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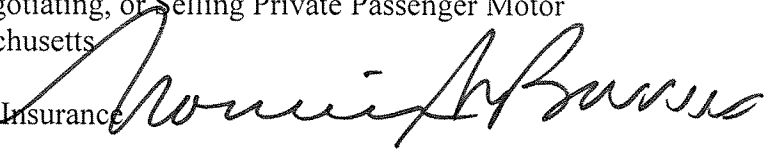
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**BULLETIN 2008-17**

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

FROM: Nonnie S. Burnes, Commissioner of Insurance 

DATE: October 17, 2008

RE: Policy Placement Requirements for Private Passenger Motor Vehicle Insurance Policies with Effective Dates On or After April 1, 2009

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This Bulletin informs insurance companies and insurance company groups (collectively “insurers”) that sell private passenger motor vehicle insurance policies in Massachusetts with effective dates on or after April 1, 2009 about the Division of Insurance’s (“Division”) requirements for such policy placement among company affiliates within an insurer group or among risk categories within a single insurance company.<sup>1</sup> These requirements promote fair and transparent business practices in both the voluntary and residual private passenger motor vehicle insurance markets.

Policy Placement Options in the Voluntary Market

Policy placement is an insurer’s practice of identifying the base rates and rating plan that will be used to calculate the premium for each motor vehicle insured under the policy, after a risk has satisfied an insurer’s eligibility guidelines. Insurer placement of private passenger motor vehicle insurance policies for the purpose of calculating the policy premium is generally achieved in two different ways.

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<sup>1</sup> The provisions of this Bulletin do not apply to private passenger motor vehicle insurance policies that provide coverage exclusively to antique or classic motor vehicles, commercially registered motor vehicles, motorcycles, motor homes, motor scooters, or other miscellaneous motorized vehicles or non-motorized vehicles.

An insurer may file base rates and corresponding rating plans in more than one insurance company within the insurer group. Each company within a group may have a different set of base rates and corresponding rating plan(s). For example, insurer group X maintains two separate sets of base rates and rating plans. One set is used to calculate the premium for motor vehicles insured under policies issued by insurance company X1, and the other is used to calculate the premium for motor vehicles insured under policies issued by insurance company X2.

Alternatively, an insurer may maintain a single set of base rates and place each policy in a unique risk category within a single insurance company. The base rates are adjusted first for risk based on the policy's risk value. The policy's risk value is calculated using pre-defined risk attributes and rules. The risk value determines a unique risk category and factor that adjusts the base rates for risk. The rating factors<sup>2</sup> that comprise an insurer's rating plan then are applied to the risk adjusted base rate to calculate the final premium for each motor vehicle insured under the policy.

#### Rate Filing Requirements for Policy Placement in the Voluntary Market

Any insurer that sells private passenger motor vehicle insurance policies that are insurable by more than one insurance company within an insurer group, or maintains more than one risk category within a single insurance company, must comply with the following requirements in order to promote fairness and transparency:

1. Each insurer's rate manual must identify the risk attributes relevant to the insurer's decision to place a private passenger motor vehicle insurance policy in a specific insurance company or risk category. The company factor shall be displayed in the rate manual if the policy is placed in a specific insurance company within an insurer group, and the base rates for each insurance company within the group are a fixed percentage of a single set of base rates. The risk category factors shall be displayed in the rate manual if the policy is placed in a risk category within a single insurance company.
2. An insurer's policy placement decision shall rely on a risk value that is calculated based on pre-defined risk attributes and rules. The rules or formula for policy placement must operate on the risk attributes to produce a single risk value for the policy. The risk value shall qualify the policy for placement in one and only one insurance company and one and only one risk category at any point in time.

An insurer's policy placement rules and the risk attributes on which they are based will be examined by the Division prior to the effective date of any change to its base rates, company factors, or risk category rating factors.

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<sup>2</sup> Rating plans within a single insurance company may vary based on the risk category in which the policy is placed.

3. Any changes to the types of risk attributes considered by an insurer in its decision to place a policy in either an insurance company or a risk category must be filed as a rate/rule filing with the Division.

#### Policy Placement Options in the Residual Market

An insurer may elect to use a single insurance company within the insurer group exclusively as its Assigned Risk Company (“ARC”) to service private passenger motor vehicle insurance policies assigned to it through the Massachusetts Automobile Insurance Plan (“MAIP”), if the insurer is servicing directly its own MAIP policy assignments. The separate company acting as an ARC is subject to the following constraints:

1. The separate ARC may not file rates or rating plans independently for its exclusive use based on the loss and premium experience of the private passenger motor vehicle insurance policies it issues to policyholders assigned to it through the MAIP. The private passenger motor vehicle insurance rates and rating plans applicable to any policy issued through the separate ARC shall be the rates and rating plans on file with the Division for each of the insurer’s affiliate companies that service the voluntary market, as well as the MAIP, as of the policy effective date.
2. The policy placement risk attributes and rules applicable to the separate ARC shall be the same as those applicable to its affiliate companies serving the voluntary market.
3. The separate ARC shall offer only the coverage available in the private passenger motor vehicle insurance policy and endorsements on file with the Division for the MAIP. No optional endorsements specific to the separate ARC shall be approved by the Division.
4. The separate ARC shall not appoint any licensed insurance producer to solicit or sell independently private passenger motor vehicle insurance policies for the ARC. The MAIP assignment process shall be the exclusive source of private passenger motor vehicle insurance policies insured by the ARC.<sup>3</sup>
5. All loss and premium experience for the separate ARC shall be reported to the statistical agent as MAIP business so that it may be reflected in future MAIP rates and rating plans.

#### Policy Placement Practices in the Residual Market

The following requirements are intended to supplement the requirements of Bulletin 2007-16, and will take effect for private passenger motor vehicle insurance policies effective on or after April 1, 2009 that are issued as a result of assignment through the MAIP.

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<sup>3</sup> This constraint does not apply to any insurer that elects to insure and service policies assigned to it through the MAIP itself in an insurance company that also actively sells private passenger motor vehicle insurance in the voluntary market. This constraint, when applicable, does not change an insurer’s obligations to the producer of record pursuant to the MAIP Rules of Operation.

An insurer's voluntary premium for the policy shall be calculated based on the rates and rating plans in the insurance company or risk category exactly as indicated by the policy placement rules for the purpose of determining the final premium applicable to a policy assigned through the MAIP. The insurer's actual policy placement decision shall not differ from the placement indicated by the pre-determined policy placement rules for MAIP assigned policies. The fact that the policy was assigned to an insurer through the MAIP shall not be considered as a risk attribute in an insurer's determination of the insurance company or risk category to be used for calculating the otherwise applicable voluntary premium pursuant to the requirements of Bulletin 2007-16.

Each insurer that insures private passenger motor vehicle insurance policies assigned through the MAIP shall issue an endorsement with such policies that contains all of the following information:

1. The MAIP certificate number;
2. The policy number;
3. The policy effective date;
4. The source of the rates and rating plan used to compute the final premium for the policy (i.e. the name of the voluntary insurance company or "MAIP", whichever is applicable); and
5. The risk category identifier, if applicable, that was used in the calculation of the final premium for the policy.

The insurer shall provide the endorsement to the policyholder with the other policy documents at policy inception, and at each subsequent renewal. Any mid-term changes to the policy shall be made in accordance with the rates in effect on the policy effective date for the insurance company and risk category identified in the endorsement. The MAIP shall file such an endorsement for the Division's approval no later than January 1, 2009.

Each insurer shall transmit a copy of the endorsement, or its contents, to the MAIP at the same time that it transmits the endorsement to the policyholder so that pricing activity can be carefully monitored as the MAIP enters its final phase of implementation. Commonwealth Automobile Reinsurers ("CAR") staff, in conjunction with the CAR Governing Committee, shall determine the most cost effective method of transmitting this information to the MAIP for the next twelve months.

CAR staff shall prepare a summary report identifying the number of endorsements that indicate that the final policy premium was based on the insurer's voluntary rates and the number that were based on the MAIP rate for each insurer. The summary report shall be updated and sent to the Division on a weekly basis until the Division notifies CAR to do otherwise.

If you have any questions regarding this Bulletin, please contact Cara Blank, Property & Casualty Actuary at [cara.blank@state.ma.us](mailto:cara.blank@state.ma.us) or 617-521-7344.