NOTICE OF MEETING

AD HOC ERP COMMISSION DEVIATIONS COMMITTEE

A meeting of the Ad Hoc ERP Commission Deviations Committee will be held at the offices of Commonwealth Automobile Reinsurers, 100 Summer Street, Boston on

TUESDAY, SEPTEMBER 16, 2003 AT 1:00 P.M.

MEMBERS OF THE COMMITTEE

Mr. Sumner D. Gilman - Chairman
Economy Insurance Agency, Inc.

Ms. Paula W. Gold
Mr. Robert W. Harvey
Mr. Dennis F. Murphy, Jr.
Mr. Steven W. Myers
Ms. Susan K. Scott
Plymouth Rock Assurance Corporation
Metropolitan P & C Insurance Company
D. Francis Murphy Insurance Agency, Inc.
Norfolk & Dedham Group
The Premier Insurance Company of Mass.

AGENDA

AHCD
03.01 Records of Previous Meeting

The Records of the Ad Hoc ERP Commission Deviations Committee meeting of April 10, 2003 should be read and approved.
AHCD
03.03 Reduced Commission on Ceded Business

Attached is correspondence (Docket #AHCD03.03, Exhibit #1) and a Request for Review (Docket #AHCD03.03, Exhibit #2) submitted by the Arbella Mutual Insurance Company asking that CAR consider whether it is permissible to deviate commission rates downward for ceded business. Also attached is correspondence from the Plymouth Rock Assurance Corporation (Docket #AHCD03.03, Exhibit #3) detailing the company’s commission deviation program which offers a reduced commission on business ceded to CAR.

Other Business

To transact any other business that may properly come before this Ad Hoc Committee.

Executive Session

The Ad Hoc Committee may convene in Executive Session in accordance with the provisions of the Massachusetts General Laws, Chapter 30A, Section 11A1/2.

TIMOTHY J. COSTAIN
Market Relations Manager

Attachments

Boston, Massachusetts
September 5, 2003
VIA FAX NO. 617-338-5422

August 29, 2003

Mr. Joseph J. Maher, Jr.
Vice President, General Counsel & Secretary
Commonwealth Automobile Reinsurers
100 Summer Street
Boston, MA 02110

Dear Attorney Maher:

It has come to Arbella’s attention that Plymouth Rock deviates its commission rates downward for all business ceded to CAR.

It is our understanding they do not reduce their commissions for their voluntary business. It is further our belief that this practice is a violation of law. Arbella requests that the Market Review Committee rule on this issue at their Sept. 11, 2003 meeting.

Thank you in advance for your assistance.

Very truly yours,

Rhonda Prokos,
Corporation Counsel

cc: Timothy Costain
John Metcalf
COMMONWEALTH AUTOMOBILE REINSURERS

REQUEST FOR REVIEW/RELIEF
(pursuant to Rule 20, CAR Rules of Operation)

Requestor's Name/Title: RHONDA FROKOS

Signature:  Date: 9/2/2003

Agency or Company Name: ARBELLA MUTUAL INSURANCE

Address: 1100 CROWN COLONY DRIVE P.O. BOX 699103

City/Town: QUINCY  State: MA  ZIP Code: 02269-9103

Telephone #: 617-328-2502  Fax #: 617-328-2156

Advisory: Please attach any information or evidence that supports the request for review/relief.

Name of Rep: To be determined.

Firm:

Address:

City/Town/State/ZIP:

Telephone #:

Fax #:

1. Reason For Review: A. Concisely summarize the reason(s) for your request for review, identifying the nature of your grievance or request for relief.

B. Identify the specific relief sought.

PLEASE SEE ATTACHED.
PLEASE SEE ATTACHED.

Scheduling of Review: Upon receipt of a completed Request for Review Form, a date will be established within 15 working days, pursuant to CAR Rule 20. Once a date has been confirmed, CAR will issue a written notification to affected parties. Any parties wishing to present written exhibits to be considered at the Committee meeting shall submit them to CAR's Docket Clerk no later than 5 business days prior to the scheduled meeting date. Written exhibits submitted to CAR within 5 business days of the scheduled meeting date will not be entered on the docket but must be directly to the Committee at the meeting itself. It will be left to the determination of the Committee as to whether these exhibits will be considered in their deliberations. In addition, parties submitting exhibits directly to the Committee are expected to be prepared to provide a minimum of 25 copies. Parties should provide copies of ALL exhibits and
15 Day Waiver (CAR Rule 20): Initial if waiving the need for a review within 15 days:

I waive the 15 day review window pursuant to CAR Rule 20: (Initial): __________________

PLEASE NOTE: THIS FORM MUST BE COMPLETED AND RETURNED TO CAR PRIOR TO THE INITIATION OF A FORMAL REVIEW PURSUANT TO RULE 20, CAR RULES OF OPERATION.

FOR COMPLETION BY CAR OFFICE – DO NOT WRITE BELOW

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Assigned Docket Number:</td>
</tr>
<tr>
<td>5</td>
<td>Related Docket Number(s):</td>
</tr>
<tr>
<td>6</td>
<td>Assigned Review Forum:</td>
</tr>
<tr>
<td></td>
<td>CAR COMMITTEE: __________________</td>
</tr>
<tr>
<td></td>
<td>Scheduled Review Date: __________</td>
</tr>
<tr>
<td>7</td>
<td>Disposition:</td>
</tr>
</tbody>
</table>

Page 3 of 3
1. **Concisely summarize the reason(s) for your request for review:**

Arbella requests CAR clarify its position regarding when an insurance company can deviate commissions to ERPs. Arbella believes there is confusion regarding this issue. Commissioner Singer ruled insurance companies could deviate commissions for its agencies as long as it does so on a consistent basis. Specifically he approved a program that deviated commissions based upon territory. Based upon that decision, Arbella deviated commissions based upon loss ratio. Subsequently, CAR held this type of deviations to be inappropriate. Arbella has appealed this decision and that appeal is pending.

Plymouth Rock has been deviating commissions for business that is ceded to CAR. This may be inconsistent with CAR's ruling against ceding commissions based upon loss ratio. Arbella, and the marketplace, needs CAR to rule on the appropriateness of deviating commissions based upon whether the business is ceded or written voluntarily so it knows whether or not implementing such a plan is permissible.

**B. Identify the specific relief sought.**

Arbella requests CAR rule on the appropriateness of deviating commissions for policies ceded to CAR.

2. **Detail of Aggrievements:**

CAR has ruled against a commission deviation plan based upon loss ratio, and as such Arbella has had to end its commission deviation plan. Plymouth Rock has been able to maintain its commission deviation plan. To the extent Arbella has ended its commission deviation plan based upon loss ratio, it is aggrieved to the extent that another carrier has been able to continue its commission deviation plan. Arbella is further aggrieved by not knowing if it is a viable option for it to implement a commission deviation plan based upon ceded business as an alternative to replace its plan based upon loss ratio.

3. **Actions taken to date to Resolve the Matter:**

Arbella feels the only action available to resolve this matter is to ask for this clarification from CAR.
September 2, 2003

Joe Maher, Jr.
Vice President, General Counsel & Secretary
Commonwealth Automobile Reinsurers
100 Summer Street
Boston, MA 02110

Dear Joe,

In regard to the inquiry by Arbelia about our commission policy, I have enclosed a copy of a letter that went out to all of our agents in January 2003. As stated in the letter, we pay all of our agents (ERPs and Voluntary Agents) an extra half point on voluntary retained (non-group) business. We pay ten percent less than the statewide average commission on all ceded policies.

Plymouth Rock’s commission payments are in compliance with all applicable laws. If I can be of any further assistance please let me know.

Sincerely,

Paula Gold
Vice President & General Counsel

Enclosure

Cc: Timothy Costain w/Enc.
    John Metcalf w/Enc.
January 6, 2003

Re: 2003 Private Passenger Commissions

Dear «Sal»:

In the Attorney General’s Report on Private Passenger Automobile Insurance Profitability in Massachusetts he includes the Commission Expense Ratios, as a percentage of premiums, for the ten largest auto insurers in the state. The data, which is for the five-year period through 2000, shows Plymouth Rock as one of the companies paying the highest annual commissions.

In addition to the bonus dollars paid from our one-year paid loss profit sharing program which has been in place since 1999, Plymouth Rock’s continual one-half point of extra commission paid on voluntary (non-group) business has put us in the forefront of companies paying above average commissions.

In 2003 we will continue to pay the extra half-point on voluntary (non-group) business. When the Automobile Insurers Bureau releases the actual 2003 statewide commission rate we will advise you of the actual percentage to be used.

In an effort to offset the cost of ceded business we will begin to pay a lower commission rate on business we cede to CAR. In accordance with the governing statute, effective in 2003 we will pay ten percent less than the statewide average commission contemplated in the 2003 rate decision. This lower commission rate on the small percentage of business we cede, when combined with the continuation of the half-point bonus in voluntary business, will still have us paying total commission levels above the statewide average rate.

As soon as we know the actual commission percentage rate for 2003 we will give you our commission rates for voluntary and ceded business. For example purposes if the commission rate were announced as 11%, our voluntary commission rate would be 11.5% and the ceded rate would be 9.9%.

We will continue to provide you with a monthly list of expirations that will be ceded to CAR at renewal. These are the accounts that will receive the lower commission as well as cost you $600 in profit sharing losses throughout 2003.

If you have any questions please feel free to call me directly at 617 951-1015 or email me at msweeney@zprac.com.

Sincerely,

Mark Sweeney
Vice President of Marketing