

COMMONWEALTH AUTOMOBILE REINSURERS

MASSACHUSETTS

COMMERCIAL

AUTOMOBILE EXPERIENCE RATING PLAN

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Commonwealth Automobile Reinsurers

Commercial Automobile Experience Rating Plan

Section I³/₄ Liability

This Experience Rating Plan is designed and its rating parameters have been calculated including basic limits Bodily Injury Liability, Personal Injury Protection, and Property Damage Liability. Premises and operations liability shall also be included for garage risks. Therefore, the premiums and losses used in deriving the experience modification for any risk under this plan should include data from only these coverages.

1. ELIGIBILITY

The term "risk" as used in this plan means the exposures of any one insured which are to be rated. Allied or subsidiary interests shall not be included unless:

- (1) The insured holds a majority financial interest therein, or
- (2) The following conditions exist under an exclusive franchise arrangement between the franchise grantor and the other interests to be rated:
 - (a) all interests operate under a common trade name, and
 - (b) all interests use one or more identical products or services obtained through the franchise grantor, and
 - (c) one source establishes and maintains standards regarding management control and is responsible for insurance premium payment for all interests operating under the exclusive franchise, and
 - (d) there is no legal prohibition against ownership by the franchise grantor of the operations of the other interests to be rated.

Expenses other than allocated loss adjustment expenses are not taken into consideration in the parameters of this rating plan.

Any risk meeting the following qualifications for the Bodily Injury, Personal Injury Protection, and Property Damage Liability exposure to be rated shall be eligible for the application of this plan:

- (a) Five or more private passenger or commercial automobiles, one or more taxicabs, three or more public automobiles of any other type, or five or more plates of any type for risks which include registration plates not issued for a specific automobile such as garage risks, or the equivalent of such exposures for automobiles hired by the risk, or
- (b) Annual basic limits manual premium of at least \$2,500 (including premises and operations premium) for garage risks not subject to the Massachusetts Compulsory Law, or for employers non-ownership liability exposure. Note that the headquarters location of the risk shall govern the application of this plan for all employers non-ownership liability exposures regardless of location.

2. EXPERIENCE MODIFICATION

The experience modification for the risk shall be determined in accordance with the experience rating procedure described herein and shall be applied to the total current manual premium for the Bodily Injury, Personal Injury Protection, and Property Damage Liability (including all increased limits, and premises and operations for garage risks) coverages included on the policy being rated.

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3. EXPERIENCE USED

The experience modification shall be determined, by the company establishing the rating, from the latest available three completed policy years of experience incurred in this state, or in all states by the risk. In the event the experience for the full experience period is not available, at least two completed policy years shall be used. Risks with less than two completed policy years of experience shall not be experience rated. The experience period shall end at least six months prior to the rating date.

Experience developed by companies other than the company establishing the modification or self-insured experience may be used subject to the periods specified above. If the risk has been self-insured or insured with a company from which the experience is not obtainable, the experience may be used if submitted to the company in the form of a statement signed by the insured. Experience in such form may be excluded from the rating if its reliability can not be established.

4. DETERMINATION OF EXPERIENCE MODIFICATION

The term "basic limits" shall mean \$20,000/40,000 Bodily Injury Liability, \$8,000 Personal Injury Protection (PIP), and \$5,000 Property Damage Liability.

A. Total Basic Limits Premium Subject to Experience Rating

The premiums to be included in the rating are calculated as follows:

- (i) Determine the current annual basic limits premium for Bodily Injury, PIP and Property Damage Liability for the policy being rated using CAR's current manual rates. The policy being rated is the policy to which the experience modification of Rule 4F shall apply.
- (ii) The annual basic limits premium for each year of the experience period is the annual basic limits premium determined according to A(i) above, multiplied by the appropriate detrend factor from Table A.

Liability Experience Rating Plan Factors			
Table A – Premium Detrend Factors			
	<u>Latest Year</u>	<u>2nd Latest Year</u>	<u>3rd Latest Year</u>
Taxi	1.025	1.037	1.050
All Other	0.955	0.934	0.914

- (iii) The total basic limits premium subject to experience rating is equal to the sum of the detrended annual basic limits premiums calculated according to the prior paragraph.
- (iv) If exposures have changed during the experience period, refer to the supplement to determine if an alternative rating methodology is in order.

B. Basic Limits Losses Subject to Experience Rating

The losses to be included in the rating shall be the total of the following:

- (i) Paid and outstanding losses (including allocated loss adjustment expense (ALAE)) for each year in the experience period, with the indemnity amount limited to basic limits, and with the amount of indemnity and allocated loss adjustment expense resulting from any single occurrence limited by the maximum single loss (MSL) value specified in Table C (at the end of this section) based on the total basic limits premium subject to experience rating.

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4. DETERMINATION OF EXPERIENCE MODIFICATION (Continued)

B. Basic Limits Losses Subject to Experience Rating (Cont.)

Property damage losses and ALAE from the experience period shall be adjusted to the deductible basis, if any, that applies for the policy being rated.

- (ii) Adjustment to reflect ultimate level of losses for each year in the experience period, calculated by multiplying the annual basic limits premium (from A(ii)) for the year by the adjusted expected loss ratio (AELR) and by the appropriate basic limits loss development factor (LDF). The formula for this adjustment is $P \times \text{AELR} \times \text{LDF}$, where

- (a) P is the annual basic limits premium for the particular year in the experience period (from A(ii)).
- (b) AELR is the adjusted expected loss ratio specified in Table C (at the end of this section) based on the total basic limits premium subject to experience rating (from A(iii)). If a risk includes more than one vehicle type, then the AELR from Table C should be the AELR for the predominant class of risk on the policy.
- (c) LDF is the appropriate CAR basic limits loss development factor from Table B, below:

Liability Experience Rating Plan Factors Table B - Loss Development Factors**							
	LATEST YEAR		2 ND LATEST YEAR		3 RD LATEST YEAR	FACTORS FOR IMMATURE YEARS*	
	Taxi	All Other	Taxi	All Other	All Other	Taxi	All Other
Maturity (Months)	18	18	30	30	42	6	6
LDF	0.113	0.140	0.034	0.066	0.032	0.911	0.914
Maturity (Months)	21	21	33	33	45	9	9
LDF	0.087	0.113	0.020	0.056	0.025	0.758	0.766
Maturity (Months)	24	24	36	36	48	12	12
LDF	0.061	0.087	0.007	0.046	0.018	0.563	0.578
Maturity (Months)	27	27	39	39	51	15	15
LDF	0.047	0.076	0.003	0.039	0.016	0.138	0.167

*In cases where an insured has changed carriers, the company establishing the rating may be unable to obtain current valuations of past losses from previous carriers. Therefore losses may be evaluated at less than 18 months.

Taxi Loss Development is only calculated if the evaluation period is 39 months or less.

The maturity of the losses for any year in the experience period is defined as the number of months between the latest loss valuation and the effective date of the policy to which these losses are assignable.

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4. DETERMINATION OF EXPERIENCE MODIFICATION (Continued)

C. Actual Loss Ratio

Determine the actual loss ratio (ALR) by dividing the basic limits losses subject to experience rating (B(i) + B(ii)) by the total basic limits premium subject to experience rating (from A(iii)).

D. Credibility

The credibility for the risk is obtained from Table C, based on the total basic limits premium subject to experience rating.

E. Adjusted Expected Loss Ratio

The adjusted expected loss ratio (AELR) for the risk is obtained from Table C, (at the end of this section) based on the total basic limits premium subject to experience rating. If a risk includes more than one vehicle type, then the AELR from Table C should be the AELR for the predominant class of risk on the policy.

F. Experience Modification

$$\frac{\text{ACTUAL LOSS RATIO}}{\text{ADJUSTED EXPECTED LOSS RATIO}} \text{ minus } \frac{\text{ADJUSTED EXPECTED LOSS RATIO}}{\text{LOSS RATIO}} \text{ times CREDIBILITY} = \text{EXPERIENCE MODIFICATION}$$

If the experience modification is negative, it is a credit; if positive, it is a debit.

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Liability Experience Rating Plan Example

I. BASIC INFORMATION

Assume the policy to be rated is effective 10/1/02 – 9/30/03, for private passenger type vehicles.

Assume the basic limits premium for BI, PIP, and PDL using CAR rates effective 10/1/02 is:

\$ 6,000

Assume the losses and ALAE for three years, evaluated as of 04/1/00, are as follows:

<u>Year</u>	<u>Maturity as of 04/1/02</u>	<u>Total Limits Losses</u>	<u>Basic Limits Losses</u>	<u>ALAE</u>	<u>Basic Limits Losses & ALAE (4) + (5)</u>
(1)	(2)	(3)	(4)	(5)	(6)
10/1/98 -9/30/99	42	\$ 1,500 500 100,000	\$ 1,500 500 20,000	\$ 500 100 20,000	\$ 2,000 600 40,000
10/1/99 -9/30/00	30	750 250	750 250	100 50	850 300
10/1/00 -9/30/01	18	250 500 250	250 500 250	50 700 75	300 1,200 325

II. TOTAL BASIC LIMITS PREMIUM SUBJECT TO EXPERIENCE RATING (See Rule 4A).

<u>Year</u>	<u>Annual Basic Limits Premium</u>	<u>Table A Detrend Factors</u>	<u>Basic Limits Premium Subject to Experience Rating</u>
(1)	(2)	(3)	(4)
3rd Latest Year	\$ 6,000	0.914	\$ 5,484
2nd Latest Year	6,000	0.934	5,604
Latest Year	6,000	0.955	<u>5,730</u>
			\$16,944

From Table C, given the total basic limits premium subject to experience rating of \$16,944, the credibility is 0.21, the AELR is 0.491, and the MSL is \$8,500. (See Rules 4B, 4C, and 4D).

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Liability Experience Rating Plan Example

III. BASIC LIMITS LOSSES SUBJECT TO EXPERIENCE RATING

A. Paid and Outstanding Losses & ALAE (See Rule 4B).		
<u>Year</u> (1)	<u>Basic Limits Losses & ALAE</u> (2)	<u>Basic Limits Losses & ALAE Subject to MSL of \$8,500</u> (3)
10/1/98 -9/30/99	\$ 2,000 600 40,000	\$ 2,000 600 8,500
10/1/99 -9/30/00	850 300	850 300
10/1/00 -9/30/01	300 1,200 325	300 1,200 325
		<u>\$ 14,075</u>

B. Adjustment to Reflect the Ultimate Level of Losses (See Rule 4B).					
<u>Year</u> (1)	<u>Maturity as of 12/31/00</u> (2)	<u>Premium Subject to Experience Rating (Step II)</u> (3)	<u>AELR (Step II)</u> (4)	<u>Table B LDF</u> (5)	<u>Adjustment to Reflect Ultimate Level of Losses (3) x (4) x (5)</u> (6)
10/1/98 -9/30/99	42	\$ 5,484	0.491	0.032	\$ 86
10/1/99 -9/30/00	30	5,604	0.491	0.066	182
10/1/00 -9/30/01	18	<u>5,730</u>	0.491	0.140	<u>394</u>
		\$ 16,944			\$ 662

IV. EXPERIENCE MODIFICATION

Credibility (Step II)	0.21
Adjusted Expected Loss Ratio (Step II)	0.491
B/L Losses Subject to Experience Rating (\$14,075 + \$662) (Step III)	\$14,737
Basic Limits Premium (Step II)	\$16,944
Actual Loss Ratio (\$14,737 / \$16,944)	0.870

$$\text{Experience Modification} = \frac{0.870 - 0.491}{0.491} \times 0.21 = 0.162 \text{ (factor of 1.162) or a 16.2\% debit}$$

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Commercial Automobile Experience Rating Plan						
Liability Experience Rating Plan Factors						
Table C – Credibility, Adjusted Expected Loss Ratios, and Maximum Single Losses						
Premium Levels	Credibility	Adjusted Expected Loss Ratio			Maximum Single Loss	
		Taxicabs	Zone-Rated	All Other		
1 - 1,751	0.10	0.332	0.313	0.315	3,000	
1,752 - 3,033	0.11	0.359	0.338	0.340	3,500	
3,034 - 4,347	0.12	0.383	0.360	0.363	4,000	
4,348 - 5,695	0.13	0.405	0.381	0.384	4,500	
5,696 - 7,078	0.14	0.425	0.399	0.403	5,000	
7,079 - 8,498	0.15	0.440	0.414	0.417	5,500	
8,499 - 9,956	0.16	0.454	0.427	0.431	6,000	
9,957 - 11,454	0.17	0.468	0.440	0.444	6,500	
11,455 - 12,993	0.18	0.481	0.452	0.456	7,000	
12,994 - 14,576	0.19	0.494	0.464	0.468	7,500	
14,577 - 16,203	0.20	0.506	0.476	0.480	8,000	
16,204 - 17,877	0.21	0.518	0.487	0.491	8,500	
17,878 - 19,600	0.22	0.529	0.498	0.502	9,000	
19,601 - 21,375	0.23	0.540	0.508	0.512	9,500	
21,376 - 23,202	0.24	0.551	0.518	0.522	10,000	
23,203 - 25,086	0.25	0.561	0.528	0.532	10,500	
25,087 - 27,028	0.26	0.571	0.537	0.541	11,000	
27,029 - 29,031	0.27	0.581	0.546	0.550	11,500	
29,032 - 31,099	0.28	0.590	0.554	0.559	12,000	
31,100 - 33,234	0.29	0.598	0.563	0.567	12,500	
33,235 - 35,439	0.30	0.607	0.571	0.575	13,000	
35,440 - 37,719	0.31	0.615	0.578	0.583	13,500	
37,720 - 40,077	0.32	0.623	0.585	0.590	14,000	
40,078 - 42,517	0.33	0.630	0.592	0.597	14,500	
42,518 - 45,043	0.34	0.637	0.599	0.604	15,000	
45,044 - 47,661	0.35	0.644	0.606	0.611	15,500	
47,662 - 50,375	0.36	0.651	0.612	0.617	16,000	
50,376 - 53,190	0.37	0.657	0.618	0.623	16,500	
53,191 - 56,113	0.38	0.663	0.624	0.629	17,000	
56,114 - 59,150	0.39	0.669	0.629	0.634	17,500	
59,151 - 62,307	0.40	0.675	0.635	0.640	18,000	
62,308 - 65,592	0.41	0.680	0.640	0.645	18,500	
65,593 - 69,013	0.42	0.686	0.645	0.650	19,000	
69,014 - 72,578	0.43	0.691	0.650	0.655	19,500	
72,579 - 76,297	0.44	0.696	0.654	0.660	20,000	
76,298 - 80,179	0.45	0.701	0.659	0.664	20,500	
80,180 - 84,236	0.46	0.705	0.663	0.669	21,000	
84,237 - 88,481	0.47	0.710	0.667	0.673	21,500	
88,482 - 92,925	0.48	0.714	0.671	0.677	22,000	
92,926 - 97,584	0.49	0.717	0.675	0.680	22,500	

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Liability Experience Rating Plan Factors							
Table C - Credibility, Adjusted Expected Loss Ratios, and Maximum Single Losses							
Premium Levels	Credibility	Adjusted Expected Loss Ratio			Maximum Single Loss		
		Taxicabs	Zone-Rated	All Other			
97,585 - 102,474	0.50	0.721	0.678	0.683	23,000		
102,475 - 107,611	0.51	0.724	0.681	0.687	23,500		
107,612 - 113,017	0.52	0.727	0.684	0.690	24,000		
113,018 - 118,711	0.53	0.730	0.687	0.692	24,500		
118,712 - 124,718	0.54	0.733	0.690	0.695	25,000		
124,719 - 131,064	0.55	0.736	0.692	0.698	25,500		
131,065 - 137,780	0.56	0.738	0.694	0.700	26,000		
137,781 - 144,897	0.57	0.741	0.696	0.702	26,500		
144,898 - 152,453	0.58	0.743	0.698	0.704	27,000		
152,454 - 160,491	0.59	0.745	0.700	0.706	27,500		
160,492 - 169,057	0.60	0.746	0.702	0.707	28,000		
169,058 - 178,206	0.61	0.748	0.703	0.709	28,500		
178,207 - 187,999	0.62	0.750	0.705	0.711	29,000		
188,000 - 198,506	0.63	0.751	0.706	0.712	29,500		
198,507 - 209,810	0.64	0.753	0.708	0.714	30,000		
209,811 - 222,003	0.65	0.754	0.709	0.715	30,500		
222,004 - 235,195	0.66	0.755	0.710	0.716	31,000		
235,196 - 249,514	0.67	0.757	0.711	0.717	31,500		
249,515 - 265,111	0.68	0.758	0.713	0.718	32,000		
265,112 - 282,165	0.69	0.759	0.714	0.720	32,500		
282,166 - 300,890	0.70	0.760	0.715	0.721	33,000		
300,891 - 321,545	0.71	0.761	0.716	0.722	33,500		
321,546 - 344,443	0.72	0.762	0.717	0.722	34,000		
344,444 - 369,973	0.73	0.763	0.718	0.723	34,500		
369,974 - 398,614	0.74	0.764	0.718	0.724	35,000		
398,615 - 430,972	0.75	0.765	0.719	0.725	35,500		
430,973 - 467,822	0.76	0.766	0.720	0.726	36,000		
467,823 - 510,168	0.77	0.767	0.721	0.727	36,500		
510,169 - 559,340	0.78	0.767	0.721	0.727	37,000		
559,341 - 617,130	0.79	0.768	0.722	0.728	37,500		
617,131 - 686,025	0.80	0.769	0.723	0.729	38,000		
686,026 - 769,564	0.81	0.769	0.724	0.729	38,500		
769,565 - 872,972	0.82	0.770	0.724	0.730	39,000		
872,973 - 1,004,293	0.83	0.771	0.725	0.731	39,500		
1,004,294 - 1,176,595	0.84	0.771	0.725	0.731	40,000		
1,176,596 - 1,412,604	0.85	0.772	0.726	0.732	40,500		
1,412,605 - 1,755,669	0.86	0.773	0.726	0.732	41,000		
1,755,670 - 2,299,999	0.87	0.773	0.727	0.733	41,500		
2,300,000 - 3,296,225	0.88	0.774	0.727	0.733	42,000		
3,296,226 - 5,706,451	0.89	0.774	0.728	0.734	42,500		
5,706,452 and Over	0.90	0.775	0.728	0.734	43,000		

Commonwealth Automobile Reinsurers

Commercial Automobile Experience Rating Plan

Section II^{3/4} Physical Damage

1. ELIGIBILITY

The term "risk" as used in this plan means the exposures of any one insured which are to be rated. Allied or subsidiary interests shall not be included unless:

- (1) The insured holds a majority financial interest therein, or
- (2) The following conditions exist under an exclusive franchise arrangement between the franchise grantor and the other interests to be rated:
 - (a) all interests operate under a common trade name, and
 - (b) all interests use one or more identical products or services obtained through the franchise grantor, and
 - (c) one source establishes and maintains standards regarding management control and is responsible for insurance premium payment for all interests operating under the exclusive franchise, and
 - (d) there is no legal prohibition against ownership by the franchise grantor of the operations of the other interests to be rated.

Expenses are not taken into consideration in the parameters of this rating plan.

Any risk meeting the following qualifications for the Fire, Theft, CAC, Comprehensive, Collision, Limited Collision, Garagekeepers Legal Liability and Dealers Physical Damage exposure to be rated shall be eligible for the application of this plan:

- (a) Five or more owned or hired automobiles (including trailers and semitrailers) which develop an annual premium of at least \$1,500, or
- (b) If a garage, an annual manual premium of at least \$1,500, or
- (c) Any taxicab or public livery risk which develops an annual premium of at least \$1,000 irrespective of the number of vehicles comprising the risk.

EXCEPTION

Where five or more bodies are under one ownership and the chassis are under other ownership, such a risk shall be eligible for rating either for the bodies only or for the bodies and the chassis regardless of the ownership of the chassis.

Where the bodies only of such a risk are to be rated the number of bodies shall be used to determine eligibility.

Where both the chassis and the bodies are to be rated, a chassis and body shall be considered one complete unit and the bodies in excess thereof shall be used in addition to the number of complete units for determining eligibility.

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Section II³/₄ Physical Damage

2. EXPERIENCE MODIFICATION

The experience modification for the risk shall be determined in accordance with the experience rating procedure described herein, and shall be applied to current manual premium for the Fire, Theft, CAC, Comprehensive, Collision and Limited Collision coverages and deductibles included in the policy being rated.

3. EXPERIENCE USED

The experience modification shall be determined, by the company establishing the rating, from the latest available three completed policy years of experience incurred in this state or in all states by the risk. In the event the experience for the full experience period is not available, at least two completed policy years shall be used. Risks with less than two completed policy years of experience shall not be experience rated. The experience period shall end at least six months prior to the rating date.

Experience developed by companies other than the company establishing the modification or self-insured experience may be used subject to the periods specified above. If the risk has been self-insured or insured with a company from which the experience is not obtainable, the experience may be used if submitted to the company in the form of a statement signed by the insured. Experience in such form may be excluded from the rating if its reliability cannot be established.

4. DETERMINATION OF EXPERIENCE MODIFICATION

The experience modification shall be determined by application of the following procedure:

A. Total Premium Subject to Experience Rating

The premiums to be included in the rating are calculated as follows:

- (i) Determine the current annual premium for the policy being rated using CAR's current manual rates. The policy being rated is the policy to which the experience modification of Rule 4F shall apply.
- (ii) The annual premium for each year of the experience period is the annual premium determined according to A(i) above, multiplied by the appropriate detrend factor from Table A.

Physical Damage Experience Rating Plan Factors		
Table A - Premium Detrend Factors		
<u>Latest Year</u>	<u>2nd Latest Year</u>	<u>3rd Latest Year</u>
0.930	0.899	0.870

- (iii) The total premium subject to experience rating is equal to the sum of the detrended annual premiums calculated according to the prior paragraph.
- (iv) If exposures have changed during the experience period, refer to the supplement to determine if an alternative rating methodology is in order.

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Section II³/₄ Physical Damage

4. DETERMINATION OF EXPERIENCE MODIFICATION (Continued)

B. Losses Subject to Experience Rating

The losses to be included in the rating shall be the total of the following:

- (i) Paid and outstanding losses (excluding allocated loss adjustment expense (ALAE)) for each year in the experience period, with the amount of indemnity resulting from any single occurrence limited by the maximum single loss (MSL) value specified in Table C (at the end of this section) based on the total premium subject to experience rating. All losses from the experience period shall be adjusted to the deductible basis of the policy being rated.
- (ii) In cases where an insured has changed carriers, the company establishing the rating may be unable to obtain current valuations of past losses from previous carriers. Therefore losses may be evaluated at less than 18 months.

In these cases, an adjustment to reflect ultimate level of losses for each year in the experience period is needed. This adjustment is calculated by multiplying the annual premium (from A(ii)) for the year by the adjusted expected loss ratio (AELR) and by the appropriate loss development factor (LDF). The formula for this adjustment is $P \times AELR \times LDF$, where

- (a) P is the annual premium for the particular year in the experience period (from A(ii)).
- (b) AELR is the adjusted expected loss ratio specified in Table C (at the end of this section) based on the total premium subject to experience rating (from A(iii)). If a risk includes more than one vehicle type, then the AELR from Table C should be the AELR for the predominant class of risk on the policy.
- (c) LDF is the appropriate CAR basic limits loss development factor for Table B, below:

Physical Damage Experience Rating Plan Factors	
Table B - Loss Development Factors	
	Factors for <u>Immature Years</u>
Maturity (Months)	6
LDF	0.832
Maturity (Months)	9
LDF	0.585
Maturity (Months)	12
LDF	0.273
Maturity (Months)	15
LDF	0.000

The maturity of the losses for any year in the experience period is defined as the number of months between the latest loss valuation and the effective date of the policy to which these losses are assignable.

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Section II^{3/4} Physical Damage

4. DETERMINATION OF EXPERIENCE MODIFICATION (Continued)

C. Actual Loss Ratio

Determine the actual loss ratio (ALR) by dividing the losses subject to experience rating (from B(i) + B(ii)) by the total premium subject to experience rating (from A(iii)).

D. Credibility

The credibility for the risk is obtained from Table C, based on the total premium subject to experience rating.

E. Adjusted Expected Loss Ratio

The adjusted expected loss ratio (AELR) for the risk is obtained from Table C, (at the end of this section) based on the total premium subject to experience rating. If a risk includes more than one vehicle type, then the AELR from Table C should be the AELR for the predominant class of risk on the policy.

F. Experience Modification

$$\frac{\text{ACTUAL LOSS RATIO}}{\frac{\text{ADJUSTED EXPECTED LOSS RATIO}}{\text{ADJUSTED EXPECTED LOSS RATIO}}} \text{ minus } \frac{\text{ADJUSTED EXPECTED LOSS RATIO}}{\text{ADJUSTED EXPECTED LOSS RATIO}} \text{ times CREDIBILITY} = \text{EXPERIENCE MODIFICATION}$$

If the experience modification is negative, it is a credit; if positive, it is a debit.

Commonwealth Automobile Reinsurers

Commercial Automobile Experience Rating Plan

Section II^{3/4} Physical Damage

Physical Damage Experience Rating Plan Example

I. BASIC INFORMATION

Assume the policy to be rated is effective 10/1/02 - 9/30/03, for private passenger type vehicles.

Assume the basic limits premium for OTC and Collision using CAR rates effective 10/1/02 is: \$ 7,000

Assume the losses for three years, evaluated as of 12/31/96, are as follows:

<u>Year</u> (1)	Maturity as of <u>12/31/96</u> (2)	<u>Losses</u> (3)
10/1/98 -9/30/99	42	\$ 200 500 300
10/1/99 -9/30/00	30	750 5,150
10/1/00 -9/30/01	18	300 500 250

II. TOTAL PREMIUM SUBJECT TO EXPERIENCE RATING (See Rule 4A).

<u>Year</u> (1)	<u>Annual Basic Limits Premium</u> (2)	<u>Table A Detrend Factors</u> (3)	<u>Basic Limits Premium Subject to Experience Rating</u> (4)
3rd Latest Year	\$ 7,000	0.870	\$ 6,090
2nd Latest Year	7,000	0.899	6,293
Latest Year	7,000	0.930	<u>6,510</u>
			\$ 18,893

From Table C, given the total basic limits premium subject to experience rating of \$18,893, the credibility is 0.32, the AELR is 0.610, and the MSL is \$7,000. (See Rules 4B, 4C, and 4D).

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Commercial Automobile Experience Rating Plan

Section II^{3/4} Physical Damage

Physical Damage Experience Rating Plan Example

III. LOSSES SUBJECT TO EXPERIENCE RATING (See Rule 4B).

A. Paid and Outstanding Losses		
<u>Year</u> (1)	<u>Losses</u> (2)	Losses Subject to MSL <u>of \$7,000</u> (3)
10/1/98 -9/30/99	\$ 200	\$ 200
	500	500
	300	300
10/1/99 -9/30/00	750	750
	5,150	5,150
10/1/00 -9/30/01	300	300
	500	500
	250	<u>250</u>
		\$ 7,950

IV. EXPERIENCE MODIFICATION

Credibility (Step II)	0.32
Adjusted Expected Loss Ratio (Step II)	0.610
Losses Subject to Experience Rating (Step III)	\$ 7,950
Premium Subject to Experience Rating (Step II)	\$18,893
Actual Loss Ratio (\$7,950 / \$18,893)	0.421

Experience Modification = $\frac{0.421 - 0.610}{0.610} \times 0.32 = 0.099$ (factor of 0.901) or a 9.9% credit.

Commonwealth Automobile Reinsurers Commercial Automobile Experience Rating Plan				
Physical Damage Experience Rating Plan Factors Table C - Credibility, Adjusted Expected Loss Ratios, and Maximum Single Losses				
Premium Levels	Credibility	Adjusted Expected Loss Ratio		Maximum Single Loss
		Zone-Rated	All Other	
1 - 875	0.10	0.381	0.381	1,500
876 - 1,516	0.11	0.405	0.404	1,750
1,517 - 2,173	0.12	0.426	0.425	2,000
2,174 - 2,847	0.13	0.444	0.444	2,250
2,848 - 3,539	0.14	0.461	0.461	1,500
3,540 - 4,249	0.15	0.476	0.476	2,750
4,250 - 4,978	0.16	0.490	0.489	3,000
4,979 - 5,727	0.17	0.502	0.502	3,250
5,728 - 6,496	0.18	0.514	0.514	3,500
6,497 - 7,287	0.19	0.525	0.524	3,750
7,288 - 8,101	0.20	0.534	0.534	4,000
8,102 - 8,938	0.21	0.543	0.543	4,250
8,939 - 9,800	0.22	0.552	0.551	4,500
9,801 - 10,687	0.23	0.559	0.559	4,750
10,688 - 11,601	0.24	0.566	0.566	5,000
11,602 - 12,542	0.25	0.573	0.573	5,250
12,543 - 13,514	0.26	0.580	0.579	5,500
13,515 - 14,515	0.27	0.585	0.585	5,750
14,516 - 15,549	0.28	0.591	0.591	6,000
15,550 - 16,616	0.29	0.596	0.596	6,250
16,617 - 17,719	0.30	0.601	0.601	6,500
17,720 - 18,859	0.31	0.606	0.605	6,750
18,860 - 20,038	0.32	0.610	0.610	7,000
20,039 - 21,258	0.33	0.614	0.614	7,250
21,259 - 22,521	0.34	0.618	0.618	7,500
22,522 - 23,830	0.35	0.622	0.621	7,750
23,831 - 25,187	0.36	0.625	0.625	8,000
25,188 - 26,595	0.37	0.629	0.628	8,250
26,596 - 28,056	0.38	0.632	0.631	8,500
28,057 - 29,575	0.39	0.635	0.635	8,750
29,576 - 31,153	0.40	0.638	0.638	9,000
31,154 - 32,796	0.41	0.641	0.640	9,250
32,797 - 34,506	0.42	0.643	0.643	9,500
34,507 - 36,289	0.43	0.646	0.646	9,750
36,290 - 38,148	0.44	0.649	0.648	10,000
38,149 - 40,089	0.45	0.651	0.650	10,250
40,090 - 42,118	0.46	0.653	0.653	10,500
42,119 - 44,240	0.47	0.655	0.655	10,750
44,241 - 46,462	0.48	0.657	0.657	11,000
46,463 - 48,792	0.49	0.659	0.659	11,250

Commonwealth Automobile Reinsurers Commercial Automobile Experience Rating Plan						
Physical Damage Experience Rating Plan Factors Table C - Credibility, Adjusted Expected Loss Ratios, and Maximum Single Losses						
Premium Levels			Credibility	Adjusted Expected Loss Ratio		Maximum Single Loss
				Zone-Rated	All Other	
48,793 - 51,236	0.50	0.661	0.661	11,500		
51,237 - 53,805	0.51	0.663	0.662	11,750		
53,806 - 56,508	0.52	0.665	0.664	12,000		
56,509 - 59,355	0.53	0.666	0.666	12,250		
59,356 - 62,359	0.54	0.668	0.667	12,500		
62,360 - 65,532	0.55	0.669	0.669	12,750		
65,533 - 68,889	0.56	0.671	0.670	13,000		
68,890 - 72,448	0.57	0.672	0.672	13,250		
72,449 - 76,226	0.58	0.673	0.673	13,500		
76,227 - 80,245	0.59	0.675	0.674	13,750		
80,246 - 84,528	0.60	0.676	0.675	14,000		
84,529 - 89,103	0.61	0.677	0.677	14,250		
89,104 - 93,999	0.62	0.678	0.678	14,500		
94,000 - 99,253	0.63	0.679	0.679	14,750		
99,254 - 104,904	0.64	0.680	0.680	15,000		
104,905 - 111,001	0.65	0.681	0.681	15,250		
111,002 - 117,597	0.66	0.682	0.682	15,500		
117,598 - 124,756	0.67	0.683	0.683	15,750		
124,757 - 132,555	0.68	0.684	0.683	16,000		
132,556 - 141,082	0.69	0.685	0.684	16,250		
141,083 - 150,444	0.70	0.685	0.685	16,500		
150,445 - 160,772	0.71	0.686	0.686	16,750		
160,773 - 172,221	0.72	0.687	0.686	17,000		
172,222 - 184,986	0.73	0.688	0.687	17,250		
184,987 - 199,307	0.74	0.688	0.688	17,500		
199,308 - 215,486	0.75	0.689	0.688	17,750		
215,487 - 233,911	0.76	0.689	0.689	18,000		
233,912 - 255,084	0.77	0.690	0.690	18,250		
255,085 - 279,669	0.78	0.691	0.690	18,500		
279,670 - 308,565	0.79	0.691	0.691	18,750		
308,566 - 343,012	0.80	0.692	0.691	19,000		
343,013 - 384,782	0.81	0.692	0.692	19,250		
384,783 - 436,486	0.82	0.693	0.692	19,500		
436,487 - 502,146	0.83	0.693	0.693	19,750		
502,147 - 588,297	0.84	0.694	0.693	20,000		
588,298 - 706,302	0.85	0.694	0.694	20,250		
706,303 - 877,834	0.86	0.694	0.694	20,500		
877,835 - 1,149,999	0.87	0.695	0.694	20,750		
1,150,000 - 1,648,112	0.88	0.695	0.695	21,000		
1,648,113 - 2,853,225	0.89	0.696	0.695	21,250		
2,853,226 and Over	0.90	0.696	0.696	21,500		

Commonwealth Automobile Reinsurers
Commercial Automobile Experience Rating Plan

APPENDIX A

Applicable to Section I Liability and Section II Physical Damage

If the actual exposures of the risk have been subject to a twenty-five percent change since the experience period apply the following advisory procedure to determine the basic limits premium subject to experience rating. The twenty-five percent differential shall be determined by averaging the actual exposures from the experience period, and comparing the resulting average exposures to the current exposures. An example of this calculation follows:

Current Exposure = 25

Experience Period

3rd Prior Year = 35

2nd Prior Year = 35

1st Prior Year = 33

Average Exposure = $34.33 \ (25 - 34.33) / 34.33 = 27.18\%$ change in exposure

Historical Exposures at Present CAR Rates Method

Procedure:

Determine the actual historical exposures on the present rating basis by classification and garaging for each policy of the experience period.

The actual exposures by classification and garaging for a given year of the experience period, when multiplied by the present basic limits CAR rates and then multiplied by the appropriate detrend factor from Table A, yields the annual basic limits CAR premium for that year of the experience period.

The Servicing Carrier shall determine the applicability of this rating procedure based upon the credibility of the documentation supplied in support of the change in exposure level.

If the historical exposure information is not obtainable from the company insuring the risk during the experience period, historical information may be obtained in the form of a signed statement from the insured. Exposure information submitted in such form may be excluded from the rating if its reliability can not be established.

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The application of these rules is mandatory for all insureds meeting the eligibility requirements as contained in Sections I and II of this plan. Any action taken in any form to evade the application of an experience modification determined in accordance with this plan is prohibited.

A. DEFINITIONS

Entity

The term "entity" shall mean an individual, partnership, corporation, unincorporated association or fiduciary (e.g., trustee, receiver, executor or administrator).

Risk

The term "risk" for the purpose of this Supplementary Rule shall mean:

1. A single entity.
2. Two or more entities which must be combined under the provisions of the plan regardless of whether insurance is or has been provided by one or more policies or insurance carriers.

Majority Interest

"Majority" shall mean more than 50% ownership or other property interest.

If an entity other than a partnership

1. has issued voting stock, majority interest shall mean a majority of the issued voting stock;
2. has not issued voting stock, majority interest shall mean a majority of its members;
3. has not issued voting stock and has no members, majority interest shall mean a majority of the board of directors or comparable governing body.

If an entity is a partnership, majority interest shall be determined in accordance with the participation of each general partner in the profits of the partnership.

Ownership Interest

1. Ownership interest of any corporation shall be determined on the basis of the ownership of the issued voting stock of any such corporation.
2. If there is no issued voting stock, ownership interest shall be determined on the basis of its members if the entity is other than a partnership.

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Section III^{3/4} Supplementary Rules

A. DEFINITIONS (Continued)

Ownership Interest (Cont.)

3. If there is neither issued voting stock nor members, ownership interest shall be determined on the basis of the membership of the board of directors or comparable governing body if the entity is other than a partnership.
4. Ownership interest of any partnership shall be determined in accordance with the participation of each general partner in the profits of the partnership.
5. Ownership interest shall be deemed to be vested in a fiduciary when a fiduciary is involved. However, "fiduciary" shall not include a debtor in possession, a trustee under a revocable trust or a franchisor. Ownership interest held by an entity in a fiduciary capacity and ownership interest held by the same entity in a non-fiduciary capacity shall be deemed to be ownership interest of the same entity.

B. COMBINATION OF ENTITIES

1. Two or more entities shall be combined for rating purposes if the same person, or group of persons, or corporation owns a majority interest in each such entity.
2. If an entity owns a majority interest in another entity which in turn owns the majority interest in another entity, all entities so related shall be combined regardless of the number of entities in succession.

In those instances where two or more different combinations are possible, the combination involving the greatest number of entities shall be made. The experience of any entity used in such a combination shall not otherwise be used in combination with the experience of any other entity.

C. MERGER OR CONSOLIDATION

Merger

If two or more entities are merged so that the ownership interest of all such entities are combined in the surviving entity, the incurred experience of all such merged entities shall be used for experience rating the surviving entity.

Consolidation

If two or more entities are consolidated by replacing them with a new entity combining the ownership interest of the prior entities, the incurred experience of all such consolidated entities shall be used for experience rating the new entity.

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D. CHANGE OF OWNERSHIP, CONTROL, MANAGEMENT, NAME OR OPERATIONS

For purposes of this plan a change in ownership includes any of the following:

- (1) Sale, transfer or conveyance of an entity's ownership interest.
- (2) Sale, transfer or conveyance of an entity's physical assets to another entity which takes over its operations.
- (3) Merger or consolidation of two or more entities.
- (4) Formation of a new entity subsequent to the dissolution or non-operative capacity of an entity.
- (5) Voluntary or court mandated establishment of a trustee or receiver, excluding a debtor in possession, a trustee under a revocable trust, or a franchisor.

1. Continuation of Experience

Unless excluded under D.3., the experience for any entity undergoing a change of ownership shall be transferred to the experience ratings of the acquiring, surviving or new entity.

EXCEPTION

If an entity disposes of part of its operations, but otherwise continues to operate its business, or if a multiple entity risk disposes of one or more entities whose statistical data has been combined on a single policy, the experience shall continue to be used in future experience ratings of the seller unless the rating company is furnished with the appropriate experience to provide for transfer of the data to the acquiring entity.

2. Recalculated Experience Modification Due to a Change in Ownership

- a. Unless excluded under the provisions of D.3., the experience of an entity undergoing a change of ownership shall be retained in future ratings in accordance with the following procedure:
 - (1) The experience modification of the new owner shall be revised to include the past experience of the acquired entity subject to Rule 3 of Sections I and II Experience Used.
 - (2) If the new owner is not experience rated, an experience modification shall be calculated utilizing the experience of the acquired entity together with any applicable existing experience.
 - (3) If based on its ownership in other entities, the previous owner continues to be experience rated after the change in ownership, its experience modification shall be revised to exclude all experience of the relinquished entity.
- b. Experience modifications in accordance with a(1), a(2), and a(3) above shall be calculated and applied as follows:
 - (1) If the first written reporting of the ownership change by either the acquiring entity or the acquired entity to their carrier occurs within 90 days of the date of the change, the calculation of the revised modification shall be as of the date of the change.
 - (2) If the first written reporting of such change occurs more than 90 days after the date of the change, the calculation of the revised modification shall be as of the next anniversary rating date following the earliest notice either carrier received of the change.

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D. CHANGE OF OWNERSHIP, CONTROL, MANAGEMENT, NAME OR OPERATIONS (Continued)

3. Exclusion of Experience

- A. In the event of a change in ownership, if after such change, the new owner is a taxi risk with two or less vehicles, the experience of the prior owner shall not be included in the calculation of future experience ratings. In the event, however, the new owner subsequently becomes a taxi risk with three or more vehicles, the experience of the prior owner shall prospectively be considered for experience rating purposes subject to the other provisions of this paragraph 3.
- B. In all other instances, the experience of any other entity undergoing a change of ownership shall be excluded from future experience rating calculations only if each of the following conditions a, b, and c are met.
 - a. The change must be a material change such that the:
 - (1) entire ownership interest after the change had no ownership interest before the change, or
 - (2) the collective ownership of all those having an interest in an entity both before the change and after the change amounts to either less than 1/3 ownership before the change or less than 1/2 ownership after the change.
 - b. The material change in ownership is accompanied by a change in operations sufficient to result in reclassification of the governing classification.
 - c. The material change in ownership is accompanied by a change in the process and hazard of the operations.
 - d. If the experience of an entity is to be excluded, the experience modification no longer applies as of the date of the change. An experience modification of 1.00 (unity) shall apply effective the date of the change, unless acquired by an entity with an existing experience modification.

4. Self-Insured or Discontinued Operations

The experience rating of a risk shall retain all experience for any part of its operations which may have been discontinued or self-insured.

5. Notification Requirement

When an ownership change occurs the insured shall report the details of such change to its carrier. This may be done by submitting the details of the change in narrative form on the letterhead of the insured, signed by an officer of the company.

The carrier will determine the type of change and combinability of the entities involved.

6. Due inquiry should be made into all cases of purported change of ownership raising reasonable doubt as to the validity and good faith of the transfer. The insurance carrier may require the transferee to pay a premium based upon the experience modification applicable to the transferor or the manual rate, whichever is higher, pending investigation of the facts of the case and subject to later adjustment if appropriate. A proper period for investigation of the facts shall be allowed in all cases of doubt about the validity of a purported change of ownership.