

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 2 – Definitions

When used in these Rules and the Plan of Operation, the following words shall have the stated meanings:

AGENCY MANAGEMENT PLAN means a plan jointly developed between each Exclusive Representative Producer and its Servicing Carrier which must include the requirements in Rules 10, 13, and 14, and may include, as appropriate, practices identified in the High Loss Ratio Improvement Plan in the Manual of Administrative Procedures.

ALL OTHER MOTOR VEHICLE means any insurable motor vehicle not included in the definition of Private Passenger Motor Vehicle.

CAR means Commonwealth Automobile Reinsurers.

CAR YEAR OF EXPOSURE means one car insured for twelve months.

COMMISSIONER means the Commissioner of Insurance of Massachusetts.

ELIGIBLE RISK means (1) Private Passenger any person who qualifies for a motor vehicle insurance policy under the provisions of G.L. c.175 §113H; (2) All Other any person which has its principal place of business within the Commonwealth of Massachusetts and which is required by a financial responsibility law as enacted by the legislature of any State or of the United States or by any valid regulation of the Interstate Commerce Commission, United States Department of Transportation, or the Massachusetts Department of Public Utilities to maintain motor vehicle insurance with respect to vehicles owned or leased by it, and registered within or outside of the Commonwealth of Massachusetts. Ordinances or Bylaws, as enacted by any political subdivision of any State, shall not for the purposes of determining eligibility be considered as a financial responsibility law. With respect to both (1) and (2), physical damage coverages are eligible for cession to CAR only when written in conjunction with statutory coverages for the same vehicle. With respect to both (1) and (2), pursuant to G.L. c.175 §113U, Antique Vehicles do not qualify as an eligible risk.

EXCLUSIVE REPRESENTATIVE PRODUCER (ERP) means a person licensed as a property and casualty insurance producer pursuant to G.L. c.175 §162H to §162X, inclusive, who has a place of business in Massachusetts and who does not have any existing voluntary agency relationship with a Servicing Carrier of CAR for motor vehicle insurance, and who has been appointed by the Governing Committee or its designee to a Servicing Carrier to immediately certify motor vehicle insurance policies. Nonresident licensed producers with a place of business in any state contiguous to Massachusetts may apply to CAR for appointment as an Exclusive Representative Producer.

Commonwealth Automobile Reinsurers

Rules of Operation

HIGH LOSS RATIO EXCLUSIVE REPRESENTATIVE PRODUCER (HLRERP) means any producer meeting the definition of Exclusive Representative Producer for private passenger business, and which has a three-year cumulative calendar/accident year earned/incurred loss ratio of greater than 125%. In each of the three years, the producer's written premium must be greater than zero. Producers that fail to meet the minimum production requirement of 400 private passenger motor vehicles by the third year of the cumulative three-year loss ratio will not be included. Losses utilized in the loss ratio calculation will include paid and outstanding losses.

HIGH LOSS RATIO IMPROVEMENT PLAN means the minimum performance standards as contained in the Manual of Administrative Procedures that are required to be included in the Agency Management Plan that a Servicing Carrier is required to jointly develop with each of its High Loss Ratio Exclusive Representative Producers. The objectives of such plans shall be developed jointly by the Servicing Carrier and the High Loss Ratio Exclusive Representative Producer. The initial rehabilitation plan must be filed with the Commissioner of Insurance no later than April 15, 2005 and then each year thereafter by April 15.

INACTIVE MEMBER, Subject to CAR Rule 3A, "INACTIVE MEMBER" is any insurer which is licensed to write motor vehicle insurance policies or bonds in Massachusetts, but which did not, in fact, issue any motor vehicle insurance policies or bonds in Massachusetts during the most recent calendar year and which is not the issuing company on any outstanding Massachusetts motor vehicle insurance policies or bonds.

INSURER means any corporation, association, partnership or individual licensed to write motor vehicle insurance in Massachusetts.

MAIP means the Massachusetts Automobile Insurance Plan. Beginning in 2006, MAIP is the mechanism by which eligible risks who are unable to obtain voluntary coverage are assigned to a Member for the purpose of obtaining private passenger automobile insurance coverage.

MANUAL OF ADMINISTRATIVE PROCEDURES means the Manual of Administrative Procedures of CAR.

MARKET NEED means those territories where the current rate Subsidy averages 10% or more.

MEMBER means any insurer which is licensed to write motor vehicle insurance policies or bonds in Massachusetts and which does not qualify for inactive membership status. Groups of companies under the same ownership and management will be treated as a single Member. Groups of companies under either the same ownership or management, but not both, may elect to be treated either separately or as a single Member.

Commonwealth Automobile Reinsurers

Rules of Operation

MOTOR VEHICLE INSURANCE means direct insurance against injury or damage, including the legal liability therefore, arising out of the ownership, operation, maintenance or use of motor vehicles, including but not limited to bodily injury liability insurance, personal injury protection insurance, property damage liability insurance, physical damage insurance, medical payments insurance, uninsured/underinsured motorists insurance and towing and labor insurance.

NEW BUSINESS means business that is new to Massachusetts, the policyholder not previously having been licensed or insured in the past ninety days in Massachusetts and who can provide evidence of licensing in a jurisdiction outside of Massachusetts, or a new driver and who has not been previously licensed in any jurisdiction and who is obtaining his or her own policy.

NEWLY EMERGING COMPANY means a company duly licensed by the Commonwealth of Massachusetts for the purpose of insuring against physical damage and liability arising from the ownership of motor vehicle(s); which company, at the time of its licensure to write physical damage or liability coverages in the Commonwealth of Massachusetts has neither: previously written both physical damage and liability coverages for private passenger and "all other" classifications in the Commonwealth of Massachusetts, nor assumed the assets and/or liabilities of another insurer writing motor vehicle insurance in the Commonwealth of Massachusetts, and is not, at any time, a part of, or controlled by, any insurer or group of insurers which has previously written physical damage or liability insurance in the United States or in Canada.

This definition shall apply to companies becoming members of CAR subsequent to the effective date of the Rule change, as approved by the Commissioner of Insurance.

NEWLY WRITING COMPANY means any member which does not qualify as a Newly Emerging Company and which did not write physical damage and/or liability coverages for private passenger and/or all other motor vehicles in the Commonwealth of Massachusetts in 1982.

PAID LOSS RATIO INCENTIVE PLAN (PLRIP) means the additional reimbursement paid to Servicing Carriers for the overall improvement in ultimate paid loss ratio (excluding the effects of rate subsidy) for all ceded business.

PERSON means every natural person, firm, co-partnership, association, corporation, government or agency thereof.

PLAN OF OPERATION or PLAN means the Plan of Operation of CAR.

Commonwealth Automobile Reinsurers

Rules of Operation

PRINCIPAL PLACE OF BUSINESS as it applies to the definition of an eligible risk, the term "principal place of business" is defined as the chief or usual place of business. It is the head office, the place where the principal officers generally transact business and the place to which reports are made and from which orders emanate. It is also the place where the corporate functions are performed. It is where executive offices are located and corporate decisions are made.

The burden of proof with regard to the location of the principal place of business, consistent with the definition as stated above, lies with the applicant who seeks to qualify as an eligible risk.

PRIVATE PASSENGER MOTOR VEHICLE

- A. A motor vehicle of the private passenger or station wagon type that is owned or leased under contract for a continuous period of at least twelve months by one or more individuals, excluding partnerships and corporations, and is not used as a public or livery conveyance for passengers nor rented to others.
- B. A motor vehicle with a pick-up body, a sedan delivery, a van, a panel truck, or similar type vehicles with a load capacity of 1,500 pounds or less that is owned or leased under contract for a continuous period of at least twelve months by one or more individuals, excluding partnerships and corporations, not used in the occupation, profession or business of the insured.

REPRESENTATIVE PRODUCER means a person licensed as a property and casualty insurance producer pursuant to G.L. c.175 §162H to §162X, inclusive, who has a place of business in Massachusetts and who has been appointed by the Governing Committee, or its designee, to a Servicing Carrier to immediately certify motor vehicle insurance policies and who has executed a contract with the Servicing Carrier. A nonresident licensed producer authorized by a Servicing Carrier to certify Massachusetts motor vehicle policies may apply to the Governing Committee for appointment as a Representative Producer of such Servicing Carrier, provided all requirements of Rule 14 have been satisfied.

RULES OF OPERATION or RULES or RULE means the Rules of Operation of CAR or a Rule of CAR.

SERVICING CARRIER means a Member that has been appointed pursuant to the Plan and Rules of Operation to issue motor vehicle insurance policies at the request of a Representative Producer. Where a company within a group under the same management writes exclusively private passenger type motor vehicle insurance and another company within that same group writes exclusively all other type motor vehicle insurance, those companies shall be considered as one Servicing Carrier for purposes of this definition.

Commonwealth Automobile Reinsurers

Rules of Operation

SUBSIDY is defined for a given year as the rate established for each territory and driver class combination in the subsidy matrix calculated annually by the Automobile Insurers Bureau of Massachusetts, which compares the rate decision of the Commissioner for that year to the actual cost-based rate for each territory and driver class combination.

SUBSIDY CLEARINGHOUSE means the method by which positive and negative rate Subsidy values by class, territory and coverage will be allocated to Members.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 9 – Audit Review

Automobile insurance policies written by a Member of CAR or another entity subject to the Plan and Rules of CAR, or its successor entity, shall be subject to a review and audit in a manner and time determined by the Governing Committee. Each Member or entity authorizes CAR or its successor entity to audit any portion of its motor vehicle insurance business which has a bearing on any credits, penalties, or deficit sharing attributable to such Member or entity.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 10 – Claim Practices

The Governing Committee shall establish and monitor procedures for the review of claim practices of Servicing Carriers to insure compliance with the “Performance Standards for the Handling and Payment of Claims by Servicing Carriers”. National Association of Insurance Commissioners (NAIC) guidelines are incorporated where applicable into the Performance Standards. CAR will conduct periodic audits of Servicing Carriers’ claims including policies reinsured in the plan and voluntarily written as specified in G.L. c.175 §113H. An error tolerance rate of ten percent (10%) for procedures and seven percent (7%) for claims resolution will be implemented and enforced.

- A. Claim practices of each Servicing Carrier shall comply with the requirements of G.L. c.175 §113H. Servicing Carriers shall, in accordance with the Performance Standards:
1. Comply with the standards for prompt investigation of claims. Upon receipt of a new claim, investigate policy information for garaging, listed operator, prior accidents, or any other issues. Information developed may be used to affirm or deny claim payments. Discrepancies shall be communicated to the Underwriting Department and the premium recalculated and billed if appropriate.
 2. Affirm or deny coverage of claims within a reasonable period of time;
 3. Effectuate prompt, fair and equitable settlements of claims in which liability is reasonably clear;
 4. Maintain claim reserving procedures for all applicable claims.
 5. Conduct internal claim quality audit of a reasonably representative number of claim files on residual market business, commensurate with their procedures for audit of claims on voluntary business, in order to verify compliance with the Performance Standards. With sufficient frequency to reflect reasonable continuity of their quality controls, Servicing Carriers shall prepare internal reports summarizing the efforts and conclusions of their claim department quality audit. Reports shall consolidate comments relative to both residual market and voluntary claim adjustment. Report format shall be at the discretion of each Servicing Carrier, or as may be requested from time to time on an individual basis by the Governing Committee, or their designee.

Commonwealth Automobile Reinsurers

Rules of Operation

6. Establish complaint handling procedures, and maintain complete records of all complaints received on claims related to both residual market and voluntary business. Servicing Carriers shall maintain records reflecting the number of complaints received annually. For purposes of this Rule, the term "complaint" shall mean any written communication initiated by the complainant primarily expressing a grievance;
 7. Acknowledge and act promptly upon communications regarding claims;
 8. Promptly provide a reasonable explanation for denial of a claim or for the offer of a compromise settlement.
 9. Resolve inter-company subrogation disputes involving Physical Damage and Personal Injury Protection claims through arbitration.
 10. Have Direct Telephone Reporting available for first and third party claims.
11. Servicing Carriers shall offer training on claim reporting and fraud recognition to producers and their customer service representatives. Such training shall be completed for current producers and customer service representatives within six months of approval of this rule, and for new producers and customer service representatives within six months of licensing or employment.
- B. In the handling of residual market claims, Servicing Carriers shall not:
1. Misrepresent pertinent facts or policy provisions relating to the coverage at issue;
 2. Refuse to pay claims without having conducted a reasonable investigation based upon all available information;
 3. Fail to promptly settle claims, where liability is reasonably clear, under one portion of the policy coverage in order to influence settlements under other portions of the policy coverage.
- C. Every Servicing Carrier shall maintain a Special Investigative Unit to investigate suspicious claims for the express purpose of eliminating fraud and shall specifically report to CAR evidence of fraud pertaining to theft or misappropriation of a motor vehicle on policies issued through CAR as provided in the Manual of Administrative Procedures. Special Investigative Units so established shall be organized and operated to investigate claims on any policies which are issued through CAR and on policies issued on a voluntary basis by Servicing Carriers. The SIU shall investigate suspicious circumstances surrounding underwriting, rating, and premium issues. A

Commonwealth Automobile Reinsurers

Rules of Operation

claim shall not be investigated by such a unit solely on the basis that such claim arises from a policy issued through the residual market.

- D. Failure to meet the standards or requirements described in this Rule may prevent reimbursement of loss or expense or may result in such other penalties as may be imposed by the Governing Committee or as directed by the Performance Standards.
- E. Special Reimbursements (for claims arising out of policies written prior to January 1, 2008)
 - 1. Excess Judgments

A Servicing Carrier shall notify, in writing, the Vice President-Claims of CAR of any tort liability judgment, for which the Servicing Carrier may be liable, against an insured of a Servicing Carrier policy if the amount of the judgment exceeds the limit of coverage, within 180 days of the entry of judgment. A Servicing Carrier shall also notify, in writing, the Vice President-Claims of CAR of any settlement of a claim against a Servicing Carrier policy if the amount of the settlement, for which the Servicing Carrier may be liable, exceeds the limit of coverage, within 180 days of the execution of any settlement.

Within one year of the entry of judgment or the execution of settlement prior to any entry of judgment, the Servicing Carrier may apply, with adequate supporting explanation and documentation, including the complete claim file and complete underwriting file if requested, to the Vice President-Claims for reimbursement of such amounts; provided however, that if no final judgment has been entered and the Servicing Carrier has so notified, in writing, the Vice President-Claims and has provided notification, the request for reimbursement may be filed within 180 days after the subsequent entry of final judgment or execution of settlement or within one year of the initial notification, whichever occurs later. The Vice President-Claims shall review the request with the Claims Advisory Committee and shall refer its recommendation to the Governing Committee for consideration. The Governing Committee may authorize reimbursement of all or any part of the amount requested unless it determines that the Servicing Carrier was negligent in the handling of the claim and its negligence was the proximate cause of the excess judgment or settlement, in which event the request shall be denied.

The requirements of this Rule shall apply to all excess judgments entered or excess settlements executed which occur on or after the effective date of the approval of these amendments. For excess judgments entered or excess settlements executed within 179 days prior to the effective date of the approval of these amendments, Servicing Carriers

Commonwealth Automobile Reinsurers

Rules of Operation

must provide notice and/or a request for reimbursement during the same time periods set forth above, but measured from the effective date of the approval of the amendments.

For all other requests for reimbursement on judgments or settlements pre-dating this amendment, the excess judgment or settlement must be reported promptly. In no event will a request for reimbursement be considered if a delay in reporting, by or within the control of the Servicing Carrier, is prejudicial to CAR or its ability to properly evaluate the request.

Failure to comply with any of the requirements set forth above shall preclude any request for reimbursement in connection with such judgment and/or settlement.

Approved reimbursements shall be submitted as separate loss records.

2. Penalties

The Governing Committee may authorize reimbursements to Servicing Carriers for payments of penalties imposed by Massachusetts Courts in accordance with G.L. c.90 §34O and G.L. c.175 §113O and for the payment of legal expense for the successful defense of actions based on G.L. c.93A.

A request for reimbursement, accompanied by adequate supporting explanation and documentation, shall be sent promptly to the Vice President-Claims, who shall review the request with the Claims Advisory Committee and thereafter present its recommendations to the Governing Committee for consideration.

In cases that do not involve any negligence in the handling of the claim by the Servicing Carrier, which negligence is the proximate cause of the imposition of the penalty, the Governing Committee may authorize reimbursement of all or part of the amount of penalty.

Approved reimbursements shall be submitted as separate loss records.

3. Notice of Reimbursement

The Governing Committee shall give thirty days' written notice to the Commissioner of its intent to consider any request for reimbursement pursuant to this section.

F. Dishonesty

Commonwealth Automobile Reinsurers

Rules of Operation

Loss or expense resulting from the dishonesty of those employed to handle claims shall be the sole responsibility of the Servicing Carrier.

G. Claim Contingency Procedures

1. Terminations

A Member which terminates its designation as a Servicing Carrier as provided in Rule 16 shall, subject to the provisions of Rule 10 - Claim Practices, service to a conclusion all claims against all policies issued by it in its capacity as a Servicing Carrier and in effect prior to the date of termination. "Service to a conclusion" shall mean until the claim is properly closed, or until an agreed date.

2. Other Terminations

Upon notice from the Governing Committee of the termination, other than voluntary, of a Member's designation as a Servicing Carrier, the Vice President-Claims shall examine a representative sample of open claim files to determine the amount of work completed, to estimate the future cost of servicing the claims to a conclusion, and to verify compliance with Rule 10 - Claim Practices. He shall review his findings with the Claims Advisory Committee and shall present to the Governing Committee for its consideration the recommendations of the Claims Advisory Committee for the further servicing of said Servicing Carrier claims.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 11 – Assessments and Participation

CAR expenses, and the profits and losses on CAR policies, shall be allocated among the Members in the manner provided under this Rule.

Assessments to pay for CAR expenses, and losses on CAR policies, shall be levied as frequently as the Governing Committee deems necessary. Such assessments shall be allocated among the Members in accordance with the following principles:

A. Participation - Expenses

Expenses, including all costs of operating CAR and all costs, charges, expenses and liabilities and all income, property and other assets which the Governing Committee determine not to be properly chargeable to the profit or loss of risks ceded to CAR by Servicing Carriers, shall be shared by the Members in the proportion that each Member's Massachusetts direct written motor vehicle insurance premiums which are reported on its Annual Statement for the most recent calendar year bear to the total of such premiums for all Members.

Note that for policy years 2005 through 2007, private passenger written premium from those producers designated as High Loss Ratio Exclusive Representative Producers will be excluded from this calculation. Additionally, for all years, premium from those classifications and/or coverages that are not statistically reportable to CAR (those classes or coverages not specified in the Massachusetts Statistical Plans) and all premium from Antique Vehicle classification codes 0483 and 9620 is excluded from this calculation.

B. Participation - Underwriting Results

For purposes of establishing a basis for allocation of Servicing Carrier premiums, losses and expenses, each company licensed to write motor vehicle insurance in Massachusetts shall report statistical information required by the Rules of Operation to CAR or permit its statistical agencies, designated by the company or appointed by the Commissioner, to report all required statistical information to CAR.

In recognition of the need to provide stability in the Massachusetts motor vehicle insurance marketplace, Member participation shall be calculated in accordance with the following principles and procedures:

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

1. Private Passenger High Loss Ratio Exclusive Representative Producer Deficit Participation for Policy Years 2005 through 2007

For policy years 2005 through 2007, private passenger High Loss Ratio Exclusive Representative Producer premiums, losses and expenses ceded to CAR will be shared among all companies based upon participation ratios that shall be determined as a function of the company's voluntarily produced market share (CAR Identification Codes 0 and 4) for the 12 calendar months ending June 30, 2004.

All exposures for Antique Vehicles (Classification Code 0483) shall be excluded from the calculation of the private passenger liability and physical damage High Loss Ratio Exclusive Representative Producer participation ratios.

The formula for determining the private passenger participation ratios that will be used for sharing ceded High Loss Ratio Exclusive Representative Producer premiums, losses and expenses shall be as follows:

a. Determine Company Exposures to be Used in Participation Ratio Calculation

For each company, separately for liability and physical damage, determine the company's voluntarily produced written exposures for the 12 calendar months ending June 30, 2004. These written exposures will be used in the calculation of private passenger High Loss Ratio Exclusive Representative Producer participation ratios for policy years 2005, 2006, and 2007. Exposures shall be separately summarized for the following CAR Identification Codes:

CAR Identification Code	Description
0	Retained written exposures from voluntary producers and written directly by the company
4	Ceded written exposures from voluntary producers and written directly by the company

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

If the sum of a company's voluntarily produced written exposures is less than zero, these exposures shall be excluded from the private passenger High Loss Ratio Exclusive Representative Producer participation ratio formula.

For the period November 23, 2004 through December 31, 2007, any agency or portfolio acquired by a HLR ERP through merger or acquisition will continue to be ceded under the terms that would have applied on November 23, 2004. No business so acquired will be considered as part of the policy year 2005, 2006, or 2007 deficit associated with HLR ERPs.

Note that if a company has bought out of its Servicing Carrier responsibilities, the exposures serviced on this company's behalf by another entity will be counted as if they were written by the buying-out company.

b. Determine Exposure Adjustments

For the following Miscellaneous Rated as Private Passenger classifications, the written exposures for the 12 calendar months ending June 30, 2004 used in the calculation of a company's private passenger liability High Loss Ratio Exclusive Representative Producer participation ratio will be adjusted by the following factors:

Classification Code	Description	Adjustment Factor
0400	Electric Cars	.33
0426	Snowmobiles	.33
0408-0416	Motorcycles	.33
0608-0616	Motorcycles	.33

B. Participation - Underwriting Results (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

Note that the remainder of the Miscellaneous Rated as Private Passenger classifications are included in the liability participation ratio calculations without adjustment.

All Miscellaneous Rated as Private Passenger classifications are included in the physical damage participation ratio calculations without adjustment.

c. Determine Industry Exposures to be Used in Participation Ratio Calculation

For the industry, separately for liability and physical damage, determine the industry's voluntarily produced written exposures for the 12 calendar months ending June 30, 2004. These written exposures will be used in the calculation of private passenger High Loss Ratio Exclusive Representative Producer participation ratios for policy years 2005, 2006, and 2007 and will equal sum of all companies' retained plus ceded exposures as determined in a. through b. above.

d. Determine Company's Final High Loss Ratio Exclusive Representative Producer Participation Ratio

Determine each company's final High Loss Ratio Exclusive Representative Producer participation ratio by dividing the company's total exposures as determined in a. through b. above by the total industry exposures as determined in c., above. This final participation ratio will be applied to that portion of the deficit attributable to ceded business from HLR ERPs adjusted to remove the effects of rate subsidy on that portion of the deficit.

To the extent that inclusion of any of the Members' final participation ratios causes the sum of the Members' final ratios to differ from unity, an off-balance factor shall be applied to each Members' ratio such that the sum of the ratios equals the unity. Companies who become Members of CAR for the first time after January 1, 2005 will be considered Members for the purpose of prospectively sharing in the deficit attributable to High Loss Ratio Exclusive Representative Producers beginning with the first day of operations.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

2. Private Passenger Participation for Voluntary Producer and Non-High Loss Ratio Exclusive Representative Producer Deficit for Policy Years 2005 through 2007

For policy years 2005 through 2007, private passenger voluntarily produced and non-High Loss Ratio Exclusive Representative Producer premiums, losses and expenses ceded to CAR will be shared among all companies based upon participation ratios that shall be determined as a function of the company's utilization of the residual market.

Where noted in subsequent paragraphs, exposures from ceded risks meeting the following criteria shall be excluded from the definition of ceded exposures:

Policy Year	Exclusion Criteria
2005	<p>Ceded exposures representing up to 15% of retained plus ceded exposures written during calendar year 2005 after the contract effective date through a former ERP given a voluntary contract January 1, 2005 through December 31, 2005, inclusive of the classification exclusions noted below. This exclusion criteria also applies to any newly emerging voluntary producer appointments in areas of market need.</p> <p>This exclusion criteria is not applicable to:</p> <ul style="list-style-type: none">(i) Any business acquired through merger or acquisition of any producer subsequent to the voluntary contract effective date.(ii) Beginning November 23, 2004 any voluntary producer who had a voluntary contract in good standing regardless of any changes to his or her status that occur after November 23, 2004.
2006	<p>Ceded exposures representing up to 10% of retained plus ceded exposures written during calendar year 2006 after the contract effective date through a former ERP given a voluntary contract January 1, 2005 through December 31, 2006, inclusive of the classification exclusions noted below. This exclusion criteria also applies to any newly emerging voluntary producer appointments in areas of market need.</p>
2006	<p>This exclusion criteria is not applicable to:</p>

Commonwealth Automobile Reinsurers

Rules of Operation

	(i) Any business acquired through merger or acquisition of any producer subsequent to the voluntary contract effective date. (ii) Beginning November 23, 2004 any voluntary producer who had a voluntary contract in good standing regardless of any changes to his or her status that occur after November 23, 2004.
2005-2007	Ceded exposures for risks at S.D.I.P. step 20 and above, and ceded exposures for Inexperienced Operators (0-3 years) - Rate Classes 20, 21, 25, and 26.

Additionally, all exposures for Antique Vehicles (Classification Code 0483) shall be excluded from the calculation of the private passenger liability and physical damage voluntarily produced/non-HLR ERP participation ratios.

The formula for determining the private passenger participation ratios that will be used for sharing ceded voluntarily produced/non-HLR ERP premiums, losses and expenses will be as follows:

a. Determine Company Exposures to be Used in Participation Ratio Calculation

For each company, separately for liability and physical damage, determine the company's written exposures to be used in the calculation of private passenger voluntarily produced/non-HLR ERP participation ratios. Exposures shall be separately summarized for the following CAR Identification Codes for the calendar year corresponding to the policy year whose participation ratios are being calculated.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

CAR Identification Code	Description
0	Retained written exposures from voluntary producers and written directly by the company
1	Retained written exposures from Exclusive Representative Producers, excluding retained exposures written through an HLR ERP
4	Ceded written exposures from voluntary producers and written directly by the company
5	Ceded written exposures from Exclusive Representative Producers, excluding ceded exposures written through an HLR ERP

If the sum of a company's written exposures is less than zero, these exposures shall be excluded from the private passenger voluntarily produced/non-HLR ERP participation ratio formula.

Note that if a company has bought out of its Servicing Carrier responsibilities, the exposures serviced on this company's behalf by another entity will be counted as if they were written by the buying-out company.

b. Determine Exposure Adjustments

For the following Miscellaneous Rated as Private Passenger classifications, the exposures used in the calculation of a company's private passenger liability voluntarily produced/non-HLR ERP participation ratio will be adjusted by the following factors:

B. Participation - Underwriting Results (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

Classification Code	Description	Adjustment Factor
0400	Electric Cars	.33
0426	Snowmobiles	.33
0408-0416	Motorcycles	.33
0608-0616	Motorcycles	.33

Note that the remainder of the Miscellaneous Rated as Private Passenger classifications are included in the liability participation ratio calculations without adjustment.

All Miscellaneous Rated as Private Passenger classifications are included in the physical damage participation ratio calculations without adjustment.

c. Determine Minimum Allowable Exposures

For each company, separately for liability and physical damage, determine the company's minimum allowable written exposures as:

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

Policy Year Ratio	Calendar Year Exposure	Minimum Allowable Exposures
2005	2005	The company's calendar year 2005 voluntarily produced exposures must be the greater of: 80.0% of calendar year 2004 voluntarily produced retained and ceded exposures, or 80.0% of the 2004 minimum allowable exposures.
2006	2006	The company's calendar year 2006 voluntarily produced exposures must be the greater of: 80.0% of calendar year 2005 voluntarily produced retained and ceded exposures, or 80.0% of the 2005 minimum allowable exposures.
2007	2007	The company's calendar year 2007 voluntarily produced exposures must be the greater of: 80.0% of calendar year 2006 voluntarily produced retained and ceded exposures or 80.0% of the 2006 minimum allowable exposures.

Retained (CAR Identification Code 1) and ceded (CAR Identification Code 5) written exposures from Exclusive Representative Producers shall not be included in the minimum allowable exposure calculation.

If the company's minimum allowable exposures are greater than the total of the voluntarily produced retained and ceded exposures, including those meeting the exclusion criteria as determined above, then the difference will be added to the company's ceded exposures excluding those meeting the exclusion criteria as determined above. These exposures will be used in the calculation of the company's pre-credit utilization ratio as noted in e. below.

B. Participation - Underwriting Results (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

If the company's minimum allowable exposures are less than or equal to the total of the company's voluntarily produced retained and ceded exposures, then the company's actual ceded exposures will be used in the calculation of the company's pre-credit utilization ratio as noted in e. below.

d. Determine Industry Exposures to be Used in Participation Ratio Calculation

For the industry, separately for liability and physical damage, determine the industry's retained and ceded written exposures to be used in the calculation of private passenger voluntary producer and non-High Loss Ratio Exclusive Representative Producer deficit participation ratios as the sum of the companies' retained and revised ceded exposures as determined in a. through c. above.

e. Determine Company's Pre-Credit Utilization Ratio

For each company and the industry, determine the following:

- (1) Retained exposures from all sources (CAR Identification Codes 0 and 1), from a. above, adjusted for Miscellaneous Rated as Private Passenger classification exposures identified in b. above.
- (2) Ceded exposures from all sources (CAR Identification Codes 4 and 5), from a. above, adjusted for Miscellaneous Rated as Private Passenger classification exposures identified in b. above and for minimum allowable exposures identified in c. above, and excluding the exposures as identified above.

Using the retained and ceded exposures identified above, determine each company's pre-credit utilization ratio as:

$$\frac{(\text{Company Retained Exposures}) + (\text{Company Ceded Exposures} \times K)}{(\text{Industry Retained Exposures}) + (\text{Industry Ceded Exposures} \times K)}$$

B. Participation - Underwriting Results (continued)

In this formula, the value of the K factor for policy year 2005 will be as follows:

Commonwealth Automobile Reinsurers

Rules of Operation

Producer Type	Claims Frequency Band	K Factor Value*
Voluntary Producer	- all -	9
Non-HLR ERP	### – ###	5
	### – ###	9
	####	13

*The K-factor value will be determined annually by the Governing Committee using segmented claims frequency bands of the non HLR ERPs' ceded plus retained books.

Beginning November 23, 2004, any voluntary producer who loses his last voluntary contract and is appointed as an ERP will be subject to a K factor of 13 for the purposes of ceding that producer's business.

- f. Determine Company's Final Voluntarily Produced and Non HLR ERP Participation Ratio

The Servicing Company's final participation ratio is equal to the Servicing Company's pre-credit utilization ratio as calculated in e. above. This participation ratio shall be applied to that portion of the deficit generated by business ceded by voluntary producers and non HLR ERPs, and directly written business adjusted to remove the effects of rate subsidies on the deficit level.

To the extent that inclusion of any of the final participation ratios for Servicing Carriers causes the sum of the Servicing Carriers' final ratios to differ from their total unadjusted market share, an off-balance factor shall be applied to each ratio such that the sum of the Servicing Carriers' final participation ratios equals their total unadjusted market share. Non-Servicing Carriers final participation ratios will equal their total market share.

B. Participation - Underwriting Results (continued)

- g. Determine Each Company's Adjustment for Retained Credits

Commonwealth Automobile Reinsurers

Rules of Operation

For each company, determine an adjustment to the otherwise calculated deficit share in 11.B.1 and 11.B.2 for retained credits based on the calculations described in Rule 12 - Credits.

3. Private Passenger Participation for Policy Year 2004

For policy year 2004, private passenger participation ratios are calculated using a utilization formula based on the member company's retained and ceded exposures.

Where noted in subsequent paragraphs, exposures from ceded risks meeting the following criteria shall be excluded from the definition of ceded exposures:

Policy Year	Exclusion Criteria
2004	Ceded exposures from HLR ERPs with policy effective dates beginning with the first day of the month following the Order issued by the Commissioner of Insurance approving the Rules for transition to the Assigned Risk Plan
2004	Ceded exposures for risks at S.D.I.P. step 20 and above, and ceded exposures for Inexperienced Operators (0-3 years) - Rate Classes 20, 21, 25, and 26.

Additionally, all exposures for Antique Vehicles (Classification Code 0483) shall be excluded from the calculation of the utilization ratio.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

The formula for determining the utilization ratio shall be as follows:

- a. For each company, separately for liability and physical damage, determine the company's voluntarily produced and retained written exposures (CAR ID Code 0), retained written exposures from Exclusive Representative Producers (CAR ID Code 1), voluntarily produced ceded written exposures (CAR ID Code 4), and ceded exposures written through Exclusive Representative Producers (CAR ID Code 5), for the calendar year corresponding to the policy year whose participation ratios are being calculated.

Note that if a company has bought out of its Servicing Carrier responsibilities, the exposures serviced on this company's behalf by another entity will be counted as if they were written by the buying-out company.

The Miscellaneous Rated as Private Passenger classification exposures used in the calculation of a company's private passenger liability participation ratio, including Rule 12 credit calculations, will be adjusted by the following factor for the indicated policy year:

Policy Year 2004	Classification	Adjustment Factor
0400	Electric Cars	.33
0426	Snowmobiles	.33
0408-0416	Motorcycles	.33
0608-0616	Motorcycles	.33

B. Participation - Underwriting Results (continued)

For policy year 2004 note that all other Miscellaneous Rated as Private Passenger classifications are included in the liability participation ratio calculations without adjustment.

Commonwealth Automobile Reinsurers

Rules of Operation

For policy year 2004 note that all other Miscellaneous Rated as Private Passenger classifications are included in the physical damage participation ratio calculations without adjustment.

- b. For each company, separately for liability and physical damage, determine the company's minimum allowable written exposures as:

Policy Year	Minimum Allowable Exposures
2004	The greater of: 80.0% of calendar year 2003 voluntarily produced retained and ceded exposures, or 80.0% of the 2003 minimum allowable exposures.

Note that for policy year 2004, retained and ceded exposures written through ERPs will not be included in the minimum allowable exposure calculation.

If the company's minimum allowable exposures are greater than the total of the voluntarily produced retained and ceded exposures, including those meeting the exclusion criteria as determined above, then the difference will be added to the ceded exposures excluding those meeting the exclusion criteria determined above.

If the company's minimum allowable exposures are less than or equal to this total, then the company's ceded exposures excluding those meeting the exclusion criteria as determined above will be used.

- c. For each company and for the industry, determine the following:

- Retained exposures from all sources, from a. above.

Participation - Underwriting Results (continued)

- Ceded exposures from all sources, from a., and b. above

Commonwealth Automobile Reinsurers

Rules of Operation

Determine each company's pre-credit utilization ratio as:

$$\frac{(\text{Company Retained Exposures}) + (\text{Company Ceded Exposures} \times K)}{(\text{Industry Retained Exposures}) + (\text{Industry Ceded Exposures} \times K)}$$

In the above formula, for policy year 2004, the value of the K factor will be 4.0.

- d. For each company, determine each company's participation credits based on retained business from all sources.
- e. Determine for each company, "adjusted total retained written exposures" by multiplying the total industry retained written exposures from all sources from a. above by the company's pre-credit utilization ratio as determined in c. above. Determine, then, each company's final utilization ratio by dividing the company's "adjusted total retained exposures" minus the company's participation credits from d. above, by the total industry retained written exposures from a. above minus the total industry participation credits from d. above.
- f. To the extent that inclusion of any of the final utilization ratios calculated above causes the sum of the final utilization ratios to differ from unity, an off-balance factor shall be applied to each ratio such that the sum becomes unity.

3. All Other Motor Vehicles

For policy years 1995 and subsequent, a company's participation ratio shall be determined as a function of the company's utilization of the residual market if the company is a Servicing Carrier for all other motor vehicle business, with a "grossing-up" process to be applied for those companies which are not Servicing Carriers for this business. The utilization ratio will then be adjusted for credits.

For policy years 2002 through 2004, premiums from ceded risks meeting the following criteria shall be excluded from the calculation of the utilization ratio:

Participation - Underwriting Results (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

Exclusion Criteria		
Classification Description	Policy Year (s)	Statistical Code
<u>Contract Carriers</u> Hauling Chemicals Hauling Petroleum or Petroleum Products All Other	2002-2004	###230 ###270 ###290
<u>Waste Disposal</u> Garbage All Other	2002	###530 ###590
Petroleum Business	2002-2004	###920
<u>Long-haul Truckers</u> Non-fleet Fleet	2002-2004	##32## ##62##
<u>Emergency Vehicles</u> Emergency Ambulances Fire Department Law Enforcement	2002-2004	791300 790800, 790900 791100, 791200, 794200
School Buses	2002-2004	61##00, 62##00
Buses N.O.C.	2002-2004	53##00, 54##00, 55##00, 58##00
Limousines	2002-2004	42#900
Car Service	2002-2004	43#900
Truckers Cost-of-Hire	2002-2004	661300
Chemical Manufacturers	2002-2004	###110

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

Exclusion Criteria		
Classification Description	Policy Year (s)	Statistical Code
<u>Garage</u> Non-franchised Dealers Repair Shops	2002-2004	735100, 735200
		780800, 781000, 781100, 781200, 781300
	2002	780900
<u>Taxicabs</u> Fleet Non-fleet	2002-2004	418700, 419700, 410700, 418800, 419800, 410800, 418900, 419900, 410900
		415700, 416700, 417700, 415800, 416800, 417800, 415900, 416900, 417900
Van Pools	2004	411###, 412###
<u>Zone Rated Bus</u> Fleet Non-Fleet	2004	520900, 560900
		527900, 567900
<u>Specialized Delivery</u> Armored Cars	2004	###410
Church Bus	2004	638#00, 639#00, 630#00, 635#00, 636#00, 637#00
<u>Social Services Automobile</u> Employee Operated All Other	2004	64#####
		65#####
<u>Short Term Leasing or Rental</u> <u>Concerns</u> Private Passenger Autos Miscellaneous Types	2004	721400
		721600
Bobtail Operations	2004	748900
Ambulance Services – Non	2004	791400

Commonwealth Automobile Reinsurers

Rules of Operation

Emergency		
<u>Driver Training Programs</u>		
Educational Institutions	2004	792600
Commercial Driving Schools		792700

B. Participation - Underwriting Results (continued)

Additionally, voluntary and ceded premiums for Antique Vehicles with policy effect dates of November, 1998 and subsequent shall be excluded from the calculation of the utilization ratio.

The formula for determining the residual market utilization-based participation ratio shall be as follows:

- a. For each company, separately for liability and physical damage, determine the company's voluntary (CAR ID codes 0 and 1), written premiums and voluntary-ceded (CAR ID code 4), written premiums excluding those statistical classes meeting the exclusion criteria, for the calendar year corresponding to the policy year whose participation ratios are being calculated. Ceded premiums written through Representative Producers with whom the Servicing Carrier has no voluntary relationships, (CAR ID code 5) and ceded and voluntary written premiums for Antique Vehicles with policy effective dates of November, 1998 and subsequent will be excluded.
- b. For companies which are not Servicing Carriers for all other motor vehicle business, assign a "gross-up" ceded written premium which bears the same relationship to the non-Servicing Carrier's voluntary written premium as the total of all Servicing Carriers' ceded written premium (excluding Exclusive Representative Producer written premium ceded and voluntary written premiums for Antique Vehicles with policy effective dates of November, 1998 and subsequent and voluntary-ceded premium from those statistical classes meeting the exclusion criteria) bears to the total of all Servicing Carriers' voluntary written premium.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

c. Policy Years 2001 and Prior

- (1) For each company, determine the company's ceded market share after gross-up by dividing the company's ceded written premiums excluding Exclusive Representative Producer premiums, ceded and voluntary premiums for Antique Vehicles with policy effective dates of November, 1998 and subsequent and voluntary-ceded premiums from those statistical classes meeting the exclusion criteria, as determined in a. or b. above by the total industry's ceded written premiums excluding Exclusive Representative Producer premiums, ceded and voluntary written premiums for Antique Vehicles with policy effective dates of November, 1998 and subsequent and voluntary-ceded premiums from those statistical classes meeting the exclusion criteria, as determined in a. and b. above.
- (2) For each company, determine the company's total market share after gross-up by dividing the company's total voluntary and ceded written premiums as determined in a. and b. above by the total industry's voluntary and ceded written premiums as determined in a. and b. above.
- (3) For each company, determine the utilization ratio by combining 50% of the ratio from a. above and 50% of the ratio from b. above.

Policy Years 2002 and Subsequent

For each company and for the industry, determine the following:

- (1) Voluntary retained written premiums (CAR Identification Codes 0 and 1) from a. above.
- (2) Ceded written premiums (CAR Identification Code 4) from a. or b. above.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

Using the voluntary and ceded written premiums identified above, determine each company's participation ratio as:

$$\frac{(\text{Company Voluntary Retained Written Premium}) + (\text{Company Ceded Written Premium} \times K)}{(\text{Industry Voluntary Retained Written Premium}) + (\text{Industry Ceded Written Premium} \times K)}$$

In this formula, for policy years 2002 and 2003, the value of the K factor shall be 12.0. For policy year 2004, the value of the K factor shall be 11.0. On an annual basis, the value of the K factor will be re-examined based upon existing market conditions.

4. Companies Electing to Withdraw

- a. A company electing to withdraw from the Massachusetts private passenger automobile insurance market shall file a plan for an orderly withdrawal over a period which shall not exceed three (3) years and which shall include full settlement of all financial obligations to CAR. Approval of the plan for purposes of this section shall mean written approval by the Commissioner of Insurance. Prior to approval, the Commissioner of Insurance shall hold a public hearing if requested to do so by the Governing Committee of CAR, any member company of CAR, or any association of producers, to consider the effect of the withdrawal on the orderly and equitable conduct and operation of the Massachusetts motor vehicle insurance market. Any such party seeking a hearing must file a request with the Division of Insurance within 10 days of notice by the Division of Insurance to CAR of the opportunity for a hearing. Copies of the plan shall be made public at the time of such notice.

On approval of this plan, data for the withdrawing company shall be removed from the calculation of participation ratios for the remainder of the industry beginning in the first year following the year of election to withdraw. The participation ratio of the withdrawing company shall remain constant over the three-year period following the year of election to withdraw and shall be applied separately for those three years. The withdrawing company's participation ratio for this period shall be the company's pre-credit utilization ratio as determined in Rule 11, B, 2, c, for the year of election plus the final participation ratio as determined in Rule 11.B.1.d. Upon request of the company

Commonwealth Automobile Reinsurers

Rules of Operation

B. Participation - Underwriting Results (continued)

electing to withdraw, CAR may at its option, agree to accept a single payment at any time in settlement of all amounts then outstanding, including those amounts outstanding as a consequence of the calculations specified in this paragraph.

If the withdrawing company is later found not to have complied with the provisions of the plan as approved by the Commissioner of Insurance, the company's payment pursuant to Rule 11, B, 4, may be adjusted to assure that the final payment for each year will be no less than the payment which, absent the approval of the withdrawal plan, would have been made pursuant to Rule 11, B, 1 and 2, had no plan been filed and approved.

- b. Companies electing to withdraw from the Massachusetts commercial automobile market but still maintain their license to underwrite other than automobile insurance in Massachusetts shall file a plan for such withdrawal with the Commissioner of Insurance for his approval. Such a plan shall specify in detail how its risks are to be placed elsewhere. The participation ratio for each of the next eight policy years following the year of election shall remain constant at the value for the election year and be equal to zero for policy years thereafter.

C. Settlement of Balances

1. CAR will issue quarterly summaries to all Members reflecting their cumulative balances. However, for the current policy year there will be no reimbursement of Members with allowable credits in excess of written premiums, nor reimbursement of CAR by any of the Members until after the close of the third quarter of the calendar year, or at a later date if so determined by the Governing Committee.
2. The Governing Committee, subject to the approval of the Commissioner, may offer or allow a Servicing Carrier reimbursement in whole or in part for specific extraordinary expense incurred in qualifying for, continuing as, or ceasing to be, a Servicing Carrier. Such expense must be explained and supported in such detail as required by the Governing Committee, and must be in its judgment significantly in excess of the normal additional expense expected to be incurred by the Servicing Carrier, and must be actually incurred before reimbursement. The Servicing Carrier must petition the Governing

C. Settlement of Balances (continued)

Committee for such relief.

Commonwealth Automobile Reinsurers

Rules of Operation

3. The Governing Committee, subject to the approval of the Commissioner, may authorize reimbursement of Servicing Carriers for normal insurance business losses incurred in connection with CAR business. Such normal business losses shall be as defined and designated by the Governing Committee but shall not include any loss or expense incurred as a result of fraud or dishonesty on the part of a Servicing Carrier's claims personnel (including but not limited to independent adjusters and producers), and each Servicing Carrier shall hold CAR harmless from and reimburse it for any such loss or expense charged. The Servicing Carrier must petition the Governing Committee for such relief.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 12 – Credit Provisions

The credits provided under this Rule are offered to enhance the prospects for a viable voluntary market in all territories and classifications. To assure that this goal is accomplished, the credits shall be reviewed annually and any necessary adjustments shall be made.

Any credit adjustments made under this Rule shall not result in a Member's participation ratio being adjusted below zero.

A. Private Passenger Motor Vehicles – Policy Years 2005 and 2004

Each Member shall receive credit for voluntarily writing private passenger business within the territories and classifications that would otherwise be disproportionately represented in CAR. This credit is applied to the Member's participation units used to determine its share of CAR's underwriting results as provided for in Rule 11 – Assessments and Participation.

1. Policy Year 2005

For each company, determine an adjustment to be added to the otherwise calculated deficit share in 11.B.1 and 11.B.2 for retained credits. Credits are based on retained business from all sources (CAR Identification Codes 0 and 1). For liability and physical damage separately:

- (i) Estimate the industry weighted average percentage subsidy in the policy year premium ceded to CAR (CAR ID Codes (4) and (5)) based on the 2005 average premiums and subsidies underlying the Subsidy matrix. The weights shall be the 2005 policy year industry ceded exposures by territory/rate and statistical class combination as compiled by CAR. The portion of the total deficit attributable to subsidy is estimated as the policy year premium ceded to CAR (CAR ID Codes (4) and (5)) minus the {policy year ceded premium/(1.0 – average percentage subsidy)}.
- (ii) For each Member, estimate the weighted average percentage subsidy retained based on the 2005 average premiums and subsidy underlying the Subsidy matrix. The weights shall be the 2005 policy year Member retained exposures (CAR ID Codes (0) and (1)) by territory/rate and statistical class combination as compiled by CAR.

Commonwealth Automobile Reinsurers

Rules of Operation

- (iii) Calculate the net subsidy retained premium dollars for each Member by multiplying each Member's total 2005 policy year retained exposures (CAR ID Codes (0) and (1)) by the 2005 average retained premium and the average percentage subsidy based on the calculations in b. above.
- (iv) Compute each Member's share of the net subsidy retained premium dollars as a proportion of the total net subsidy retained premium dollars for Members.
- (v) Each Member's share of the deficit resulting from rate subsidies shall equal the share computed in d. above multiplied by the estimated subsidy underlying the current deficit computed in a. above.
- (vi) Each Member's share of the deficit resulting from rates subsidies as calculated in e. above shall be added to the Member's share of the remaining deficit as calculated in 11.B.1 and 11.B.2.

2. Policy Year 2004

a. Territorial Credits

For policy effective year 2004, for each unit of voluntary retained private passenger business written in the following territories, participation credits shall be given as shown below:

Commonwealth Automobile Reinsurers

Rules of Operation

2004 Territories	2004 Credits
11	.10
13	.30
14	.80
15	1.90
16	4.50
18	2.80
19	2.30
20	3.10
21	4.20
22	5.80
24	.10
25	.40
26	1.80

2. Policy Year 2004 (continued)

b. Classification Credits

For policy effective year 2004, for each unit of voluntary retained private passenger business written for the following rate and statistical classes, participation credits shall be given as shown below:

Commonwealth Automobile Reinsurers

Rules of Operation

Rate Class	Statistical Class	2004 Credits
10: Experienced Operator	20, 40: Young Male Occasional Operator	1.4
	22, 42: Young Male Principal Operator	6.3
	24, 26: Young Female Operator	1.6
17: Inexperienced Principal Operator 3-6 Years	10: Operator >= 25 Years	4.8
	22, 42: Young Male Principal Operator	5.8
18: Inexperienced Occasional Operator 3-6 Years	10: Operator >=25 Years	2.7
20: Inexperienced Principal Operator 0-3 Years No Driver Training	10: Operator >= 25 Years	9.0
	22: Young Male Principal Operator	9.0
	24: Young Female Operator	9.0
21: Inexperienced Occasional Operator 0-3 Years No Driver Training	10: Operator > = 25 Years	2.5
	20: Young Male Occasional Operator	9.0
	24: Young Female Operator	3.5
25: Inexperienced Principal Operator 0-3 Years Driver Training	10: Operator > = 25 Years	3.5
	15: Operator > = 65 years	7.8
	26: Young Female Operator	2.2
	42: Young Male Principal Operator	8.0
26: Inexperienced Occasional Operator 0-3 Years Driver Training	10: Operator > = 25 years	1.1
	40: Young Male Occasional Operator	2.2

Commonwealth Automobile Reinsurers

Rules of Operation

B. Policy Year 2006 & Subsequent

For policy years 2006 and subsequent, in order to assure access to the voluntary market for risks in subsidized driver classes and territories, a Subsidy Clearinghouse is created as the mechanism for equalizing market access.

The Subsidy Clearinghouse is the means by which negative and positive subsidy values will be applied in order to render a Member indifferent as to driver class and territory rate subsidies in its decision to write business voluntarily. The Subsidy Clearinghouse is based on a driver class/territory matrix of subsidy calculations based on the Commissioner's rate decision for a given policy year.

For the purposes of the operation of the Subsidy Clearinghouse, Subsidy is defined for a given policy year as the rate established for each rate/statistical class and territory combination in the subsidy matrix pursuant to the rate decision of the commissioner less the actual cost based rate for that cell as calculated by the Automobile Insurers of Massachusetts.

Beginning in policy year 2006, each Member will have a Subsidy Clearinghouse account, with sub-accounts for business retained that would otherwise have been ceded to CAR, and business retained that would otherwise have been assigned to the MAIP. For each under-priced risk written, the Member's account will be reflect a "negative dollar" Subsidy specific to the driver class and territory of the risk, separately for each sub-account. For each over-priced risk written, the Member's account will reflect a "positive dollar" Subsidy specific to the driver class and territory of the risk, separately for each sub-account.

Commonwealth Automobile Reinsurers

Rules of Operation

At the close of each accounting term, Members with a subsidy balance greater than zero in either sub-account will make a payment in that amount to the Subsidy Clearinghouse, and Members with a subsidy balance less than zero in either sub-account will receive a payment in that amount from the Subsidy Clearinghouse. Similarly, at the close of each accounting term, the total payments made by all Members to the Clearinghouse that are not otherwise due to other Members for business retained that is otherwise eligible for placement in the MAIP shall be applied as an adjustment to the overall CAR deficit. Off-balance factors will be applied, where applicable, to ensure that the sum of all Subsidy Clearinghouse sub-accounts for all Members will be equal to zero.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 13 – Servicing Carrier Requirements

A. Appointments

1. The Governing Committee shall appoint Servicing Carriers as authorized in the Plan and Rules of Operation. A Member may be excused from its Servicing Carrier responsibilities for Exclusive Representative Producer business if the Member executes an agreement with another entity for handling its share of private passenger and/or commercial motor vehicle Exclusive Representative Producer business. The agreement must be reviewed and approved by CAR. Nothing in this paragraph shall be construed to affect the rights of any Servicing Carrier to enter into any contractual agreement for the purpose of servicing the Servicing Carrier's voluntary or voluntary ceded business. Nothing in this paragraph shall be construed so as to relieve any Servicing Carrier of its share of the underwriting and/or administrative expenses neither of CAR nor of its responsibility to provide coverages as required by G.L. c.175 §113H, (A).

a. All member companies are required to be Servicing Carriers provided the company's reported written property damage liability exposures for private passenger motor vehicle insurance business and/or written premium for "all other" motor vehicle insurance business equals or exceeds thresholds as follows:

(1) For private passenger business, all companies with 5,000 or more reported written property damage liability exposures for the most recently completed policy year, will be required to become a private passenger Servicing Carrier effective January 1st of the next policy year following notification of eligibility status.

Effective January 1, 2005, for private passenger business, all companies with two percent or more of statewide reported written property damage liability exposures for the most recently completed policy year, will be required to become a private passenger Servicing Carrier effective January 1st of the next policy year following notification of eligibility status.

(2) For all other motor vehicle business, all companies with reported voluntarily produced "all other" written premium equal to or greater than 0.5% of the total market voluntarily produced "all other" written premium, will be required to become an "all other" motor vehicle

Commonwealth Automobile Reinsurers

Rules of Operation

Servicing Carrier effective January 1st of the next policy year following notification of eligibility status.

A. Appointments (continued)

- (3) A member company will only be required to become a Servicing Carrier for that pool in which it has met or exceeded the above stated thresholds.
 - (4) For purposes of determining eligibility, groups of companies under the same ownership and management will be treated as a single member company.
2. For private passenger business effective January 1, 2005 through December 31, 2007, High Loss Ratio Exclusive Representative Producers, as defined in Rule 2 – Definitions, shall be appointed to Servicing Carriers in accordance with Rule 13, C, 1, below. Each -
- Servicing Carrier shall jointly develop with each such Exclusive Representative Producer an Agency Management Plan to be filed with the Commissioner of Insurance, with a copy to CAR, no later than April 15, 2005 and each year thereafter by April 15. Such Agency Management Plan shall, at a minimum, reflect the requirements for Servicing Carriers and Exclusive Representative Producers as contained in Rule 10 – Claims, Rule 13 – Servicing Carrier Requirements, Rule 14 – Representative Producer and Exclusive Representative Producer Requirements and the High Loss Ratio Improvement Plan contained in CAR’s Manual of Administrative Procedures.
3. In order to assure the protection of the public interest, the Governing Committee in considering the appointment of a Member as a Servicing Carrier shall require the following:
- a. That the company has satisfied the Governing Committee that it, or another entity pursuant to a written agreement reviewed and approved by the Governing Committee or its designee, has the ability to, and it will effectively:
 - (1) Provide policy issuance and premium collection services for all eligible classes of risks, except for those classes of risks specifically exempted by the Commissioner upon the request of the applicant.
 - (2) Service insurance claims in every state, the District of Columbia and Canada.

Commonwealth Automobile Reinsurers

Rules of Operation

- (3) Administer a Direct Bill Program for Private Passenger risks and for All Other risks.
- A. Appointments (continued)
- (4) Provide an Installment Payment Plan which has been filed with and approved by the Commissioner. The Installment Payment Plan shall require no more than a 30% first or deposit payment on or before the policy effective date, and no less than seven monthly payments thereafter. A Servicing Carrier shall cooperate with its Exclusive Representative Producers to assure that policyholders are made aware of their option to utilize an Installment Payment Plan.
- (5) Maintain a Special Investigative Unit to investigate suspicious or questionable motor vehicle insurance claims for the purpose of eliminating fraud, and to verify garaging and policy facts on a representative sample of policies.
- (6) Report all required information to CAR in an accurate and timely manner.
- (7) Adopt and maintain a plan approved by the Commissioner of Insurance providing for direct payment by the insurer to the insured under collision, limited collision, comprehensive, and fire and theft coverages.
- (8) This requirement shall only apply to those Servicing Carriers whose average market share for the three years preceding equals or exceeds one percent of the total private passenger market.

B. Servicing Carrier Responsibilities

No domestic insurance company shall be denied participation as a Servicing Carrier based solely upon its share of the Massachusetts motor vehicle insurance market.

If a Servicing Carrier has contracted with a third party for performing any of its Servicing Carrier's responsibilities, the Servicing Carrier guarantees said performance by such third party.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Servicing Carrier Responsibilities (continued)

1. Servicing Carriers must provide quality service to CAR policyholders by maintaining the standards established as a condition of appointment under Section A, 3, of this Rule. Policies and other forms mailed to policyholders shall be the same as those used for non-Servicing Carrier motor vehicle business. Servicing Carriers shall provide the same level and type of service to policies issued through CAR, as they provide to policies issued voluntarily.

2. For Private Passenger Motor Vehicles

No group or members of a group under the same management or ownership or both may charge rates on business subject to the provisions of G.L. c.175 §113B, different from those fixed and established under such section or provide different levels of service through a member of the group that is not a Servicing Carrier than is provided to policyholders insured by a Servicing Carrier member of the group.

3. General Duties

The Servicing Carrier shall perform the following general duties:

a. Provide a contract signed by an authorized company representative with terms consistent with these Rules to a qualified newly assigned or reassigned ERP within 15 business days of the Servicing Carrier's receipt of the assignment by CAR. If the Servicing Carrier determines that the assigned or reassigned ERP is not duly qualified, the Servicing Carrier will notify CAR within 2 business days of that determination.

Within 90 days of the approval of these rules, each Servicing Carrier shall provide an Agency Management Plan to each ERP that identifies best practices for achieving compliance with the CAR Rules and ensuring reasonable loss ratios. The Agency Management Plan is to be developed jointly with the ERP and may include, as appropriate, practices identified in the High Loss Ratio Improvement Plan in the CAR MAP. The President of CAR must certify in writing to the Commissioner within one week after the 90-day period that Servicing Carriers have met their obligations under this section.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Servicing Carrier Responsibilities (continued)

- b. Accomplish confirmation of operator driving licenses and records in order to effectively administer the Safe Driver Insurance Plan.
- c. Verify that representations contained in the application for insurance are accurate as to classification, garaging, discounts, credits, vehicle use, vehicle description and experience for those risks eligible to be experience rated.
- d. Assure that a policy has been issued for each RMV-1 and/or RMV-3 certificate and that the policy effective date and the certification date are the same.
- e. Adopt procedures designed to assure that all assigned Exclusive Representative Producers comply with all provisions of the contract between the Servicing Carrier and the producer.
- f. Implement procedures to assure collection of premiums billed.
- g. Comply with the terms and conditions of premium finance notes and/or agreements submitted to the Servicing Carrier, on behalf of applicants for insurance, by the producer or by a premium finance company licensed under the laws of the Commonwealth of Massachusetts.
- h. Termination

Servicing Carriers shall be entitled to immediately terminate an Exclusive Representative Producer's contract to bind coverage on behalf of the Servicing Carrier when any of the conditions listed below exist or upon failure of the Exclusive Representative Producer to meet the requirements/definition of Exclusive Representative Producer as defined in Rule 2 of the Rules of Operation.

Those conditions deemed to be cause for immediate termination of an Exclusive Representative Producer contract and authority to bind coverage shall include:

- (1) Failure to maintain a valid producer's license as issued by the Division of Insurance.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Servicing Carrier Responsibilities (continued)

- (2) Willful misappropriation of premium due a Servicing Carrier in accordance with the provisions of CAR Rules of Operation.
- (3) The entry of a finding, by a court of competent jurisdiction, that the producer has engaged in fraudulent activity in connection with the business of motor vehicle insurance.

The following conditions shall be cause for a Servicing Carrier to terminate an Exclusive Representative Producer's authority to bind coverage on behalf of a Servicing Carrier with said Exclusive Representative Producer being entitled to a thirty day written notice of termination:

Those conditions deemed to be cause for termination of an Exclusive Representative Producer's authority to bind coverage on behalf of a Servicing Carrier under the provisions of this section shall be:

- (1) Failure to remit payments to a Servicing Carrier on a timely basis in accordance with CAR's Rules of Operation.
- (2) Failure to notify the Servicing Carrier of any suspected fraud in the application for insurance or in the underwriting or rating process or in the payment of premium obligations or surrounding a loss.
- (3) Failure to assist the Servicing Carrier during any audit or investigation.
- (4) Violations of the conditions set forth in the Servicing Carrier contract.
- (5) Failure to report all coverages bound within two working days of the effective date of coverage.
- (6) Failure to comply with reasonable procedures as supplied by the Servicing Carrier for processing claims, remitting premiums, and requesting coverages.

B. Servicing Carrier Responsibilities (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

- (7) Failure to adhere to a directive issued by the Commissioner relative to the charging of Service Fees.
- (8) Failure to provide a reasonable and good faith effort to verify the information provided by the applicant, including rating and licensing data.
- (9) Failure to comply with applicable producer requirements and procedures, as prescribed in the CAR Rules of Operation.
- (10) Failure to comply with the requirements of the Agency Management Plan, including the High Loss Ratio Improvement Plan as referenced in A, 2 above.
- (11) Failure to refrain from brokering private passenger business, as defined in Rule 14, B, 2, s.

All Exclusive Representative Producer terminations issued by a Servicing Carrier, both immediate and thirty (30) day terminations, shall:

- (1) Be in writing.
- (2) State the specific CAR Rule provision(s) that constitute the basis for the termination.
- (3) Include a copy of the CAR Request for Review form, and a copy of the section of Rule 13 entitled "Termination", to advise the ERP of their right to request a review of the termination by CAR.
- (4) Be hand delivered or mailed by a method that provides proof of mail to the ERP's principal place of business, with a copy of the termination notice sent to CAR concurrently.

B. Servicing Carrier Responsibilities (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

- (5) Define changes in operational procedures, if any, that the Servicing Carrier intends to implement concurrent with the ERP's termination effective date.

It shall be the responsibility of each Member of CAR to so notify CAR of any change in the status of any of its producers so that this information may be communicated to the remaining Servicing Carriers. It shall also be the responsibility of each Member to so notify CAR of any Exclusive Representative Producer which defaults on premium payments.

Any Exclusive Representative Producer terminated pursuant to this Rule may request that the termination be reviewed by CAR pursuant to the provisions of Rule 20. A complete "Request For Review" form must be received by CAR within thirty (30) calendar days of the delivery of the termination notice, with a copy of this Rule and a copy of the "Request For Review" form, to the ERP's principal place of business. A review by the Market Review Committee of CAR will be held within fifteen (15) business days of the date of CAR's receipt of the completed "Request For Review" form.

If the termination is upheld by the Market Review Committee, the terminating Servicing Carrier may commence issuance of non-renewal notices as of the date of the Committee's decision, unless the ERP requests, and is granted, a stay of non-renewal notifications. The request for a stay must be made before the adjournment of the Market Review Committee meeting at which the termination has been sustained. The request for stay must be made in conjunction with the ERP's stated intent to have the Committee's action reviewed by the Governing Committee Review Panel, pursuant to Rule 20. The Market Review Committee has the discretion to grant such a stay only if it deems such action is appropriate.

At the time a termination notice is issued, the Servicing Carrier will continue to service the ERP's in-force business, until all of the policies have been legally cancelled or non-renewed. Such service will include additions, deletions and changes of vehicles and coverages on in-force policies. The Servicing Carrier may define changes in operational procedures, as are necessary to effectively service the in-force policies. If the changes in procedures are to be implemented as of the termination effective date, the Servicing Carrier will provide written

B. Servicing Carrier Responsibilities (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

explanations of those procedures at the time of the notice of termination. The ERP may request a review of any such changes in the Servicing Carrier's operational procedures.

- i. Report immediately to CAR and the Division of Insurance any termination of an Exclusive Representative Producer's contract and initiate procedures in a timely manner, including litigation if necessary, to administer a controlled run off of the business from an Exclusive Representative Producer whose agreement has been terminated.
- j. Maintain effective communication with Exclusive Representative Producers by scheduling meetings when necessary and conducting whatever educational/training sessions as may be required to assure that Exclusive Representative Producers provide quality service to the motoring public.
- k. Verify, prior to contracting and on an ongoing basis, producer eligibility for assignment to a Servicing Carrier as required by G.L. c.175 §113H.
- l. Provide Exclusive Representative Producers with all information and procedures required for them to effectively service policies issued through CAR.
- m. Comply with all of the provisions of the Rules of Operation and Manual of Administrative Procedures.
- n. Maintain records of infractions of the Rules of Operation of CAR by Exclusive Representative Producers and report such infractions as appropriate and necessary.
- o. Provide Exclusive Representative Producers with necessary information from the policy declaration page, to support their servicing of their insureds, in an appropriate and usable format and medium.
- p. Provide producers with a list of approved inspection services for conducting pre-inspections.

B. Servicing Carrier Responsibilities (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

4. Reporting Requirements

All eligible coverages written by a Servicing Carrier must be reported to CAR in accordance with the following provisions:

- a. New Business - Servicing Carriers must provide CAR written or electronic notice of eligible coverages bound within twenty-three calendar days of the effective date of the policy, otherwise CAR's obligation for reimbursement of losses shall become effective on the date CAR receives proper written or electronic notification of the eligible coverages bound.
- b. Renewals - Servicing Carriers must provide CAR a written or electronic notice of eligible coverages bound prior to the effective renewal date of the policy, otherwise CAR's obligation for reimbursement of losses shall become effective on the date CAR receives proper written or electronic notification of the eligible coverages bound.
- c. A Servicing Carrier may elect to cede 100% of the new business of an ERP. This option can be selected for only private passenger new business, for only All Other new business, or for all new business from the ERP. If this option is selected, the Servicing Carrier must cede all eligible new business produced by the ERP, and CAR's obligation for reimbursement for losses will commence as of the new business policy's effective date, regardless of the date that the cession notice is received by CAR.

When an ERP is newly assigned to a Servicing Carrier by CAR, the Servicing Carrier may have the 100% cede option apply as of the contracting date provided that CAR is notified in writing by the Servicing Carrier of their intentions within thirty (30) calendar days of the Servicing Carrier's receipt of the assignment. After the initial thirty-(30) calendar day period, all elections by a Servicing Carrier to cede 100% of an ERP's new business must apply as of the first day of a month, which date must be no less than thirty (30) calendar days later than the date that the notification is received by CAR. Servicing Carriers may change elections, with the same notification lead times to CAR applying.

B. Servicing Carrier Responsibilities (continued)

Absent specific notice to CAR of the intention to cede 100% of an ERP's new business, all new business produced by an ERP will be ceded in accordance with

Commonwealth Automobile Reinsurers

Rules of Operation

4, a. above. Regardless of the Servicing Carrier's new business 100% cede election for a particular ERP, all renewal business from the ERP will be ceded in accordance with 4, b. above.

- d. Servicing Carriers must report on a monthly basis their premiums written, paid losses, allowable expenses and any other information which may be required by the Plan, Rules or Manual of Administrative Procedures.
- e. If a Servicing Carrier elects to cede a policy, all coverages written on that policy which are eligible coverages under Rule 6 must be reported, as ceded, to CAR, by the Servicing Carrier.

5. Continuation of Eligibility as a Servicing Carrier

A Servicing Carrier must maintain a viable book of voluntarily written motor vehicle policies. The Commissioner may terminate any Servicing Carrier if he finds that disruptive reductions in voluntarily issued motor vehicle policies are in violation of this section.

6. Inducements

No Servicing Carrier shall offer any inducement, monetary or otherwise, to the ERP of another Servicing Carrier to incent that ERP to accept business from, or to purchase, that Servicing Carrier's ERP or a part of that ERP's book of business. CAR will not recognize any ERP sale, unless the purchasing ERP and the Servicing Carrier of the selling ERP submit affidavits that such inducements or incentives are not part of the transaction.

7. Penalties

If CAR determines that either a Servicing Carrier or a Non-Servicing Carrier Member of CAR is found to have provided a direct incentive for either an ERP or a voluntary producer to engage in brokering activity prohibited by Rule 14.B.2.s., CAR shall assess a penalty on such Servicing Carrier or Non-Servicing Carrier for all exposures or premium

C. ERP Subscription

identified as being so brokered. The assessment shall be \$2,000 per exposure for private passenger motor vehicles for each of the calendar years in which the business was brokered, with a minimum penalty of \$25,000.

Commonwealth Automobile Reinsurers

Rules of Operation

1. High Loss Ratio Exclusive Representative Producers - Private Passenger

- a. An equitable distribution of High Loss Ratio Exclusive Representative Producers will be made to Servicing Carriers based upon the Servicing Carrier's voluntarily produced and direct written market share based on the twelve months ending June 30, 2004, and using processes to ensure that the distribution equitably reflects the differences in loss ratio among HLR ERPs, and maximizes the number of HLR ERPs assigned to their existing carriers.
- b. The identification of High Loss Ratio Exclusive Representative Producers will be reviewed annually with High Loss Ratio Exclusive Representative Producers removed as may be necessary.
 - c. Following the redistribution of HLRERPs, the exposures referenced in C, 2, 3 and 4 below, do not include those from HLR ERPs or any exposure from ERPs whose 2001-2003 calendar/accident year loss ratio as of March 31, 2004 was 60% or less.
 - d. After redistribution of HLRERPs, carriers with subscription levels of non-HLRERP exposures in excess of 110% of their ought-to-have share will have thirty (30) days to request relief, and shall be provided with a one-time random redistribution in order to reduce their share to 100% within a 5% tolerance.

For the purposes this section, redistribution will be based on each Servicing Carrier's voluntarily produced market share relative to the ERP exposures that remain after excluding both the HLR ERP exposures and exposures from ERPs whose three year loss ratio is 60% or less ("Remaining ERPs). The redistribution shall also use processes to ensure that the distribution equitably reflects the differences among non HLR ERPs with three year loss ratios in excess of 60%, and maximizes the number of such ERPs that are assigned to their existing carriers. Further, redistribution will be effected only for Servicing

C. ERP Subscription (continued)

Carriers whose subscription level of non-HLR ERPs with three year loss ratios in excess of 60% exceeds 110% of their ought-to-have share calculated using

Commonwealth Automobile Reinsurers

Rules of Operation

voluntarily produced market share for the twelve-month period ending June 30, 2004.

2. Subscription Share (Ought to Have) and Methodology – Private Passenger
 - a. Servicing Carriers will be assigned Exclusive Representative Producers (ERPs) remaining in the ERP pool after redistribution of HLR ERPs and exclusion of ERPs with three-year loss ratios of 60 percent or less. Assignment will be based in part upon the Servicing Carrier's voluntarily produced market share for the 12 month period ending June 30, 2004. The Servicing Carrier's "ought to have" share of Remaining ERP exposures will be equal to the Servicing Carrier's percentage of the voluntarily produced market share for the 12 month period ending June 30, 2004 multiplied by the sum of all Servicing Carriers' Remaining ERP exposures.
 - b. A Servicing Carrier's "over or under subscription" position will be determined by comparing its actual number of Remaining ERP exposures to its "ought to have" number of Remaining ERP exposures and expressing the result as a percentage of the "ought to have" number of Remaining ERP exposures.
 - c. A Servicing Carrier's over/under subscription level is arrived at by subtracting its own number of Remaining ERP exposures from its "ought to have" number of Remaining ERP exposures as defined above.
2. Subscription Relief – Private Passenger
 - a. CAR will confirm the petitioner's eligibility for relief and present the petition to the Governing Committee for approval within sixty (60) days of CAR's receipt of petition.
 - b. Upon Governing Committee approval, CAR will notify the industry of the implementation of relief action and make available to the industry loss ratio data for each of the petitioning Servicing Carrier's ERPs. Undersubscribed Servicing Carriers will then have a ninety (90) day period during which they can enter into

Commonwealth Automobile Reinsurers

Rules of Operation

C. ERP Subscription (continued)

two-party agreements with the petitioner's ERP's in order to satisfy their own subscription requirements.

- c. At the end of the ninety (90) day period, if the petitioner remains oversubscribed by more than 10%, CAR will randomly reassign ERPs to the most undersubscribed Servicing Carrier(s) as identified pursuant to the above methodology. If an ERP individually represents more than 110% of the petitioning Servicing Carrier's "ought to have" share, that ERP will not be eligible for the random reassignment of its entire book of business. CAR will recalculate subscription levels for all Servicing Carriers after the reassignment of each individual ERP until the petitioning Servicing Carrier's subscription level is down to 110% or less of its "ought to have" number of ERP exposures.
- d. If after all of the other remaining ERPs have been reassigned, subscription relief cannot be completed because of the need to reassign a relatively large ERP that produces more than 110% of the Servicing Carrier's "ought to have" share, further relief to 110% or less of the petitioner's "ought to have" share will be granted by reassigning exposures to the most undersubscribed Servicing Carrier by utilizing the garaging towns represented in that ERP's book of business. The supplementary relief process will include the following.
 - (1) CAR will notify the industry of the implementation of multiple Servicing Carrier relief action, and will make available loss ratio data for each of the garaging towns serviced by the ERP. Undersubscribed Servicing Carriers will then have a ninety (90) day period during which they can enter into two-party agreements with the ERP for its individual garaging towns, in order to satisfy their own subscription requirements. The two-party process will be in accordance with that described in Section 3.c. of this Rule, substituting garaging town for ERP agency.

Commonwealth Automobile Reinsurers

Rules of Operation

- (2) At the end of the ninety (90) day period, if the petitioner remains oversubscribed at a level greater than 110% of its “ought to have” share, CAR will randomly reassign the garaging towns of the ERP to the most undersubscribed Servicing Carrier. The reassignment process will be in accordance with Section C, 3. d. of this Rule, substituting garaging town

C. ERP Subscription (continued)

in place of an entire ERP as the unit of assignment. CAR will recalculate subscription levels for all Servicing Carriers after the reassignment of each individual garaging town, until the petitioning Servicing Carrier’s subscription level is reduced to 110% of its “ought to have” number of ERP exposures.

- (3) The individual garaging towns reassigned to a Servicing Carrier through the multiple Servicing Carrier relief process in accordance with Section C, 3.e. of this Rule will function as an independent ERP assignment on a going forward basis.

- (4) Each Servicing Carrier writing business through a multiple Servicing Carrier ERP is required to monitor the process by ensuring that the policies it writes are only from the garaging town(s) it has been assigned.

- e. ERPs or individual garaging towns so reassigned by CAR will be reimbursed by the petitioning Servicing Carrier at a rate of \$15 per exposure based on a “pre-count” of exposures determined through statistical reportings and provided by CAR.

Commonwealth Automobile Reinsurers

Rules of Operation

- f. If an ERP or individual garaging town was assigned or reassigned within the previous thirty-six (36) months, that ERP or individual garaging town will not be randomly reassigned, and another random selection shall be made from the oversubscribed Servicing Carrier's remaining ERPs unless this provision precludes an oversubscribed Servicing Carrier from obtaining subscription relief, in which instance an ERP or individual garaging town may be reassigned notwithstanding having been assigned or reassigned within the previous thirty-six (36) months.

4. Relief and Ongoing Subscription Modifications – Private Passenger

- a. Two-party agreements with an ERP of a Servicing Carrier which has less than 110% of its "ought to have" exposures will not be permitted. Subsequent to the redistribution of HLRERPs as defined in C, 1. above, two-party agreements between an ERP and a Servicing Carrier will not be permitted. Three-party

C. ERP Subscription (continued)

agreements providing for an ERP to go from an oversubscribed Servicing Carrier to an undersubscribed Servicing Carrier are permitted.

- b. If an ERP is assigned to multiple Servicing Carriers in accordance with Section 3. e. of this Rule, two-party agreements providing for individual garaging towns to go from a Servicing Carrier which has 110% or more of its "ought to have" exposures to an undersubscribed Servicing Carrier will be permitted. Three-party agreements providing for individual garaging towns to go from a Servicing Carrier which has 100% or more of its "ought to have" exposures to an undersubscribed Servicing Carrier will be permitted.

- c. If an ERP receives a voluntary contract from a Servicing Carrier and is subsequently terminated within twenty-four (24) months of the contract date, the canceling Servicing Carrier's and industry's exposure totals will continue to include the agency's number of exposures, in force as of the cancellation date, as "produced by a voluntarily contracted producer" for a period of thirty-six (36) months. In addition, actual exposures written will be counted as ERP exposures for the newly assigned ERP Servicing Carrier.

5. Subscription Methodology – Commercial

Commonwealth Automobile Reinsurers

Rules of Operation

- a. A Servicing Carrier's "ought to have" ERP subscription level will be based upon their voluntarily written (non-ERP) market share. Further defined, a Servicing Carrier's "ought to have" volume of ERP written premium will be equal to a Servicing Carrier's actual percentage of the total Servicing Carrier non-ERP market, multiplied by the sum of all Servicing Carrier's ERP written premium.
 - b. A Servicing Carrier's over/under subscription level is arrived at by subtracting its own volume of ERP written premium from its "ought to have" volume of ERP written premium as defined above.
 - c. Subscription order will be based on each Servicing Carrier's variance from its "ought to have" ERP written premium dollars.
 - d. Two-party agreements with an ERP of a Servicing Carrier which has less than 100% of its "ought to have" written premium will not be permitted. Three-party
- C. ERP Subscription (continued)
- agreements providing for an ERP to go from its present Servicing Carrier to a less subscribed Servicing Carrier are permitted.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 14 – Representative Producer and Exclusive Representative Producer Requirements

A. Appointments

1. Representative Producer Appointments

Producers who have a voluntary producer agreement with any Member Company appointed as a Servicing Carrier in accordance with these Rules shall be assigned to represent those Servicing Carriers, as Representative Producers, as defined in Rule 2, for new and renewal private passenger or all other motor vehicle business or both, consistent with such voluntary producer agreement. Such Carriers shall service such Representative Producers under substantially the same contractual terms and conditions governing their normal producer relationship.

2. Exclusive Representative Producer Appointments

a. New Appointments

Any licensed producer who does not have a voluntary producer agreement for private passenger and all other motor vehicle business with any Member Companies appointed as Servicing Carriers in accordance with these Rules may apply for an appointment to represent a Servicing Carrier, as an Exclusive Representative Producer, as defined in Rule 2 for new and renewal business for that business for which a voluntary agreement does not exist. The producer shall be subject to the provisions of the Eligibility Requirements (Rule 14, A, 2, (e)). If CAR determines the applicant has satisfied these eligibility criteria the applicant will be appointed to a Servicing Carrier as an Exclusive Representative Producer. Such Carriers shall service such Exclusive Representative Producers under substantially the same contractual terms and conditions governing their normal producer relationship.

An applicant for an ERP appointment who is applying because of the involuntary cancellation of a voluntary contract with an insurer shall, insofar as possible, be assigned to the insurer which last cancelled the voluntary contract for placing private passenger automobile insurance.

Newly qualified producers, with offices in market need areas as defined in Rule 2, who receive ERP appointments shall be assigned to Servicing Carriers whose

Commonwealth Automobile Reinsurers

Rules of Operation

total market share in that market need area is below their total market share statewide.

A. Appointments (continued)

In the case of an applicant who is applying as a consequence of a voluntary producer agreement being terminated because the applicant (1) intentionally withdraws from a voluntary agreement to write motor vehicle insurance business on behalf of a Servicing Carrier, or (2) requests cancellation of a voluntary agreement for motor vehicle insurance business, or (3) engages in conduct which CAR concludes by its nature raises such issues as to the ethical or professional standards of the producer that would reasonably cause the voluntary Servicing Carrier to terminate its voluntary agreement, and the voluntary Servicing Carrier as a result of that conduct does so terminate the agreement with the producer, such producer is ineligible for appointment to a Servicing Carrier as an Exclusive Representative Producer.

b. Affiliated Producers

If an applicant for an appointment to represent a Servicing Carrier as an Exclusive Representative Producer, or a producer holding an involuntary (Exclusive Representative Producer) appointment, for either private passenger or "all other" motor vehicle business is found to have a direct or indirect material and continuing proprietary or management interest in another agency or brokerage firm which has a voluntary (Representative Producer) or involuntary (Exclusive Representative Producer) appointment to a Servicing Carrier for the same type of business or vice versa, the producer is presumed to be an affiliate of the other agency or brokerage firm and is ineligible for appointment, or for the continuation of an appointment, to a Servicing Carrier as an Exclusive Representative Producer for that type of business insofar as there exists a Servicing Carrier market through the affiliated agency.

An Exclusive Representative Producer that CAR determines has an affiliated voluntary relationship, as described in the preceding paragraph, which existed prior to January 1, 1991, may continue in that status only for so long as such voluntary relationship with the Servicing Carrier(s) is maintained. Business written through the Exclusive Representative Producer will be assigned the same CAR ID Codes as that written through the affiliated agency and the Servicing Carrier will not be entitled to additional fees as provided in Rule 17, or to the option provided by Rule 13, B, 4, d, regarding cession backdate.

Commonwealth Automobile Reinsurers

Rules of Operation

A. Appointments (continued)

Any applicant aggrieved by staff's determination of its affiliated status may appeal to the Governing Committee and may present evidence to refute that determination. If the applicant is successful in refuting that determination, it will be appointed to a Servicing Carrier under the same terms and conditions as an Exclusive Representative Producer.

c. Voluntary Contracting

- (1) A producer which has an Exclusive Representative Producer appointment to a Servicing Carrier and which obtains a voluntary contract with another Servicing Carrier or non-Servicing Carrier will retain the involuntary assignment for new and renewal business, for thirty (30) days from the date on which the voluntary contract is effective.
- (2) An existing Servicing Carrier who makes a voluntary contract offer to their own ERP will, with thirty (30) days notice, have the option to decline new and renewal business when the ERP enters in to a voluntary contract with a second Servicing Carrier.

d. Sale of Exclusive Representative Producer Business

If a producer which has an Exclusive Representative Producer appointment to a Servicing Carrier sells its stock or its book of business to a producer which does not have a motor vehicle insurance relationship with a Servicing Carrier, such appointment will inure to the purchaser subject to the eligibility requirements and production and market need criteria of this Rule, notwithstanding the location of the seller's place of business. If the Exclusive Representative Producer appointment was in a probationary status, as respects the above requirements or criteria, that status will carry over to the purchaser of this business.

If the sale does not result in the continuation of the appointment to the sellers' Servicing Carrier, then that Servicing Carrier shall enter an agreement with the purchaser whereby all risks written by the Servicing Carrier on behalf of the seller, for policies with an effective date as of 90 days subsequent to the date of

A. Appointments (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

the sale for renewal business and as of the date of sale for new business, will be fully serviced through the purchaser until the policy expiration date of each risk, as noted on the declaration page of each policy in force as of these respective dates.

Servicing shall include, but not be limited to, change of existing vehicles, adding insureds, adding named operators onto the existing policy, endorsing coverage limits, providing all notices required by law, claims processing and premium collection. All other obligations of both Servicing Carrier and producer as set forth pursuant to the Plan and Rules of Operation shall remain in force during the term of this agreement.

e. Eligibility Requirements

Prior to any action being taken on an application for an Exclusive Representative Producer appointment, the producer must satisfy the Governing Committee that he or she:

- (1) has completed a course of study, approved by the Commissioner of Insurance, which concentrates on the Massachusetts motor vehicle insurance system;
- (2) has attained a passing grade on a written examination based on material covered in the approved course;
- (3) has within the preceding twelve (12) month period worked for a minimum of six (6) months with a producer licensed by the Division of Insurance, or with a Massachusetts automobile insurer, during which time the applicant's efforts were primarily devoted to the Massachusetts motor vehicle insurance market; and
- (4) will be addressing a market need as determined by criteria to be established by the Governing Committee of CAR.
- (5) Having satisfied the preceding criteria the applicant must conclusively show that he or she:
 - (a) is applying in good faith;

Commonwealth Automobile Reinsurers

Rules of Operation

- (b) will operate from an established location in Massachusetts, except licensed nonresident producers if licensed pursuant to Massachusetts General Laws;
- (c) will maintain regular business hours;
- (d) has not been convicted of a crime related to his occupation as an insurance producer;
- (e) has not had his/her producer's license to engage as an insurance producer revoked/suspended;
- (f) has not been involved in a material and substantial breach of a contract between a Servicing Carrier and a producer;
- (g) is not in default in remittance of any motor vehicle premiums due a Member company;
- (h) agrees to comply with the provisions of the Plan of Operation, the Rules of Operation, the Manual of Administrative Procedures, the contract between the Exclusive Representative Producer and the Servicing Carrier, and the applicable regulations of the Division of Insurance;
- (i) agrees to notify CAR and the Servicing Carrier of an agreement to sell the agency fifteen (15) days in advance of the proposed closing of any such sale and further agrees to obtain a certification from the Servicing Carrier, which shall be provided to CAR, that the agency does not owe to the Servicing Carrier any past due premium based upon the latest available statement;
- (j) has not been declined an Exclusive Representative Producer assignment within the preceding sixty (60) days, said declination not having been reversed by the Governing Committee, the Division of Insurance or a court of competent jurisdiction.

Commonwealth Automobile Reinsurers

Rules of Operation

- (k) has not had an Exclusive Representative Producer assignment rescinded or cancelled by a Servicing Carrier as provided in Rule 14, G, or been terminated as an Exclusive Representative Producer for failure to meet minimum production criteria or market need criteria as provided in Rules 14, C and D within the preceding twenty-four (24) months, said rescission or cancellation not having been reversed by the Governing Committee, the Division of Insurance or a court of competent jurisdiction.

B. Ongoing Exclusive Representative Producer Requirements

1. A High Loss Ratio Exclusive Representative Producers as defined in Rule 2 – Definitions, shall jointly develop with its Servicing Carrier an Agency Management Plan to be filed with the Commissioner of Insurance, with a copy to CAR, that shall, at a minimum, reflect the requirements for Servicing Carriers and Exclusive Representative Producers as contained in Rule 10 – Claims, Rule 13 – Servicing Carrier Requirements, Rule 14 – Representative Producer and Exclusive Representative Producer Requirements and the High Loss Ratio Improvement Plan as contained in CAR’s Manual of Administrative Procedures.
2. It will be the ongoing responsibility of a producer which has an Exclusive Representative Producer appointment to a Servicing Carrier to fulfill the following requirements as well as the eligibility criteria in Rule 14, A, 2, e. Failure to do so will be grounds for termination of said appointment.
 - a. Require of all new applicants for insurance that they complete in its entirety a new business application for insurance;
 - b. Report all coverages bound and all registrations/titles certified to the Servicing Carrier within two working days after binding coverage or certifying a registration;
 - c. Verify that the applicant has not been in default in the payment of any motor vehicle insurance premiums in the past twelve (12) months;

B. Ongoing Exclusive Representative Producer Requirements (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

- d. Comply with the reasonable written procedures supplied by the Servicing Carrier for processing claims;
- e. Forward to the insured within thirty (30) days of receipt from the Servicing Carrier, all policies and endorsements if not mailed directly by the Servicing Carrier to the policyholder;
- f. Remit payments on a timely basis in accordance with the provisions set forth in the contract between the Servicing Carrier and the Exclusive Representative Producer, however, a Servicing Carrier shall extend the payment period for an additional seven days upon sufficient notice that all or part of a premium is being financed by a licensed premium finance company where the premium finance company has given its written assurance to pay the full premium financed to the Servicing Carrier directly. This provision shall not obligate a Servicing Carrier to provide such additional time if notwithstanding any written assurances the premium finance company has failed to perform its commitment previously;
- g. Notify the Servicing Carrier of any suspected fraud surrounding a loss;
- h. Cooperate with the Servicing Carrier and CAR personnel during all audits and investigations;
- i. Properly order endorsements;
- j. Order only those coverages from the Servicing Carrier requested by the insured, for which he may be eligible;
- k. Quote proper premiums based on information provided by the applicants for the coverage desired;
- l. Conduct all monetary transactions with the insured and the Servicing Carrier as required by the Rules of Operation and the Exclusive Representative Producer contract;

B. Ongoing Exclusive Representative Producer Requirements (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

- m. Advise the premium finance company and/or the insured that checks for premiums for all financed accounts are to be made payable to the Servicing Carrier;
- n. Retain the necessary documentation of Servicing Carrier transactions in accordance with the Manual of Administrative Procedures;
- o. Notify the applicant for insurance that he has the option of utilizing an Installment Payment Plan;
- p. Comply with the Automobile Insurance Bureau Form 2-A Procedures relative to the use of the Notice of Transfer of Insurer form.
- q. Develop and maintain a book of business as required in paragraphs C and D.
- r. Comply with the Agency Management Plan, jointly developed by the ERP and its Servicing Carrier. Such Agency Management Plan may include, as appropriate, practices identified in the High Loss Ratio Improvement Plan in the CAR Manual of Administrative Procedures.
- s. Refrain from brokering private passenger business. Brokering, for the purposes of this Rule, shall mean the placing of private passenger motor vehicle insurance risks with a carrier on behalf of, or at the request of, another producer which has an appointment with a Servicing Carrier or non-Servicing Carrier of CAR for binding private passenger motor vehicle insurance risks, where the producer placing the risk pays to the other producer some form of compensation including, but not limited to, money, barter, services, or expense reductions or where the originating broker retains control or ownership rights of the motor vehicle risk.

Exclusive Representative Producers may engage in brokering risks pursuant to a brokerage agreement approved by their Servicing Carrier for the sole purpose of providing access by the ERP to its Servicing Carrier's private passenger automobile group marketing program(s). Such business shall be coded and statistically reported to CAR as emanating from the originating producer. If an

B. Ongoing Exclusive Representative Producer Requirements (continued)

ERP engages in brokering prohibited under this section, its Servicing Carrier shall issue a thirty-day notice of termination of the ERP's appointment.

Commonwealth Automobile Reinsurers

Rules of Operation

- C. Exclusive Representative Producer Responsibilities – Garaging Town Servicing Carrier Assignments
1. An Exclusive Representative Producer that has an appointment to more than one Servicing Carrier, as a result of the multiple Servicing Carrier relief process outlined in Rule 13, C, 3, e, will place new and renewal business with the appropriate Servicing Carrier, based on the garaging town of the vehicle(s) on each policy, as follows:
 - a. Stamps, necessary forms and a list of Servicing Carrier garaging town assignments will be maintained in each office location for each Servicing Carrier to which the ERP has been appointed;
 - b. New and renewal business will be placed with the Servicing Carrier based upon the garaging town of the vehicle(s) on each policy;
 - c. For policies insuring multiple vehicles with different garaging towns, the entire policy will be assigned to the appropriate Servicing Carrier based on the garaging town of the first vehicle listed on the policy;
 - d. Policies placed with the incorrect Servicing Carrier will be rewritten immediately and placed with the correct Servicing Carrier retroactive to the original policy effective date;
 - e. For garaging towns that are reassigned to a new Servicing Carrier, the policies will be rewritten with that Servicing Carrier on the policy's next renewal effective date;
 - f. If the policyholder moves to a garaging town that is assigned to a different Servicing Carrier, the policy will be placed with the new Servicing Carrier upon renewal. However, in the case where the policy holder moves within sixty (60) days prior to the scheduled renewal effective date, the policy may be placed with the new Servicing Carrier on the next year's policy renewal date;
- C. Exclusive Representative Producer Responsibilities – Garaging Town Servicing Carrier Assignments (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

- g. If a new book of business or new office location is acquired, that business will be placed with the appropriate Servicing Carrier based on the garaging town of the vehicle(s) on each policy, upon the policy's next renewal effective date.

D. Production Criteria

1. All Exclusive Representative Producers whose applications were submitted and who were appointed on or after January 1, 1992, shall be reviewed annually on the anniversary of each Exclusive Representative Producer's contract date. Those Exclusive Representative Producers who within the first twelve (12) months after their contract date fail to develop a book of business of at least 100 motor vehicles, those Exclusive Representative Producers who within twenty-four (24) months following their contract date fail to develop a book of business of at least 250 motor vehicles, those Exclusive Representative Producers who within thirty-six (36) months following their contract date fail to develop a book of business of at least 400 motor vehicles, and those who subsequently fail to maintain a book of business of at least 400 motor vehicles as of their annual evaluation date, will be terminated, unless the Governing Committee or its designee determines particular circumstances that merit a continuation of the assignment. The Servicing Carrier shall be responsible for providing a copy of the evaluation to the Exclusive Representative Producer and to CAR within fifteen (15) days of the evaluation date. The effective date of termination shall be one year after the evaluation date on which the Exclusive Representative Producer failed to develop or maintain the applicable minimum book of business. If during the twelve (12) month phase out period the Exclusive Representative Producer obtains and maintains the applicable minimum book of business, the termination process shall be suspended but the Exclusive Representative Producer shall continue to be subject to annual evaluations.
2. Annual evaluations of Exclusive Representative Producers whose appointments were effective prior to January 1, 1992, shall commence on and after January 1, 1992. Those Exclusive Representative Producers who fail to develop or maintain a book of business of at least 100 motor vehicles as of the latter of January 1, 1992, or the first anniversary of their appointment, and those Exclusive Representative Producers who fail to develop or maintain a book of business of at least 250 motor vehicles as of the latter of January 1, 1993 or the third anniversary of their appointment and as of each subsequent annual evaluation will be terminated unless the Governing Committee or its designee determines

D. Production Criteria (continued)

particular circumstances that merit a continuation of the assignment, pursuant to the terms and notification provisions set forth in paragraph 1 above.

Commonwealth Automobile Reinsurers

Rules of Operation

3. An Exclusive Representative Producer terminated under the provisions of this section shall be ineligible for appointment to a Servicing Carrier for a period of two (2) years commencing on the effective date of the termination.

For purposes of this paragraph, the term Exclusive Representative Producer includes any licensed producer and any other newly emerging producer with whom or which the terminated Exclusive Representative Producer has a direct or indirect material and continuing proprietary or management interest.

E. Market Need Criteria

1. Beginning January 1, 1990, CAR shall review the appointment of all Exclusive Representative Producers in order to determine whether there is a market need to be served by the Exclusive Representative Producer. CAR shall conduct such a review of each Exclusive Representative Producer as of the third anniversary of the producer's contract and at least once within each succeeding three year period.

Each Exclusive Representative Producer who does not meet the market need requirement shall be so notified by CAR within forty-five (45) days of the determination. If CAR finds that the Exclusive Representative Producer has: (a) been offered and has refused a voluntary contract to write motor vehicle business of the type covered by its Exclusive Representative Producer appointment with a company that is a Servicing Carrier; or (b) has not made a substantial effort to obtain such a voluntary contract with a Servicing Carrier, that Exclusive Representative Producer appointment shall terminate three years from the date of notification of CAR's finding. For each year during the three year time period, that Exclusive Representative Producer shall receive a dollar commission which is minus ten (10) percent of the dollar commission established by the Commissioner in his annual opinion, findings and decision on automobile insurance rates. Prior to any adjustment in commission paid to an Exclusive Representative Producer pursuant to this section, both CAR and the Servicing Carrier shall notify the affected Exclusive Representative Producer in writing of the commission adjustment.

E. Market Need Criteria (continued)

2. The notification shall advise the Exclusive Representative Producer of the right to a hearing as provided in Rule 20. The Exclusive Representative Producer shall be given an opportunity to demonstrate to CAR that he/she is satisfying a market need based on

Commonwealth Automobile Reinsurers

Rules of Operation

criteria established by CAR or that he/she has been unable to obtain a voluntary contract to write motor vehicle business of the type covered by its Exclusive Representative Producer appointment during the twelve (12) months immediately preceding the date of notification.

3. If at any time during the three year period referred to in 1 above, the Exclusive Representative Producer satisfies the Governing Committee that he or she has made a substantial effort to obtain such a voluntary contract, such Exclusive Representative Producer shall be entitled, as of the date of the Governing Committee's finding, to full commissions as provided for in Rule 18 and to all other rights conferred by the Rules of Operation.

F. Change of Assignment

1. Changes of assignment of Servicing Carriers, for reasonable business purposes, may be made upon application to and approval by the Governing Committee, provided there is no significant disruption of the marketplace and no unfair or inequitable apportionment of premiums, losses or expenses.
2. An Exclusive Representative Producer or garaging town currently assigned to an oversubscribed Servicing Carrier may, upon written request, with the written consent of an undersubscribed Servicing Carrier be reassigned to that undersubscribed Servicing Carrier, provided that the Exclusive Representative Producer or garaging town has not been so reassigned within the preceding thirty-six (36) months, and further provided that the Exclusive Representative Producer has not previously had a voluntary relationship for motor vehicle insurance with the undersubscribed carrier or any member of an insurance group to which the undersubscribed carrier belongs where notice of termination of the voluntary agreement was given on or after September 22, 1990 and where the business written with the voluntary carrier by the Exclusive Representative Producer accounted for more than 10% of the total book of motor vehicle insurance business written by that Exclusive Representative Producer.

F. Change of Assignment (continued)

3. An Exclusive Representative Producer or garaging town, currently assigned to a Servicing Carrier which has filed with the Commissioner of Insurance a plan for withdrawal from the Massachusetts motor vehicle insurance market for private passenger and/or all other business, shall upon written request, with the written consent of an

Commonwealth Automobile Reinsurers

Rules of Operation

undersubscribed Servicing Carrier be reassigned to that undersubscribed Servicing Carrier, provided that the Exclusive Representative Producer has not previously had a voluntary relationship for motor vehicle insurance with the undersubscribed carrier or any member of an insurance group to which the undersubscribed carrier belongs where notice of termination of the voluntary agreement was given on or after September 22, 1990 and where the business written with the voluntary carrier by the Exclusive Representative Producer accounted for more than 10% of the total book of motor vehicle insurance business written by that Exclusive Representative Producer.

G. Service Fees

1. G.L. c.175 §182, prohibits producers and others in connection with the placing or negotiation of insurance policies or the continuance or renewal thereof from selling or offering to sell anything of value whatsoever not specified in the policy of insurance, and further prohibits said producers from charging the insured at a rate different from that fixed, established or approved by the Commissioner. See also G.L. c.176D. The following acts and practices are prohibited:
 - a. Charging a fee in addition to the premium rate fixed, established or approved by the Commissioner for certifying a registration on behalf of a Servicing Carrier;
 - b. Charging a fee in addition to the premium rate fixed, established or approved by the Commissioner for acting as a producer and placing the insured's motor vehicle insurance business with a Servicing Carrier;
 - c. Charging a fee in addition to the premium rate fixed, established or approved by the Commissioner for providing assistance to the insured in the completion of forms which are completed in order for the insured to procure or to continue motor vehicle insurance; and
 - d. Charging a fee in addition to the premium rate fixed, established or approved by the Commissioner for the sale of a "service contract" which provides for service

G. Service Fees (continued)

or advice relating to the issuance, continuance, or renewal of an insured's motor vehicle insurance policy.

Commonwealth Automobile Reinsurers

Rules of Operation

2. Nothing set forth in the provisions of G. 1 above is intended to prohibit producers from charging runners' fees and other non-insurance related fees if the following requirements are met;
 - a. The producer provides to the insured a complete description of the non-insurance related services for which the fee, in addition to the premium rate, is being charged;
 - b. The producer advises the insured that there is no obligation to purchase the non-insurance related service and that the insured may obtain motor vehicle insurance through the producer, notwithstanding the insured's decision not to purchase the non-insurance related services;
 - c. The insured, after having been apprised of the information set forth in G, 2, a. and G, 2, b. above, agrees to pay the fee; and
 - d. The fee for the services provided is reasonable.
3. The producer may enter into a contract with the insured pursuant to which the producer provides non-insurance related services to the insured if the producer complies with all of the requirements of G, 2 above. In the event the producer and insured executes such a "service contract", the producer shall give to the insured an executed copy of the contract and shall retain an executed copy in his or her file which shall be made available to the Servicing Carrier, Division of Insurance and CAR upon request.

H. Appointment Ineligibility

1. Any licensed property and casualty producer who within the preceding twenty-four (24) month period has had an Exclusive Representative Producer assignment rescinded or cancelled by a Servicing Carrier with the said rescission or cancellation not having been reversed by the Governing Committee, the Division of Insurance, or court of competent

H. Appointment Ineligibility (continued)

jurisdiction shall be ineligible for an appointment to represent a Servicing Carrier as an Exclusive Representative Producer.

Commonwealth Automobile Reinsurers

Rules of Operation

Any licensed property and casualty producer whose Exclusive Representative Producer assignment rescission or cancellation has not been reversed pursuant to the preceding paragraph and who, after a hearing by the Governing Committee or its designee, has been found to have committed a subsequent material and substantial breach of a contract with a Servicing Carrier, said finding not having been reversed by the Division of Insurance or a court of competent jurisdiction, shall be ineligible for an appointment to represent a Servicing Carrier as an Exclusive Representative Producer.

A material and substantial breach of contract will be deemed to have occurred where a finding has been made that the Exclusive Representative Producer has on three distinct occasions committed any of the following acts or omissions or on any one occasion has committed a combination of any three or more of the following acts or omissions:

- a. Failure to remit payments to a Servicing Carrier on a timely basis in accordance with CAR Rules of Operation and those prescribed by the Servicing Carrier.
- b. Failure to forward to any insured within thirty (30) days of receipt from the Servicing Carrier policies and endorsements (if not mailed directly by the Servicing Carrier).
- c. Failure to notify the Servicing Carrier of any suspected fraud, known to the Exclusive Representative Producer surrounding a loss.
- d. Failure to assist the Servicing Carrier during any audit or investigation of the motor vehicle business of the Exclusive Representative Producer.
- e. Failure to report to the Servicing Carrier all coverages bound, all registrations/titles certified within two working days after binding coverage or certifying a registration.
- f. Failure to comply with reasonable procedures as supplied by the Servicing Carrier for processing claims.

H. Appointment Ineligibility (continued)

2. If a voluntary producer has been terminated by his or her voluntary Servicing Carrier as a consequence of any of the above acts or omissions, that former voluntary producer will be ineligible for appointment as an Exclusive Representative Producer for a period of two (2) years commencing on the effective date of the termination.

Commonwealth Automobile Reinsurers

Rules of Operation

3. An Exclusive Representative Producer terminated for failure to meet minimum production criteria as provided in Rule 14, D or to meet market need criteria as provided in Rule 14, E shall be ineligible for appointment to represent a Servicing Carrier as an Exclusive Representative Producer for a period of two (2) years commencing on the effective date of the termination.
4. For purposes of this section, the term Exclusive Representative Producer includes any licensed broker and any other newly emerging producer with whom or which the terminated Exclusive Representative Producer has a direct or indirect material and continuing proprietary or management interest.

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 17 – Expense Allowance to Servicing Carriers

A. Private Passenger Ceding Expense Allowances

1. For ceded business written for calendar years 1994 through 2007, Servicing Carriers shall receive credit against their premiums written account for expenses as follows:

a. Premium Tax and Commission

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

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.

c. Reimbursement for miscellaneous assessments such as the insolvency fund assessment.

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.

Commonwealth Automobile Reinsurers

Rules of Operation

A. Private Passenger Ceding Expense Allowances (continued)

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.

2. Paid Loss Ratio Incentive Plan

The Paid Loss Ratio Incentive Plan is adopted, with the incentive tied to a collective reduction in loss ratio calculated on an ultimate basis and a reduction in the deficit in the entire pool excluding the portion of the deficit due to rate subsidy. Any reduction in the deficit will be calculated, and then divided among the Members as follows: Up to 75 percent of the savings will be divided among the Servicing Carriers, and up to 25 percent of the savings will be divided among all Members.

Commonwealth Automobile Reinsurers

Rules of Operation

B. Other Than Private Passenger Ceding Expense Allowance

1. For ceded business written for calendar years 1994 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 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 other than private passenger motor vehicle business, for calendar year 1994, 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 industry average expenses for these rate components, as contained in the Massachusetts Automobile Insurance Expense Plan.

An off-balance factor shall be applied to each Servicing Carrier's aforementioned rate components in order to disburse all of the expenses reported by the industry on average.

For all other than private passenger motor vehicle business, for calendar years 1995 and subsequent, 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.

- b. For all other than private passenger motor vehicle insurance business, for calendar year 1994, Unallocated Claim Adjustment Expenses, and Company Expenses, including Other Acquisition, Field Supervision and Collection Expenses, Other Taxes Licenses and Fees and All Other General Expenses shall be reimbursed at the industry average allowance provided in the Annual Expense Call, adjusted by each Servicing Carrier's ratio of its claim frequency and other appropriate factors for ceded business, to the claim frequency and other appropriate factors for all ceded business.

B. Other Than Private Passenger Ceding Expense Allowance (continued)

Commonwealth Automobile Reinsurers

Rules of Operation

To distribute all available expense dollars as provided for in the Annual Expense Call, an off-balance procedure shall be applied to the above adjusted expense components.

For all other than private passenger motor vehicle insurance business, for calendar years 1995 and subsequent, the above noted expenses components 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, 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.

- c. 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 the expense components aforementioned in B, 1, a. and B, 1, b.

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

- d. For calendar year 1994 interim ceding expense allowances for each Servicing Carrier for a particular calendar year shall be determined using the procedure outlined above. The applicable expense components provided in the latest available Massachusetts Automobile Insurance Expense Plan, in conjunction with the claim frequency and off-balancing adjustments described in B, 1, a. and B, 1, b. above for the most recent calendar year available shall be utilized.

B. Other Than Private Passenger Ceding Expense Allowance (continued)

For calendar years 1995 and subsequent, 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 B, 1, a. and B, 1, b. above for the most recent calendar year available shall be utilized. Note that taxi, limousine and car service business written through CAR's Taxi and Limousine Program are excluded from this calculation.

Commonwealth Automobile Reinsurers

Rules of Operation

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 B, 1, a. above, and to reflect the claim frequency and off-balancing adjustments and other appropriate factors described in B, 1, b. above for that calendar year.

2. 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:

- 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. 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. 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, determined through the bid review and selection process and approved by the Governing Committee.

- B. Other Than Private Passenger Ceding Expense Allowance (continued)

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 premium as approved in CAR's commercial rate filing for the corresponding policy year.

Interim expenses will be credited to the Servicing Carrier as a percentage of written premium through the Commonwealth Automobile Reinsurers' quarterly settlement of balances procedure.

Commonwealth Automobile Reinsurers

Rules of Operation

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. In order to maintain a viable voluntary market, there will be a cession limitation applied to "All Other Motor Vehicle" insurance written during a policy year by a Servicing Carrier. For policy years 2002 through 2004, business written through involuntarily assigned Representative Producers and ceded to CAR will be excluded from the cession limitation. 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. The limitation will be stated as a percentage of the written premium reported to CAR by the Servicing Carrier, for All Other Motor Vehicle insurance classifications rated pursuant to manuals approved by the Commissioner of Insurance pursuant to G.L. c. 175E (Competitive Rating).

For policy years 2002 through 2004, ceded premiums for the following classifications will be excluded from the calculations:

Commonwealth Automobile Reinsurers

Rules of Operation

B. Other Than Private Passenger Ceding Expense Allowance (continued)

Exclusion Criteria		
Classification Description	Policy Year (s)	Statistical Code
Contract Carriers		
Hauling Chemicals		###230
Hauling Petroleum or Petroleum Products	2002-2004	###270
All Other		###290
Waste Disposal		
Garbage	2002	###530
All Other		###590
Petroleum Business	2002-2004	###920
Long-haul Truckers		
Non-fleet	2002-2004	##32##
Fleet		##62##
Emergency Vehicles		
Emergency Ambulances	2002-2004	791300
Fire Department		790800, 790900
Law Enforcement		791100, 791200, 794200
School Buses	2002-2004	61##00, 62##00
Buses N.O.C.	2002-2004	53##00, 54##00, 55##00, 58##00
Limousines	2002-2004	42#900
Car Service	2002-2004	43#900
Truckers Cost-of-Hire	2002-2004	661300
Chemical Manufacturers	2002-2004	###110

Commonwealth Automobile Reinsurers

Rules of Operation

B. Other Than Private Passenger Ceding Expense Allowance (continued)

Exclusion Criteria		
Classification Description	Policy Year(s)	Statistical Code
<u>Garage</u> Non-franchised Dealers Repair Shops	2002-2004	735100, 735200 780800, 781000, 781100, 781200, 781300
	2002	780900
<u>Taxicabs</u> Fleet Non-fleet	2002-2004	418700, 419700, 410700, 418800, 419800, 410800, 418900, 419900, 410900 415700, 416700, 417700, 415800, 416800, 417800, 415900, 416900, 417900
Van Pools	2004	411###, 412###
<u>Zone Rated Bus</u> Fleet Non-Fleet	2004	520900, 560900 527900, 567900
<u>Specialized Delivery</u> Armored Cars	2004	###410
Church Bus	2004	638#00, 639#00, 630#00, 635#00, 636#00, 637#00
<u>Social Services Automobile</u> Employee Operated All Other	2004	64##### 65#####
<u>Short Term Leasing or Rental</u> Concerns Private Passenger Autos	2004	721400 721600

Commonwealth Automobile Reinsurers

Rules of Operation

Miscellaneous Types		
Bobtail Operations	2004	748900
Ambulance Services – Non Emergency	2004	791400
<u>Driver Training Programs</u>		
Educational Institutions	2004	792600
Commercial Driving Schools		792700

B. Other Than Private Passenger Ceding Expense Allowance (continued)

If a Servicing Carrier's ceded premium (excluding ceded premium for Antique Vehicles with policy effective dates of November, 1998 and subsequent) for the policy year exceeds the limitation for that policy year, a reduction in expense allowances will be applied as follows:

- a. Premium up to the cession limitation; the expense allowance as otherwise determined will be granted.
- b. For policy years 2002 through 2004, 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. For premium in excess of 40%, no expense allowance will be granted.

The following limitations will apply:

Policy Year	Cession Limitation
2002	30%
2003	30%
2004	30%

C. Allocated Loss Adjustment Expenses

Each Servicing Carrier shall receive a credit against its premium written account for losses paid on all policies written as a Servicing Carrier, less recoveries received. Allocated loss adjustment

Commonwealth Automobile Reinsurers

Rules of Operation

expenses paid will be treated as loss payment. For purposes of this paragraph "Allocated Loss Adjustment Expenses" shall be those expenses as defined in the Massachusetts Statistical Plans.