

No. 12-0395

**Official Order
of the
Commissioner of Insurance
of the
State of Texas**

Austin, Texas

Date: April 19, 2012

Subject Considered:

**RATE CHANGES FOR PRIVATE PASSENGER AND COMMERCIAL AUTOMOBILE
INSURANCE PROVIDED THROUGH THE TEXAS AUTOMOBILE INSURANCE PLAN
ASSOCIATION**

DOCKET NO. 2731

General remarks and official action taken:

The Commissioner of Insurance (Commissioner) considered the matter of the 2011 rate filing for private passenger and commercial automobile insurance coverage by the Texas Automobile Insurance Plan Association (TAIPA) with the Texas Department of Insurance (TDI), as required by §2151.202 of the Insurance Code. On December 20, 2011, TAIPA filed Petition No. A-1211-11 for changes in the rates for private passenger and commercial automobile insurance. TDI published notice of the TAIPA rate filing in the December 30, 2011, issue of the *Texas Register* (36 TexReg 9424). The Commissioner considered the filing at a public hearing held under Docket No. 2731 on February 1, 2012, at 9:30 a.m., in Room 100 of the William P. Hobby Building, 333 Guadalupe Street, Austin, Texas. Pursuant to §2151.206(c) of the Insurance Code, the hearing was not a contested case hearing under Chapter 2001 of the Government Code. Interested persons were able to present written and oral testimony relating to TAIPA's rate filing at the hearing. Richard S. Geiger of Thompson, Coe, Cousins, & Irons, L.L.P., represented TAIPA. Kergin Bedell represented the Office of Public Insurance Counsel (OPIC).

After considering TAIPA's rate filing and supplements, staff analysis, and all written and oral testimony presented, the Commissioner adopts the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. TAIPA filed Petition No. A-1211-11 (TDI Link numbers 118355 and 118354) for changes in the rates for private passenger and commercial automobile insurance with TDI on December 20, 2011.
2. TAIPA proposed an experience-based increase of 31.9 percent for private passenger automobile insurance.
3. TAIPA proposed to base rates for commercial auto insurance on the most recently accepted prospective loss costs filed by Insurance Services Offices, Inc. (ISO).
4. TAIPA requested that the rate changes and new rates for private passenger automobile insurance and commercial automobile insurance become effective on June 1, 2012.
5. On February 1, 2012, OPIC proposed an increase of 13.8 percent for private passenger automobile insurance provided through TAIPA. OPIC did not make any recommendations regarding the rates for commercial automobile insurance provided through TAIPA.
6. On February 10, 2012, TAIPA filed a supplement to its rate filing.
7. On February 21, 2012, OPIC submitted to TDI its response to TAIPA's supplement.
8. On February 24, 2012, TAIPA submitted to TDI its rebuttal to OPIC's response.

Private Passenger Automobile Insurance Rates

Loss Development

9. TAIPA uses actuarial judgment to select report-to-report development factors which reflect historical averages for each report-to-report period. TAIPA uses data reflecting its experience but also considers voluntary market data due to the diminishing size of the TAIPA market. TAIPA includes a tail factor of 1.0 percent for bodily injury liability (BI) and uninsured/underinsured motorist (UM) coverages.
10. The loss development triangles in TAIPA's original submission include a duplicate diagonal, which distorts the long term averages. This contributes to selections that are often higher than the historical averages.

11. OPIC uses a corrected version of TAIPA's loss development triangles to propose loss development factors based on the average of the latest five report-to-report development factors excluding the highest and lowest factors. OPIC does not include any tail factors.
12. OPIC's report-to-report development factors are often lower than those indicated by historical averages.
13. Exhibit D contains loss development factors based on historical averages. Where TAIPA and OPIC agree, TDI uses the agreed report-to-report development factors. For the others, TDI uses actuarial judgment to select factors. TDI does not include any tail factors. The resulting loss development factors are neither as high as TAIPA's selections nor as low as OPIC's selections. Using TDI's loss development factors in Exhibit D is reasonable.

Trend Factors

14. TAIPA's trend selection relies on an analysis of the claims frequency and claims severity in the non-county mutual portion of the voluntary market.
15. TAIPA uses trends of 4.1 percent for BI, 0.5 percent for property damage liability (PD), 1.5 percent for personal injury protection (PIP), and 3.3 percent for UM coverages.
16. OPIC recommends trends of 1.5 percent for BI, 0.0 percent for PD, 1.5 percent for PIP, and 1.5 percent for UM coverages based on its review of TAIPA's on-level ultimate loss and loss adjustment expense ratios, Fast Track trend data, and TAIPA's trend analysis.
17. In general, trends in the full voluntary market and the county mutual portion of the voluntary market have been higher than in the non-county mutual portion of the voluntary market over the period under review.
18. While many of TAIPA's trend selections appear high compared to trends in the non-county mutual portion of the voluntary market, some appear low compared to trends in the full voluntary market or the county mutual portion of the voluntary market.
19. Neither TAIPA nor OPIC includes the potential impact of the increase in minimum financial responsibility limits that occurred on April 1, 2008, when selecting its loss trends.
20. Considering the trends in the non-county mutual portion of the voluntary market and the potential impact of the change in minimum financial responsibility limits, TAIPA's trend selections for BI, PD, and PIP are reasonable.

21. TAIPA presents only the bodily injury portion of claims in making its UM trend selection. For most measures, trends in the property damage portion of UM have been negative or less positive than in the bodily injury portion of claims.
22. Trend selections for UM should consider both the bodily injury and property damage portions of the UM coverage.
23. OPIC's trend selection for UM is reasonable.

Fixed Expenses

24. Fixed expenses (FE) represent insurers' overhead expenses, also known as general expenses (GE) and other acquisition expenses (OAE).
25. TAIPA and OPIC calculate GE and OAE as a dollar amount per policy, using combined voluntary and TAIPA experience.
26. TAIPA bases its FE calculation on 2010 data.
27. OPIC bases its FE calculation on 2008, 2009, and 2010 data.
28. It is reasonable to use three years of data.
29. TAIPA's calculation includes an amount equivalent to 100 percent of the amount of FE allocated by insurers to private passenger automobile liability coverage and 100 percent of the amount of FE allocated by insurers to private passenger automobile physical damage coverage.
30. OPIC's calculation includes an amount equivalent to 100 percent of the amount of FE allocated by insurers to private passenger automobile liability coverage and 50 percent of the amount of FE allocated by insurers to private passenger automobile physical damage coverage, which is consistent with prior Commissioner's Orders.
31. Including an amount equivalent to 100 percent of the amount of FE allocated by insurers to private passenger automobile liability coverage and 50 percent of the amount of FE allocated by insurers to private passenger automobile physical damage coverage in the expense calculations is reasonable.
32. TAIPA utilizes an FE trend of 1.85 percent based on an analysis of consumer price index and average weekly wage trends. TAIPA's analysis includes data from January 2008 through December 2010.

33. OPIC utilizes an FE trend of 3.1 percent based on an analysis of consumer price index and average weekly wage trends. OPIC's analysis includes data from December 2008 through November 2011.
34. It is reasonable to use the most recent data. OPIC's FE trend of 3.1 percent is reasonable.
35. Based on the long term average from 2005 through 2010, insurers in the voluntary market earn an average of 92.4 percent of the premium originally written, compared to 84.5 percent of the premium written through TAIPA. This results in fewer premium dollars to cover expenses. TAIPA adjusts the expense ratio upward by a factor of 1.093 ($94.2/84.5$) based on the ratio of premiums earned in the voluntary market to premiums earned in the TAIPA market.
36. OPIC adjusts the expense ratio upward by a factor of 1.060 based on the expected ratio of premiums earned in the voluntary market to premiums earned in the TAIPA market.
37. It is reasonable to base the adjustment for the ratio of premiums earned in the voluntary market to premiums earned in the TAIPA market on the ratio expected to be in effect. OPIC's 1.060 adjustment is reasonable.
38. OPIC calculates the impact of installment fee income to be 4.3 percentage points and deducts this amount from FE. This is based in part on an assumption that 90 percent of TAIPA policyholders use the installment plan.
39. TAIPA does not deduct any percentage points from FE for installment fee income.
40. TAIPA states that a recent survey indicates that only 85 percent of the TAIPA insureds use the installment payment plan.
41. If OPIC's calculation is revised to assume that only 85 percent of TAIPA insureds use the installment plan, TDI estimates installment fee income to be 4.2 percentage points. It is reasonable to use this estimate.
42. Exhibit B contains the development of the FE ratio of 11.3 percent, consistent with Findings of Fact (FOF) 28, 31, 34, 37, and 41. It is reasonable to use this FE ratio.

Credibility

43. TAIPA includes a credibility adjustment to determine final rate indications by coverage based on a standard of 3,000 claims. TAIPA estimates claims in the full market based on an estimate that 70 percent of total claims are reported in

- the Quarterly Detailed Experience Report (QDE) for BI and PD, 65 percent for PIP, and 35 percent for UM. TAIPA does not include the property damage portion of UM claims. TDI cannot reproduce TAIPA's calculations.
44. OPIC includes a credibility adjustment to determine final rate indications by coverage based on a standard of 3,000 claims. OPIC bases its credibility on only the claims included in the QDE report.
 45. Exhibit E contains credibility calculations based on the estimated claims in the full market projected from the ratio of earned premium between the QDE and Annual Aggregate Experience Report (AA). It is reasonable to use the credibility calculations in Exhibit E.
 46. TAIPA uses a complement of credibility of 17 months of loss trend based on a projection period to the proposed effective date.
 47. OPIC uses a complement of credibility of one year of loss trend.
 48. It is reasonable to use TAIPA's complement of credibility.

Personal Injury Protection and Uninsured/Underinsured Motorists Coverages

49. The QDE report lists only 10 claims for PIP and 23 claims for UM (five for uninsured motorist bodily injury and 18 for uninsured motorist property damage) for the 2010 accident year.
50. Due to the low volume of data, the historical experience for PIP and UM coverages has very little credibility. With this volume of data, the presence or absence of a claim can drastically change the indicated rate need.
51. Before considering credibility, an analysis of PIP and UM premium and loss data indicates a substantial rate decrease.
52. TAIPA's recommended complement of credibility indicates a moderate rate increase.
53. For PIP and UM, neither the indicated rate decrease before credibility, the indicated rate increase represented by the complement of credibility, nor the mechanically produced credibility weighted indication is entirely persuasive.
54. Based on FOF 53, maintaining the rates for PIP and UM at current levels is reasonable.

Rate Indications

55. Exhibits C-1 and C-2 contain rate indications consistent with FOF 13, 20, 42, 45, and 48.
56. Exhibit A summarizes the indications in Exhibits C-1 and C-2 and the final selected rate changes, including the selected PIP and UM changes from FOF 54.
57. It is reasonable to adjust the rates for private passenger automobile insurance provided through TAIPA as shown in Exhibit A.

Commercial Automobile Insurance Rates

Loss Costs, Lost Cost Multipliers and Split Limit Factors

58. TAIPA proposes to update the commercial auto rates utilizing the most recently accepted ISO loss costs in filing number CA-2011-BRLA1 and the previously adopted loss cost multiplier. This filing contains BI, PD, and PIP loss costs for other-than-zone-rated risks.
59. ISO has also made changes to classification factors and UM loss costs in filing numbers CA-2011-RCP1 and CA-2011-RUMLC, respectively.
60. It is reasonable to adopt ISO's most recently accepted loss costs and classification factors as summarized in the following table.

ISO filing number	TDI link number	Description
CA-2011-BRLA1	117252	BI, PD, and PIP loss costs for other-than-zone-rated risks
CA-2011-RCP1	117254	Classification changes
CA-2011-RUMLC	117393	UM loss costs

61. It is reasonable to use TAIPA's previously adopted loss cost multipliers of 1.618 for trucks, tractors, and trailers; 1.497 for publics; and 1.565 for trucks and publics combined.
62. In addition to the loss cost multipliers, split limit factors are required to derive BI and PD rates for the 30/60/25 limits offered through TAIPA from ISO's \$100,000 combined single limit (CSL) loss costs. It is reasonable to apply TAIPA's previously adopted split limit factors of 0.484 for BI and 0.374 for PD to the \$100,000 CSL loss costs to produce loss costs corresponding to the 30/60/25 split limits for other-than-zone-rated risks.

CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over this matter pursuant to §2151.207 of the Insurance Code.
2. The Commissioner gave proper and timely notice of the hearing pursuant to §2151.204 of the Insurance Code.
3. The setting of rates in accordance with these findings of fact and conclusions of law complies with the provisions of §2151.201 of the Insurance Code. Section 2151.201 provides that TAIPA rates must be just, reasonable, adequate, not excessive, not confiscatory, and not unfairly discriminatory for the risks to which they apply. This section also provides that TAIPA rates shall 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.

IT IS THEREFORE THE ORDER of the Commissioner of Insurance that the above findings of fact and conclusions of law are adopted.

IT IS FURTHER ORDERED that the rates to be charged for private passenger automobile insurance provided through TAIPA be revised by 31.9 percent for bodily injury liability, by 20.0 percent for property damage liability, by 0.0 percent for personal injury protection, and by 0.0 percent for uninsured/underinsured motorists in accordance with Insurance Code Chapter 2151.

IT IS FURTHER ORDERED that the rates to be charged for commercial automobile insurance policies provided through TAIPA be modified in accordance with the findings and conclusions set forth in this Order.

IT IS FURTHER ORDERED that TAIPA's rates for private passenger automobile insurance and commercial automobile insurance as set out in this Order become effective July 1, 2012.

IT IS FURTHER ORDERED that TAIPA's filing is approved as modified by this Order.

AND IT IS SO ORDERED.

TEXAS DEPARTMENT OF INSURANCE

ELEANOR KITZMAN
COMMISSIONER OF INSURANCE