COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE
One South Station • Boston, MA 02110-2208
(617) 521-7794 • FAX (617) 521-7475
TTY/TDD (617) 521-7490
http://www.mass.gov/doi

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

DANIEL O'CONNELL
SECRETARY OF HOUSING AND ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

BULLETIN 2007-12

TO: Insurance Companies Soliciting, Negotiating, or Selling Private Passenger Motor Vehicle Policies in Massachusetts

FROM: Nonnie S. Burnes, Commissioner of Insurance

DATE: November 1, 2007

RE: Classification Plan Requirements for Private Passenger Motor Vehicle Insurance Policy Rate Filings Applicable to Policies with Effective Dates of April 1, 2008 through March 31, 2009

This Bulletin informs insurance companies and insurance company groups (collectively "insurers") that sell private passenger motor vehicle insurance policies in Massachusetts with effective dates of April 1, 2008 through March 31, 2009 about the Division of Insurance's ("Division") requirements for classification plans contained in insurer rate filings that apply to such policies as the market transitions to managed price competition. These directives promote fair and transparent practices, ensure that all producers appointed by an insurer in an insurance company group will have access to all of the rates offered by that group, and encourage a small residual market.

All insurers within an insurance company group will be required to offer the same rates and classification plans for Massachusetts private passenger motor vehicle insurance policies with effective dates of April 1, 2008 through March 31, 2009. Such classification plans also shall be subject to additional requirements, which are set forth in further detail below.

A. Primary Components of Classification Plans

1. Base Rates

A set of base rates is a set of dollar values for each operator class and rating territory

combination for operators and vehicles that have one or several risk characteristics in common. An insurer's classification plans may contain more than one set of base rates provided the criteria used to assign a specific operator and vehicle to a set of base rates are objective, mutually exclusive, and exhaustive. An insurer's classification plans shall be designed so that any given operator and vehicle qualifies for assignment to one, and only one, set of base rates based on objective criteria described in the insurer's rating manual.

An insurer may use more than one set of base rates provided that the insurer is able to justify the differences between those rates actuarially. An insurer that submits a rate filing with more than one set of base rates shall establish each set as a percentage of the base rates applicable to private passenger motor vehicle insurance policies with effective dates between April 1, 2007 and March 31, 2008 ("2007 base rates").[1] Such percentage shall be referred to as a category factor in the insurer's rating manual and may vary across coverages offered within the same category relative to the 2007 base rate. For coverages with base rates that vary by rating territory, the category factor shall be a uniform percentage across rating territory, but may vary across operator class.

The rating criteria used by an insurer to justify different base rate levels or to determine the base rate applicable to a given operator and vehicle shall not include sex, marital status, race, creed, national origin, religion, occupation, income, education, homeownership, rating territory, age[2], or credit information contained on a consumer report obtained from a consumer reporting agency pursuant to M.G.L. c. 93, § 50 *et seq.*

2. Rating Factors

Rating factors include all modifiers to the base rate that are required by insurer's rating manual in order to produce a final premium for a particular vehicle. While rating factors for private passenger motor vehicle insurance policies usually are applied multiplicatively to the base rates, rating factors also may be applied additively. Rating factors are specific to a set of base rates, and the value of a specific rating factor may vary based on the base rates to which they are applied.

The most common rating factors are discounts (see Division Bulletin 2007-11), merit rating plans, and coverage options. Insurer classification plans applicable to private passenger motor vehicle insurance policies with effective dates of April 1, 2008 through March 31, 2009 shall comply with the following requirements.

a. Merit Rating Plans

1) Application in Premium Calculation. An insurer that submits a rate filing that includes an independent merit rating plan(s) may determine the placement of that plan in the order of premium calculations. Such placement shall be described in

[1] The 2007 base rates are contained in Exhibit A of 211 CMR 79.00.
[2] Age is prohibited except to produce the reduction in rates for insureds age 65 years or older required by M.G.L. c. 175E, § 4.

the insurer's rating manual.

2) Assignment of Operators to Vehicles. An insurer shall assign operators to vehicles in accordance with Rule 28 of the 2007 Massachusetts Private Passenger Automobile Insurance Manual.

3) Traffic Violations Subject to the Merit Rating Plan. An insurer that submits a rate filing that includes an independent merit rating plan(s) shall specify the types of traffic violations that will be considered in the application of that plan(s). The traffic violations listed in Appendix A of 211 CMR 134.00 may be considered for this purpose.

4) At-fault Accidents Subject to the Merit Rating Plan. An insurer that submits a rate filing that includes an independent merit rating plan(s) may change the claim payment thresholds for at-fault accidents for the purpose of adjusting the prospective premium of a private passenger motor vehicle insurance policy. Such claim payment thresholds only may be met when the insured operator is more than 50% at-fault in the accident. An insurer may not alter the claims payment thresholds for surchargeable at-fault accidents that occurred under policies with effective dates prior to and including March 31, 2008.

5) Maximum Surcharge Period. In accordance with the provisions of 211 CMR 79.05(7), an insurer shall not increase private passenger motor vehicle insurance premiums based on at-fault accidents or traffic violations that pre-date the policy effective date by more than six years. In addition, an insurer submitting a rate filing that includes an independent merit rating plan(s) may not increase private passenger motor vehicle insurance premiums for a period of more than five years on the basis of any single at-fault accident or traffic violation.

An insurer's rating manual also shall state clearly: (1) when an at-fault accident or traffic violation will be reflected in a policyholder's premium; (2) the period of time for which the at-fault accident or traffic violation will affect that premium; and (3) the procedures for adjusting for past premium increases if the policyholder is determined to be not at-fault in the accident by the Board of Appeals.

6) Actuarial Support for Merit Rating Factors. Acceptable actuarial support for independently filed merit rating plans includes, but is not limited to, the loss experience of the insurer, merit rating plans filed in other states by the insurer or by other companies, the merit rating plan applicable to private passenger motor vehicle insurance policies with effective dates prior to April 1, 2008, and judgment.

b. Coverage Relativities

1) Bodily Injury Liability, Uninsured Motorist, and Underinsured Motorist

Increased Limit Factors. An insurer may submit changes to the increased limit factors or additives that were applicable to private passenger motor vehicle insurance policies with effective dates of April 1, 2007 through March 31, 2008. An insurer may adopt, by reference, some or all of the factors or additives included in the Automobile Insurers Bureau ("AIB") advisory filing for private passenger motor vehicle insurance rates effective April 1, 2008. Alternatively, an insurer may submit revisions to the increased limits factors based on an actuarially sound analysis of the insurer's internal loss experience, other external studies, or judgment.

2) Personal Injury Protection Deductible Relativities. An insurer may submit changes to the deductible relativities that were applicable to private passenger motor vehicle insurance policies with effective dates of April 1, 2007 through March 31, 2008. An insurer may adopt, by reference, some or all of the deductible relativities included in the AIB advisory filing for private passenger motor vehicle insurance rates effective April 1, 2008. Alternatively, an insurer may submit revisions to the deductible relativities based on an actuarially sound analysis of the insurer's internal loss experience or judgment.

3) Comprehensive, Collision, and Limited Collision Deductible Relativities and Other Coverage Options. An insurer may submit changes to the deductible relativities and coverage buy-back options that were applicable to private passenger motor vehicle insurance policies with effective dates of April 1, 2007 through March 31, 2008. An insurer may adopt, by reference, some or all of the deductible relativities or buy-back options included in the AIB advisory filing for private passenger motor vehicle insurance rates effective April 1, 2008. Alternatively, an insurer may submit revisions to the deductible relativities or coverage buy-back options based on an actuarially sound analysis of the insurer's internal loss experience or judgment.

B. Risk Characteristics That Function as Both Category and Rating Factors Within a Classification Plan

Some risk characteristics can be used to assign operators and vehicles to a set of base rates, and also can be used as a rating factor for the purposes of calculating the final premium for a specific vehicle. For private passenger motor vehicle insurance policies with policy effective dates of April 1, 2008 through March 31, 2009, the only risk characteristics that may be used to assign operators and vehicles to a set of base rates and as a rating factor are the at-fault accidents and traffic violations of the operator assigned to the vehicle.

If you have any questions regarding this Bulletin, please contact Cara Blank, at 617-521-7344 or at cara.blank@state.ma.us.