

A. General

A Servicing Carrier will receive a credit against its premium written for expenses related to policies ceded to Commonwealth Automobile Reinsurers (CAR). Expenses are separately calculated for commercial policies (excluding taxi, limousine and car service business) and taxi, limousine and car service policies. Reimbursement will be provided for premium tax and commission expenses, as well as other expenses, including, but not limited to, unallocated loss adjustment, underwriting/technical services, loss control services and company/general expenses.

Expense allowances are initially calculated on an interim basis as specified in Section B. of this Chapter. On an annual basis, ceding expenses will be trued-up as specified in Section C. of this Chapter.

As part of the Massachusetts Residual Market Commercial Automobile and Taxi/Limousine Request for Proposal (RFP) processes, companies interested in servicing ceded commercial automobile business (excluding taxi, limousine and car service business) and ceded taxi, limousine and car service business submit a price proposal. The proposal will indicate a price per exposure expense allowance for the initial year of the appointment to reimburse the Servicing Carrier for its unallocated loss adjustment expenses, underwriting/technical services expenses, loss control services expenses and company/general expenses. The proposal will also include a price for each of the subsequent years in the appointment term.

The final price per exposure expense allowances for the commercial Servicing Carrier(s) selected through the RFP process is approved by CAR's Governing Committee.

For additional information relative to the RFP process and the selection of Servicing Carriers to service the commercial automobile and taxi, limousine and car service residual markets, refer to Chapter I – Overview of this Manual.

B. Calculation of Interim Expense Allowances

Interim expense allowances are provided for both premium tax and commission expenses and for Unallocated Loss Adjustment Expenses (ULAE), Underwriting/Technical Services, Loss Control Services and Company/General Expenses.

Interim expense ratios used to calculate ceding expenses are established annually, separately for commercial business (excluding taxi, limousine and car service business) and taxi, limousine and car service business as follows:

1. Commercial Automobile (Excluding Taxi, Limousine and Car Service)

a. Premium Tax and Commission

Servicing Carriers will be reimbursed for premium tax and commission as a percentage of written premium according to the underlying rate components in the latest approved CAR rate filing for the corresponding policy year.

b. Unallocated Loss Adjustment Expenses (ULAE), Underwriting/Technical Services, Loss Control Services and Company/General Expenses

Servicing Carriers will be reimbursed for ULAE expenses, underwriting/technical services expenses, loss control services expenses, and company/general expenses based upon the approved expense per exposure allowance for each policy year of appointment.

The per exposure allowances will be converted to a percentage of written premium, based upon the estimated average written premium for the policy year, using those class types for which exposures are reported on a car year basis.

2. Taxi, Limousine and Car Service

a. Premium Tax and Commission

Servicing Carriers will be reimbursed for premium tax and commission as a percentage of written premium, according to the underlying rate components in the latest approved CAR rate filing for each class for the corresponding policy year.

b. Unallocated Loss Adjustment Expenses (ULAE), Underwriting/Technical Services, Loss Control Services and Company/General Expenses

Servicing Carriers will be reimbursed for ULAE expenses, underwriting/technical services expenses, loss control services expenses, and company/general expenses based on the approved expense per exposure allowance for each policy year of appointment.

The per exposure allowances will be converted to a percentage of written premium, based upon the estimated average written premium for the policy year.

Servicing Carriers will be advised of the established interim expense allowances via a CAR Bulletin. Ceding expenses, as initially calculated based on interim expense ratios, will be credited to the Servicing Carrier through CAR's quarterly settlement of balances procedure and are subject to final true-up as described in Section C. of this Chapter.

C. Final Determination of Expenses

A Servicing Carrier's ceding expenses, as initially determined based on interim expense ratios, are subject to final adjustment based upon the agreed upon per exposure allowance.

Final expenses are determined as follows:

1. Commercial Automobile (Excluding Taxi, Limousine and Car Service)

a. Premium Tax and Commission Expenses

Servicing Carriers will be reimbursed for premium tax and commissions according to the approved CAR commercial rate filing for the corresponding policy year. For policy years where a CAR rate filing is not filed and/or approved, the premium tax and commission allowance will remain unchanged from the prior year.

b. Unallocated Loss Adjustment Expenses, Underwriting/Technical Services Expenses, Loss Control Services Expenses and Company/General Expenses

At the close of each calendar year, the final expense allowances will be trued up based on the approved expense per exposure allowance multiplied by the actual ceded property damage liability exposures statistically reported for the corresponding policy years.

For those class types for which exposure is not measured on a car year basis, the expense allowance is based on the expense percentage of written premium for the industry for those class types for which exposures are reported on a car year basis.

2. Taxi, Limousine and Car Service

a. Premium Tax and Commission Expenses

Servicing Carriers will be reimbursed for premium tax and commissions according to the approved CAR commercial rate filing for the corresponding policy year. For policy years where a CAR rate filing is

not filed and/or approved, the premium tax and commission allowance will remain unchanged from the prior year.

- b. Unallocated Loss Adjustment Expenses, Underwriting/Technical Services Expenses, Loss Control Services Expenses and Company/General Expenses.

For taxi, limousine and car service business, expense allowances will be true-up based on the approved expense per exposure allowance multiplied by the actual ceded property damage liability exposures statistically reported for the corresponding policy year as of 18 and 30 months.

The initial true-up of expenses, using data reported through 18 months of the corresponding policy year, will occur in the subsequent September quarterly settlement of balances. Expenses will continue to be credited on an interim basis, as a percentage of written premium, based upon data that is statistically reported to CAR in the September and the following December, March and June quarters.

The final true-up of expenses, using data reported through 30 months of the corresponding policy year, will occur in the subsequent September quarter, as part of the quarterly settlement of balances procedure. At this point, additional reimbursement for ULAE, company and general expenses will no longer be provided.

Interim ceding expenses previously provided to the Servicing Carrier are compared with final expense allowances calculated for each Servicing Carrier. Any necessary ceding expense adjustment will be processed as an adjustment to the Servicing Carrier's Settlement of Balances and Member Participation Reports.