

DATE: September 14, 2004
Docket No. R2004-07

**OPINION, FINDINGS AND DECISION
ON THE DESIGNATION OF 2005 TERRITORIES
FOR MOTOR VEHICLE INSURANCE RATING**

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I. Introduction and Procedural History

Massachusetts General Laws, c. 175E, §4 requires the Commissioner of Insurance (“Commissioner”) to designate no less than fifteen territories within the Commonwealth to be used to classify risks for purposes of developing motor vehicle insurance rates. Customarily, because the factors underlying the actuarial analysis on which territorial assignments are based tend to change slowly over time, the Commissioner reviews territories biennially. Hearings occur in even numbered years and any changes take effect as of January 1 in the following odd-numbered year.

On May 21, 2004, the Commissioner issued a notice of hearing on territorial assignments for 2005. That notice, among other things, required any person who wished to make a specific recommendation on those assignments to submit a filing by May 28, and scheduled a public hearing on June 10 in Boston, with a prehearing conference to follow immediately thereafter. Further, it advised any person, other than a statutory intervenor or a party to the hearing on 2004 rates, who wished to intervene or participate in the proceeding to file a notice of intent to intervene or participate by June 7.

On May 28, the Automobile Insurers Bureau of Massachusetts (“AIB”) made its filing and recommendations for territorial assignments for 2005 and 2006 (the “Territories Filing.”). The AIB and the Attorney General (“AG”) filed notices of intent to participate. The AIB was represented by Michael B. Meyer, Esq. and Catherine Keuthen, Esq.; the AG by Tom O’Brien, Esq. and Peter Leight, Esq.; and the State Rating Bureau (“SRB”) by Norma Brettell, Esq. and Thomas McCall, Esq.

At the June 10 public comment hearing, the AG and the SRB made statements. Stephen D’Amato, Esq., executive director of the Center for Insurance Research, also spoke. Following the public comment hearing, a schedule for cross-examination was set at the prehearing conference. The AIB’s witness, William H. Scully III, FCAS, MAAA, was cross-examined on June 28. The AG and the SRB were ordered to submit advisory filings by July 12 and July 13, respectively; cross-examination was scheduled for the following week.

Neither the AG nor the SRB chose to submit an advisory filing. By letter dated July 20, the AIB requested that a briefing schedule be established. I scheduled a telephone conference for July 26 to discuss the matter. On July 23 the AG, by letter,

objected to the AIB's proposed briefing schedule and filed a motion to compel discovery which, he noted, could be discussed at the July 26 conference. At the conference, in the course of argument on the motion to compel, the AG identified several concerns regarding the AIB's filing. The AIB requested, and was allowed, to file a written opposition to the AG's motion by July 27. On July 28, an order issued allowing the AG's motion to compel, subject to a protective order, and setting a briefing schedule. The AG and the AIB submitted memoranda on August 18 and replies on August 23. The SRB did not submit a brief.

II. Summary of the Filing

The AIB represents that, in making recommendations for territorial assignments for 2005 and 2006, it uses a statistical methodology that is virtually identical to that approved by the Commissioner in her decision on 2003-2004 territories, applying it to data that span the years 1999-2002. That methodology, which the AIB refers to as the Commissioner's Decision Methodology ("CDM"), is used to estimate the relative loss potential of each municipality in Massachusetts, with the exception of the City of Boston, and to group those municipalities with similar loss potentials in the same territories.¹ Currently, there are seventeen non-Boston territories, numbered one through sixteen and 27.² In this Territories Filing, the AIB recommends adding two territories at the upper end of the range. Because the highest rated non-Boston territory is now numbered sixteen, it proposes relabelling Territory 16 as 16A, and adding territories 16B and 16C.

As part of the CDM, the Territories Filing incorporates, as in other years, a step capping mechanism which provides that, in policy year 2005, no municipality would move up or down more than one territory, even though its loss cost index, derived from its rating factors would indicate reassignment to a territory that is two steps higher or

¹ On a per exposure basis, drivers in different towns produce significantly different insurance losses, or loss costs. Automobile insurance pricing reflects those differences by varying rates for different geographical areas. Loss potentials are developed for each municipality from an analysis of its insurance experience, including exposures, claim counts and loss dollars. Because the actual data is only partially credible, the frequency analysis is supplemented by data generated by a mathematical model of frequency potential and the severity analysis by data from larger geographic regions. Loss costs are adjusted to remove the effect of rating factors such as driver class and vehicle classification.

² Territory 27 is actually the lowest rated non-Boston territory, and Territory 16 is the highest rated. The Boston territories are numbered 17 through 26.

lower than its current assignment.³ The AIB notes in the Territories Filing that step capping is designed to avoid undue market disruptions and the erosion of consumer confidence in the ratemaking system that might occur as a result of radical changes in rates. Because territories filings are made biennially, territorial assignments for most municipalities remain unchanged for two years. In this year's Territories Filing, as in prior years, the AIB recommends that territories that are capped for policy year 2005 be permitted to move one territory upward or downward for both policy years 2005 and 2006. The AIB also recommends revising the territorial numbering system, assigning numbers one through ten to the Boston subdivisions and starting the sequence for the non-Boston territories at eleven.

III. The Parties' Arguments

A. The AIB

The AIB argues that the calculations that produced the coverage index values and combined index values identified in its Territories Filing, its assignment of municipalities to territories for 2005, and its proposal to increase the total number of territories from 27 to 29 are not disputed. The AIB addresses in its brief the following three issues that were contested by the AG in the July 26 conference call: 1) the methodology should be changed to permit municipalities to move one territory upward or downward for each of the two years, provided that the AIB's current data support such a movement; 2) adoption of a new territorial numbering system; and 3) application of the principles of rate capping to the AIB's proposed new territories.

On the first issue, the AIB argues that its proposed "second move in the second year" methodology is more accurate than the existing practice that limits such moves to one each two-year period. It notes that such accuracy will reduce territorial subsidies in 2006, compared to the existing practice. In support of its conclusion, the AIB offers tables showing the percentage of towns whose movement was capped for which continued movement would have been appropriate, for the last seven territory reviews,

³The loss potential of each municipality is quantified as the pure premium required to cover its loss dollars. A loss cost index is developed based on the ratio of the municipality's pure premium to the statewide average. Territorial assignments group municipalities with similar loss cost indices, generally using an algorithm that establishes territorial boundaries at six percent intervals. In some cases, changes in a municipality's loss cost index would justify moving it up or down more than one territory. Step capping, however, limits its movement to one territory.

1991 through 2003. The table shows the percentage of towns, the percentage of exposures, and the percentage of premium dollars that would be affected by the second-year move. Averaging those values, the AIB concludes that the second move would have been appropriate for 75.0 percent of the towns, 80.6 percent of exposures, 80.0 percent of the liability pure premium and 79.85 percent of the package private passenger pure premium.

Further, the AIB argues, although stability is an important criterion for ratemaking, a consensus now exists that it is appropriate to reduce the current subsidy levels. It concludes that the value of increased accuracy in territorial assignments, combined with a resulting decrease in territorial subsidies, outweighs the value of rate stability.

On the second issue, the AIB argues that its proposed territorial numbering system will increase clarity for policyholders. It notes that application of the CDM in this proceeding resulted in the creation of two new territories. The AIB also states that the current system, in which the lowest-rated non-Boston territory is numbered 27, rather than one, is illogical but that it developed in this fashion due to the inability of information systems to subdivide Territory 1 into 1A and 1B in 1994. Characterizing the current system as unduly confusing, the AIB asserts that it is not readily understandable for consumers. Adoption of the AIB's recommendations for new territories and its new numbering system would assign numbers 11 through 29 to the non-Boston territories, and list them by combined index values in order of their increasing loss potential. Further, the AIB argues, because the parties agree that the number of territories should increase in 2005, renumbering will be required. The AG, it notes, has offered no alternative to the AIB's proposal.

The third issue that the AIB addresses is the application of rate capping to the proposed two new territories, particularly the rate effect on Brockton that would result from its inclusion in one of those territories. The AIB points out that this proceeding is intended to designate territories for use in classifying risks, not to establish rates or territorial relativities for those territories. It argues that the procedures for tempering and capping rates are established in the Main Rate portion of the *Proceeding to Fix and Establish Private Passenger Automobile Rates for 2005*, Docket No. R2004-13. The AIB

states that it included information on capping in its Territories Filing purely for informational purposes, to advise the parties on the general rate effect on a town of moving it to a different territory, even though the capping methodology itself will be litigated in the Main Rate case. Therefore, the AIB argues, any issues the AG advances regarding rate capping and the application of subsidies for municipalities in the new territories are irrelevant to this proceeding. However, the AIB stresses, if rate capping is to be addressed in this proceeding, any decision should acknowledge the relationship between revenue neutrality and capping decisions. Because territorial assignments are revenue neutral, the AIB notes that additional capping of Brockton would increase rates to other municipalities. It argues that while cross-subsidization is inherent in the territories system, efforts should be made to decrease subsidies rather than increase them, so as to limit the inequities for other municipalities and avoid creating an incentive for insurers to cede policies to the residual market.

B. The AG

The AG opposes the AIB's proposals to allow an additional one-territory shift for 2006 without a hearing, and to change the territorial numbering system. However, he endorses placing limits on territorial rate increases for towns that are moved into the AIB's proposed new territories.

The AG notes that the Commissioner, as part of the biennial territorial review, has consistently applied a step capping mechanism that restricts the movement of a municipality to a single territory for both years, even though its rating factors would support a higher or lower assignment. He points out that, as stated in the AIB's Territories Filing, capping of territorial movements, and the cap on upward rate increases resulting from a territory reassignment, are intended to promote rate stability and to avoid undue market disruption. The AG argues that the AIB's "second move in the second year" proposal establishes two sets of territorial designations in this hearing. He states that he is unaware of any legal support for setting two different territorial designations, some of which would be implemented in 2006, in a single hearing. Further, the AG argues, G.L. c. 175, §113B does not permit alteration or reassignment of territories for 2006 without a hearing.

The AG additionally argues that the AIB's Territories Filing demonstrates that the proposed second-year movements would be wrong too often, would increase rates for municipalities when such increases are not warranted, and would result in unnecessary market disruption. He states that a review of the past three territory decisions indicates that the second-year movement for upward capped towns would have been wrong most of the time, and would have been reversed in the subsequent decision on territories. The AG argues that the AIB's proposal, applied to historical data, would produce rates for many towns that are excessive and therefore impermissible under G.L. c. 175, §113B. He asserts that if the AIB is concerned about the accuracy of territorial reassignments, it should make a new filing in 2005 based on updated information and analysis.

The AG opposes changing territorial numbers, arguing that the only reason the AIB provides to support its proposal is that the proposal to create two additional territories makes it opportune to address this issue at this time. He argues that consumers may become confused on the reasons for such a change, and are likely to believe that renumbering has a purpose or produces a premium effect when it does not actually do so. The AG asserts that the AIB, as a proponent of a new methodology, has failed to meet its burden of showing that the change is superior to the current methodology. He argues that there is no evidence that renumbering would serve any purpose or provide any benefit to consumers. Further, the AG asserts, renumbering territories will confuse consumers, who will be assigned to "new" territories regardless of the fact that there has been no change in the municipality's location on the territorial scale. For consumers whose territorial assignments are expected to change, he comments, the combination of reassignment and renumbering would be magnified.

The AG notes that, in addition to the capping provisions articulated in the *Decision on Territories for 2003*, that limit the upward or downward movement of municipalities to a single territory and place an eight percent cap on the rate change resulting from an upward movement, a third rate cap that limits the year-to-year upward rate change for each class/territory cell to five percent, applies to all municipalities. The AG is concerned about the application of the capping rules to the new territories that the AIB proposes to create. He argues that the capping rules do not address the segmenting of previously established territories into new territories, and that the filing does not

address how capping will apply to the new territories. The AG notes that Mr. Scully testified that one way to calculate the rate for Brockton, which would move into a new territory, would be to apply the five percent cap to the Brockton rate. The AG considers that position to be reasonable and fair, and urges the Commissioner to apply such a cap. He argues that the AIB, however, proposes to apply both the eight percent rate differential that limits increases as a result of moving upward to a new territorial assignment and the five percent territorial cap to the new territories, thus allowing increases of as much as thirteen percent. The AG asserts that the filing does not support a thirteen percent increase, and that imposition of such an increase is contrary to Mr. Scully's testimony. He notes, as well, that the AIB's proposed territory renumbering, if applied to the new territories 16A, 16B and 16C, would move both Brockton and Lawrence more than one territory, thus violating their respective territorial caps.

The AG argues that segmenting Territory 16 should not be viewed as moving municipalities into higher territories. He characterizes it as an administrative division, rather than an increase in losses which should not, absent some justification that is not included in the filing, result in significant premium increases for the municipalities in the new territories. He notes that if territories are to be split, those with numbers below 16 could be subdivided, thus producing additional territories with lower numbers. Characterizing transfer of a municipality to a new territory created through segmenting a single territory as a movement to a higher territory is, the AG argues, particularly inappropriate for municipalities such as Lawrence and Chelsea, which have reduced their territorial combined index values since 2003 and thus improved their relative loss experience. For those reasons, the AG urges the Commissioner to apply a five percent rate cap to the territories that the AIB proposes to create by subdividing Territory 16.

IV. Discussion and Analysis

A. Territorial Reassignments in 2006

The AIB affirms, in its Territories Filing, that it is reasonable to analyze the data underlying the definition of rating territories every two years, because most of the factors that influence territorial assignments shift so gradually that annual revisions are not

necessary.⁴ In the interest of avoiding large rate changes for municipalities which, on a statistical basis, should move more than one territory for 2005, the AIB continues to apply a longstanding capping mechanism, modifying the assignments of those municipalities so that they move up or down only one territory, and only in one year of the biennial period. The AIB seeks to allow municipalities which are so capped for 2005 to move upward or downward a second time in 2006.

The issue of allowing territories which should move more than one territory, according to the data underlying the current territories filing, to move a second time has been raised in several prior proceedings on territorial assignments. *See, e.g., Decision on Territorial Assignments for 1991*, G90-13; *Decision on Territorial Assignments for 1993*, G92-19; *Decision on Territorial Assignments for 1999*, R98-38. The AIB has consistently argued that allowing a second year movement is responsive to the data and would provide greater accuracy. Each decision that has addressed the issue, however, has rejected the AIB's position and kept the territorial assignments in place for two years, affirming that step capping promotes rate stability, and that moving a municipality a second time in the following year, without requiring more current data, does not support that result. The AG's analysis of data from the three most recent filings on territories shows that in many cases the second year upward move would have been reversed in the next territory decision, bringing the municipality back to the first territory.⁵ Upward reassignments that later prove to be temporary do not enhance rate stability. If, however, the later data confirm the reassignment, the reliability of the system will be enhanced.

The AIB's arguments are essentially identical to those it has made in the past. The AIB's argument that a second-year reassignment will minimize inter-town cross-subsidies that may result in inequities and create incentives for insurers to cede policies to the residual market is not persuasive. Its witness opined that insurers tend to cede improperly priced policies to the residual market, but also commented that cession strategies involve other factors, such as the residual market credit scheme. Even if a relationship between territorial assignments and ceding decisions could be demonstrated,

⁴ Its witness, Mr. Scully, also testified that it is reasonable to do territorial reassignments every two years because of the amount of resources that are committed to the filing.

⁵ The AG's analysis shows that, in the AIB filings for 1999, 2001 and 2003, the percentage of territories scheduled to move upward in the second year that would have been reversed in the next filing ranged from 33 percent (2003) to 100 percent (2001). For 1999, the percentage was 64 percent.

it would not necessarily be sufficient reason to upset the equilibrium between responsiveness and stability that the current system provides. Further, the rate effect could be significant: Scully testified that if a municipality were moved a second year the five and eight percent caps would then apply anew, thereby creating the potential for an additional thirteen percent increase for consumers. On this record, I find that the AIB has not shown that its proposed methodology is superior to the current methodology. Therefore, territorial assignments resulting from this decision will apply for 2006, and no further movements will be made.

B. Renumbering Territories

The AIB proposes to renumber territories, assigning numbers one through ten to the Boston territories and starting the non-Boston territories at eleven. It asserts that such a change, because it numbers the non-Boston territories in a single sequence by increasing index values, will add clarity to the system and reduce consumer confusion. The AG argues, to the contrary, that changing territorial numbering will confuse consumers, and therefore should be only undertaken upon a showing that the new system is superior to that now in place. A territorial numbering system which places the ten Boston territories at the end of the entire territorial sequence was adopted in 1976. Since then, the system has been modified, first to expand the number of non-Boston territories from 14 to 16 and, in 1994, to subdivide Territory 1 into two territories. Because company information systems could not incorporate numbering territories 1A and 1B, the lowest rated territory was numbered 27.⁶

Territorial assignment is an aspect of the motor vehicle rating system. In order to operate that rating system efficiently, territories are assigned identifiers. As a general rule, identifiers for use in operating systems should satisfy the requirement of administrative convenience; we have been given no reason to conclude that the choice of a numerical, rather than some other territorial identification system, was based on methodological superiority for ratemaking purposes. A proposed change to an established system, however, should not be adopted unless it can be demonstrated that it will improve the administration of that system and that its implementation will not be

⁶ The expansion of the non-Boston territories from 14 to 16 occurred before 1990. The circumstances leading to that expansion are not explained in the decision issued that year or later.

burdensome to those who are affected by the change. The AIB has made no such showing. In the context of automobile insurance ratemaking, territorial assignments, identified by number, are incorporated into company information systems and directly communicated to some three million Massachusetts policyholders. If the AIB's proposal were adopted, virtually all consumers would receive a different territorial number, even though only some would actually be reassigned to a higher or lower rating territory. Changes in territorial numbering, even if they have no premium effect, may raise concerns for consumers, and generate extensive questioning about the meaning of, and reasons for, the change.

Neither the AIB nor the AG offers any evidence on the degree of consumer confusion that exists under the current numbering system, or would be created by the AIB's proposed change. Even though their respective positions are speculative, I find it more likely than not that consumers have become familiar with the vagaries of the current system and that adoption of a new numbering system, which would universally require explanation of both administrative and substantive reasons for changes in territorial assignments, would be unnecessarily disruptive at this time. For those reasons, I decline to approve the AIB's proposal to change the territorial numbering system.

C. Creating New Territories

Territorial assignment of municipalities with relatively high combined indices is difficult, because those indices cover a wide range, and the 1.06 algorithm applied to determine the range of index values for the other non-Boston territories cannot be easily applied. Mr. Scully testified that Territories 14 through 16 often fall outside of the strict methodology used to allocate other municipalities to territories, so that judgment, using various criteria, is used to assign municipalities to those higher rated territories. The AIB's filing this year shows that ten municipalities have combined indices greater than 1.40, and that those indices range from 1.4327 to 2.5413. Four municipalities have combined ratios in excess of 2.00. Within the group of ten, the AIB assigns the two municipalities with the lowest combined ratios to Territory 14 and the next highest set of three to Territory 15.⁷ Of the five remaining municipalities, two are assigned to Territory 16A, two to Territory 16B, and one to Territory 16C. The AIB states that these

⁷ Territory 14 also includes one additional community.

assignments reflect natural break points in the combined indices for these municipalities. Mr. Scully testified that the range of indices within each break point is roughly six percent, commenting that the AIB's approach generally adheres to the methodology used for other cities and towns. He testified, however, that this methodology would not work unless new territories were created.

The AG expressed concern, among other things, about the rate effect of the AIB's proposal in the newly created territories, noting that, even with application of constraints, rates for policyholders in the newly created territories would increase significantly. He recommends that territories 16B and 16C be viewed, for ratemaking purposes, as administrative subdivisions rather than new territories, and that the rate effect be limited through capping. The AIB takes the position that the AG's concerns are appropriately addressed in the Main Rate portion of the proceeding to fix-and-establish private passenger automobile insurance rates and that, therefore, approval of its proposed new territories would not bar tempering of the rate effect on those territories.

The AIB's argument is not persuasive. First, the issue of capping has been raised and addressed in previous decisions on territorial assignments. *See, e.g., Decision on Territorial Assignments for 1993*, p. 12. Furthermore, as articulated in the *Decision on Territorial Assignments for 1999*, p. 36, judgmental tempering of territorial relativities in the Main Rate proceeding does not change the potential rate impact associated with territorial changes. While territorial relativities will be addressed as part of the Main Rate proceeding, the AIB's argument does not persuade me that no further consideration need be given to its proposal to create new territories.

Second, in addition to his concerns about the rate effects generated by the AIB's proposal to create new territories, the AG points out that the proposal, if adopted, would immediately violate the principle of capping the movement of a municipalities to no more than one territory. Brockton, for example, which was assigned to Territory 15 for 2003-2004, would move, under the AIB proposal, to 16B, a shift of two places on the territorial scale. Assuming, *arguendo*, that Territory 16A is equivalent to current Territory 16, then the proposal would move Lawrence two places, from 16 to 16C. The record is clear that the AIB equates the subdivision of Territory 16 with the creation of two new territories which would, under its proposal, become territories 28 and 29. The AIB has offered no

explanation for the internal inconsistency in its application of a step cap for communities other than Brockton and Lawrence.

Third, the AIB's proposal, from a historical perspective, may be viewed as the most recent incarnation of longstanding periodic attempts to revise the territorial assignment process. Since 1990, the AIB has made four proposals to increase the number of territories, whether through subdivision of existing territories or the addition of new ones. Prior decisions have therefore addressed such proposals and articulated issues that should be considered in evaluating them.⁸ Among those issues are the size of the proposed territories, and the policy considerations applicable to proposals to move a community whose combined indices have remained flat or shown some downward movement into a higher rated territory. A decision to resolve the AG's concerns about the AIB's filing by capping the rates for the AIB's proposed new territories does not address the concerns raised in the past about proposals to increase the number of territories. I have therefore reviewed it in light of the past decisions addressing analogous proposals.

The AIB's filing this year, in essence, crams municipalities with high combined indices into new territories, allegedly using the statistical methodology used to develop territories for other cities and towns but without, as it has in past years, applying additional judgmental analysis. That judgmental adjustments are appropriate in assigning high-rated territories has been recognized for many years. *See, e.g., Decision on Territorial Assignments for 1989*, Docket No. 88-03. Of particular concern is the size of the three new territories proposed by the AIB; based on 2006 property damage liability data, its proposal would place two communities with 68,074.2 exposures in 16A; two communities with 59,441.5 exposures in 16B; and one community with 26,662.6 exposures in 16C. In contrast, the current Territory 15, as proposed in the AIB's 2002 filing, included five communities representing 190,961.4 exposures, and Territory 16 represented two communities with 35,500 exposures. Three of the five communities now assigned to Territory 15 are, under the AIB's proposal, moved into the new Territory 16 subdivisions. As noted in the *Decision on Territorial Assignments for 1991*, and the

⁸ Three proposals have been addressed in contested proceedings; the parties to the proceeding on territorial assignments for 1995 stipulated to splitting Territory 1 into two territories.

Decision on Territorial Assignments for 1993, municipalities with comparatively few exposures have low statistical credibility and higher expected volatility from year to year. The AIB has offered no persuasive reason for, in effect, reducing the exposures in Territory 15 by approximately 45 percent and redistributing exposures at the high end of that territory into three relatively small territories.

The *Decision on Territorial Assignments for 1999* noted, in response to an AIB proposal to create three new single municipality territories, that the AIB's approach, if adopted, would have moved other communities upward to fill the slots vacated by those three reassignments. The *Decision* observed that the combined indices of two of the communities which were to be moved to new territories were slightly lower than they had been in the most recent prior territories filing, and questioned a proposal that would move communities whose rating factors had improved, for whatever reason, into a higher rated territory with the potential attendant premium effect. Further, it pointed out, such shifts do not contribute to rate stability.

This year, the AIB proposes to move the city of Lawrence, which is now in Territory 16, into Territory 16C. Mr. Scully's testimony acknowledged the recent antifraud activities in that municipality, and noted that under the current methodology, strictly applied, improvement in losses attributable to Lawrence would not be reflected for three years. He further opined that putting Lawrence in its own territory might give it more incentive to make improvements. The AIB's position is not persuasive. By virtue of having one of the highest combined indices in the state, Lawrence has been assigned to Territory 16 at least since 2001. Its combined index is virtually unchanged since 2002. As a matter of policy, it would be incongruous to recognize the value of efforts undertaken to control losses with an assignment to a higher rating territory. Further, the combined index for Chelsea, the other community assigned to Territory 16 for 2003, has decreased since 2002. Whatever the reasons for that reduction, moving Chelsea to a higher rated territory does not demonstrate support for any community efforts to improve its rating.

The newer data incorporated into the AIB's Territories Filing show that the combined indices for the two municipalities currently assigned to Territory 16 have not increased since 2001. Moving those communities upward into new territories will not

contribute to rate stability, or encourage development and implementation of strategies to improve their relative standing. I therefore disapprove the AIB's proposal to subdivide Territory 16. Lawrence and Chelsea shall continue to be assigned to Territory 16.

Mr. Scully testified that the reasoning underlying the AIB's assignments of municipalities with high combined indices would apply only if new territories were created. The AIB presented no alternative recommendations for assignment of high-rated territories in the event that its proposal to subdivide Territory 16 was not approved, and the AG did not offer an option. Absent evidence in the record of a coherent system for realigning communities which are now assigned to Territory 15, I decline to change their assignments for 2005.

The AG did not oppose the results of the AIB's methodology as it applied to assignments of municipalities to Territories 1 through 15, 27, and the Boston territories 17 through 26. Therefore, with the exception of the AIB's proposal to create territories 16A, 16B and 16C, and to assign municipalities now assigned to Territory 15 to those new territories, I approve the territorial assignments as shown in Exhibit 14 to the AIB's filing. Such assignments are to remain in place through 2006.

This decision has been filed this fourteenth day of September 2004 in the Office of the Commissioner and with the Secretary of State as a public document. Pursuant to G.L. c. 26 §7, this decision may be appealed to the Commissioner of Insurance within three days.

/s/ _____
Jean F. Farrington
Presiding Officer