

Commonwealth Automobile Reinsurers

Rules of Operation

Rule 16 - Terminations

A. Servicing Carrier Terminations

1. Voluntary Terminations

Any Servicing Carrier may petition the Governing Committee requesting termination as a Servicing Carrier for CAR. The Servicing Carrier shall be required to provide advance notice in writing to the Governing Committee of CAR. Such notice shall be sent to the Chairman of the Governing Committee in care of the CAR office. The President of CAR shall confirm in writing to the sender the receipt of the notice of termination as a Servicing Carrier.

The advance notice of termination shall specify a period of time, no less than six months for Private Passenger business and no less than twelve months for Commercial business from the date notice is received by CAR or such earlier time as the parties shall mutually agree when the terminating Servicing Carrier will cease accepting new applications.

The terminating Servicing Carrier will in its letter of termination of association as a Servicing Carrier for CAR affirm its commitment to continue to provide service as required by the Plan, Rules, and Manual of Administrative Procedures, on all existing policies and those policies written in the notice period until the expiration following the effective date of termination, unless the parties shall have mutually agreed to other arrangements for the servicing of such policies.

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A. Servicing Carrier Terminations (continued)

2. Servicing Carrier Terminations by CAR

(a) Private Passenger

In the event that it becomes necessary for the Governing Committee to terminate the association of a Servicing Carrier with CAR, such notice shall be given in writing by the Chairman of the Governing Committee to the Chief Executive Officer of the Servicing Carrier. Such notice shall specify a period of time no less than six months hence or such earlier time as the parties may mutually agree, at which time the Servicing Carrier will no longer be authorized to accept new business on behalf of CAR. The notice to the terminating Servicing Carrier will further stipulate that the Servicing Carrier will be expected, in good faith, to the best of its ability continue to provide service on existing policies as required under the Rules of Operation until the expiration date following the effective date of the termination notice unless the parties shall have mutually agreed to other arrangements for the service of such policies.

Upon receipt of the notice of termination of association by a Servicing Carrier to CAR or upon notice by the Governing Committee of the termination of association with a Servicing Carrier, the Chairman of the Governing Committee will notify within ten (10) days all the Servicing Carriers of the action and solicit from them such information as is needed to make a determination of the remaining Servicing Carriers' capacity to serve the segment of the insuring public and those Representative Producers served by the terminating carrier. All Servicing Carriers are required to respond within thirty days from the date of the request.

Upon receipt of the response from the remaining Servicing Carriers, the Governing Committee shall determine if the remaining carriers have adequate capacity to serve the departing Servicing Carrier's customers and Representative Producers in accordance with the performance standards for a Servicing Carrier.

Upon determining that adequate capacity does exist among the remaining Servicing Carriers, the Governing Committee may direct the President of CAR to proceed with the process of reassignment of Representative Producers.

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A. Servicing Carrier Terminations (continued)

Should the Governing Committee of CAR find that the remaining Servicing Carriers are unable to service the departing Servicing Carrier's customers and Representative Producers then the Governing Committee shall, from the companies which have met all of the standards for a Servicing Carrier, appoint that carrier or carriers it deems can best serve the consumer and Representative Producers on behalf of CAR.

The Governing Committee, if it deems it necessary, may extend a general invitation to all insurers who believe they can meet the requirements for a Servicing Carrier as outlined in the Rules of Operation, to so apply for appointment.

Upon determination of new eligible candidates as Servicing Carriers and upon determination of those existing carriers with additional capacity by the Governing Committee, a complete list of those Servicing Carriers shall be utilized in the carrying out of those activities required to facilitate a reappointment of Representative Producers assigned to the departing Servicing Carriers. However, the Plan requires that there shall be no fewer than twenty Servicing Carriers participating in the Plan at all times.

(b) Commercial

For policy years 2006 and subsequent, an appointment as a Servicing Carrier for commercial motor vehicle insurance business will be for a time certain, specified in the letter of appointment, and will automatically terminate on the date specified in the original appointment, unless sooner extended or terminated by the Governing Committee of CAR.

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A. Servicing Carrier Terminations (continued)

In the event that it becomes necessary for the Governing Committee to terminate the association of a Servicing Carrier with CAR, such notice shall be given in writing by the Chairman of the Governing Committee to the Chief Executive Officer of the Servicing Carrier. Such notice shall specify a period of time no less than twelve months hence or such earlier time as the parties may mutually agree, at which time the Servicing Carrier will no longer be authorized to accept new business on behalf of CAR. The notice to the terminating Servicing Carrier will further stipulate that the Servicing Carrier will be expected, in good faith, to the best of its ability to continue to provide service on existing policies as required under the Rules of Operation until the expiration date following the effective date of the termination notice unless the parties shall have mutually agreed to other arrangements for the service of such policies.

The Governing Committee shall determine whether there will be an equitable distribution of the terminated Servicing Carrier's business among the remaining Servicing Carriers, or if it will be necessary to select a new Servicing Carrier through the bid process.

In the event any Servicing Carrier experiences unanticipated or unusual operational difficulties that would impair its ability to continue to meet the established Servicing Carrier performance standards, the Governing Committee, subject to the approval of the Commissioner, may take such action as it may deem appropriate to alleviate the difficulties. Such actions by the Governing Committee shall be taken when it is evident the interest of the insuring public and the industry would be better served.

Nothing in this section shall in any manner be deemed to act to modify or reduce a Servicing Carrier's responsibility or obligation under the Plan, Rules of Operation, or Manual of Administrative Procedures.

3. Approval by the Commissioner of Voluntary Terminations and Terminations by CAR

No termination of a Servicing Carrier will become effective until approved by the Commissioner. In granting his approval, the Commissioner will consider the impact of such termination on policyholders, agents and brokers, and the market for motor vehicle insurance.

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A. Servicing Carrier Terminations (continued)

4. Terminations by the Commissioner

The Commissioner may terminate any Servicing Carrier which he determines to have violated the standards established for Servicing Carriers in these Rules or the Plan or if he finds that the operation or financial stability of such Servicing Carrier presents a danger to the interests of policyholders or the continued operation of CAR or will create substantial market disruption.

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B. Representative Producer Terminations

1. Voluntary Terminations

Any Representative Producer or Exclusive Representative Producer requesting termination as a Representative Producer of a Servicing Carrier of CAR shall be required to provide thirty (30) days advance written notice to the Servicing Carrier and CAR.

The terminating Representative Producer or Exclusive Representative Producer shall return all Servicing Carrier forms, manuals and certification stamp(s) as well as all materials supplied by a Servicing Carrier at such time as the termination becomes effective.

2. Termination by a Servicing Carrier

Grounds for termination of a Representative Producer or Exclusive Representative Producer shall be as provided in Rules 13 and 14.