

No. **2016-4768**

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

**Date: November 1, 2016**

**Subject Considered:**

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

**General Remarks and Official Action Taken:**

The commissioner of insurance considers the Texas Automobile Insurance Plan Association's (TAIPA's) September 2016 rate filing for private passenger and commercial automobile insurance coverage, as Insurance Code §2151.2022 requires.

On September 7, 2016, TAIPA filed Petition No. A-0916-11 for changes in its rates for private passenger and commercial automobile insurance. TDI published notice of the TAIPA rate filing in the September 23, 2016, issue of the *Texas Register* (41 TexReg 7622). Under Insurance Code §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 to TDI any written comments relating to TAIPA's rate filing. TDI did not receive any comments during the comment period, which ended October 5, 2016.

After considering the filing, the commissioner adopts the following findings of fact and conclusions of law:

**Findings of Fact**

1. Under Insurance Code §2151.202, TAIPA filed Petition No. A-0916-11 with TDI on September 7, 2016, for changes in the rates for private passenger and commercial

- automobile insurance. TAIPA amended its filing to revise some rating factors downward, correct errors, and provide additional supporting information.
2. TAIPA proposed an overall average increase of 4.2 percent for private passenger automobile insurance.
  3. TAIPA proposed an overall average increase of 2.5 percent for commercial automobile insurance.
  4. TAIPA requested that the new rates for private passenger automobile insurance and commercial automobile insurance become effective on February 1, 2017.
  5. Under Insurance Code §2151.2022(c), the commissioner extended the approval period by an additional 30 days, to November 4, 2016.

#### **Private Passenger Automobile Insurance Rates**

6. Because the number of automobiles insured by TAIPA has continued to be low, 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 before its 2015 rate filing had been increasingly dependent on the 3-year trend in the industry-wide Texas voluntary loss costs.
8. TAIPA expects the low count of TAIPA-assigned vehicles to continue into the future. As such, TAIPA has continued to develop the proposed rates using a method first implemented in its 2015 rate filing that indexes 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 its ratemaking procedure are simplicity, cost effectiveness, and accuracy.

11. 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.
12. For each coverage, TAIPA considered a 3-year industry-wide average loss cost change, a 1-year industry-wide paid pure premium change, and a 3-year linear trend in the industry-wide paid pure premium. In addition, TAIPA calculated, for each coverage, the current index and corresponding indicated rating factors for each territory. TAIPA also calculated indicated rating factors for each driver class for bodily injury liability, property damage liability, and personal injury protection coverages.
13. In selecting rating factors for each territory and class, TAIPA considered the indicated factor, whether the indicated factors calculated in 2015 and 2016 pointed in the same direction or in different directions, the territory and class factors generally used in the voluntary market, and the volume of loss data underlying the indicated rate factors along with TAIPA's exposure count in a territory or class.
14. Through a combination of base rate changes, territory relativity changes, and class relativity changes, TAIPA proposed an average rate level change by coverage of 4.8 percent for bodily injury liability, 3.8 percent for property damage liability, -2.0 percent for personal injury protection, 3.6 percent for underinsured/uninsured motorists bodily injury liability, and 4.7 percent for underinsured/uninsured motorists property damage liability.
15. TAIPA's proposed private passenger automobile rates result in an overall average increase of 4.2 percent.

#### **Commercial Automobile Insurance Rates**

16. TAIPA used similar methods to those outlined in Findings of Fact numbers 8, 9, 11, and 12 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.
17. TAIPA previously based rate changes as well as territory factors on Insurance Services Office (ISO) loss costs for Texas, adjusted by a loss cost multiplier, and ISO rating factors.

For this reason, TAIPA's current territory factors are generally consistent with those used in the voluntary market.

18. Revisions to the territory factors and base rates generate the overall changes by coverage for each vehicle type.
19. Through this combination of base rate changes and territory relativity changes, TAIPA proposes an average rate-level change for commercial automobiles by coverage of 3.8 percent for bodily injury liability, 1.0 percent for property damage liability, and 1.2 percent for personal injury protection. TAIPA proposed no changes to commercial automobile uninsured/underinsured motorist bodily injury or uninsured/underinsured motorist property damage liability rates.
20. TAIPA's proposed commercial automobile rates result in an overall average increase of 2.5 percent.

#### **Conclusions of Law**

1. The commissioner has jurisdiction over this matter under Insurance Code §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 §2151.203(c).
3. The commissioner gave proper and timely notice of the filing under Insurance Code §2151.204.
4. Setting rates based on these findings of fact and conclusions of law complies with Insurance Code §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.

5. Given TAIPA's goals of simplicity, cost effectiveness, and accuracy, along with the increasing dependence of TAIPA rate changes on trends in the industry-wide Texas voluntary loss costs, TAIPA's indexing method to determine private passenger and commercial automobile insurance rates is reasonable.
6. It is reasonable to adjust the rates for private passenger automobile insurance and commercial automobile insurance provided through TAIPA as TAIPA proposes.

The commissioner orders that:

TAIPA's filing Petition No. A-0916-11 is approved;

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, 3.8 percent for property damage liability, -2.0 percent for personal injury protection, 3.6 percent for uninsured/underinsured motorist bodily injury liability, and 4.7 percent for uninsured/underinsured motorist property damage liability;

TAIPA revise its rates to be charged for commercial automobile insurance policies by coverage, territory, and vehicle type as amended in the filing by 3.8 percent for bodily injury liability, 1.0 percent for property damage liability, 1.2 percent for personal injury protection, and no changes to commercial auto uninsured/underinsured motorist bodily injury liability, or uninsured/underinsured motorist property damage liability rates; and

TAIPA's rates for private passenger automobile insurance and commercial automobile insurance as set out in this order become effective on February 1, 2017.



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David C. Mattax

Commissioner of Insurance