

No. **4151**

**Official Order
of the
Commissioner of Insurance**

Date: October 12, 2015

Subject Considered:

**Rate Changes for Private Passenger and Commercial Automobile Insurance
Provided through the Texas Automobile Insurance Plan Association**

The commissioner of insurance considers the Texas Automobile Insurance Plan Association's (TAIPA's) August 2015 rate filing for private passenger and commercial automobile insurance coverage, as Insurance Code, Section 2151.2022 requires.

On August 18, 2015, TAIPA filed Petition No. A-0815-02 for changes in its rates for private passenger and commercial automobile insurance. TDI published notice of the TAIPA rate filing in the September 4, 2015, issue of the *Texas Register* (40 TexReg 5967). Under Insurance Code, Section 2151.206, the commissioner did not schedule a hearing because the rates filed did not exceed 105 percent of the current average rate for each coverage written through the association. TDI provided interested persons reasonable time to submit written comments relating to TAIPA's rate filing to TDI. TDI did not receive any comments during the comment period, which ended September 16, 2015.

The commissioner adopts the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Under Insurance Code, Section 2151.202, TAIPA filed Petition No. A-0815-02 with TDI on August 18, 2015, for changes in the rates for private passenger and commercial automobile insurance. TAIPA amended its filing to revise some rating factors downward and provide additional supporting information.
2. TAIPA proposed an overall average rate-level increase of 3.5 percent for private passenger automobile insurance.

3. TAIPA proposed an overall average change of -0.2 percent for commercial automobile insurance.
4. TAIPA requested that the rate changes and new rates for private passenger automobile insurance and commercial automobile insurance become effective on February 1, 2016.
5. Under Insurance Code, Section 2151.2022(c), the commissioner extended the approval period by an additional 30 days, to October 17, 2015.

Private Passenger Automobile Insurance Rates

6. Because the number of automobiles insured by TAIPA has continued to decrease, there are not enough historical losses to provide a credible database to evaluate overall average TAIPA rate levels easily with traditional, actuarial ratemaking procedures.
7. For private passenger automobiles, TAIPA's recent rate changes have been increasingly dependent on the 3-year trend in the industry-wide Texas voluntary loss costs.
8. TAIPA expects the low count of TAIPA-insured vehicles to continue into the future. As such, TAIPA developed the proposed rates using a new method that indexes the current TAIPA rates to the 3-year average industry-wide Texas voluntary loss costs.
9. Industry-wide Texas voluntary loss costs are calculated using data collected by TDI's statistical agents and made available to TAIPA.
10. TAIPA's goals for the change in its ratemaking procedure are simplicity, cost effectiveness, and accuracy.
11. Given these goals, along with the increasing dependence of TAIPA rate changes on trends in the industry-wide Texas voluntary loss costs, this new indexing method is reasonable.
12. The 3-year average Texas loss costs used as the basis for the index are the reported incurred losses and allocated loss adjustment expenses for the three latest accident years, unadjusted for estimated future loss development and unadjusted for estimated future trends. Losses are at basic limits of coverage.
13. For each coverage, TAIPA calculated the current index and corresponding indicated rating factors for each territory. TAIPA also calculated indicated rating factors for each driver class.

14. For private passenger rates, these revised rating factors indicate a +10.6 percent change for bodily injury liability coverage, a +5.7 percent change for property damage liability coverage, a -10.1 percent change for personal injury protection coverage, a +6.1 percent change for uninsured motorist bodily injury liability coverage, and a -20.9 percent change for uninsured motorist property damage liability coverage, providing an overall indication of roughly +7.5 percent.
15. To offset the rate level increases generated by the proposed rating factor changes, TAIPA made adjustments by decreasing the base rates for bodily injury liability, property damage liability, and uninsured motorist bodily injury liability coverages and by tempering all changes by rating factor to ± 10 percent to arrive at the proposed rate level by coverage.
16. After the adjustments, TAIPA proposes an average rate level change by coverage of 4.8 percent for bodily injury liability, 3.5 percent for property damage liability, -10.1 percent for personal injury protection, 3.9 percent for uninsured motorists bodily injury liability, and -20.9 percent for uninsured motorists property damage liability. The overall average for all coverages is 3.5 percent.
17. It is reasonable to adjust the rates for private passenger automobile insurance provided through TAIPA as TAIPA proposes.

Commercial Automobile Insurance Rates

18. TAIPA used the same method outlined above for commercial automobile rates in which TAIPA indexed its current rates to the 3-year average industry-wide Texas loss costs for commercial automobile insurance.
19. TAIPA previously based rate changes on Insurance Services Office (ISO) loss costs for Texas, adjusted by a loss cost multiplier (LCM). The LCM increased the ISO loss costs by an amount needed to reflect TAIPA's expenses and profit. TAIPA's LCMs have not changed since their initial implementation nearly a decade ago. With no change in the LCMs, TAIPA's commercial automobile rates changed consistently with the 3-year trend in ISO's Texas loss costs.
20. TAIPA pays a significant subscription fee for ISO loss costs. Regardless of the sophisticated data analysis that underlies the ISO published loss costs, TAIPA's commercial automobile rates have changed consistently with the changes in the 3-year average Texas voluntary loss costs.

21. Given TAIPA's goals of simplicity, cost effectiveness, and accuracy, along with the increasing dependence of TAIPA rate changes on trends in the industrywide Texas voluntary loss costs, the new method is reasonable.
22. The revisions to the territory factors and base rates generate the overall changes by coverage for each vehicle type.
23. The proposed changes by coverage and vehicle type vary with none receiving larger than a 1.1 percent increase.
24. TAIPA's proposed rates result in an overall impact on its premiums of -0.2 percent.

CONCLUSIONS OF LAW

1. The commissioner has jurisdiction over this matter under Insurance Code, Section 2151.207.
2. The commissioner considered the reports collected under the statistical plan regarding aggregated premiums earned and losses and expenses incurred in the writing of automobile insurance through the association, as required under Insurance Code, Section 2151.203(c).
3. The commissioner gave proper and timely notice of the filing under Insurance Code, Section 2151.204.
4. Setting rates based on these findings of fact and conclusions of law complies with Insurance Code, Section 2151.201. Section 2151.201 requires that TAIPA rates be just, reasonable, adequate, not excessive, not confiscatory, and not unfairly discriminatory for the risks to which they apply. It also requires that TAIPA rates be set in an amount sufficient to carry all claims to maturity and to meet the expenses incurred in the writing and servicing of the business.

The commissioner orders that:

1. TAIPA's filing is approved;
2. TAIPA revise its rates to be charged for private passenger automobile insurance by coverage, territory, and class as amended in the filing by 4.8 percent for bodily injury liability, 3.5 percent for property damage liability, -10.1 percent for personal injury

protection, 3.9 percent for uninsured/underinsured motorist bodily injury liability, and - 20.9 percent for uninsured/underinsured motorist property damage liability;

3. TAIPA revise its rates to be charged for commercial automobile insurance policies by coverage, territory, and vehicle type as amended in the filing to generate an estimated overall average change of -0.2 percent; and
4. TAIPA's rates for private passenger automobile insurance and commercial automobile insurance as set out in this order become effective on February 1, 2016.

A handwritten signature in black ink, appearing to read "DK Mattax", written over a horizontal line.

David C. Mattax
Commissioner of Insurance