



# COMMONWEALTH AUTOMOBILE REINSURERS

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PRESIDENT

March 26, 2008

## COMMERCIAL LINES NOTICE NO. 92

### Calendar Year 2008 Interim Commercial Expense Allowance

For calendar year 2008, Servicing Carriers will be provided an interim expense allowance of 29.75% and 31.89% of liability and physical damage written premium, respectively.

	<u>Liability</u>	<u>Physical Damage</u>
Premium Tax	2.30%	2.30%
Commission	9.50%	9.50%
ULAE	6.51%	8.94%
Company Expense	10.44%	10.15%
<i>Subtotal</i>	<i>28.75%</i>	<i>30.89%</i>
Approved +1 Point	1.00%	1.00%
<b>Total</b>	<b>29.75%</b>	<b>31.89%</b>

Rule 17 of CAR's Rules of Operations provides that Servicing Carriers will be reimbursed for premium tax and commissions according to the approved CAR rate filing for the corresponding policy year. Further, the Rule states that in years where a rate change is not implemented, the premium tax and commission allowances will remain unchanged from the prior year. Accordingly, since no CAR rate change was adopted as of October 1, 2007, the current rates remain unchanged, and the interim 2008 expense allowances will therefore include a provision of 2.30% and 9.50% of written premium for premium tax and commission allowances, respectively.

For the general company expense and unallocated loss adjustment expense (ULAE) components of the ceding expense allowance, the AIB has provided a summary of expenses incurred by Servicing Carriers as reported in their Annual Statement Page 15 and Insurance Expense Exhibit as follows:

	<u>Liability</u>	
	<u>2007<sup>(1)</sup></u>	<u>2008<sup>(2)</sup></u>
ULAE	8.28%	9.82%
Company Expense	12.94%	13.22%
<b>Total</b>	<b>21.22%</b>	<b>23.04%</b>
2008/2007 Trend		+8.59%

Physical Damage

	<u>2007<sup>(1)</sup></u>	<u>2008<sup>(2)</sup></u>
ULAE	15.50%	14.87%
Company Expense	13.20%	13.62%
<b>Total</b>	<b>28.70%</b>	<b>28.49%</b>
2008/2007 Trend		-0.73%

(1) Based on calendar year 2003-2005 expenses

(2) Based on calendar year 2004-2006 expenses

Based on the expense data from the table above, the 2008/2007 trend is applied to the expense allowance approved for 2007 to determine the interim 2008 expense allowance for the general company expense and ULAE components.

Liability

	<u>2008 Allowance</u>	<u>2007 Allowance</u>
ULAE	6.51%	5.99%
Company Expense	10.44%	9.61%

Physical Damage

	<u>2008 Allowance</u>	<u>2007 Allowance</u>
ULAE	8.94%	9.01%
Company Expense	10.15%	10.22%

In the event that a rate change is implemented during 2008, a blended expense allowance will be determined and expenses will be trued up after the close of the calendar year. Questions relative to the determination of the calendar year 2008 commercial interim ceding expense allowance may be directed to the undersigned.

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