## A. General

Each Servicing Carrier will receive a credit towards its premium written for expenses related to policies ceded to Commonwealth Automobile Reinsurers (CAR). `

Interim expense allowances provide expense reimbursement to Servicing Carriers on a temporary basis, pending determination of final ceding expense allowances. Interim allowances are discussed in Section B of this chapter.

The total interim expense allowances credited to the Servicing Carrier, as determined by the application of the interim expense percentages to the Servicing Carrier's written premiums reported in each of the monthly accounting/statistical submissions for the particular calendar year, will be adjusted to equal the results calculated in the Servicing Carrier's calendar year final determination of expenses as described in Section C of this chapter.

In general, a Servicing Carrier's private passenger final expense compensation for Commission Expense and Premium Tax Expense will be equal to the expense portion of the private passenger rates unless the Servicing Carrier's actual expenses, as reflected in its Massachusetts Automobile Insurance Expense Plan, are less than that amount. In this case, the Servicing Carrier will receive final expense compensation equal to its actual expenses. Note that in the capping process described above, for those companies which are direct writers, the "direct writer selling expense" portion of their Other Acquisition Expenses (as reported on their Expense Plan), will replace the Commission Expense piece of the calculation.

Also, each Servicing Carrier's private passenger final expense compensation for Unallocated Loss Adjustment Expense (ULAE) and one-half of Company Expense will equal the expense portion of the rates adjusted by the Servicing Carrier’s ceded claim frequency relativity to the industry.

Interim expense allowances for private passenger are calculated using a simplified method, similar to the calculation of final expense allowances, using the current statewide private passenger rates and the latest available claim frequency and Expense Plan data.

## A. General (continued)

For calendar year 1994, a Servicing Carrier's other than private passenger final expense compensation for ULAE Expense and one-half of Company Expense will equal the expense portion of the average rates as reported on the Massachusetts Automobile Insurance Expense Plan, adjusted by the company's ceded claim frequency relativity to the industry. For calendar years 1995 and subsequent, a Servicing Carrier's other than private passenger final expense compensation for ULAE Expense and one-half of Company Expense will equal the allowance provided in the Commissioner of Insurance's Annual Decision on CAR's Commercial Rate Filing, adjusted by the company's ceded claim frequency relativity to the industry. Additionally, each Servicing Carrier's claim frequency is further adjusted by an off-balance factor to assure distribution of all available ULAE and one-half of company expense dollars.

Also, for calendar year 1994, a Servicing Carrier's other than private passenger final expense compensation for Commission Expense and Premium Tax Expense will be equal to the expense portion of the other than private passenger rates from the Expense Plan, unless the Servicing Carrier's actual expenses are less than that amount. In the capping process described above, for those companies which are direct writers, the "direct writer selling expense" portion of their Other Acquisition Expenses (as reported on their Expense Plan), will replace the Commission Expense piece of the calculation. Additionally, each Servicing Carrier's Commission expenses (or direct writer selling expenses) and Premium Tax expenses is further adjusted by an off-balance factor to assure distribution of all available commission and premium tax expense dollars.

For calendar years 1995 and subsequent, a Servicing Carrier's other than private passenger final expense compensation for Commission expenses (or Direct Writer Selling Expenses), and Premium Tax expenses will equal the allowance provided in the Commissioner of Insurance's Annual Decision on CAR's Commercial Rate Filing, unless the Servicing Carrier's actual expenses are less than that amount. Additionally, each Servicing Carrier's Commission expenses (or Direct Writer Selling expenses), and Premium Tax expenses are further adjusted by an off-balance factor to assure distribution of all available commission and premium tax expense dollars.

For calendar years 1995 and subsequent, policy years 1995 and subsequent taxi business will be excluded from the existing other than private passenger interim and final ceding expenses calculations. The procedure for calculating interim and final ceding expense allowances for policy years 1995 and subsequent taxi business, is described in Chapter VIII of this manual.

## A. General (continued)

For calendar years 1996 and subsequent, policy years 1996 and subsequent limousine business will be excluded from the existing other than private passenger interim and final ceding expense calculations. The procedure for calculating interim and final ceding expense allowances for policy years 1996 and subsequent limousine business, is described in Chapter VIII of this manual.

For calendar year 1994, interim expense allowances for other than private passenger ceded business are calculated using a simplified method, similar to the calculation of final expense allowances, using the all other than private passenger expense data from the most current Massachusetts Automobile Insurance Expense Call, and the latest available claim frequency data.

For calendar years 1995 and subsequent, interim expense allowances for other than private passenger ceded business are calculated using a simplified method, similar to the calculation of final expense allowances, using the expense allowance provided in the Commissioner's Annual Decision on the CAR Commercial Rate Filing. Note that policy year 1995 and subsequent taxi business reported in calendar years 1995 and subsequent and policy year 1996 and subsequent limousine business reported in calendar years 1996 and subsequent is excluded from these calculations.

Private passenger and all other than private passenger interim and final ceding expense allowances are not applicable to ceded Antique Vehicle premium with policy effective dates of November, 1998 and subsequent.

## B. Interim Expense Allowances

The interim expense percentages for use in calculating ceding expense allowances for a particular calendar year are established annually by CAR, as described below, and bulletined to its Servicing Carriers. All expense allowances, as calculated based on interim expense percentages, are subject to retroactive adjustment using the procedures outlined in Section C. of this Chapter.

1. Private Passenger Interim Ceding Expenses for All Producers

Private passenger interim percentages are based on the current statewide private passenger rate components in conjunction with Expense Plan data and ceded frequency data for the most recent year available. This is generally data for the second prior year, valued at fifteen months.

To determine interim expense allowances for agency companies, the Commission and Premium Tax Expense rate components expressed as a percent of premium are used. For companies which are direct writers, the Direct Writer Selling Expense portion of the Other Acquisition Expense percentages from the company's most recent Expense Plan Return are used in place of the Commission Expense rate component. For all companies, the ULAE Expense and one-half of Company Expense components from the rates are adjusted for the Servicing Carrier's ceded claim frequency relative to the industry, with the other one-half of Company Expense added without frequency adjustment.

The Commission or Direct Writer Selling Expense portion of the Other Acquisition Expense rate component and Premium Tax Expenses are combined with the ULAE and Company Expense rate components to determine the company's overall interim ceding expense allowance as a percent of premium.

Private passenger interim percentages for Servicing Carriers that have a mix of agency and direct written business, will be determined based upon a weighted average of the agency and direct writer interim expense ratios, using the most recently available premium.

Interim allowances are subject to final adjustment, as described in Section C.1.

**B. Interim Expense Allowances** (continued)

2. Other than Private Passenger Interim Ceding Expenses

For calendar year 1994, other than private passenger interim percentages for all ceded business (CAR ID codes 3, 4, 5, 6 and 9) are based on expense data from the most current Massachusetts Automobile Insurance Expense Plan and ceded claim frequency data for the most recent year available. This is generally data for the second prior year, valued at fifteen months.

For calendar years 1995 and subsequent, other than private passenger interim percentages for all ceded business (CAR ID Codes 4 and 5 for policy years 1995 and subsequent and CAR ID Codes 3, 4, 5, 6 and 9 for policy years 1993 and 1994), are based on the allowance provided in the Commissioner's Annual Decision on the CAR Commercial Rate Filing and ceded claim frequency data for the most recent year available. Note that policy year 1995 and subsequent taxi business reported in calendar years 1995 and subsequent and policy years 1996 and subsequent limousine business reported in calendar years 1996 and subsequent are excluded from this calculation.

To determine interim expense allowances for agency companies, the Commission and Premium Tax Expense rate components expressed as a percent of premium are used. For companies which are direct writers, the Direct Writer Selling Expense portion of the Other Acquisition Expense percentages from the company's most recent Expense Plan Return as used in place of the Commission Expense rate component. For all companies, the ULAE Expense and one-half of Company Expense components from the rates are adjusted for the Servicing Carrier's ceded claim frequency relative to the industry, with the other one-half of Company Expense added without frequency adjustment.

The Commission or Direct Writer Selling Expense portion of the Other Acquisition Expense rate component and Premium Tax Expenses are combined with the ULAE and Company Expense rate components to determine the company's overall interim ceding expense allowance as a percent of premium.

Other than private passenger interim percentages for Servicing Carriers that have a mix of agency and direct written business, will be determined based upon a weighted average of the agency and direct writer interim expense ratios, using the most recently available premium.

These interim allowances are subje ct to final adjustment, as described in Section C.2.

## C. Final Determination of Expenses

The final expense allowances of each Servicing Carrier are determined by the Commonwealth Automobile Reinsurers after the close of each calendar year, using each carrier's actual experience for the year in conjunction with the appropriate expense components in the rates. Interim ceding expense allowances for each Servicing Carrier are compared with finalized expense allowances calculated for each Servicing Carrier. Any ceding expense adjustment necessary to correct the Servicing Carrier's interim ceding expense dollars so they reflect the finalized expense allowances will be processed as an adjustment to the Servicing Carrier's Settlement of Balances Account. The net amount of all such adjustments will be shared by the industry in accordance with their underwriting results participation ratios for the particular policy year and participation pool.

Expenses for both private passenger and other than private passenger are calculated for the following groupings:

1. Unallocated Loss Adjustment Expense.

2. Company Expense: including Other Acquisition, Field Supervision and Collection Expense; Other Taxes, Licenses and Fees; and All Other General Expenses. (Note that the Direct Writer Selling Expense portion of Other Acquisition Expense, if any, is excluded from this category, since it is included in 3. below.)

3. Commission Expense and/or Direct Writer Selling Expense

4. Premium Tax Expense.

For private passenger, the expense percentages used to compute the final expense allowances are calculated by adjusting ULAE Expense and one-half of Company Expense for the Servicing Carrier's ceded claim frequency relative to the industry, as described in Section C.1.a. of this Chapter. Also, the Commission Expense or Direct Writer Selling Expense and Premium Tax Expense are adjusted by the Servicing Carrier's private passenger Average Capping Factor, as described in Section C.1.c. of this Chapter.

## C. Final Determination of Expenses (continued)

For calendar years 1994 and subsequent, the expense percentages used to compute final other than private passenger expense allowances are calculated by adjusting ULAE Expense and one-half of Company Expense by the Servicing Carrier's ceded claim frequency relative to the industry, and by an off-balance factor, as described in Section C. 2. a. and C. 2. b. of this Chapter. Also, the Commission Expense or Direct Writer Selling Expense and Premium Tax Expense are adjusted by the Servicing Carrier's other than private passenger Average Capping Factor, as described in Section C. 2. c. of this Chapter, and by another off-balance factor, as described in Section C. 2. d. 3. of this Chapter.

The calculation of expense allowances for policy years 1995 and subsequent taxi business reported in calendar years 1995 and subsequent, and the calculation of expense allowances for policy years 1996 and subsequent limousine business reported in calendar years 1996 and subsequent is described in Chapter VIII of the Manual.

1. Private Passenger Final Expense Allowances

   The procedure used to determine private passenger final ceding expense ratios and adjustments is described below. Exhibit V-C-1 further illustrates this procedure with a numerical example.

   a. Ceded Frequency Relativity Adjustment

      A ceded claim frequency measure is determined for each Servicing Carrier, initially using the current year data valued at 15 months, and then later recalculated using the current year data valued at 27 months.

      1) Private passenger liability ceded claim frequency is calculated for each Servicing Carrier by dividing ceded accident year property damage liability plus no-fault incurred claim counts by related property damage liability plus no-fault earned car years of exposure.

      2) Private passenger physical damage ceded claim frequency is calculated for each Servicing Carrier by dividing ceded accident year collision plus comprehensive incurred claim counts by related collision plus comprehensive earned car years of exposure.

**C. Final Determination of Expenses** (continued)

1. Private Passenger Final Expense Allowances (continued)

3) A liability frequency relativity factor is calculated for each Servicing Carrier by dividing its ceded liability claim frequency by the industry average ceded liability claim frequency.

4) A physical damage frequency relativity factor is calculated for each Servicing Carrier by dividing its ceded physical damage claim frequency by the industry average ceded physical damage claim frequency.

b. Calculation of Unallocated Loss Adjustment Expense and Company Expense Ratios

1) The ULAE Expense rate component and one-half of the Company Expense rate component, for private passenger liability, are combined and multiplied by each Servicing Carrier's liability claim frequency relativity factor, capped at a minimum of 75% and a maximum of 150%.

2) The result is combined with the other unadjusted half of the Company Expense rate component for private passenger liability. The combined ratio resulting for the Servicing Carrier is its private passenger liability final expense ratio for ULAE and Company Expenses.

3) The ULAE Expense and Company Expense rate components for private passenger physical damage are adjusted in the same manner as private passenger liability.

4) The result is combined with the other unadjusted half of the Company Expense rate component for private passenger physical damage. The combined ratio resulting for the Servicing Carrier is its private passenger physical damage final expense ratio for ULAE and Company Expenses.

**C. Final Determination of Expenses** (continued)

1. Private Passenger Final Expense Allowances (continued)

c. Average Capping Factor

The average capping factor procedure assures that a Servicing Carrier whose actual Commission and Premium Tax Expenses, as reported on the Massachusetts Automobile Expense Plan, are less than these expense components in the statewide approved rates, will have its final Commission and Premium Tax Expenses limited to its actual expenses. A Servicing Carrier whose actual Commission and Premium Tax expenses are greater than the expense components, will receive no more than the statewide approved rates provide.

The average capping procedure for Servicing Carriers (excluding those which are direct writers) is as follows:

1) Each Servicing Carrier's private passenger liability written premium and incurred expenses for Commission Expense and Premium Tax Expense, as reported on the Massachusetts Automobile Insurance Expense Plan, are used to derive an expense call ratio for private passenger liability.

2) Each Servicing Carrier's private passenger physical damage written premium and incurred expenses for Commission Expense and Premium Tax Expense, as reported on the Massachusetts Automobile Insurance Expense Plan, are used to derive an expense call ratio for private passenger physical damage.

3) The private passenger liability rate components for Commission Expense and Premium Tax Expense are combined. The same components for private passenger physical damage are also combined.

4) The Servicing Carrier's liability result from 1.c.1) is divided by the liability rate component from 1.c.3). The Servicing Carrier's physical damage result from 1.c.2) is divided by the physical damage rate component from 1.c.3).

**C. Final Determination of Expenses** (continued)

1. Private Passenger Final Expense Allowances (continued)

c. Average Capping Factor (continued)

5) The liability result from 1.c.4) is weighted by private passenger liability written premium divided by total private passenger written premium, as reported on the Servicing Carrier's Annual Statement Page 14. The physical damage result from 1.c.4) is weighted by private passenger physical damage written premium divided by total private passenger written premium, as reported on the Servicing Carrier's Annual Statement Page 14.

6) The resulting ratios from 1.c.5) are combined to obtain the Servicing Carrier's private passenger Average Capping Factor. An average capping factor greater than 1.0000 will be capped at 1.0000.

For ceded business written by a company which is a direct writer, the company will be provided with reimbursement equal to the Direct Writer Selling Expense portion of its Other Acquisition Expenses as reported on the Massachusetts Automobile Expense Plan and Premium Tax Expenses, adjusted by the average capping factor procedure, rather than the Commission and Premium Tax Expenses as adjusted by the average capping factor procedure.

For those companies which are partly direct writer and partly agency, both an agency and a direct writer capping factor are calculated (as described in 1.c.1) - 1.c.6) above), based on the portion of the company's premium, which is directly written and that which originates from the company's agency business.

d. Final Ceding Expense Ratio Calculation

The calculation of each Servicing Carrier's (excluding those which are direct writers) final ceding expense ratios is as follows:

1) The private passenger liability Commission Expense and Premium Tax Expense rate components are combined and multiplied by the Servicing Carrier's private passenger average capping factor to derive the Servicing Carrier's private passenger liability final expense ratio for Commission and Premium Tax Expenses.

**C. Final Determination of Expenses** (continued)

1. Private Passenger Final Expense Allowances (continued)

d. Final Ceding Expense Ratio Calculation (continued)

2) The private passenger physical damage Commission Expense and Premium Tax Expense rate components are combined and multiplied by the Servicing Carrier's private passenger average capping factor to derive the Servicing Carrier's private passenger physical damage final expense ratio for Commission and Premium Tax Expenses.

3) Derive the total private passenger final liability expense ratio for the Servicing Carrier by combining the final expense ratio for ULAE and Company Expenses from 1.b.2) with the final expense ratio for Commission and Premium Tax Expenses from 1.d.1).

4) Derive the total private passenger final physical damage expense ratio for the Servicing Carrier by combining the final expense ratio for ULAE and Company Expenses from 1.b.4) with the final expense ratio for Commission and Premium Tax Expenses from 1.d.2).

For those companies which are direct writers, the final ceding expense ratios are calculated by combining the final expense ratio for ULAE and Company Expenses from 1.b.2) for liability and 1.b.4) for physical damage with the company's corresponding Direct Writer Selling Expense portion of the Other Acquisition Expenses as reported on its Expense Plan, and the Premium Tax Expense rate component.

For those companies which are partly direct writer and partly agency, both direct writer final expense ratios and agency final expense ratios are calculated (as described in 1.d.1) - 1.d.4) above), based on the portion of the company's premium which is directly written and that which originates from the company's agency business.

**C. Final Determination of Expenses** (continued)

1. Private Passenger Final Expense Allowances (continued)

e. Final Ceding Expense Adjustment Calculation

1) The Servicing Carrier's private passenger liability final expense ratio from 1.d.3) is applied to its total ceded private passenger liability premium (CAR ID codes 3, 4, 5, 6, and 9 for policy years 1994 and prior and CAR ID codes 4 and 5 for policy years 1995 and subsequent), as reported to CAR during the calendar year. These dollars are compared to the liability expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final liability expense dollars and the interim liability expense dollars is processed as the calendar year liability ceding expense adjustment for the Servicing Carrier.

2) The Servicing Carrier's private passenger physical damage final expense ratio from 1.d.4) is applied to its total ceded private passenger physical damage premium (CAR ID codes 3, 4, 5, 6, and 9 for policy years 1994 and prior and CAR ID codes 4 and 5 for policy years 1995 and subsequent), as reported to CAR during the calendar year. These dollars are compared to the physical damage expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final physical damage expense dollars and the interim physical damage expense dollars is processed as the calendar year physical damage ceding expense adjustment for the Servicing Carrier.

3) For those companies which have both direct written and agency business, the Servicing Carrier's direct written liability ratio is applied to the Servicing Carrier's ceded direct written private passenger liability premium, as reported to CAR during the calendar year. These dollars are compared to the ceded direct written liability expenses dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final liability direct written expense dollars and the interim liability direct written expenses dollars is processed as the calendar year liability direct written ceding expense adjustment for the Servicing Carrier.

**C. Final Determination of Expenses** (continued)

e. Final Ceding Expense Adjustment Calculation (continued)

Additionally, the Servicing Carrier's agency liability ratio is applied to the Servicing Carrier's ceded agency private passenger liability premium, as reported to CAR during the calendar year. These dollars are compared to the ceded agency liability expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final liability agency expense dollars and the interim liability agency expense dollars is processed as the calendar year liability agency ceding expense adjustment for the Servicing Carrier.

The liability direct written expense adjustment and the liability agency expense adjustment are summed in order to obtain the calendar year liability ceding expense adjustment for the Servicing Carrier.

4) For those companies which have both direct written and agency business, the Servicing Carrier's physical damage calendar year ceding expense adjustment is calculated similarly to the liability ceding expense adjustment described in 1.e.3) above.

2. Other than Private Passenger Final Expense Allowances

The procedure used to determine other than private passenger final expense ratios and adjustment for calendar years 1994 and subsequent is described below. Exhibit V-C-2 further illustrates this procedure with a numerical example. Note that for calendar years 1995 and subsequent, policy years 1995 and subsequent taxi business is excluded from the calculations described below. Additionally, for calendar years 1996 and subsequent, policy years 1996 and subsequent limousine business is excluded from the calculations described below.

a. Ceded Frequency Relativity Adjustment

A ceded claim frequency measure is determined for each Servicing Carrier, initially using the current year data valued at 15 months, and then later recalculated using the current year data valued at 27 months.

1) Other than private passenger liability ceded claim frequency is calculated for each Servicing Carrier by dividing ceded accident year property damage liability plus no-fault incurred claim counts by related property damage liability plus no-fault earned premium.

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

2) Other than private passenger physical damage ceded claim frequency is calculated for each Servicing Carrier by dividing ceded accident year collision plus comprehensive incurred claim counts by related collision plus comprehensive earned premium.

3) A liability frequency relativity factor is calculated for each Servicing Carrier by dividing its ceded liability claim frequency by the industry average ceded liability claim frequency.

4) A physical damage frequency relativity factor is calculated for each Servicing Carrier by dividing its ceded physical damage claim frequency by the industry average ceded physical damage claim frequency.

b. Calculation of Unallocated Loss Adjustment Expense and Company Expense Ratios

1) For other than private passenger liability, the ULAE and one-half of the Company Expense rate components, based on industry data from the Massachusetts Automobile Insurance Expense Plan, for calendar year 1994, and the Commissioner's Annual Decision on CAR's Commercial Rate Filing for calendar years 1995 and subsequent, are combined and multiplied by each Servicing Carrier's liability claim frequency relativity factor, capped at a minimum of 75% and a maximum of 150%.

2) An off-balance factor is applied to each Servicing Carrier's other than private passenger liability ULAE and one-half of the Company Expense rate components, in order to distribute all available expense dollars as provided for in the Annual Expense Call, or the Commissioner's Annual Decision on CAR's Commercial Rate Filing.

3) The result is combined with the other unadjusted half of the Company Expense rate component for other than private passenger liability. The combined ratios resulting for the Servicing Carrier is its other than private passenger liability final expense ratios for ULAE and Company Expenses.

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

4) The ULAE and one-half of the Company Expense rate components, based on industry data from the Massachusetts Automobile Insurance Expense Plan for calendar year 1994, or the Commissioner's Annual Decision on CAR's Commercial Rate Filing for calendar years 1995 and subsequent, are adjusted in the same manner as other than private passenger liability.

5) An off-balance factor is applied to each Servicing Carrier's other than private passenger physical damage ULAE and one-half of the Company Expense rate components, in order to distribute all available expense dollars as provided for in the Annual Expense Call or the Commissioner's Annual Decision on CAR's Commercial Rate Filing.

6) The result is combined with the other unadjusted half of the Company Expense rate component for other than private passenger physical damage. The combined ratios resulting for the Servicing Carrier is its other than private passenger physical damage final expense ratios for ULAE and Company Expense.

c. Average Capping Factor

The average capping factor procedure assures that a Servicing Carrier whose actual Commission and Premium Tax Expenses (as reported on the Massachusetts Automobile Expense Plan) are less than the industry average of these expense components, as reported on the Expense Plan, for calendar year 1994 or in the Commissioner's Annual Decision on CAR's Commercial Rate Filing for calendar years 1995 and subsequent, will have its final Commission and Premium Tax Expenses limited to its actual expenses. A Servicing Carrier whose actual Commission and Premium Tax expenses are greater than the industry average expense components, will receive no more than the Expense Call in policy year 1994 or the Commissioner's Annual Decision on CAR's Commercial Rate Filing in policy years 1995 and subsequent provides.

The average capping procedure for Servicing Carriers (excluding those which are direct writers), is as follows:

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

c. Average Capping Factor (continued)

1) Each Servicing Carrier's other than private passenger liability written premium and incurred expenses for Commission Expense and Premium Tax Expense, as reported on the Massachusetts Automobile Insurance Expense Plan, are used to derive an expense call ratio for other than private passenger liability.

2) Each Servicing Carrier's other than private passenger physical damage written premium and incurred expenses for Commission Expense and Premium Tax Expense, as reported on the Massachusetts Automobile Insurance Expense Plan, are used to derive an expense call ratio for other than private passenger physical damage.

3) The other than private passenger liability industry average expense components for Commission Expense and Premium Tax Expense, from the Annual Expense Call for calendar year 1994 or the Commissioner's Annual Decision on CAR's Commercial Rate Filing for calendar years 1995 and subsequent, are combined. The same components for other than private passenger physical damage are also combined.

4) The Servicing Carrier's other than private passenger liability expense call ratio from 2. c. 1) is divided by the other than private passenger liability industry average Commission and Premium Tax combined rate component from 2. c. 3). The Servicing Carrier's other than private passenger physical damage expense call ratio from 2. c. 2) is divided by the other than private passenger physical damage industry average Commission and Premium Tax combined rate components from 2. c. 3).

5) The liability result from 2. c. 4) is weighted by other than private passenger liability written premium divided by total industry other than private passenger written premium, as reported on the Servicing Carrier's Massachusetts Annual Statement Page 14. The physical damage result from 2. c. 4) is weighted by other than private passenger physical damage written premium divided by total industry other than private passenger written premium, as reported on the Servicing Carrier's Massachusetts Annual Statement Page 14.

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

c. Average Capping Factor (continued)

6) The resulting other than private passenger liability and physical damage ratios from 2. c. 5) are combined to obtain the Servicing Carrier's other than private passenger Average Capping Factor. An average capping factor greater than 1.000 will be capped at 1.000.

For a company which is a direct writer, it will have a direct writer capping factor calculated using the procedure described in 2. c. 1) - 6), based on the company's direct written premium.

For a company which is partly direct writer and partly agency, both an agency and a direct writer capping factor is calculated using the procedure described in 2. c. 1) - 6), based on the portion of the company's premium which is directly written and that which originates from the company's agency business.

d. Final Ceding Expense Ratio Calculation

The calculation of each Servicing Carrier's (excluding those which are direct writers) final ceding expense ratios is as follows:

1) The other than private passenger liability Commission Expense and Premium Tax Expense rate components are combined and multiplied by the Servicing Carrier's other than private passenger average capping factor to obtain the Servicing Carrier's other than private passenger liability capped expense ratio for Commissions and Premium Tax Expenses.

2) The other than private passenger physical damage Commission Expense and Premium Tax Expense rate components are combined and multiplied by the Servicing Carrier's other than private passenger average capping factor to derive the Servicing Carrier's other than private passenger physical damage capped expense ratios for Commission and Premium Tax Expenses.

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

d. Final Ceding Expense Ratio Calculation (continued)

3) An off-balance factor is applied to each Servicing Carrier's capped Commission and Premium Tax expense components in order to fully disburse Commission and Premium Tax expense dollars reported by the industry on average. This calculation is performed separately for liability and physical damage, and results in the Servicing Carrier's other than private passenger liability and physical damage final expense ratio for Commission and Premium Tax Expenses.

4) Derive the total other than private passenger final liability expense ratio for the Servicing Carrier by combining the final expense ratio for ULAE and Company Expenses from 2. b. 3) with the final expense ratio for Commission and Premium Tax Expenses from 2. d. 3).

5) Derive the total other than private passenger final physical damage expense ratio for the Servicing Carrier by combining the final expense ratio for ULAE and Company Expenses from 2. b. 6) with the final expense ratio for Commission and Premium Tax Expenses from 2. d. 3).

For those companies which are direct writers, the final ceding expense ratios are calculated by combining the final off-balanced expense ratios for ULAE and Company Expenses from 2. b. 3) for liability and 2. b. 6) for physical damage with the company's corresponding capped and off-balanced Direct Writer Selling Expense and the Premium Tax expense ratios from section 2. d. 3).

For those companies which are partly direct writer and partly agency, both direct writer final expense ratios and agency final expense ratios are calculated as described in 2. d. 1) - 5), above.

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

e. Final Ceding Expense Adjustment Calculation

1) The Servicing Carrier's other than private passenger liability final expense ratio from 2. d. 4) is applied to its total ceded other than private passenger liability premium (CAR ID codes 3, 4, 5, 6, and 9 for policy year 1994 and CAR ID Codes 4 and 5 for policy years 1995 and subsequent), as reported to CAR during the calendar year. These dollars are compared to the liability expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final liability expense dollars and the interim liability expense dollars is processed as the calendar year liability ceding expense adjustment for the Servicing Carrier.

2) The Servicing Carrier's other than private passenger physical damage final expense ratio from 2. d. 5) is applied to its total ceded other than private passenger physical damage premium (CAR ID codes 3, 4, 5, 6 and 9 for policy year 1994 and CAR ID Codes 4 and 5 for policy years 1995 and subsequent), as reported to CAR during the calendar year. These dollars are compared to the ceded direct written physical damage expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final physical damage expense dollars and the interim physical damage expense dollars is processed as the calendar year physical damage ceding expense adjustment for the Servicing Carrier.

For those companies which have both direct written and agency business, the Servicing Carrier's direct written liability ratio is applied to the Servicing Carrier's ceded direct written other than private passenger liability premium, as reported to CAR during the calendar year. These dollars are compared to the ceded direct written liability expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final liability direct written expense dollars and the interim liability direct written expense dollars is processed as the calendar year liability direct written ceding expense adjustment for the Servicing Carrier.

**C. Final Determination of Expenses** (continued)

2. Other than Private Passenger Final Expense Allowances (continued)

e. Final Ceding Expense Adjustment Calculation (continued)

Additionally, the Servicing Carrier's agency liability ratio is applied to the Servicing Carrier's ceded agency other than private passenger liability premium, as reported to CAR during the calendar year. These dollars are compared to the ceded agency liability expense dollars that were provided to the Servicing Carrier on an interim basis. The difference between the final liability agency expense dollars and the interim liability agency expense dollars is processed as the calendar year liability agency ceding expense adjustment for the Servicing Carrier.

The liability direct written expense adjustment and the liability agency expense adjustment are summed in order to obtain the calendar year liability ceding expense adjustment for the Servicing Carrier.

For those companies which have both direct written and agency business, the Servicing Carrier's physical damage calendar year ceding expense adjustment is calculated similarly to the liability ceding expense adjustment described above.

3. Adjustments to Expense Allowances for Servicing Carriers Ceding in Excess of Established Commercial Cession Limitation

In order to maintain a viable voluntary market, a cession limitation is applied to "All Other Motor Vehicle" insurance written during a policy year by a Servicing Carrier. However, business written through involuntarily assigned Representative Producers and ceded to CAR, and ceded premiums for those classifications for which little or no voluntary market exists (as specified in Rule 17 of the CAR Rules of Operation) will be excluded from the cession limitation calculations. Additionally, voluntary and ceded premium for Antique Vehicles with policy effective dates of November, 1998 and subsequent will be excluded from the cession limitation calculations.

## C. Final Determination of Expenses (continued)

3. Adjustments to Expense Allowances for Servicing Carriers Ceding in Excess of Established Commercial Cession Limitation (continued)

   Based upon the provisions of Rule 17 of the CAR Rules of Operation, a Servicing Carrier whose cession rate exceeds the Other Than Private Passenger cession limitation established for a particular policy year will be subject to a reduction in ceding expense allowances. Also, for policy years 1995 through 1997, the commercial cession limitation provides for a "window" within which a Servicing Carrier may exceed the established limitation, but will only lose a portion of their ceding expense allowance, rather than the entire allowance. Exhibit V-C-3 displays a numerical example of the reports that are distributed on a monthly basis, to estimate the potential reduction in ceding expenses for each Servicing Carrier. A description of the calculations performed is as follows:

   a. Accumulate total voluntary-retained and voluntary-ceded commercial written premiums, liability separately from physical damage (CAR ID codes 0, 1, and 4). Note that ceded business written through involuntarily assigned Representative Producers (CAR ID code 5) is not included in this accumulation. Also, voluntary-ceded commercial premiums from those classifications for which little or no voluntary market exists (as specified in Rule 17 of the CAR Rules of Operation) and voluntary and ceded premium for Antique Vehicles with policy effective dates of November, 1998 and subsequent are excluded from the cession limitation calculations. Calculate the percent of total written premium.

   b. Accumulate total voluntary-ceded commercial written premiums (CAR ID code 4), liability separately from physical damage. Calculate the percent of voluntary ceded premium to the total written premium.

   c. Calculate allowable ceded premium amount by applying the cession limitation percentage applicable to the particular policy year, to the total voluntary-retained and voluntary-ceded written premium accumulated in Section 3. a. of this chapter.

**C. Final Determination of Expenses** (continued)

3. Adjustments to Expense Allowances for Servicing Carriers Ceding in Excess of Established Commercial Cession Limitation (continued)

   d. Identify the ceded premium in excess of the allowable limit from 3. c. of this chapter, but less than or equal to the established "window" percentage, of the company's total voluntary-retained and voluntary-ceded written premium, liability separately from physical damage. Apply the company's calendar year ceding expense allowance (less premium tax, commissions, or comparable selling expense of direct writing companies) to the excess premium amount to identify the company's year-to-date reduction in ceding expense allowances.

   e. Identify the ceded premium in excess of the "window" percentage from Section 3. c. of this chapter, liability separately from physical damage. Apply the company's calendar year total ceding expense allowance to the excess premium amount to identify the company's year-to-date reduction in ceding expense allowances.

   f. A total year-to-date reduction in ceding expense allowances is also calculated, liability separately from physical damage, by accumulating the year-to-date reduction dollars from Sections 3.d. and 3.e. of this chapter.

   Since premium data for a particular policy year may be reported to CAR for a period of three (3) calendar years, a Servicing Carrier's adherence to the commercial cession limitation for a particular policy year is also tracked for a period of three (3) calendar years. Therefore, the ceded premium for a particular policy year's cession limitation, reported in each allowable calendar year will be accumulated separately so that the appropriate ceding expense allowance percentages can be applied and used to identify the Servicing Carrier's final reduction in ceding expense allowances.

   The final reduction in ceding expense allowances is processed as a reduction to the Servicing Carrier's Other Than Private Passenger Final Expense Allowance dollars as calculated in Section 2. c. of this chapter.

## EXHIBIT V-C-1
## Calculation of Private Passenger Final Ceding Expense Allowances

COMMONWEALTH AUTOMOBILE REINSURERS
Truing-Up of Calendar Year 1994 Ceding Expenses at 15 months
Group Number: 123
Private Passenger

SECTION I: Calculation of Claim Frequency Relativity

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) Ceded PDL/OTC Earned CAR Years Exposure | 29,287.0 | 19,287.2 | AIB |
| (B) Ceded PIP/COLL Earned CAR Years Exposure | 29,289.0 | 17,274.6 | AIB |
| (C) Ceded TOTAL Earned CAR Years Exposure | 58,676.0 | 36,561.8 | (A) + (B) |
| (D) Ceded PDL/OTC Incurred Claim Count | 3,579 | 6,167 | AIB Derived |
| (E) Ceded PIP/COLL Incurred Claim Count | 2,705 | 5,115 | AIB Derived |
| (F) Ceded TOTAL Incurred Claim Count | 6,284 | 11,282 | (D) + (E) |
| (G) Claim Frequency | 10.72794 | 30.85734 | (F) / (C) * 100 |
| (H) Industry Claim Frequency | 12.25610 | 32.00011 | AIB |
| (I) Claim Frequency Relativity | 0.87531 | 0.96429 | (G) / (H) |

SECTION II: Calculation of Capped ULAE and Company General Expenses Ratio

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) ULAE – Rate Component | 0.09910 | 0.12750 | 1994 Rates |
| (B) ½ Company Expense – Rate Component | 0.04365 | 0.03730 | 1994 Rates |
| (C) ULAE and ½ Company Expense | 0.14275 | 0.16480 | (A) + (B) |
| (D) Lower Cap | 0.10706 | 0.12360 | (C) * 75% |
| (E) Upper Cap | 0.21412 | 0.24720 | (C) * 150% |
| (F) Relative ULAE and ½ Company Expense Ratio | 0.12495 | 0.15891 | (Section I, Item (I) * (C) |
| (G) Capped ULAE and ½ Company Expense Ratio | W 0.12495 | W 0.15891 | L = Lower<br>U= Upper<br>W = Within |
| (H) Final ULAE and ½ Company Expense Ratio | 0.16860 | 0.19621 | (B) + (G) |

## EXHIBIT V-C-1
## (continued)

COMMONWEALTH AUTOMOBILE REINSURERS
Truing-Up of Calendar Year 1994 Ceding Expenses at 15 months
Group Number: 123
Private Passenger

SECTION III: Calculation of Commissions and Premium Tax Capping Factors

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) Written Premium – Agent Business | $95,341,718 | $55,610.072 | 1994 Expense Call, Line 3 |
| (B) Written Premium – Direct Premium | $0 | $0 | Direct Writer Call |
| (C) Commission Expenses | $13,411,051 | $7,822,279 | 1994 Expense Call, Line 16 |
| (D) Direct Writer Selling Expenses | $0 | $0 | Direct Writer Call |
| (E) Premium Tax Expense – Agent Business | $2,222.037 | $1,296,050 | 1994 Expense Call, Line 20 |
| (F) Premium Tax Expense – Direct Written | $0 | $0 | Direct Writer Call |
| (G) Agent Commission & Premium Tax Expense | $15,633,088 | $9,118,329 | (C) + (E) |
| (H) DW Selling & Premium Tax Expense | $0 | $0 | (D) + (F) |
| (I) Agent Commissions & Premium Tax Expense Ratio | 0.16397 | 0.16397 | (G) / (A) |
| (J) DW Selling & Premium Tax Expense Ratio | 0.00000 | 0.00000 | (H) / (B) |
| (K) Commission & Premium Tax Rate Component | 0.15000 | 0.14360 | 1994 Rates |
| (L) Actual Commission & Tax Expense Ratio Relativity | 1.09313 | 1.14185 | (I) / (K) |
| (M) Actual DW Selling & Tax Expense Ratio Relativity | 0.00000 | 0.00000 | (J) / (K) |
| (N) Page 15 Written Premium | $95,341,718 | $55,610,072 | 1994 Annual Statement |
| (O) Page15 Weight | 0.6316 | 0.3684 | (N) / Sum of (N) |
| (P) Expense Ratio Weights – Agent | 0.69042 | 0.42066 | (L) * (O) |
| (Q) Expense Ratio Weights – DW | 0.00000 | 0.00000 | (M) * (O) |
| (R) Commission & Premium Tax Capping Factor – Agent | 1.00000 | 1.00000 | Sum of (P) – Not Greater than 1 |
| (S) Commission & Premium Tax Capping Factor – DW | 0.00000 | 0.00000 | Sum of (Q) – Not Greater than 1 |

SECTION II: Calculation of Capped ULAE and Company General Expenses Ratio

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) Final Commission & Premium Tax Expense Ratio – Agent | 0.15000 | 0.14360 | Section III, Item (K) * Item (R) |
| (B) Final Commission & Premium Tax Expense Ratio – DW | 0.00000 | 0.00000 | Section III, Item (K) * Item (S) |
| (C) Final Expense Ratio – Agent | 0.31860 | 0.33981 | Section II, Item (H) + (A) |
| (D) Final Expense Ratio – DW | 0.00000 | 0.00000 | Section II, Item (H) + (B) |

## EXHIBIT V-C-2
## Calculation of Other Than Private Passenger Final Ceding Expense Allowances

COMMONWEALTH AUTOMOBILE REINSURERS
Truing-Up of Calendar Year 1994 Ceding Expenses at 15 months
Group Number: 123
Commercial

SECTION I: Calculation of Claim Frequency Relativity

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) Ceded PDL/OTC Earned Premium | 309,190 | 125,820 | AIB |
| (B) Ceded PIP/COLL Earned Premium | 32,777 | 175,493 | AIB |
| (C) Ceded TOTAL Earned Premium | 341,967 | 301,313 | (A) + (B) |
| (D) Ceded PDL/OTC Incurred Claim Count | 83 | 59 | AIB Derived |
| (E) Ceded PIP/COLL Incurred Claim Count | 2 | 45 | AIB Derived |
| (F) Ceded TOTAL Incurred Claim Count | 85 | 104 | (D) + (E) |
| (G) Claim Frequency | 2.48562 | 3,45156 | (F) / (C) * 10,000 |
| (H) Industry Claim Frequency | 4.02968 | 5.60509 | AIB |
| (I) Claim Frequency Relativity | 0.61683 | 0.61579 | (G) / (H) |

SECTION II: Calculation of Capped Final ULAE Expense Ratio

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) ULAE – Rate Component | 0.07130 | 0.11040 | 1994 CAR Rates |
| (B) ½ Company Expense – Rate Component | 0.05370 | 0.04780 | 1994 CAR Rates |
| (C) ULAE and ½ Company Expense | 0.12500 | 0.15820 | (A) + (B) |
| (D) Lower Cap | 0.09375 | 0.11865 | (C) * 75% |
| (E) Upper Cap | 0.18750 | 0.23730 | (C) * 150% |
| (F) Relative ULAE and ½ Company Expense Ratio | 0.07710 | 0.09742 | (Section I, Item (I) * (C) |
| (G) Capped ULAE and ½ Company Expense Ratio | W 0.09375 | W 0.11865 | L = Lower<br>U= Upper<br>W = Within |
| (H) Off – Balance Factor | 0.99936 | 1.00159 | Rates/Ind Freq Adj Expenses |
| (I) Off – Balanced ULAE and ½ Company Expense Ratio | 0.09369 | 0.11884 | (G) * (H) |
| (J) Final ULAE and ½ Company Expense Ratio | 0.14739 | 0.16664 | (B) + (I) |

### EXHIBIT V-C-2
### (continued)

COMMONWEALTH AUTOMOBILE REINSURERS
Truing-Up of Calendar Year 1994 Ceding Expenses at 15 months
Group Number: 123
Commercial

SECTION III: Calculation of Commissions and Premium Tax Capping Factors

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) Written Premium – Agent Business | $7,825,176 | $2,107,538 | 1994 Expense Call, Line 3 |
| (B) Written Premium – Direct Premium | $0 | $0 | Direct Writer Call |
| (C) Commission Expenses | $1,100,712 | $296,453 | 1994 Expense Call, Line 16 |
| (D) Direct Writer Selling Expenses | $0 | $0 | Direct Writer Call |
| (E) Premium Tax Expense – Agent Business | $182,374 | $49,118 | 1994 Expense Call, Line 20 |
| (F) Premium Tax Expense – Direct Written | $0 | $0 | Direct Writer Call |
| (G) Agent Commission & Premium Tax Expense | $1,283,086 | $345,571 | (C) + (E) |
| (H) DW Selling & Premium Tax Expense | $0 | $0 | (D) + (F) |
| (I) Agent Commissions & Premium Tax Expense Ratio | 0.16397 | 0.16397 | (G) / (A) |
| (J) DW Selling & Premium Tax Expense Ratio | 0.00000 | 0.00000 | (H) / (B) |
| (K) Commission & Premium Tax Rate Component | 0.12410 | 0.12430 | 1994 CAR Rates |
| (L) Actual Commission & Tax Expense Ratio Relativity | 1,32127 | 1,31915 | (I) / (K) |
| (M) Actual DW Selling & Tax Expense Ratio Relativity | 0.00000 | 0.00000 | (J) / (K) |
| (N) Page 15 Written Premium | $7,825,176 | $2,107,538 | 1994 Annual Statement |
| (O) Page15 Weight | 0.78782 | 0.21218 | (N) / Sum of (N) |
| (P) Expense Ratio Weights – Agent | 1.04092 | 0.27990 | (L) * (O) |
| (Q) Expense Ratio Weights – DW | 0.00000 | 0.00000 | (M) * (O) |
| (R) Commission & Premium Tax Capping Factor – Agent | 1.00000 | 1.00000 | Sum of (P) – Not Greater than 1 |
| (S) Commission & Premium Tax Capping Factor – DW | 0.00000 | 0.00000 | Sum of (Q) – Not Greater than 1 |

SECTION IV: Calculation of Final Expense Ratio

| ITEM | LIABILITY | PHYS DAM | SOURCE |
|---|---|---|---|
| (A) Final Commission & Premium Tax Expense Ratio – Agent | 0.12410 | 0.12430 | Section III, Item (K) * Item (R) |
| (B) Final Commission & Premium Tax Expense Ratio – DW | 0.00000 | 0.00000 | Section III, Item (K) * Item (S) |
| (C) Off Balance Factor – Agent | 1.00418 | 1.00463 | Rate Component/Agency Capped Expense |
| (D) Final Expense Ratio – DW | 1.16505 | 1.18303 | Rate Component/DW Capped Expenses |
| (E) Off Balanced Final Comm & Ptax Exp Ratio - Agent | 0.12462 | 0.12488 | (A) * (C) |
| (F) Off Balanced Final Comm & Ptax Exp Ratio – DW | 0.00000 | 0.00000 | (B) * (D) |
| (G) Final Expense Ratio – Agent | 0.27201 | 0.29152 | Section II, Item (J) + (E) |
| (H) Final Expense Ratio – DW | 0.00000 | 0.00000 | Section II, Item (J) + (F) |

## EXHIBIT V-C-3

COMMONWEALTH AUTOMOBILE REINSURERS
COMMERCIAL CESSION LIMITATION REPORT
Note: The figures below include data through accounting month Jan 2001.

| GRP-AFFIL:123 | PY 2001 | PY 2000 | PY 1999 |
|---|---|---|---|
| TOT RETAINED + VOL-CEDED COMMERCIAL WRITTEN PREMIUMS (CAR ID CODES 0,1,4) | | | |
| LIABILITY | $0 | $652,184 | $7,836,924 |
| PHYSICAL DAMAGE | $0 | $166,988 | $2,135,224 |
| TOTAL | $0 | $819,172 | $9,972,148 |
| PERCENT OF TOTAL WRITTEN | | | |
| LIABILITY | 0.00% | 79.62% | 78.59% |
| PHYSICAL DAMAGE | 0.00% | 20.38% | 21.41% |
| TOTAL | 0.00% | 100.00% | 100.00% |
| TOT VOL-CEDED COMMERCIAL WRITTEN PREMIUMS (CAR ID CODE 4) | | | |
| LIABILITY | $0 | $107,394 | $645,492 |
| PHYSICAL DAMAGE | $0 | $26,205 | $155,322 |
| TOTAL | $0 | $133,599 | $800,814 |
| PERCENT CEDED | | | |
| LIABILITY | 0% | 16.47% | 8.24% |
| PHYSICAL DAMAGE | 0% | 15.69% | 7.27% |
| TOTAL | 0% | 16.31% | 8.03% |
| TOTAL VOL-CEDED COMMERCIAL PREMIUMS EXCLUDED (CAR ID CODE 4) | | | |
| LIABILITY | $0 | $145,296 | $437,065 |
| PHYSICAL DAMAGE | $0 | $22,405 | $111,588 |
| TOTAL | $0 | $167,701 | $584,653 |
| ALLOWABLE CEDED PREMIUM AMOUNT | | | |
| 30% | $0 | $245,752 | $2,991,644 |
| 40% | $0 | $327,669 | $3,988,859 |

**EXHIBIT V-C-3**
**(continued)**

COMMONWEALTH AUTOMOBILE REINSURERS
COMMERCIAL CESSION LIMITATION REPORT
Note: The figures below include data through accounting month Jan 2001.

| **GRP-AFFIL:123** | **PY 2001** | **PY 2000** | **PY 1999** |
|---|---|---|---|
| TOT RETAINED + VOL-CEDED COMMERCIAL WRITTEN PREMIUMS (CAR ID CODES 0,1,4) | | | |
| 30% TO 40% CEDED PREMIUMS IN EXCESS OF ALLOWABLE LIMIT | | | |
| LIABILITY | $0 | $0 | $0 |
| PHYSICAL DAMAGE | $0 | $0 | $0 |
| TOTAL | $0 | $0 | $0 |
| ULAE && COMPANY EXPENSE COMPONENTS | | | |
| LIABILITY | 18.440% | 18.160% | 17.870% |
| PHYSICAL DAMAGE | 19.610% | 19.970% | 20.600% |
| ESTIMATED PY-T-D REDUCTION IN CEDING EXPENSES | | | |
| LIABILITY | $0 | $0 | $0 |
| PHYSICAL DAMAGE | $0 | $0 | $0 |
| TOTAL | $0 | $0 | $0 |
| OVER 40% CEDED PREMIUMS IN EXCESS OF ALLOWABLE LIMIT | | | |
| LIABILITY | $0 | $0 | $0 |
| PHYSICAL DAMAGE | $0 | $0 | $0 |
| TOTAL | $0 | $0 | $0 |
| TOTAL EXPENSE COMPONENTS | | | |
| LIABILITY | 30.320% | 30.990% | 30.280% |
| PHYSICAL DAMAGE | 31.490% | 32.800% | 33.030% |
| ESTIMATED OVER 40% PY-T-D REDUCTION IN CEDING EXPENSES | | | |
| LIABILITY | $0 | $0 | $0 |

## D. Rate Deviations

Servicing Carriers using private passenger rates resulting from an approved rate deviation under Section 113B or Sections 193R of Chapter 175 of the General Laws are responsible to the pool for the full premium on ceded policies, although written premium is statistically reported at the deviated rate. CAR identifies premium written at a deviation from the statewide approved rates based on the Type of Risk and the Rate Departure Factor Code. The following adjustments are processed:

1. The difference between ceded written premium reported at a deviated level and the unadjusted ceded written premium is calculated, and an adjustment is processed quarterly through the Settlement of Balances and Member Participation Reports. (Refer to Chapter VI, Exhibit VI-B-1, Lines A.4. and B.4., and Exhibit VI-C-1, the line entitled Rate Deviation.)

2. The ceding expense allowance applicable to the rate deviation adjustment determined in 1., above, based on the Servicing Carrier's established interim ceding expense allowance percentages, is processed through the Settlement of Balances and Member Participation Reports on a quarterly basis. (Refer to Chapter VI, Exhibit VI-B-1, Lines A.5. and B.5., and Exhibit VI-C-1, the line entitled Rate Deviation Expense Allowance.)

3. Annually, once the final expense ratios are determined (as described in Section C.1.), an adjustment to the rate deviation expense allowance is processed through the Settlement of Balances and Member Participation Reports. The adjustment is calculated based on the final ceding expense allowance percentages less the expense allowances provided on an interim basis.

Commonwealth Automobile Reinsurers

# Manual of Administrative Procedures

## Chapter V - Allowances to Servicing Carriers

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