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June 27, 2003

Mr. Lawrence Willwerth, Chairman  
New England Limousine Association  
c/o Carey Limousine  
161 Broadway, P.O. Box 45235  
Somerville, MA 02145

Dear Mr. Willwerth:

**Re: CAR Proposed 10/1/2003 Rates**

Per your request, I performed a review of the captioned proposed rates for limousines in Massachusetts. In the sections below, I present (1) my observations from reviewing the actuarial analysis prepared by Commonwealth Automobile Reinsurers (CAR), and (2) my proposed rate change to be effective October 1, 2003 for vehicles insured by CAR.

**OBSERVATIONS**

**1. Data**

I reviewed the CAR proposed rate changes and noted that CAR is proposing a 61.6% increase for limos and a 3.2% increase for taxis. If approved, this would make the limo rates about 50% of the taxi rates. This appears to be out of line with the relationship in the voluntary market in Massachusetts and in many other states. I have a copy of a reasonably current Massachusetts AIB Manual, which shows that limo rates equal 13.5% of taxi rates. Similarly, in many other states in both the voluntary and involuntary markets, the limo rates have historically been much less than 50% of the taxi rates. The fact that the limo rate indications seem to be so high for CAR is likely to be because the data is misclassified, and there are a significant number of taxis that are classified as limos. An audit was done of the data several years ago and I believe that that audit confirmed that large numbers of taxis were misclassified. I don't think another audit was done, so it seems likely that the problem still exists.

## **2. CAR Proposed Increase is Largely Not Based on Limo Data**

Much of the rate increase calculated by CAR is not based on limo data. The increase for physical damage rates equals 22%, and that is not based on any limo data. It is based exclusively on data for private passenger types.

For the liability coverages, the 59.7% increase proposed for bodily injury (BI) losses in excess of \$20,000 is based almost exclusively (actually 95%) on the data for all commercial auto classes (overwhelmingly trucks and private passenger types). There is data contained in the filing for this coverage for limos, which indicates a smaller increase, but it is mostly ignored by CAR.

The same is true for the property damage liability coverage. CAR proposes a 177.1% increase based almost exclusively on data which does not pertain to Limos.

## **3. Trend Factors for Limos High and Not Based on Limo Data**

In computing the rate change, the historical losses were trended forward assuming that they would inflate at a rate of 5.1% per year (\$20,000 limited BI liability) and 5.4% per year (PIP). These trend rates, which are high compared to the rate of inflation, were selected even though the actual public auto data suggested trend rates for these coverages which were decreasing (implying no inflation or negative inflation). CAR's selection of these trend factors significantly inflated their results.

## **4. Territory Rate Relativities Not Consistent with Experience**

The CAR filing shows rate indications for each of 4 groups of rating territories (although they don't define the codes for the rating territories in the filing). The indications are shown in 100K-1, Exhibit 9 and show that liability rates in rating groups 12-26 should be more than double the rates in groups 1-11 and 27. The current and proposed rates are not as different, indicating that insureds in Groups 1-11 and 27 are subsidizing insureds in Groups 12-26.

## **PROPOSED RATE CHANGE**

We recalculated the rate level indications for both limousines and taxis, and our recalculated results are displayed on the attached exhibit. I estimate that the indicated overall average rate change for the CAR limo insureds equals +2.3%. This compares against CAR's result of +61.6%. In calculating my result, I made several assumptions which differed from the CAR assumptions. These were:

- 1) We computed the combined rate change indication for taxis and limousines as the change which should apply uniformly to both the taxi and limousine classifications. We did this given our assumption that some taxi data is clearly misclassified as limo data, and it is therefore unfair to base the rates for limos upon data which includes taxis. Until there is another audit which confirms that misclassifications no longer exist, we believe it is appropriate to compute rates for limos based upon the combined data for taxis and limos.
- 2) We selected trend factors of 1.000 for the BI, PD, and PIP coverages. This was based on our observation that the actual indicated trend rates for these coverages are actually below 1.000. (See page 161 of the CAR Report.)
- 3) We computed increased limits factors for the limo BI and PD coverages, such that the average increased limits factor equaled the average indicated increased limits factor based upon the experience for limos alone.
- 4) We made no change to the limo physical damage rates, since no data or support for a change was included in the CAR filing.

## **LIMITATIONS**

### **Data**

In performing this analysis we have relied on data and other information provided to us by the New England Limousine Association. We have not audited, verified, or reviewed this data and other information for reasonableness and consistency. Such a review is beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

### **Uncertainty**

During the course of our review, we applied generally accepted actuarial procedures. However, due to the uncertainty involved in projecting future events, it is likely that actual results will vary from our projections, perhaps materially.

Mr. Lawrence Willwerth

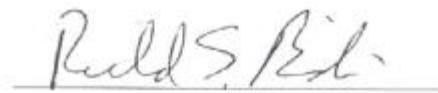
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**Distribution**

This report was prepared for the use of and only to be relied upon by the management of the New England Limousine Association. No portion of the report may be provided to any other party without Milliman's prior written consent. In the event such consent is provided, the report must be provided in its entirety. We recommend that any such party have their own actuary review this report to ensure that the party understands the assumptions and uncertainties inherent in our estimates. This report may not be filed with the SEC or other securities regulatory bodies.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Richard S. Biondi", is written over a horizontal line.

Richard S. Biondi, FCAS, MAAA

Copy to: Mr. Donald D. Cooper, Esq.

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