

No. **2670**

Official Order
of the
Texas Commissioner of Insurance

Date: JUL 26 2013

Subject Considered:

Rate Changes for Private Passenger and Commercial Automobile Insurance
Provided Through the Texas Automobile Insurance Plan Association
Docket No. 2751

The commissioner of insurance considers the Texas Automobile Insurance Plan Association's (TAIPA's) 2013 rate filing for private passenger and commercial automobile insurance coverage, as Insurance Code §2151.202 requires.

On January 2, 2013, TAIPA filed Petition No. A-0113-01 for changes in its rates for private passenger and commercial automobile insurance. TDI published notice of the TAIPA rate filing in the January 25, 2013, issue of the *Texas Register* (38 TexReg 417). The commissioner received testimony on the filing at a public hearing held under Docket No. 2751 on February 12, 2013, at 9:30 a.m., in Room 100 of the William P. Hobby Building, 333 Guadalupe St., Austin, Texas. Under Insurance Code §2151.206(c), the hearing was not a contested case hearing under Government Code Chapter 2001. Interested persons were able to present written and oral testimony relating to TAIPA's rate filing at the hearing. Richard Geiger and Michael Jones of Thompson, Coe, Cousins, & Irons and Michael Miller, a consulting actuary, represented

TAIPA. Kergin Bedell and Ken Lovoy represented the Office of Public Insurance Counsel (OPIC).

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

FINDINGS OF FACT

1. TAIPA filed Petition No. A-0113-01 (TDI Link Numbers 124901 and 124902) with TDI on January 2, 2013, for changes in the rates for private passenger and commercial automobile insurance.
2. TAIPA proposed an experience-based increase of 7.2 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 the Insurance Services Offices, Inc.
4. TAIPA requested that the rate changes and new rates for private passenger automobile insurance and commercial automobile insurance become effective on July 1, 2013.
5. At the hearing, OPIC stated that its indication was for an average rate decrease of 1.5 percent, but due to the small size and limited credibility of the book of business involved, no change was also within the range of reasonable indications. As a result, OPIC recommended no change to the private passenger automobile insurance rates.

6. In a letter dated February 14, 2013, TAIPA declined to file a response to OPIC's rate recommendations, stating that TAIPA's filing addressed the matters OPIC raised.

Private Passenger Automobile Insurance Rates

Loss Development

7. TAIPA uses actuarial judgment to select report-to-report development factors and calculate report-to-ultimate loss development factors. TAIPA uses data reflecting its experience but also considers voluntary market data due to the diminishing size of the TAIPA market.
8. OPIC mechanically calculated and selected loss development factors based on an average of the various report-to-report development factors provided by TAIPA.
9. The voluntary market data considered by TAIPA and OPIC does not include data from county mutual insurance companies.
10. County mutual insurance companies account for over 40 percent of the voluntary auto market. It is reasonable to consider data that includes the entire voluntary auto market.
11. Considering historically selected loss development factors and those derived from data that includes data from county mutual insurance companies, TAIPA's selections are reasonable.

Trend Factors

12. TAIPA uses trends of 2.7 percent for bodily injury liability (BI), 1.2 percent for property damage liability (PD), 3.2 percent for personal injury protection (PIP),

3.3 percent for uninsured/underinsured motorist bodily injury coverage (UMBI), and 1.3 percent for uninsured/underinsured motorist property damage coverage (UMPD).

13. Relying on mechanical selections of two- and three-year trends provided by TAIPA, OPIC recommends trends of 1.4 percent for BI, 2.1 percent for PD, 2.0 percent for PIP, -3.0 percent for UMBI, and 1.0 percent for UMPD.
14. It is unclear whether either TAIPA's or OPIC's analysis considers the potential impact of the increases in minimum financial responsibility limits that occurred on April 1, 2008, and January 1, 2011, when selecting loss trends.
15. The trend analysis provided by TAIPA does not include data from county mutual insurance companies.
16. Trends derived from analyses of the full voluntary market and the county mutual portion of the voluntary market support TAIPA's trend selections.
17. Considering the trends in the full voluntary market and the potential impact of the change in minimum financial responsibility limits, TAIPA's trend selections are reasonable.

Fixed Expenses

18. Fixed expenses (FE) represent insurers' expenses that do not vary with premium. General expenses (GE) and other acquisition expenses (OAE) are types of FE.
19. TAIPA and OPIC calculate GE and OAE as a dollar amount per policy, using combined voluntary and TAIPA experience.

20. TAIPA bases its FE calculation on 2011 data.
21. OPIC bases its FE calculation on 2009, 2010, and 2011 data.
22. It is reasonable to use three years of data.
23. 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.
24. 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.
25. 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.
26. TAIPA uses an FE trend of 3.0 percent based on an analysis of consumer price index and average weekly wage trends.
27. OPIC uses TAIPA's FE trend. It is reasonable to use TAIPA's FE trend.
28. TAIPA reduced the FE ratio by 2.6 percentage points to recognize anticipated installment payment plan income.

29. TAIPA increased the FE ratio by an estimated 1.6 percentage points to reflect additional expenses for TAIPA's installment payment plan not reflected in countrywide expense data for administering an installment payment plan similar to the one used by TAIPA.
30. TAIPA's adjustments to the FE ratio for its installment payment plan income and additional expenses reflect the number of insureds that pay premium in installments and the average length of time a policy is in force. TAIPA used the percentage of written premium earned to approximate the length of time a typical policy is in force.
31. The net effect of TAIPA's adjustments for the installment payment plan is a reduction of 1.0 percentage point to the FE ratio.
32. OPIC reduced the FE ratio by 3.4 percentage points to recognize anticipated installment payment plan income.
33. OPIC's adjustment to the FE ratio for the installment payment plan does not include an estimate for additional installment payment plan expenses or reflect the average length of time a policy is in force.
34. Adjustments for additional installment payment plan expenses and for the average length of time a policy is in force are reasonable.
35. It is reasonable to use TAIPA's net adjustment of 1 percentage point to the FE ratio for the installment payment plan.
36. Exhibit B contains the development of the FE ratio of 10.9 percent, consistent with Findings of Fact (FOF) 22, 25, 27, and 35. It is reasonable to use this FE ratio.

Personal Injury Protection and Uninsured/Underinsured Motorists Coverages

37. Due to the low volume of data, the historical experience for PIP, UMBI, and UMPD coverages has very little credibility. With this volume of data, the presence or absence of a claim can drastically change the indicated rate need.
38. TAIPA uses trend analyses to create rate indications for these coverages resulting in a small indicated increase. This technique may be used when there is a low volume of data, but it assumes that existing rates are reasonable.
39. OPIC uses TAIPA's trend analysis approach with OPIC's selected trends to create rate indications for these coverages, resulting in a proposed range of reasonable indications. OPIC's range includes no change, so OPIC recommends no change for these coverages.
40. In contrast to the results of TAIPA's trend analysis, a review of PIP, UMBI, and UMPD premium and loss data could support a rate decrease.
41. For PIP, UMBI, and UMPD, neither the indicated rate increase based on trend analyses, nor a decrease based on a review of premium and loss data is entirely persuasive.
42. Based on FOF 41, maintaining the rates for PIP, UMBI, and UMPD at current levels is reasonable.

Effective Date

43. TAIPA and OPIC use a projected effective date of July 1, 2013, for all trend calculations.

44. An effective date of July 1, 2013, is not feasible. Updating the projected effective date to October 1, 2013, is reasonable under the circumstances.
45. It is reasonable to adjust the rate indications to account for a projected effective date of October 1, 2013.

Rate Indications

46. Exhibits C-1 and C-2 contain rate indications consistent with FOF 11, 17, 36, and 45.
47. Exhibit A summarizes the final selected rate changes.
48. 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, Loss Cost Multipliers, and Split Limit Factors

49. TAIPA proposes to update the commercial auto rates utilizing the most recently accepted ISO loss costs.
50. Since the last update to TAIPA's commercial auto rates, ISO has made changes to loss costs in filing numbers CA-2012-BRLA1 and CA-2012-RZRLC. ISO has also made changes to related zone-rated classification factors in filing number CA-2012-RZR1.
51. 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-2012-BRLA1	123810	Loss costs for other-than-zone-rated risks
CA-2012-RZR1	125692	Classification changes
CA-2012-RZRLC	125693	Loss costs for zone-rated risks

52. 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.
53. 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.
54. 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 under Insurance Code §2151.207.
2. The commissioner gave proper and timely notice of the hearing under Insurance Code §2151.204.
3. 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.

The commissioner orders that:

1. TAIPA's filing is approved as modified by this order;
2. the rates to be charged for private passenger automobile insurance provided through TAIPA be revised by 6.4 percent for bodily injury liability, by 5.3 percent for property damage liability, by 0.0 percent for personal injury protection, by 0.0 percent for uninsured/underinsured motorist bodily injury, and by 0.0 percent for uninsured/underinsured motorist property damage;
3. the rates to be charged for commercial automobile insurance policies provided through TAIPA be modified to comport with the findings and conclusions set forth in this order; and
4. TAIPA's rates for private passenger automobile insurance and commercial automobile insurance as set out in this order become effective on October 1, 2013.



Julia Rathgeber

Commissioner of Insurance

2670

JUL 26 2013

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Effective October 1, 2013

**Private Passenger
Rate Level Changes**

<u>Required Coverages</u>	<u>Premium at Present Rates</u>	<u>Selected Change</u>
Bodily Injury	\$ 1,795,970	6.4%
Property Damage	\$ 1,826,335	5.3%
Subtotal	\$ 3,622,305	5.8%
Optional Coverages		
Personal Injury Protection	\$ 71,191	0.0%
Uninsured Motorist - BI	\$ 66,598	0.0%
Uninsured Motorist - PD	\$ 52,731	0.0%
Subtotal	\$ 190,520	0.0%
TOTAL - ALL COVERAGES	\$ 3,812,825	5.6%

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Private Passenger Auto
Development of Fixed Expense Ratio**I. Total Market Per Insurance Expense Exhibits (\$000)**

<u>Liability</u>	Other		Ratio to <u>Premium</u>	General <u>Expenses</u>	Ratio to <u>Premium</u>
	<u>Earned</u> Premium (1a)	<u>Acquisition</u> <u>Expenses</u> (2a)			
Year			(3a)	(4a)	(5a)
2009	\$7,296,898	\$518,222	7.1%	\$275,667	3.8%
2010	\$7,490,912	\$554,445	7.4%	\$289,954	3.9%
2011	\$7,675,005	\$585,918	7.6%	\$319,930	4.2%

<u>Physical Damage</u>	Other		Ratio to <u>Premium</u>	General <u>Expenses</u>	Ratio to <u>Premium</u>
	<u>Earned</u> Premium (1b)	<u>Acquisition</u> <u>Expenses</u> (2b)			
Year			(3b)	(4b)	(5b)
2009	\$5,804,805	\$402,612	6.9%	\$205,742	3.5%
2010	\$5,802,835	\$420,559	7.2%	\$212,717	3.7%
2011	\$5,803,579	\$442,062	7.6%	\$235,045	4.1%

Selected Expense Provisions:

	<u>Other Acquisition</u> <u>Expenses</u> (6)	<u>Advertising</u> <u>Expenses</u> (7)	<u>General</u> <u>Expenses</u> (8)	<u>Disallowed</u> <u>Expenses</u> (9)	<u>Subtotal</u> (10)
Liability	7.4%	0.5%	4.0%	0.2%	10.7%
Phys. Dam.	7.2%	0.5%	3.8%	0.2%	10.3%

II. Total Market Per QDE Report

<u>Liability</u>	<u>Earned</u> <u>Premium</u> (11a)	<u>Earned</u> <u>Exposures</u> (12)	Average <u>Premium</u> (13a)	Average Fixed Expense	
				<u>per Car</u> (14a)	<u>per Car</u> (15)
Year			(13b)	(14b)	(15)
2009	5,194,874,324	10,876,987	\$477.60	\$51.10	\$69.82
2010	5,280,463,789	10,737,006	\$491.80	\$52.62	\$71.45
2011	5,345,909,830	10,653,017	\$501.82	\$53.69	\$72.47

III. TAIPA Per QDE Report and Adjustments

<u>Year</u>	<u>TAIPA</u> <u>Premium at</u> <u>Present Rates</u> (16)	<u>TAIPA</u> <u>Earned</u> <u>Exposures</u> (17)	Average <u>Premium at</u> <u>Current Level</u> (18)	<u>Net Installment</u> <u>Payment</u> <u>Plan Adjustment</u> (22)	<u>Adjusted</u> <u>Fixed Expense</u> <u>Ratio</u> (23)
	<u>Expense</u> <u>Trend</u> <u>Factor</u> (19)	<u>Trended</u> <u>Fixed Expense</u> <u>Per Car</u> (20)	<u>Fixed</u> <u>Expense</u> <u>Ratio</u> (21)		
2009	3,553,082	5,432	\$654.06	-1.0%	11.2%
2010	2,827,448	4,304	\$656.86	-1.0%	11.1%
2011	2,477,103	3,560	\$695.82	-1.0%	10.3%

Selected Fixed Expense Provision	10.9%
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TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Private Passenger Auto
Development of Fixed Expense Ratio

Notes:

- (1) - (5) Information from the Insurance Expense Exhibit Report, results of companies writing direct business in Texas, adjusted for Texas volume of business: liability and physical damage earned premium, other acquisition expenses, and general expenses.
- (6), (8) Selected expense provisions are three year averages.
- (7), (9) TAIPA Exhibit MJM-7, Sheet 1
- (10) $= (6) - (7) + (8) - (9)$
- (11) - (12) Information from report QDERPT21: liability and physical damage earned premium and earned exposure. Includes BI and CSL exposures. Excludes other liability.
- (13) $= (11) / (12)$
- (14) $= (13) \times (10)$
- (15) $= (14a) + 0.5 \times (14b)$
- (16) Earned premiums from QDE trend report x current level factors (MJM-3). Excludes other liability.
- (17) Earned exposures from QDE trend report.
- (18) $= (16) / (17)$
- (19) Annual expense trend is 3.0% (from 7/1/20XX to 4/1/2014)
- (20) $= (15) \times (19)$
- (21) $= (20) / (18)$
- (22) FOF 35
- (23) $= (21) + (22)$

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Private Passenger Auto
Indicated Rate Level Change

		Bodily Injury			
		Calendar Accident Year Ended 12/31/09	Calendar Accident Year Ended 12/31/10	Calendar Accident Year Ended 12/31/11	Total
(1)	Earned Premium at Present Rates	\$ 2,202,291	\$ 1,952,371	\$ 1,795,970	\$ 5,950,632
(2)	Reported Incurred Loss and DCCE	\$ 1,514,735	\$ 1,308,529	\$ 1,130,649	\$ 3,953,913
(3)	Loss Development Factors	0.985	0.990	1.099	
(4)	AOE Factor	1.135	1.134	1.131	
(5)	Developed Losses & LAE (2) x (3) x (4)	\$ 1,693,436	\$ 1,469,033	\$ 1,405,362	\$ 4,567,831
(6)	a. Years of Trend	5.250	4.250	3.250	
	b. Trend Rate	2.7%	2.7%	2.7%	
	c. Loss Trend Factor	1.150	1.120	1.090	
(7)	Trended Loss & LAE (5) x (6c)	\$ 1,947,662	\$ 1,645,152	\$ 1,532,471	\$ 5,125,285
(8)	Trended Loss & LAE Ratio (7) / (1)	0.884	0.843	0.853	0.860
(9)	Fixed Expense Ratio				0.109
(10)	Permissible Loss Ratio				88.2%
(11)	Credibility				0.450
(12)	Credibility Weighted Indication $\{[(8) + (9)] / (10) - 1\} * (11) + ((1 + (6b))^{1.25} - 1) * (1 - (11))$				6.4%

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION

Private Passenger Auto
Indicated Rate Level Change

		Property Damage			
		Calendar Accident Year Ended 12/31/09	Calendar Accident Year Ended 12/31/10	Calendar Accident Year Ended 12/31/11	Total
(1)	Earned Premium at Present Rates	\$ 2,168,161	\$ 1,880,607	\$ 1,826,335	\$ 5,875,103
(2)	Reported Incurred Loss and DCCE	\$ 1,513,110	\$ 1,307,774	\$ 1,233,059	\$ 4,053,943
(3)	Loss Development Factors	0.990	0.995	1.062	
(4)	AOE Factor	1.135	1.134	1.131	
(5)	Developed Losses & LAE (2) x (3) x (4)	\$ 1,700,206	\$ 1,475,601	\$ 1,481,054	\$ 4,656,861
(6)	a. Years of Trend	5.250	4.250	3.250	
	b. Trend Rate	1.2%	1.2%	1.2%	
	c. Loss Trend Factor	1.065	1.052	1.040	
(7)	Trended Loss & LAE (5) x (6c)	\$ 1,810,086	\$ 1,552,337	\$ 1,539,599	\$ 4,902,022
(8)	Trended Loss & LAE Ratio (7) / (1)	0.835	0.825	0.843	0.834
(9)	Fixed Expense Ratio				0.109
(10)	Permissible Loss Ratio				88.2%
(11)	Credibility				0.700
(12)	Credibility Weighted Indication $\{[(8) + (9)] / (10) - 1\} * (11) + ((1 + (6b))^{1.25} - 1) * (1 - (11))$				5.3%