

97-1272

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Statewide Rate Level Changes

<u>Required Coverages</u>	<u>Latest Year Premium at Present Rates</u>	<u>Change</u>
Bodily Injury	\$226,825,644	+4.0%
Property Damage	198,560,973	-12.8%
Subtotal	\$425,386,617	-3.9%
<u>Optional Coverages</u>		
Personal Injury Protection	54,349,442	+44.2%
Uninsured Motorist BI/PD	74,239,564	+19.3% **
Subtotal	\$128,589,006	+29.8%
TOTAL - ALL COVERAGES	\$553,975,623	+3.9%

** Uninsured Motorists recommended rate change includes reduction for tort reform

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Development of Indicated Statewide Rate Level Change

Appendix A
 Sheet 2

	Bodily Injury				
	Accident Year 1993	Accident Year 1994	Accident Year 1995	Accident Year 1996	Total - Weighted 15%-30%-55%
[1] Earned Premium at Historical Rates	\$242,690,142	\$272,372,586	\$226,825,644	\$242,869,401	
[2] Premium Adjustment Factor	1.693	1.479	1.371		
[3] Earned Premium at Present Rates	\$410,915,168	\$402,897,876	\$311,018,675		
[4] Incurred Loss and ALAE	\$251,087,346	\$277,831,381	\$202,836,004		
[5] ULAE Factor	1.113	1.113	1.113		
[6] Incurred Loss and LAE	\$279,543,912	\$309,318,937	\$225,824,084		
[7] Loss Development Factors	1.011	1.033	1.081		
[8] Ultimate Loss and LAE Ratio	0.688	0.793	0.785		
[9] Trending Period In Years	5.667	4.667	3.667		
[10] Prospective Trend to 2/15/99	1.4023	1.3313	1.2603		
[11] Trended Loss and LAE Ratio	0.964	1.056	0.989		1.006
[12] Tort Reform L & ALAE Adjustment Factor (as contained in Order #97-1052)					0.886
[13] Tort Adjusted Trended Loss and LAE Ratio ([11]x[12])					0.891
[14] Allowable Variable Expenses					0.1190
[15] Allowable Fixed Expenses					0.0251
[16] Indicated Rate Level Change	{([13]+[15])/(1.00-[14])} - 1.00				+4.0%

Notes:

Annual loss trend = 7.1%

Loss Trends were applied linearly

Effective Date: 3/1/98

Trend to 3/1/99 (12 mos. after eff date of 3/1/98).

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TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
 Private Passenger Auto
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Appendix A
 Sheet 3

Property Damage

	Accident Year Ended 12/31/93	Accident Year Ended 12/31/94	Accident Year Ended 12/31/95	Total - Weighted 15%-30%-55%
[1] Earned Premium at Present Rates	\$259,148,191	\$254,736,780	\$198,560,973	\$224,501,798
[2] Incurred Loss and LAE	111,270,312	126,448,822	108,713,837	
[3] Loss Development Factors	1.000	0.999	1.004	
[4] ULAE Factor	1.113	1.113	1.113	
[5] Ultimate Loss and LAE Ratio	(2)x[3x(4)]/[1]	0.478	0.552	0.612
[6] Trending Period in Years	5.667	4.667	3.667	
[7] Prospective Trend to 2/15/99	1.3967	1.3267	1.2567	
[8] Trended Loss and LAE Ratio	[5] x [7]	0.668	0.732	0.769
[9] Allowable Variable Expenses				0.119
[10] Allowable Fixed Expenses				0.0251
[11] Indicated Rate Level Change (([8]+[10])/1.00-[9]) - 1				-12.8%

Notes:

Annual loss trend = 7.0%
 Loss Trends were applied linearly Trend to 3/1/99 (12 mos. after eff date of 3/1/98).
 Effective Date: 3/1/98

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TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Development of Indicated Statewide Rate Level Change

Personal Injury Protection

	Accident Year Ended 12/31/93	Accident Year Ended 12/31/94	Accident Year Ended 12/31/95	Total - Weighted 15%-30%-55%
[1] Earned Premium at Present Rates	\$80,328,230	\$71,523,712	\$54,349,442	\$63,398,541
[2] Incurred Loss and LAE	42,211,136	58,728,716	43,892,686	
[3] Loss Development Factors	0.998	1.001	0.989	
[4] LAE Factor	1.168	1.168	1.168	
[5] Ultimate Loss and LAE Ratio	(2)x[3]x[4]/[1]	0.613	0.960	0.933
[6] Trending Period in Years	5.667	4.667	3.667	
[7] Prospective Trend to 2/15/99	1.5327	1.4387	1.3447	
[8] Trended Loss and LAE Ratio	[5] x [7]	0.939	1.381	1.254
[9] Allowable Variable Expenses				0.119
[10] Allowable Fixed Expenses				0.0251
[11] Indicated Rate Level Change (([8]+[10])/1.00-[9]) - 1				+44.2%

Notes:
Annual loss trend = 9.4%
Loss Trends were applied linearly Trend to 3/1/99 (12 mos. after eff date of 3/1/98).
Effective Date: 3/1/98

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TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
 Private Passenger Auto
 Development of Indicated Statewide Rate Level Change

Appendix A
 Sheet 5

Uninsured/Underinsured Motorist

	Accident Year Ended 12/31/93	Accident Year Ended 12/31/94	Accident Year Ended 12/31/95	Total - Weighted 15%-.30%-55%
[1] Earned Premium at Present Rates	\$114,913,049	\$115,436,901	\$74,239,564	\$92,699,788
[2] Incurred Loss and ALAE	55,971,233	68,891,830	51,383,924	
[3] Loss Development Factors	1.000	1.083	1.345	
[4] ULAE Factor	1.113	1.113	1.113	
[5] Ultimate Loss and LAE Ratio	$([2] \times [3] \times [4]) / [1]$	0.720	1.036	
[6] Trending Period in Years	5.667	4.667	3.667	
[7] Prospective Trend to 2/15/99	1.4023	1.3313	1.2603	
[8] Trended Loss and LAE Ratio	$[6] \times [7]$	0.958	1.306	1.120
[9] ULAE Portion	$[8] \times ([4] - 1.00)$			0.127
[10] Trended Loss and ALAE Ratio Prior to Adjustment for Tort Reform		$[8] - [9]$		0.993
[11] Tort Reform Loss and ALAE Reduction *				0.095
[12] Trended Loss and ALAE Ratio Adjusted for Tort Reform		$[10] \times (1 - [11])$		0.899
[13] Trended Loss and LAE Ratio Adjusted for Tort Reform		$[12] + [9]$		1.026
[14] Allowable Variable Expenses				0.119
[15] Allowable Fixed Expenses				0.0251
[16] Indicated Rate Level Change	$(([13] + [15]) / 1.00 - [14]) - 1$			+19.3%

* Assumes 83.33% of UM Is UMBL. $(.114 \times .8333 = .095)$

Notes:
 Annual loss trend = 7.1%
 Loss Trends were applied linearly Trend to 3/1/99 (12 mos. after eff date of 3/1/98).
 Effective Date: 3/1/98

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TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Development of Final Fixed Expense Ratio

(1)	1994 Collected Earned Premiums, Total Market	3,047,057,762
(2)	1994 Earned Exposures, Total Market	7,732,732
(3)	Average 1994 Premium, Total Market [(1) / (2)]	394.05
(4)	Fixed Expense Ratio	0.100
(5)	Fixed Expense per Exposure [(3) x (4)]	39.41
(6)	1994 Collected Earned Premium, Auto Insurance Plan, at Present Rate Level	717,232,000
(7)	1994 Auto Insurance Plan Earned Exposures	806,505
(8)	Average Premium, Auto Insurance Plan [(6) / (7)]	889.31
(9)	Fixed Expenses as a Ratio of Average Auto Insurance Plan Premium [(5) / (8)]	0.044
(10)	Annual Trend in Fixed Expenses	0.033
(11)	Trend in Years from Jan 1, 1994 to Sept 1, 1998	4.667
(12)	Trend Factor [(10) x (11) + 1]	1.154
(13)	Trended Fixed Expense Ratio [(9) x (12)]	0.051
(14)	Offset for Premium Finance Charges	0.026
(15)	Final Fixed Expense Ratio [(13) - (14)]	0.025

Sources:

(1),(2),(6),(7), and (10) are from Schedule AIS-4, Sheet 2 of the prefiled direct testimony of Mr. Schwartz, representing OPIC.

(4) is from Sheet 7.

(11) represents the period from the average policy effective date underlying the calculation of the expense ratios to the effective date of the average policy subject to the new rates. See Finding of Fact 56.

(14) is the offset for premium finance charges. See Finding of Fact 75.

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Calculation of Adjusted Fixed Expense Ratio

(1) General Expenses	4.0%
(2) Other Acquisition Expense	7.7%
(3) Disallowed Expenses	0.2%
(4) Advertising Expenses	0.3%
(5) Adjustment for Farmers Excess Expenses	0.9%
(6) Adjustment for Fewer Services	1.5%
(7) Total Expense Ratio Prior to Adjustment [(1) + (2) - (3) - (4) - (5) - (6)]	8.8%
(8) 1995 Involuntary Earned Premium as Ratio of Total 1995 Involuntary and Voluntary Earned Premium	0.095
(9) Adjustment Factor for Higher Relative TAIPA Fixed Expense Levels	1.153
(10) Total Adjusted TAIPA Fixed Expense Ratio (Prior to Installment Fee Adjustment)	10.0%

Notes:

(1), (2), (3), and (4) are from Schedule AIS-4, Sheet 4, of the prefilled direct testimony of Mr. Schwartz representing OPIC (Schwartz testimony). See Finding of Fact 58.

(5) is from Schedule AIS-4, Sheet 6 of the Schwartz testimony. See Finding of Fact 67.

(6) is from Finding of Fact 71.

(8) is from Exhibit MJM-7, Sheet 5, of the prefilled direct testimony of Mr. Miller representing TAIPA (Miller exhibit).

(9) is from Finding of Fact 61.

(10) is based on the calculation approach shown in the Miller exhibit, as follows, where X is the voluntary expense ratio:

$$\begin{aligned} & [(8) \times (9) + [1 - (8)] \times X = (7)] \\ & [[.095 \times 1.153] + [1 - .095]] \times X = 8.8 \\ & [.1095 + .9050] \times X = 8.8 \\ & 1.0145 \times X = 8.8 \\ & X = 8.7 \\ & 1.153 \times X = 10.0 \end{aligned}$$

<u>Variable Expenses</u>	
(1) Commission and Brokerage	10.0%
(2) Taxes Licenses and Fees	1.9%
(3) Underwriting Profit & Contingencies	0.0%
(4) Total Variable Expenses (1) + (2) + (3)	11.9%
<u>Fixed Expenses</u>	
(7) Adjusted Fixed Expenses	2.5%
(8) Permissible L, LAE and FE Ratio 1.000 - (4)	0.881

Private Passenger Auto
Detail of Expenses

	Liability			Average	Selected
	1993	1994	1995		
Pg 15 Written Premium	3,604,592	3,942,068	4,099,157		
IEE Written Premium	45,674,881	47,726,661	49,828,426		
<hr/>					
Commissions - Pg 15 Ratio to Written	218,681 6.1%	230,059 5.8%	233,780 5.7%	5.9%	10.0%
General Expenses - IEE Ratio to Written	1,899,271 4.2%	1,903,326 4.0%	1,887,604 3.8%	4.0%	4.0%
Other Acquisition - IEE Ratio to Written	3,440,512 7.5%	3,557,270 7.5%	4,040,038 8.1%	7.7%	7.7%
Taxes, Licenses, etc. - Pg 15 Ratio to Written	74,929 2.1%	83,324 2.1%	57,953 1.4%	1.9%	1.9%
Disallowed Ratio	0.1%	0.3%	0.2%	0.2%	0.2%
Advertising Expenses	0.3%	0.3%	0.3%	0.3%	0.3%

TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Calculation of Relativities of TAIPA Rates to Voluntary Benchmark Rates

Required Coverages

	<u>BI</u>	<u>PD</u>	<u>Total</u>
1. Current Relativity to Benchmark Rates	1.923	1.923	1.923
2. TAIPA Premium at Current Rates ('000's)	226,826	198,561	425,387
3. Premium at Benchmark Rates [(2) / (1)]	117,954	103,256	221,210
4. Voluntary Rate Change, Prior to Reflection of Change in Tort Reform	.810	1.150	.969
5. Premium at Revised Voluntary Rate Level, Prior to Reflection of Change in Tort Reform [(3) x (4)]	95,543	118,744	214,287
6. Change in Voluntary Tort Reform Rate Reduction Factor	.961	1.000	.983
7. Premium at Benchmark at Revised Voluntary Rates, After Change in Reduction for Tort Reform [(5) x (6)]	91,817	118,744	210,561
8. TAIPA Rate Change, After Reflection of Tort Reform	1.040	.872	.961
9. Revised TAIPA Premium at 1/20/98 Levels, After Reflection of Tort Reform [(2) x (8)]	235,839	173,095	408,934
10. Indicated Relativity to Voluntary Benchmark Premiums at 1/20/98 Rate Levels, Including Effect of Tort Reform [(9) / (7)]	2.569	1.458	1.942

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TEXAS AUTOMOBILE INSURANCE PLAN ASSOCIATION
Private Passenger Auto
Calculation of Relativities of TAIPA Rates to Voluntary Benchmark Rates

Optional Coverages

	<u>PIP</u>	<u>UM-BI</u>	<u>UM-PD</u>
1. Current Relativity to Benchmark Rates	3.565	3.683	3.183
2. TAIPA Rate Change	1.442	1.193	1.193
3. Voluntary Rate Change	1.065	.722	.722
4. Revised Relativity to Benchmark Rates [(1) x (2) / (3)]	4.826	6.084	5.258