
Pools	10
Financial Statements	11
Statements of Assets, Liabilities, and Members' Deficit	12
Statements of Income	13
Statements of Changes in Members' Deficit	14
Statements of Changes in Members' Deficit for the Six-Year Period	15
Analysis of Changes in Financial Statements Resulting from the Examination	16
Comments on Financial Statement Items	16
Subsequent Events	16
Summary of Recommendations	17
Signature Page	18



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
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DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

October 4, 2016

The Honorable Daniel R. Judson, Esq.
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Section 4 of Massachusetts General Laws Chapter 175 and with Articles VII and X of the Plan of Operation, an examination has been made of the financial condition and affairs of

COMMONWEALTH AUTOMOBILE REINSURERS

at its principal place of business, 225 Franklin Street, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Commonwealth Automobile Reinsurers ("CAR") was last examined as of September 30, 2009 by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the five year period from October 1, 2009 through September 30, 2014, with an update through September 30, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division, and with Massachusetts General Laws ("MGL"). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of an entity by obtaining information about the entity, including corporate governance, identifying and assessing inherent risks within the entity, and evaluating system controls and procedures used to mitigate those risks.

Accounts and activities of CAR were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with accounting principles generally accepted in the United States of America. The examination does not attest to the fair presentation of the financial statements included herein. If, in the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the financial statements.

This examination report includes significant findings of fact, as mentioned in Section 4 of MGL Chapter 175 and general information about CAR, its financial condition, and the compliance by CAR and its member companies to statute and to CAR's Plan of Operation ("Plan") and its Rules of Operation ("Rules"). There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, *etc.*), are not included in the examination report but may be separately communicated to other regulators and/or CAR.

CAR had been audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on CAR's financial statements for the years ended September 30, 2010 through 2012. For the year ended September 30, 2013, and succeeding years, the firm performed a review of CAR's financial statements following agreed upon procedures; accordingly, the firm did not express an opinion on CAR's financial statements but it stated that it was not aware of any material modifications which should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. Review and use of the certified public accountants' workpapers were made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings noted in the Report of Examination as of September 30, 2009 and there are no significant findings of a material nature related to the current examination.

HISTORY

General

Section 113H of MGL Chapter 175 requires insurance companies undertaking to issue motor vehicle liability policies or bonds in Massachusetts to cooperate in the preparation of a plan ("Section 113H Plan") to provide motor vehicle insurance to applicants who are unable to obtain insurance in the voluntary market. The Section 113H Plan is to provide for the fair and equitable apportionment of premiums, losses, and expenses, or any combination thereof, among such insurance companies. No insurer may issue a motor vehicle policy or bond in Massachusetts unless the insurer participates in the Section 113H Plan.

CAR was created pursuant to Chapter 241 of the 1983 Acts and Resolves of the Massachusetts Legislature. Effective January 1, 1984, this legislation amended Section 113H to make significant changes to the operation of the residual market mechanism for motor vehicle insurance in Massachusetts and amended other existing statutes relating to automobile insurance. At its formation, CAR succeeded the Massachusetts Motor Vehicle Reinsurance Facility as the manager and administrator of the Section 113H Plan. CAR's primary function is to administer the residual market for motor vehicle insurance in Massachusetts; it also has been appointed by the Commissioner of Insurance pursuant to Section 113H to act as the automobile statistical agent for the Commonwealth whereby it collects data used in rate making and statistical analysis.

CAR operates as an unincorporated association of insurance companies organized in accordance with the provisions of its Plan which establishes the framework in which CAR will conduct its affairs. The Plan constitutes CAR's charter and constitution. Article I of the Plan specifically states, "The law requires that all insurance companies licensed to issue motor vehicle insurance in the Commonwealth must become members of CAR and shall abide by this Plan and CAR Rules of Operation." To assist in carrying out the Plan, CAR has adopted a set of Rules. Both the Plan and the Rules may be amended by CAR's Governing Committee; amendments must be submitted to the Commissioner of Insurance for approval. Further, to effectuate its Plan and Rules, CAR has developed and maintains a detailed Manual of Administrative Procedures ("Manual") as well as performance standards for handling both commercial and private passenger claims.

MANAGEMENT AND CONTROL

Annual Meeting

In accordance with CAR's Rules, an Annual Meeting of the Members of CAR is held within seventy-five days of the end of the fiscal year at which time a Chair and Vice-Chair of the Governing Committee are elected and the Annual Report is approved. Notice of all such meetings are sent to all members, the Governing Committee, agent associations, and the Commissioner. The minutes indicated that an Annual Meeting was held in a timely manner each year throughout the examination period.

Commonwealth Automobile Reinsurers

Governing Committee

Pursuant to statute and CAR's Plan, the administration of CAR is vested in its Governing Committee under the supervision of the Commissioner of Insurance. The Governing Committee is to consist of thirteen individuals appointed by the Commissioner to terms of six years; six members of such committee must be from insurance companies participating in the Plan, one must be from a domestic insurer with annual motor vehicle policy premium amounts of less than 2.5% of the private passenger insurance market and unaffiliated with any other insurance company represented on the Governing Committee, and six must be from associations of insurance producers, two of whom must be producers who are assigned risk producers who write private passenger automobile insurance exclusively through the Massachusetts automobile assigned risk plan. Members of the Governing Committee at September 30, 2014, were the following thirteen:

<u>Committee Member</u>	<u>Member Company</u>
Mr. M. John Olivieri, Jr. – Chair	J. K. Olivieri Insurance Agency, Inc.
Mr. David H. Cochrane – Vice Chair	MAPFRE U.S.A. Corporation
Mr. Paolo V. Abelli	Liberty Mutual Group
Mr. William J. Cahill, Jr.	The Hanover Insurance Company
Mr. Thomas C. DePaulo	Meridian Insurance Agency, LLC
Mr. Christopher Dupill	EM Freedman Insurance Agency, Inc.
Mr. Sumner D. Gilman	Economy Insurance Agency, Inc.
Ms. Paula W. Gold	Plymouth Rock Assurance Corporation
Mr. James S. Hyatt	Arbella Insurance Group
Mr. Christopher Jarrard	GEICO
Mr. Joseph P. Leahy, Jr.	Leahy and Brown Insurance + Realty, Inc.
Ms. Marie Armel Theodat	R. Theodat Insurance Agency, Inc.
Mr. John P. Tierney	Quincy Mutual Group

In July 2015, Mr. Olivieri became Chair of the Committee, Mr. Hyatt became Vice Chair, and Mr. John V. Kelly replaced Mr. Cochrane as the representative of MAPFRE U.S.A. Corporation, while other members serving on the Governing Committee remained unchanged.

Standing Advisory Committees

CAR's Governing Committee has the authority to appoint both temporary and standing advisory committees, members of which are appointed from member companies and producers. The ten standing Advisory Committees at the date of examination were the following.

Actuarial Committee

The Actuarial Committee meets to review and to make determinations regarding deficit sharing rules and procedures, participation credits, adequacy of expense allowances, commissions, quota share, and various other technical actuarial subjects. The Committee also considers all actuarial matters referred to it and develops recommendations for the consideration of the Governing Committee. For calendar years 2014 and 2015, Mr. Joseph F. Cofield of Metropolitan Property & Casualty Insurance Company was Chair of this eleven member Committee. For 2016, Mr. John P. Tierney of the Quincy Mutual Group chaired this Committee.

Commonwealth Automobile Reinsurers

Budget Committee

The Budget Committee, on which only members of the Governing Committee may serve, has the responsibility to review the annual operating budget as proposed by CAR's President and to recommend a final budget to the Governing Committee for approval. For calendar year 2014, Mr. David H. Cochrane was Chair of this six member Committee; for 2015, membership on the Committee reduced to five. In 2016, membership remained at five and Mr. Olivieri became Chair.

Commercial Automobile Committee

The Commercial Automobile Committee formulates recommendations relating to manuals of classification, rules, rating plans, policies, forms, and other such matters associated with commercial business ceded to CAR. For calendar year 2014 and 2015, it consisted of eleven members and was chaired by Mr. Richard P. Jones of Leslie S. Ray Insurance Agency, Inc. In 2016, Mr. Thomas C. DePaulo of Meridian Insurance Agency, LLC, became Chair.

Compliance Audit Committee

The Compliance Audit Committee was responsible for overseeing CAR's private passenger and commercial audit functions including statistical, underwriting, claims, special investigative unit, and taxi compliance. CAR's external auditor results were reported to this Committee. For 2014 and 2015, Mr. Jerry S. Sleeper of Safety Insurance Company was Chair of this nine member Committee. In 2016, the Committee was merged with the Operations Committee to form the Compliance and Operations Committee.

Governing Committee Review Panel

The Governing Committee Review Panel, which meets sporadically as needed, is responsible for reviewing appeals made by member companies and licensed producers aggrieved by any alleged unfair, unreasonable, or improper practice of CAR or a member with respect to the operation of CAR. Only Governing Committee members may serve on this Committee and decisions of the Governing Committee Review Panel are considered to be those of the full Governing Committee. It was composed of three members, plus two company alternates and two agent alternates. For calendar year 2014, Mr. Paolo V. Abelli was Chair. For 2015, Mr. Cochrane was Chair. In 2016, Mr. Olivieri became Chair.

Loss Reserving Committee

The Loss Reserving Committee meets to review quarterly loss development and related data for private passenger and commercial ceded business in order to determine recommendations for the Governing Committee on the incurred but not reported loss reserves which are to be used in the member participation reports. For calendar years 2014 through 2016, this five member Committee was chaired by Ms. Lynnellen Ramirez of the Arbella Insurance Group.

MAIP Steering Committee

The MAIP Steering Committee is responsible for developing recommendations relating to issues arising out of the operation of the Massachusetts Automobile Insurance Plan. For calendar years 2014 through 2016, Mr. John V. Kelly of MAPFRE U.S.A. Corporation was Chair of this twelve member Committee.

Commonwealth Automobile Reinsurers

Market Review Committee

The Market Review Committee considers market issues regarding producer/company relationships, particularly those involving compliance with CAR's Rules of Operation and MAIP certification of Assigned Risk Producers. The Committee was composed of ten members in 2014 and eleven members in 2015 and 2016. For calendar years 2014 through 2016, this Committee was chaired by Mr. Joseph P. Leahy, Jr., of Leahy and Brown Insurance + Realty, Inc.

Operations Committee

The Operations Committee had considered matters related to CAR's accounting, statistical, data processing, and procedural operations. The Committee was responsible for developing procedural and technical guidelines and reviewing operational compliance to CAR's Plan, Rules, and Manual. The Committee had been composed of eleven members in 2014 and twelve members in 2015. For calendar years 2014 and 2015, Mr. Bruce A. Cregger of Encompass Insurance was Chair. For 2016, this Committee was merged with the Compliance Audit Committee to form the Compliance and Operations Committee.

Personnel Committee

The Personnel Committee, on which only Governing Committee members may serve, is responsible for overseeing matters involving employee compensation, including but not limited to annual salary range movement, merit increase percentages, officer salary adjustments, and any changes to these structures as proposed by CAR's President. The Committee also is available to act in an advisory capacity to CAR's staff in all areas relating to personnel policies and procedures. The Committee was composed of seven members in 2014 and six members in 2015 and 2016. For calendar years 2014 and 2015, Mr. M. John Olivieri, Jr., was Chair. In 2016, Mr. James S. Hyatt was Chair.

Officers

By Article I of CAR's Plan, the Governing Committee is empowered to appoint a president, who shall serve as the full-time salaried administrator of CAR, and such other officers as it finds necessary for the proper operation of CAR, but all appointments of officers are subject to the approval of the Commissioner. In the period under examination, the presidency of CAR has changed. Mr. Ralph A. Iannaco served as President of CAR from 1998 until his retirement in June 2011. He was succeeded by Mr. Daniel R. Judson, Esq., as President from November 2011 until he resigned in April 2015 to become the Massachusetts Commissioner of Insurance. Ms. Natalie A. Hubley then was promoted from Vice President of Business Operations and Treasurer to Acting President until her election and formal appointment as President of CAR in September 2015.

In the examination period, CAR underwent a significant reorganization due to retirements and downsizing of officers and staff. As of September 30, 2015, the following people were serving in the designated capacities

<u>Name of Officer</u>	<u>Title</u>
Ms. Natalie A. Hubley	President
Ms. Wendy Browne	Vice President of Business Operations
Mr. Peter McCabe	Vice President of Technical Operations

Commonwealth Automobile Reinsurers

Holding Company

CAR is not a member of a holding company system and it has no parent company or subsidiaries. As such, it is not subject to the registration requirements of Section 206C of MGL Chapter 175 or 211 CMR 7.00; it does not file an Insurance Holding Company System Form B with the Division.

Taxes

Whereas gains or losses resulting from operation of CAR's reinsurance pooling arrangement are passed through to its member insurance companies, CAR has been classified as a partnership for Federal income tax purposes under the Internal Revenue Code; as a result, CAR has made no provision for federal or state income taxes on its operations.

TERRITORY AND PLAN OF OPERATION

CAR administers the residual market for both commercial and private passenger motor vehicle insurance in Massachusetts; it also is the Statistical Agent for Massachusetts. In its residual market role, CAR provides to that segment of the Commonwealth's motoring public which is unable to obtain coverage through the voluntary market access to private passenger and commercial motor vehicle liability and physical damage insurance. Both residual markets are governed by the same Plan and, prior to 2007, both had been governed by the same set of Rules. In 2007, Commissioner of Insurance Nonnie S. Burnes ordered that the private passenger motor vehicle residual market convert from a pooling mechanism to an assigned risk plan, known as Massachusetts Automobile Insurance Plan ("MAIP"). Accordingly, Rule 1 through Rule 20 address how CAR manages a pooling mechanism for the commercial motor vehicle insurance residual market and Rule 21 through Rule 40 define how CAR administers an assigned risk plan for private passenger motor vehicle insurance.

Article I of CAR's Plan stipulates that the member companies shall be financially responsible for all losses and expenses incurred by CAR and it requires the preparation of the Rules that will provide for the fair and equitable distribution of such losses and expenses through the assessment of member companies.

For the commercial market, Rule 11 addresses assessments and participation criteria and the method by which expenses are shared by the members of CAR. Such expenses are divided by the proportion that each member's Massachusetts direct written motor vehicle insurance premiums bear to the total of such premiums for all members of CAR. By the same Rule, other amounts relating to underwriting results are calculated by a utilization formula based on a member company's voluntary commercial written premium. In such distributions, the Rules recognize and distinguish among servicing carriers, inactive members, newly emerging companies, and newly writing companies as defined in Rule 2.

Pursuant to Rule 3 and Rule 23, a member may terminate its membership in CAR as of the close of CAR's fiscal year upon fulfillment of certain criteria. Termination of membership shall not discharge or otherwise affect liabilities of the member incurred prior to the termination of membership or in any way affect the member's obligation to make payments, and the member

Commonwealth Automobile Reinsurers

shall be charged or credited in due course with its proper share of all premiums, losses, and expenses allocated to it under CAR's Rules. If any member is declared insolvent by a court of competent jurisdiction, its membership in CAR terminates as of the date it is declared insolvent, but it remains liable to CAR for all obligations incurred prior to the date of its declared insolvency. Any unsatisfied net liability of an insolvent member shall be assumed by and apportioned among the remaining members of CAR.

All licensed property and casualty producers are required to become certified as Assigned Risk Producers ("ARP") for private passenger residual market purposes and may apply for appointment as an Exclusive Representative Producer for commercial automobile insurance business. This includes producers who are licensed but unable to obtain a voluntary market contract.

CAR does not perform any direct underwriting or loss and loss adjustment functions; it receives data and other information from its appointed servicing carriers. In all instances, the services provided to residual market risks by servicing carriers and producers must be of substantially the same kind and quality as those services provided to risks insured in the voluntary market, and the residual market premium charges cannot exceed the premium charges which would apply if the risks were not insured pursuant to the Section 113H Plan. In auditing its member companies, CAR specifically performs comparison tests to ascertain that risks insured pursuant to the Section 113H Plan receive the same treatment as those risks that are insured voluntarily by the member insurers. Additionally, as part of its compliance audit, CAR exercises a special investigative function to monitor the effectiveness of servicing carriers' fraud control efforts and to provide assistance to member companies and to law enforcement agencies in their investigations of fraudulent activities.

Commercial Motor Vehicle Market

The Plan provides that certain member companies, referred to as Servicing Carriers, are permitted to cede (reinsure) commercial motor vehicle insurance business to the CAR pool. Premiums, losses, and expenses are then divided among members based on a formula in the Rules. As CAR continues to operate a residual market pooling mechanism for commercial motor vehicle business, CAR's financial statements continue to reflect these underwriting results; that is, expenses, profits, and losses of ceded commercial motor vehicle risks are pooled and then apportioned among member companies based upon their voluntary market share. Accordingly, CAR itself has no direct underwriting or loss adjustment capability on this commercial business nor does it sustain any residual risk from it.

Private Passenger Motor Vehicle Market

Pursuant to CAR's Rule 24, the Governing Committee has responsibility for the administration of MAIP, the assigned risk system through which CAR directly assigns each private passenger motor vehicle insurance risk who has been unable to obtain insurance in the voluntary market to a member company in an equitable manner based on the company's private passenger motor vehicle insurance quota share under Rule 29. Using this approach, a company must be appointed as an Assigned Risk Company ("ARC"). A consumer unable to obtain private passenger motor vehicle insurance in the voluntary market may go to any insurance producer who as an ARP can submit an application for coverage under MAIP. CAR, as administrator of MAIP, assigns the application

Commonwealth Automobile Reinsurers

to an ARC and notifies the ARP in real time of the identity of the ARC receiving the assignment. Insurance then will be provided to that consumer by the designated ARC. If a producer submits a MAIP application, that producer will continue to service that particular policy regardless of which ARC receives the application and issues the policy. Every ARP is assigned to every ARC for purposes of submitting risks through MAIP; regardless of whether the ARP has a voluntary contract with a particular ARC, the ARC must write and service that risk through that ARP.

Coverage and service provided by an ARC must be comparable to coverage provided by that ARC in the voluntary market and the ARC must charge the consumer the lower of the MAIP premium or that ARC's voluntary premium. As a result, each ARC experiences the fortunes of the business assigned to it; that is, each ARC directly absorbs any net profit or loss experience derived from its particular assigned risks.

MAIP was fully implemented beginning with policies effective April 1, 2009. Prior to then, CAR administered a pool for private passenger motor vehicle insurance and allocated the financial results of such pool among member companies relative to their respective market share. The effect of MAIP on CAR's own financial statements resulted in the gradual elimination of unearned premium liabilities, the reduction of account balances receivable from and/or payable to CAR's member companies, and the run-off of unpaid loss and loss adjustment expense reserves on previously ceded private passenger risks. CAR's balances and deficit related to the residual market pool for this business reflected significant decreases in amounts throughout the examination period as the losses associated with such ceded policies have diminished to insignificant amounts; CAR continues to oversee the run-off of this residual market pool until all ceded reserves are closed.

Statistical Agent Function

In its capacity as Statistical Agent, designated by the Commissioner in accordance with Section 113H, CAR collects, edits, analyzes, verifies, and disseminates motor vehicle statistics (including premium and loss data), which are reported to the insurance industry at large and to the State Rating Bureau of the Division, pursuant to the Commissioner's Statistical Plan and in accordance with CAR's Rule 8 and Rule 33. To verify the quality, accuracy, and completeness of the statistical database, CAR reconciles reported statistical data to companies' financial statements and performs analyses comparing each company's distribution of data to the industry's distribution. CAR also conducts audits of many member companies each year to measure and to evaluate the accuracy of statistical data reported to CAR and the compliance by the companies with both premium and claim transaction reporting requirements.

Based on the reported data, CAR computes and distributes deficits and assessments among member insurers to comply with Section 113H, which requires the fair and equitable apportionment of premiums, losses, and expenses. The data necessary for CAR to perform its commercial motor vehicle reinsurance function flows from its statistical agent operations. The data is edited and compiled so that a cash basis settlement of balances can occur quarterly, by which CAR collects from servicing carriers the ceded commercial motor vehicle insurance written premium and reimburses the servicing carriers for losses and expenses on a policy year basis. Simultaneously, the quarterly data is accounted for on an accrual basis and reported to member companies. As a part of this process, CAR's own administrative costs are included in the

Commonwealth Automobile Reinsurers

settlement of balances to be assessed among its member companies. CAR allocates any remaining losses and expenses for previously ceded private passenger motor vehicle insurance business in a similar manner; however, CAR assesses private passenger motor vehicle insurers only for its expenses because the allocation of losses and premiums is accomplished through the assignment of private passenger motor vehicle insurance risks directly to its individual member companies.

REINSURANCE

CAR is not a reinsurance company; it is the industry-operated residual market mechanism for motor vehicle insurance in Massachusetts. In that capacity, CAR administers an assigned risk process for private passenger business not retained voluntarily by member insurers and ensures that risks written through MAIP are distributed equitably to members based on the quota share of each member insurance company. For commercial risks not retained voluntarily by the writing companies, CAR manages a residual market pool, the financial results of which are distributed equitably among member insurance companies.

Pools

CAR manages the commercial automobile pooling mechanism of the residual market through its Commercial Automobile and Taxi/Limousine Programs. A limited number of Servicing Carriers are selected to service the ceded policies of both programs, which are reviewed annually to ensure the equitable distribution of residual market business is maintained. Members share in the pooled results based on voluntary commercial written premium.

CAR also oversees the run-off of the private passenger automobile pooling mechanism which was in place through March 31, 2009. Member companies writing private passenger business through that date will continue to participate financially in this small residual market pool until Servicing Carrier ceded reserves are closed and their obligations are completed.

FINANCIAL STATEMENTS

The following comparative financial exhibits, based on the financial statements prepared by management of CAR, present the financial condition of CAR for the periods ending September 30, 2014 and 2015. Financial statements are the responsibility of CAR's management.

Statements of Assets, Liabilities, and Members' Deficit as of September 30, 2015 and 2014

Statements of Income for the Years Ended September 30, 2015 and 2014

Statement of Changes in Members' Deficit for the Years Ended September 30, 2015 and 2014

Statement of Changes in Members' Deficit for the Six-Year Period Ended September 30, 2015

Commonwealth Automobile Reinsurers
Statements of Assets, Liabilities, and Members' Deficit
September 30, 2015 and 2014

	<u>2 0 1 5</u>	<u>2 0 1 4</u>
Assets		
Cash and Investments	\$ 2,730,912	\$ 2,348,800
Accounts receivable - member companies	36,039,870	29,380,260
Furniture, fixtures, equipment, and and leasehold improvements	112,837	197,717
Capitalized software development costs, net	459,609	517,488
Accounts receivable:		
Miscellaneous	-	34
Prepaid expenses	448,682	605,841
Other assets	335,104	177,600
Total Assets	<u>\$ 40,127,014</u>	<u>\$ 33,227,740</u>
 Liabilities and Members' Deficit		
Reserve for unpaid losses and loss adjustment expenses	\$ 125,653,549	\$ 112,916,852
Unearned premiums	74,913,974	61,867,826
Accounts payable - member companies	32,475,885	25,679,740
Advance expense assessment payable to member companies	5,699,636	5,885,400
Accounts payable - Other miscellaneous	5,899,602	5,330,734
Total Liabilities	<u>244,642,646</u>	<u>211,680,552</u>
 Deficit -- due from member companies	<u>(204,515,632)</u>	<u>(178,452,812)</u>
 Total Liabilities and Deficit	<u>\$ 40,127,014</u>	<u>\$ 33,227,740</u>

Commonwealth Automobile Reinsurers
Statements of Income
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Underwriting Income</i>		
Premiums written	\$ 146,678,037	\$ 122,851,532
Unearned premiums, prior year	61,867,827	53,546,877
Unearned premiums, current year	<u>(74,913,974)</u>	<u>(61,867,827)</u>
Premiums earned	133,631,890	114,530,582
 <i>Underwriting Deductions</i>		
Losses incurred	(96,580,013)	(80,655,843)
Loss adjustment expenses incurred	(4,212,446)	(4,800,356)
Underwriting expenses incurred	<u>(37,473,676)</u>	<u>(32,936,985)</u>
Total Underwriting Deductions	(138,266,135)	(118,393,184)
 Net Underwriting Gain (Loss)	(4,634,245)	(3,862,602)
 <i>Miscellaneous Income (Expense)</i>		
Operating expenses: Administrative	(9,582,779)	(10,064,982)
Operating expenses: Depreciation and amortization	(301,230)	(310,938)
Other expenses	<u>(17,771)</u>	<u>(15,912)</u>
Total Miscellaneous Income (Expense)	(9,901,780)	(10,391,832)
 Net Operating Gain (Loss)	<u><u>\$ (14,536,025)</u></u>	<u><u>\$ (14,254,434)</u></u>

Commonwealth Automobile Reinsurers
Statements of Changes in Members' Deficit
Years Ended September 30, 2015 and 2014

	<u>2 0 1 5</u>	<u>2 0 1 4</u>
Members' Deficit, Beginning of Year	\$ (178,452,888)	\$ (169,376,448)
Net operating gain (loss) for the period	(14,536,025)	(14,254,434)
Other comprehensive income		
adjustment for FAS 158	(468,768)	(186,236)
Participating members' expense contribution	10,090,648	10,723,820
Funds distributed to and held		
by participating members	(21,148,599)	(5,359,590)
Change during the year	<u>(26,062,744)</u>	<u>(9,076,440)</u>
Members' Deficit, End of Year	<u><u>\$ (204,515,632)</u></u>	<u><u>\$ (178,452,888)</u></u>

Commonwealth Automobile Reinsurers
Statements of Changes in Members' Deficit
for the Six Year Period Ended September 30, 2015

	<u>2 0 1 5</u>	<u>2 0 1 4</u>
Members' Deficit, Beginning of Year	\$ (178,452,888)	\$ (169,376,448)
Net operating gain (loss) for the period	(14,536,025)	(14,254,434)
Other comprehensive income		
adjustment for FAS 158	(468,768)	(186,236)
Participating members' expense contribution	10,090,648	10,723,820
Funds distributed to and held by members	(21,148,599)	(5,359,590)
Change during the year	<u>(26,062,744)</u>	<u>(9,076,440)</u>
Members' Deficit, End of Year	<u>\$ (204,515,632)</u>	<u>\$ (178,452,888)</u>

	<u>2 0 1 3</u>	<u>2 0 1 2</u>
Members' Deficit, Beginning of Year	\$ (162,257,492)	\$ (173,738,475)
Net operating gain (loss) for the period	(32,695,807)	(25,049,965)
Other comprehensive income		
adjustment for FAS 158	(337,610)	(449,545)
Participating members' expense contribution	10,656,537	11,210,245
Funds distributed to and held by members	15,257,924	25,770,248
Change during the year	<u>(7,118,956)</u>	<u>11,480,983</u>
Members' Deficit, End of Year	<u>\$ (169,376,448)</u>	<u>\$ (162,257,492)</u>

	<u>2 0 1 1</u>	<u>2 0 1 0</u>
Members' Deficit, Beginning of Year	\$ (221,211,273)	\$ (322,105,587)
Net operating gain (loss) for the period	(1,452,171)	(9,623,127)
Other comprehensive income		
adjustment for FAS 158	653,168	5,726,172
Participating members' expense contribution	12,003,717	13,849,202
Funds distributed to and held by members	36,268,084	90,942,067
Change during the year	<u>47,472,798</u>	<u>100,894,314</u>
Members' Deficit, End of Year	<u>\$ (173,738,475)</u>	<u>\$ (221,211,273)</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION**

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

SUBSEQUENT EVENTS

The examination noted the following significant events which occurred subsequent to the date of examination.

In September 2016, CAR moved its offices to 101 Arch Street, Boston, Massachusetts.

In 2016, to fill vacancies from expiring memberships, the Commissioner of Insurance appointed other members to CAR's Governing Committee to serve effective July 1, 2016, through June 30, 2022. The Governing Committee now is composed of the following twelve members:

<u>Committee Member</u>	<u>Member Company</u>
Mr. M. John Olivieri, Jr. – Chair	J. K. Olivieri Insurance Agency, Inc.
Mr. James S. Hyatt – Vice Chair	Arbella Insurance Group
Ms. Pamela L. Bodenstab-Krynicky	P. L. Krynicky Insurance Agency
Mr. Thomas C. DePaulo	Meridian Insurance Agency, LLC
Mr. Christopher Dupill	EM Freedman Insurance Agency, Inc.
Ms. Carroll M. Foley	The Hanover Insurance Company
Mr. Sumner D. Gilman	Economy Insurance Agency, Inc.
Ms. Paula W. Gold	Plymouth Rock Assurance Corporation
Mr. Thomas A. Harris *	Quincy Mutual Group
Mr. Christopher Jarrard	GEICO
Mr. John V. Kelly	MAPFRE U.S.A. Corporation
Ms. Meredith M. Woodcock	Liberty Mutual Group

- * The appointment of Mr. Harris is to complete the term of Mr. Tierney who will be retiring from the Governing Committee.

Also subsequent to the examination date, the following three Advisory Committees were formed.

Compliance and Operations Committee

For 2016, a restructuring of committees resulted in merging the Compliance Audit Committee and the Operations Committee to form the Compliance and Operations Committee. This Committee considers matters relating to statistical, accounting, data processing, and procedural operations. It also develops guidelines relating to a hybrid audit plan and commercial automobile audits and it

Commonwealth Automobile Reinsurers

reviews operational compliance relating to CAR's Plan, Rules, and Manuals. Mr. Jerry S. Sleeper of Safety Insurance Company is Chair of this nine member Committee.

Financial Audit Committee

The Financial Audit Committee has responsibility for the oversight of the independent review of CAR's financial statements. It is responsible for the engagement of an independent accounting firm in accordance with CAR's contracting policy, annually defining the scope of engagement and considering the auditor's findings. Mr. Robert E. McKenna of MAPFRE U.S.A. Corporation is Chair of this seven member Committee.

Information Technology Advisory Committee

The Information Technology Advisory Committee provides insight into industry standards and best practices with respect to infrastructure architecture; it considers CAR's role in the marketplace as it applies those standards to make recommendations relative to CAR strategy and execution. Comprised of technology leaders from CAR's member companies and producers, this five member Committee is chaired by Mr. Steven J. Aronson of Aronson Insurance Agency, Inc.

SUMMARY OF RECOMMENDATIONS

The examination is making no recommendations as part of this report.

Commonwealth Automobile Reinsurers

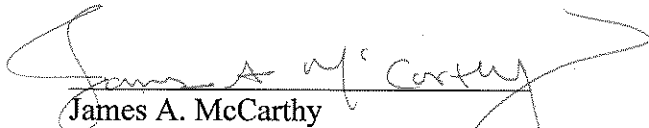
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Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of CAR during the examination.

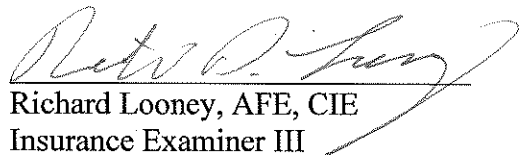
The assistance rendered by the following Division Examiner who participated in this examination is hereby acknowledged.

Guangping Wei, CFE

Insurance Examiner III



James A. McCarthy
Director and Chief Examiner of Financial Examinations
Commonwealth of Massachusetts
Division of Insurance



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Insurance Examiner III
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