

A. General

A Servicing Carrier will receive a credit against its premium written for expenses related to policies ceded to Commonwealth Automobile Reinsurers (CAR). Reimbursement will be provided for premium tax and commission expenses, as well as other expenses, including, but not limited to, unallocated loss adjustment, underwriting/technical services, loss control services and company/general expenses.

Expense allowances are initially calculated on an interim basis as specified in Section B. of this Chapter. On an annual basis, ceding expenses will be trued-up as specified in Section C. of this Chapter.

As part of the Massachusetts Residual Market Commercial Automobile Request for Proposal (RFP) process, companies interested in servicing ceded commercial automobile business submit a price proposal. The proposal will indicate a price for the initial year of the appointment to reimburse the Servicing Carrier for its unallocated loss adjustment expenses (ULAE), and underwriting/policy processing, loss control services and company/general expenses. The proposal will also include a price for each of the subsequent years in the appointment term.

The final expense allowances for the commercial Servicing Carrier(s) selected through the RFP process is approved by CAR's Governing Committee.

For additional information relative to the RFP process and the selection of Servicing Carriers to service the commercial automobile residual market, refer to Chapter I – Overview of this Manual.

B. Calculation of Interim Expense Allowances

Interim expense allowances are provided for both premium tax and commission expenses and for ULAE, and underwriting/policy processing, loss control services and company/general expenses.

Interim expense ratios used to calculate ceding expenses are established annually, as follows:

1. Premium Tax and Commission

Servicing Carriers will be reimbursed for premium tax and commission as a percentage of written premium according to the underlying rate components in the latest approved CAR rate filing for the corresponding policy year.

2. Unallocated Loss Adjustment Expenses (ULAE), Underwriting/Policy Processing, Loss Control Services and Company/General Expenses

Servicing Carriers will be reimbursed for ULAE expenses, underwriting/policy processing expenses, loss control services expenses, and company/general expenses based upon the approved expense allowance for each policy year of appointment.

Servicing Carriers will be advised via bulletin of the established interim expense allowances. Ceding expenses, as initially calculated based on interim expense ratios, will be credited to the Servicing Carrier through CAR's quarterly settlement of balances procedure and are subject to final true-up as described in Section C. of this Chapter.

C. Final Determination of Expenses

A Servicing Carrier's ceding expenses, as initially determined based on interim expense ratios, are subject to final adjustment based upon the agreed upon expense allowance.

Final expenses are determined as follows:

1. Premium Tax and Commission Expenses

Servicing Carriers will be reimbursed for premium tax and commissions according to the approved CAR commercial rate filing for the corresponding policy year. For policy years where a CAR rate filing is not filed and/or approved, the premium tax and commission allowance will remain unchanged from the prior year.

2. Unallocated Loss Adjustment Expenses, Underwriting/Policy Processing, Loss Control Services and Company/General Expenses

At the close of each calendar year, the final expense allowances will be trueed up based on the approved expense allowance and the actual ceded statistically reported data for the corresponding policy years.

Interim ceding expenses previously provided to the Servicing Carrier are compared with final expense allowances calculated for each Servicing Carrier. Any necessary ceding expense adjustment will be processed as an adjustment to the Servicing Carrier's Settlement of Balances and Member Participation Reports.