Response to TAIPA 2024 Rate Filing Questions

Please see below for our responses to the questions issued by the TDI relating to the 2024 TAIPA personal and commercial auto rate filings. We have included the original questions for ease of review. In addition to our responses, we have submitted revised rate filing exhibits after TDI's review uncovered mistakes in the original exhibits. Specifically, question 3 of the Commercial Auto portion correctly identified that we had used the development factors excluding the latest valuation in the calculation of both versions of ultimate loss and claim counts. This revision has a negligible impact on the overall commercial auto filing and requires no amendments to the indicated or proposed rate changes.

Secondly, in response to question 2 of the Personal Auto section, we discovered that the personal auto trend exhibits for the PIP, UMBI, and UMPD coverages had been mislabeled. The original exhibits labeled PIP should have been labeled UMBI, and the original UMBI exhibits should have been labeled UMPD. In the revised exhibits dated 4/11/2024, we have included the correct values for each coverage, reordered the proposed rate changes by coverage, and amended the language in the filing memorandum accordingly. The result of this change is that the overall rate impact decreases from +15.1% to +15.0%. We thank you for your review of the filing and apologize for any inconvenience caused by this amendment.

Commercial and Personal Auto

1.) In previous TAIPA rate filings, exposure counts for each coverage were provided but this has not been included in the filings since 2020. Please provide an exhibit which displays the exposure counts for each year from 2020 to present.

Response: The only available measure of PPA exposure counts comes from the Quarterly Detailed Experience (QDE) Reports. Based on comparisons of earned and written premium from other sources with the values contained in the most recently available QDE reports, it was determined that a significant portion of TAIPA's exposures have not been included in the report. We therefore believe the exposure figures below to be understated from their true values. To provide further context, we believe that the TAIPA PPA written premium in 2022 to be near $1M (see our response to question 4), whereas the QDE report shows $114,414.

TAIPA PPA Earned Car Years by Accident Year and Coverage – 12/2022 QDE Report

AY	BI Liability	PD Liability	PIP	UMBI	UMPD
2018	972	972	85	184	184
2019	743	743	55	137	138
2020	460	460	34	79	94
2021	270	270	18	41	43
2022	214	214	14	36	35

According to the memoranda in prior rate filings, the commercial auto exposure figures for TAIPA were provided by ISO. We have no updated information from ISO. The commercial auto exposures below were taken from the 2022 Commercial Auto Liability Benchmark Reports (BMK_LB1_R2022). The figures below are similar for Property Damage Liability and notably lower for the other coverages offered by TAIPA. The three Rate Groups are defined as follows: A = Trucks, Not Zone Rated; C = Publics, Not Zone Rated; and J = All Other (which excludes

all Trucks, all Publics, Garage Dealers, and Garage Services). The exposure base in the Benchmark Report is earned car months, which we have converted below to earned car years.

TAIPA Commercial Auto Bodily Injury Liability Earned Car Years by AY and Rate Group

AY	A	C	J
2012	340	313	345
2013	281	299	219
2014	287	333	257
2015	347	448	434
2016	291	378	543
2017	236	293	685
2018	254	257	782
2019	275	228	867
2020	264	191	835
2021	172	171	1,018

2.) Although no changes are being proposed to the territory rate factors, please provide an exhibit which shows the TAIPA base rates by territory for each coverage, similar to what has been provided in previous filings.

Response: We have included the requested base rates by territory.

3.) The data in your exhibits appear to be on a total limits basis. On the other hand, TAIPA only writes minimum limits policies, so minimum limits data would seem more appropriate if it were available. One can generally expect ground-up severity trends based on minimum limits data to be lower than the corresponding total limits trends. Have you considered the extent to which this could impact the results of your analysis?

Response: The commercial auto exhibits do incorporate minimum limits data, in order to address this discrepancy between TAIPA's losses and the data underlying the rate indications. The PPA indications are based on total limits data, consistent with the support for the past several rate changes filed by TAIPA. When traditional actuarial ratemaking techniques were being used for TAIPA's PPA rate indications, the TDI required that the complement of credibility be the trend in statewide total limits loss costs. As the credibility neared zero, that became the entire basis for the rate indication.

We agree that the ground-up severity trends based on total limits should exceed those based on minimum limits. If corresponding minimum limits claim severity trends were made available, we would readily use those values. Aware of this limitation in the data, we attempted to make conservative selections in the annual pure premium trends, and the proposed rate changes were chosen to fall below the indications.

4.) Can you describe the breakdown between commercial and personal auto risks TAIPA insures? Is one group much larger than the other?

Response: In terms of written premium volume, we believe that roughly 62% of the Association's premiums come from commercial auto risks. That figure is based on the 2022 direct written premiums of $928,016 for PPA and $1,541,202 for commercial auto provided to TAIPA by the

TDI, as part of a data call from the companies writing assigned risk auto business in Texas. Other data sources may suggest materially different results, though we believe these top-level reports from the TDI to be the most reliable source of TAIPA's annual written premium.

5.) Do you have a sense of what might be driving some of the trends you've identified in your filing—for instance, the severity increases for both commercial and personal auto, and the long-term frequency decreases for most coverages for personal auto?

Response: Long-term trends in claim severity would be expected due to general economic inflation, in the absence of any other trends. Over and above economic inflation, social inflation has been often cited as a major driver of increased liability costs for several years. On the other hand, the incorporation of more advanced safety features in automobiles has contributed to a long-term decline in claim frequency.

Commercial Auto Only

1.) In looking at TAIPA's previous filings, prior to 2020 TAIPA insured zone-rated trucking risks but has not insured any since. Does TAIPA have any insight on why it hasn't insured any zone-rated trucking risks since before 2020?

Response: Based on our reading of the prior TAIPA rate filings, TAIPA has not insured zone-rated trucking risks for at least a decade. The 2022 commercial auto benchmark report does include some minor zone-rated trucking exposure in 2016-2018, the equivalent of 1-4 earned car years. We believe that most zone-rated trucking risks would be required to maintain higher limits than those offered by TAIPA.

2.) What kind of commercial auto risks is TAIPA currently writing?

Response: Based on conversations with TAIPA staff, the Association's commercial auto policies mostly fall under the category of trucks, tractors, trailers, and ambulances. Less than ten percent are classified as "public" autos.

3.) In both the reported loss and reported claim count development for each coverage, found on pages 2 and 3 of each coverage's exhibit, ultimate estimates are derived using the complete data as well as data which excludes the last data point. These two ultimate estimates for loss and claim counts then funnel into the coverage's trend analysis on page one of each exhibit. It appears from the data provided that the development factors from the data that excluded the last point were used in both of the ultimate calculations for loss and claim counts. Please explain if this was intentional and provide reasoning if it was.

Response: While we did consider the impact of applying the loss development factors excluding the last valuation to the most current reported losses, it was not our intention to publish the exhibits in this form. We have included revised exhibits that do incorporate the latest loss development factors. The impact of changing these factors is to increase the annual severity trends, most notably for those coverages with the significant increases in the last valuation (i.e., BI, UMBI, and PIP). For those three coverages, we were already placing primary reliance on the annual trends that excluded the latest valuation. For the PD and UMPD coverages, the trend fits have not changed considerably from the original version. Therefore, we do not think it necessary to adjust any annual trend selections in light of this revision.

4.) Your commercial auto analysis implicitly assumes no trend in frequency. As you explain, this is in part due to the unavailability of useful commercial auto frequency data. On the other hand, your personal auto analysis reflects long-term negative frequency trends. For instance, you state on page 4 of the Personal Auto Memorandum that "the smoothed claim frequency values consistently exhibit long-term negative trends for each of the five coverages, aside from Personal Injury Protection." *[See also question 1 in the Personal Auto Only section of this document.]*

Did you consider putting some weight on long-term personal auto frequency trends as a proxy for commercial auto frequency trends, given the unavailability of the commercial auto frequency data? Do you have reason to believe that the factors driving the long-term personal auto frequency declines would not also be applicable on the commercial side?

Response: In general, I would not necessarily expect the trends in claim frequency to be similar between the two lines of business. Anecdotally, if the long-term personal auto frequency decline relates to the widespread incorporation of advanced safety features, I do not know to what extent one should expect the same to be true across the board for commercial auto vehicles.

Personal Auto Only

1.) On page 3 of the Private Passenger Auto Memorandum, you state the following:

"Claim frequency experienced a significant decrease in the midst of the pandemic-related shutdowns, and lower frequency levels generally persisted for several quarters as fewer drivers occupied the roads. ***Since that time, claim frequency values have broadly climbed back to their prior levels and, in some cases, have resumed their pre-pandemic trends (see page 2 of Exhibits 3-7).*** [Emphasis added]"

In the exhibits you cite, though, we see that relative to the fourth quarter of 2019—which was the last quarter unaffected by the pandemic—the latest frequencies from the second quarter of 2023 are still down 5% and 19% for BI and PD, respectively.

When we look at Fast Track data, frequency levels seem to be even lower relative to their pre-pandemic levels than in your exhibits.

For example, according to Texas Fast Track data, rolling one-year paid frequencies for the second quarter of 2023 are 10%, 22%, and 14% lower than in the quarter before the pandemic, for BI, PD, and PIP, respectively. What might the reasons be that the Fast Track frequencies appear more depressed from the pandemic than the frequencies in your exhibits? Does the fact that both these frequencies are still lower than pre-pandemic—which doesn't quite jive with your statement quoted above—have any implications for your analysis? Was your quoted statement informed in part by a review of other sources of data that might paint a different picture?

Response: Our statements were based entirely on the data contained in this analysis, without the influence of outside data sources. When we say that "claim frequency values…have resumed their pre-pandemic trends," we are accounting for the downward trend in claim frequency before the onset of the pandemic. For example, Bodily Injury Liability claim frequency had been declining at an annual rate around 1.7% prior to the pandemic. If we were to extrapolate that trend to forecast the frequency in the latest quarter contained in the experience period, the result is virtually equal to the observed claim frequency in the latest quarter. The claim frequency for Property Damage

Liability has not quite rebounded to its forecasted level based on the pre-pandemic trend. However, two of the pure premium trend observations do use the actual observed frequency values and therefore take into account the lower post-pandemic claim frequency. We would hesitate to speculate on the differences in the Texas Fast Track data without having seen that data source.

2.) In Exhibit 5, Page 3, the PIP severities you've displayed look unusually high—the latest values all exceed $20k. PIP typically has a low limit, which is usually much less than $20k. Given this, do you have a sense for why these severities are so high? For context, in the Texas Fast Track data, PIP severities are generally around or below $4k. Additionally, there's a very large discrepancy between the shape of the PIP frequency plot in Exhibit 5, Page 2, and the corresponding curve from the Fast Track data. In your Exhibit, paid PIP frequency for 2023 Q2 is 36% higher than it was in 2019 Q4; in the Texas Fast Track data, the analogous values is –14%.

What might explain these discrepancies? Can you confirm whether there is a mistake in your exhibit?

Response: We can confirm that this was due to a mistake in the exhibits. Specifically, the labels on the PIP and UM/UIM exhibits were incorrect. The PIP exhibit referenced in your question should have been labeled UM/UIM Bodily Injury. The PIP claim severity in the amended exhibits much more closely resembles the values that you cite from the Texas Fast Track data.

3.) Can you explain in more detail how you derived the smoothed frequency values? We'd like to understand the specifics of this calculation.

Response: The smoothed frequency values are calculated by fitting an exponential curve to the points displayed in blue on the frequency graphs, i.e., excluding those deemed to be distorted during the pandemic era. The independent variable in the fit is the accident quarters, or equivalently any sequence increasing by increments of 0.25. Then a least-squares methodology is used to obtain the slope and intercept of a linear fit to the natural logarithm of the included frequency values. We will readily provide an Excel file containing formulas for the TDI to review upon request.

4.) Can you briefly discuss the extent to which your analysis is prospective versus retrospective in nature? The indexing approach used in past TAIPA filings has been described as retrospective or lagging. Is the same true of this filing?

Response: The same is certainly true of this filing. Rather than forecasting the expected loss levels of the prospective rating period, the methodology employed in this filing (both personal and commercial) is essentially attempting to catch up with the pure premium trends already observed. Even if overall loss costs were to remain completely level after the last quarter of the experience period, TAIPA's rates would need to be increased to account for the previously observed increases in claim costs.