

A. Private Passenger Ceding Expense Allowances

1. For ceded business written for calendar years 1994 and later, Servicing Carriers shall receive credit against their premiums written account (excluding ceded premium for Antique Vehicles with policy effective dates of November, 1998 and subsequent) for expenses as follows:
  - a. For all private passenger motor vehicle business, Commission and Brokerage expenses, Direct Writer Selling expense, and Premium Taxes shall be reimbursed on an actual incurred basis, but in no case can they be greater than the allowance provided in the Commissioner's annual Decision on Private Passenger Automobile Insurance Rates.
  - b. For all private passenger motor vehicle insurance business, Unallocated Claim Adjustment Expenses, Other Acquisition, including Field Supervision and Collection Expenses, and General Expenses shall be reimbursed at the actual allowance provided in the Commissioner's annual Decision on Private Passenger Automobile Insurance Rates. Each Servicing Carrier's expense allowance shall be adjusted by the ratio of its claim frequency and other appropriate factors for ceded business to the claim frequency and other appropriate factors for all ceded business.

Each Servicing Carrier's expense allowance shall be determined as a percent of its ceded premium written, based upon the percent of the statewide average rate which is represented by the aforementioned expense components.

Separate computations shall be made for the liability pool and for the physical damage pool.

Interim ceding expense allowances for each Servicing Carrier for a particular calendar year will be determined using the procedure outlined above utilizing the applicable expense components provided in the Commissioner's annual Decision on Private Passenger Automobile Insurance Rates, in conjunction with exposures and the adjustment based on claim frequency and other appropriate factors described in A.1.b. above for the most recent calendar year available.

Annually, interim expense allowances will be trued-up to reflect the actual incurred expenses for that calendar year as described in A.1.a. above, and to reflect the exposure and adjustment for claim frequency and other appropriate factors described in A.1.b. above for that calendar year.

Interim ceding expense allowances for each Servicing Carrier for a particular calendar year will be determined using the procedure outlined above utilizing the applicable expense components provided in the Commissioner's annual Decision on Private Passenger Automobile Insurance Rates, in conjunction with exposures and the adjustment based on claim frequency and other appropriate factors described in A.1.b. above for the most recent calendar year available.

#### B. Commercial Ceding Expense Allowance

##### 1. Expense Allowances on Ceded Business (Excluding Taxi, Limousine and Car Service Business)

For ceded commercial business written for calendar years 1995 and later, (except for taxi, limousine and car service business written through CAR's Taxi and Limousine Program); Servicing Carriers shall receive credit against their premium written account for the expenses noted below. Each Servicing Carrier's expense allowance shall be determined as a percent of its ceded premium written, based upon the percent of the average rate which is represented by these expense components.

Separate computations shall be made for the liability pool and for the physical damage pool. Both interim and final expense allowances will be credited to the Servicing Carrier as a percentage of written premium through the Commonwealth Automobile Reinsurers' quarterly settlement of balances procedure.

a. Calendar Years 2006 and Subsequent

(1) Premium Tax and Commission

Servicing Carriers will be reimbursed for premium tax and commissions according to the approved Commonwealth Automobile Reinsurers' rate filing is not filed and/or approved, the premium tax and commission allowance will remain unchanged from the prior year.

An off-balance factor shall be applied to each Servicing Carrier's aforementioned rate components in order to disburse all of the expenses provided for by the expense components contained in CAR's Commercial Automobile Rates.

(2) Other Expenses

On both an interim and final basis, Servicing Carriers will be reimbursed for Other Expenses including, but not limited to, ULAE expenses; Other Acquisition, including Field Supervision and Collection Expenses, and General Expenses according to the allowance as determined through the limited servicing carrier bid review and selection process and approved by the Governing Committee.

b. Calendar Years 1995 through 2004

(1) Premium Tax and Commission

Commission and Brokerage expenses, Direct Writer Selling Expenses and Premium Taxes shall be reimbursed on an actual incurred basis, but in no case can they be greater than the allowance provided in the Commissioner of Insurance's annual Decision on the CAR Commercial Rate Filing.

An off-balance factor shall be applied to each Servicing Carrier's aforementioned rate components in order to disburse all of the expenses provided for by the expense components contained in CAR's Commercial Automobile Rates.

(2) Unallocated Loss Adjustment Expenses (ULAE), Company and General Expenses

Unallocated Loss Adjustment Expenses, and Company Expense, including Other Acquisition, Field Supervision and Collection Expenses, Other Taxes Licenses and Fees and All Other General Expenses shall be reimbursed at the allowance provided in the Commissioner of Insurance's annual Decision on the CAR Commercial Rate Filing, adjusted by each Servicing Carrier's ratio of its claim frequency and other appropriate factors for ceded business, written by the Servicing Carrier, to the claim frequency and other appropriate factors for all ceded business.

To distribute all available expense dollars as provided for in CAR's Commercial Automobile Rates, an off-balance procedure shall be applied to the above adjusted expense components.

(3) Interim Ceding Expense Allowances

Interim ceding expense allowances provide expense reimbursement to Servicing Carriers on a temporary basis, pending determination of final ceding expense allowances. Interim ceding expense allowances for each Servicing Carrier shall be determined using the procedure outlined above. The applicable expense components provided in the Commissioner of Insurance's annual Decision on CAR's Commercial Rate Filing, in conjunction with the claim frequency and off-balancing adjustments described in (1) and (2) above for the most recent calendar year available shall be utilized.

Annually, interim expense allowances will be trued-up to reflect the actual incurred expenses, capped and off-balanced for that calendar year as described in (1) above, and to reflect the claim frequency and other appropriate factors and off-balancing adjustments described in (2) above for that calendar year.

## 2. Taxi, Limousine and Car Service Ceding Expense Allowances

For taxi, limousine and car service business written through CAR's Taxi and Limousine Program, expense allowances will be reimbursed to Servicing Carriers as follows. Interim and final expense allowances will be credited to the Servicing Carrier as a percentage of written premium through the Commonwealth Automobile Reinsurers' quarterly settlement of balances procedure.

### a. Premium Tax and Commission

Servicing Carriers will be reimbursed for premium tax and commissions according to the approved Commonwealth Automobile Reinsurers' rate filing for each class 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 (ULAE), Company and General Expenses

Servicing Carriers will be reimbursed for ULAE expenses; other acquisition, including Field Supervision and Collection Expenses; and General Expenses according to the per unit allowance for each classification for each policy year of appointment, as determined through the taxi and limousine bid review and selection process and approved by the Governing Committee.

c. Interim Ceding Expense Allowances

Interim expenses will be based on the ratio of the agreed upon per unit allowance for each policy year of the Servicing Carrier's appointment, separately for taxi and limousine property damage liability exposures, to the average taxi and limousine premium as approved in CAR's commercial rate filing for the corresponding policy year.

Annually, interim expenses will be trued-up based on the agreed upon per unit allowance multiplied by the ceded property damage liability exposures statistically reported for the corresponding policy year.

3. Cession Limitation

For policy years 2003 through 2005, in order to maintain a viable voluntary market, a cession limitation will be applied to Commercial Motor Vehicle insurance classifications rated according to manuals approved by the Commissioner of Insurance pursuant to G.L. c. 175E (Competitive Rating) and written during a policy year by a Servicing Carrier.

The limitation will be stated as a percentage of the written premium reported to CAR by the Servicing Carrier.

a. Cession Limitation Exclusions

- (1) Business written through involuntarily assigned Representative Producers and ceded to CAR will be excluded from the cession limitation.
- (2) For policy years 2003 through 2005, ceded premiums for the following classifications will be excluded from the calculations:

| <b>Exclusion Criteria</b>                                                                             |                        |                                                    |
|-------------------------------------------------------------------------------------------------------|------------------------|----------------------------------------------------|
| <b>Classification Description</b>                                                                     | <b>Policy Year (s)</b> | <b>Statistical Code</b>                            |
| <u>Contract Carriers</u><br>Hauling Chemicals<br>Hauling Petroleum or Petroleum Products<br>All Other | 2003-2005              | ###230<br>###270<br>###290                         |
| Petroleum Business                                                                                    | 2003-2005              | ###920                                             |
| <u>Long-haul Truckers</u><br>Non-fleet<br>Fleet                                                       | 2003-2005              | ##32##<br>##62##                                   |
| <u>Emergency Vehicles</u><br>Emergency Ambulances<br>Fire Department<br>Law Enforcement               | 2003-2005              | 791300<br>790800, 790900<br>791100, 791200, 794200 |
| School Buses                                                                                          | 2003-2005              | 61##00, 62##00                                     |
| Buses N.O.C.                                                                                          | 2003-2005              | 53##00, 54##00, 55##00,<br>58##00                  |
| Limousines                                                                                            | 2003-2005              | 42#900                                             |
| Car Service                                                                                           | 2003-2005              | 43#900                                             |
| Truckers Cost-of-Hire                                                                                 | 2003-2005              | 661300                                             |
| Chemical Manufacturers                                                                                | 2003-2005              | ###110                                             |

|                      |                                                |
|----------------------|------------------------------------------------|
| <b>CAR</b>           | <b>Rules of Operation</b>                      |
| <b>Rule 17</b>       | <b>Expense Allowance to Servicing Carriers</b> |
| <b>Revision Date</b> | <b>2006.12.13</b>                              |
| <b>Page</b>          | <b>8 of 9</b>                                  |

| Exclusion Criteria                                                                |                |                                                                           |
|-----------------------------------------------------------------------------------|----------------|---------------------------------------------------------------------------|
| Classification Description                                                        | Policy Year(s) | Statistical Code                                                          |
| <u>Garage</u><br>Non-franchised Dealers                                           | 2003-2005      | 735100, 735200                                                            |
| Repair Shops                                                                      |                | 780800, 781000, 781100, 781200, 781300                                    |
| <u>Taxicabs</u><br>Fleet                                                          | 2003-2005      | 418700, 419700, 410700, 418800, 419800,<br>410800, 418900, 419900, 410900 |
| Non-fleet                                                                         |                | 415700, 416700, 417700, 415800, 416800,<br>417800, 415900, 416900, 417900 |
| Van Pools                                                                         | 2004-2005      | 411###, 412###                                                            |
| <u>Zone Rated Bus</u><br>Fleet                                                    | 2004-2005      | 520900, 560900                                                            |
| Non-Fleet                                                                         |                | 527900, 567900                                                            |
| <u>Specialized Delivery</u><br>Armored Cars                                       | 2004-2005      | ###410                                                                    |
| Church Bus                                                                        | 2004-2005      | 638#00, 639#00, 630#00, 635#00,<br>636#00, 637#00                         |
| <u>Social Services Automobile</u><br>Employee Operated                            | 2004-2005      | 64####                                                                    |
| All Other                                                                         |                | 65####                                                                    |
| <u>Short Term Leasing or Rental</u><br><u>Concerns</u><br>Private Passenger Autos | 2004-2005      | 721400                                                                    |
| Miscellaneous Types                                                               |                | 721600                                                                    |
| Bobtail Operations                                                                | 2004-2005      | 748900                                                                    |
| Ambulance Services – Non<br>Emergency                                             | 2004-2005      | 791400                                                                    |
| <u>Driver Training Programs</u><br>Educational Institutions                       | 2004-2005      | 792600                                                                    |
| Commercial Driving Schools                                                        |                | 792700                                                                    |

b. Penalty for Exceeding Established Cession Limitation

If a Servicing Carrier's ceded premium for the policy year exceeds the limitation for that policy year, as noted in the chart below, a reduction in expense allowances will be applied as follows:

- (1) For premium up to the cession limitation noted below, the expense allowance as determined by the previously identified calculations will be granted.
- (2) For premium in excess of the cession limitation, but less than or equal to 40%, no expense allowance will be granted except for taxes, commissions, or comparable selling expenses of direct writing companies.
- (3) For premium in excess of 40%, no expense allowance will be granted.

The following cession limitations will apply:

| Policy Year | Cession Limitation |
|-------------|--------------------|
| 2003        | 30%                |
| 2004        | 30%                |
| 2005        | 30%                |