1   **Consumer Advocate RfI CA-FA-01**: *The loss ratios in Line [8] of Exh C-2. Page 1 appear to be*
2   *overstated. Can you confirm that the following is correct?*

The line [2] value for TPL (for example) is 219.30%. It is labeled as "Projected ultimate loss ratio
(**discounted**) ..." However, referring to column (17) of Exhibit B, Sheet 2.1 of the 2013 filing,
219.30% is **undiscounted**. It is prior to the application of the .9203 discount factor, which is
applied in column (18).

If line [2] is undiscounted, then lines [4] and [6] are also undiscounted (see the calculations
below). In line [8], line [6] is divided by the discount factor of .9203, thus "undiscounting" the
already undiscounted loss ratio.

_____

L = projected (undiscounted) incurred loss (L = 14,857,540)
CP = on-level earned premium prior to the 2013 rate increase (CP = 6,774,517)
NP = on-level earned premium after the indicated 2013 rate increase (NP = 19,054,007)
F = fixed expense (F/CP = 11.05%, F = 748,584)
V = variable expense ratio (V = 21.06%)
D = loss discount factor (D = .9203)
PDF = premium discount factor (PDF = .9975)

Line [2] = $\frac{L}{CP}$ = 219.32%

Line [3] = $\left[\frac{\frac{(L \times D)+F}{CP}}{(PDF - V)} \right] - 1 = 181.3\%$

Line [4] = $\frac{[2]}{(1+[3])} = \frac{L}{CP} \div \left[\frac{\frac{(L \times D)+F}{CP}}{(PDF - V)} \right] = 78.0\%$

Line [4] = $L \div \frac{(L \times D)+F}{(PDF-V)}$

3

4   **FA Response to RfI CA-FA-01**:

5   In reviewing this inquiring, we agree that our original interpretation of the prior filing's projected on-
6   level loss ratio (LR) presented in the 2013 rate filing under column (17) as being on a discounted basis
7   was incorrect (please see a snapshot of the applicable exhibit at the top of the next page), and it is, in
8   fact presented on an undiscounted basis. Updating Exh C-2 to reflect this reduces the rate level
9   indications. For comparison purposes, we show the original indication summary and the updated
10   indication summary on the next page in the two tables that follow the "snapshot" of the 2013 exhibit.

11   *Excerpt from 2013 Rating Filing, Exhibit 9, Sheet 2.1*

THIRD PARTY LIABILITY - TOTAL

Acc. Years	Earned Premium (1)	On-Level Factor (2)	Premium Adjust. (3)	On-Level Earned Premium (4)	Reported Inc. Loss (5)	Loss Devel (6)	SEAS (7)	GST (8)	Ultimate Inc. Loss (9)	Proj. Factor (10)	Projected Inc. Loss (11)
2007	1,188,581	1.0000	1.0000	1,188,581	1,905,303	0.9899	1.0000	0.9995	1,885,116	1.2440	2,345,084
2008	1,299,283	1.0000	1.0000	1,299,283	2,039,956	1.0711	1.0000	1.0000	2,184,997	1.2101	2,644,065
2009	1,389,115	1.0000	1.0000	1,389,115	2,321,702	1.1279	1.0000	1.0000	2,618,648	1.1775	3,083,458
2010	1,431,239	1.0000	1.0000	1,431,239	2,675,231	1.1380	1.0000	1.0000	3,044,413	1.1480	3,494,986
2011	1,466,299	1.0000	1.0000	1,466,299	2,058,811	1.4351	1.0000	1.0000	2,954,600	1.1135	3,289,947
Total	6,774,517			6,774,517	11,001,003				12,687,774		14,857,540

Acc. Years	Reported # Claims (12)	Counts Devel (13)	SEAS (14)	GST (15)	Ultimate # Claims (16)	Projected On-Level LR (17)	Rate Level Change (18)	Assigned Credibility (19)	Cred Wtd Rate Level Change (20)
2007	131	1.0000	1.0000	1.0000	131	197.30%	+154.5%		
2008	118	1.0000	1.0000	1.0000	118	203.50%	+162.0%		
2009	132	0.9979	1.0000	1.0000	132	221.97%	+184.5%		
2010	126	0.9952	1.0000	1.0000	125	244.19%	+211.5%		
2011	156	1.0566	1.0000	1.0000	165	224.37%	+187.4%		
Total	663				671	219.32%	+181.3%	0.3522	+66.2%

Notes :

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(4) = (1) x (2) x (3)
(9) = (5) x (6) x (7) x (8)
(11) = (9) x (10)
(16) = (12) x (13) x (14) x (15)
(17) = (11) / (4)
(18) = {[(17) x LDF] + FE} / [PDF - VE - PR] - 1 where PR = 0.00%, FE= 11.05%, VE= 24.06%, LDF= 0.9203, and PDF= 0.9975
(19) = SQRT [(16) / FCS] where FCS= 5,410 ultimate number of claims
(20) = [(19) x (18)] + [1 - (19)] x TR where TR = 1 year's trend = 3.65%
The assumed future average accident date is 24/Jun/2014
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13   *Indication Summary Consistent with Original Filing*

Analysis Summary (NB eff 1-Aug-2014; RN eff 1-Aug-2014)		Third Party Liability	Accident Benefits	Uninsured Automobile	Underinsured Motorist	Collision	Comp	Specified Perils	All Perils	TOTAL
Indication Summary										
FA Average Written Premium, Rolling 12, $s	Exh C-1, row [3]	1,889	40	7	-	1,242	291	126	1,879	2,079
Indicated target rate change (12.0% ROE, leverage 2.0)	Exh C-1, row [22]	95.6%	354.6%	394.9%	-	(10.8%)	10.2%	22.2%	(3.8%)	98.1%
AWP dollar change for Indicated target rate change (12.0% ROE, leverage 2.0	Exh C-1, row [24]	2,709	284	55	-	(121)	27	25	(64)	2,987
Indicated Average Written Premium		4,598	324	62	-	1,121	318	151	1,815	5,066
Rate change selected by FA	Exh C-1, row [34]	50.0%	294.3%	329.3%	-	-	-	-	-	54.1%
selected based on alternate investment yield assumption (2.8%) and assuming 0.0% cost of capital; no change for physical damage multiplier										
AWP dollar change for Rate change selected by FA	Exh C-1, row [36]	1,417	235	46	-	-	-	-	-	1,647
Selected Average Written Premium		3,306	275	53	-	1,242	291	126	1,879	3,726
Alternate rate change basis (0.0% Cost of Capital, leverage 2.0)	Exh C-1, row [29]	75.4%	307.6%	343.8%	-	(20.0%)	(1.2%)	9.6%	(13.7%)	77.6%
AWP dollar change for Alternate rate change basis (0.0% Cost of Capital, leve	Exh C-1, row [31]	2,137	246	48	-	(224)	(3)	11	(232)	2,363
Average Written Premium @ Alternate Return Assumption capped		4,026	286	55	-	1,018	288	137	1,647	4,442

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15   *Indication Summary Consistent Exh C-2 Correction*

Analysis Summary (NB eff 1-Aug-2014; RN eff 1-Aug-2014)		Third Party Liability	Accident Benefits	Uninsured Automobile	Collision	Comp	Specified Perils	All Perils	TOTAL
Indication Summary									
FA Average Written Premium, Rolling 12, $s	Exh C-1, row [3]	1,889	40	7	1,242	291	126	1,879	2,079
Indicated target rate change (12.0% ROE, leverage 2.0)	Exh C-1, row [22]	89.2%	339.5%	369.5%	(10.8%)	10.2%	22.2%	(3.8%)	91.7%
AWP dollar change for Indicated target rate change (12.0% ROE, leverage 2.0	Exh C-1, row [24]	2,528	272	52	(121)	27	25	(64)	2,792
Indicated Average Written Premium		4,417	312	59	1,121	318	151	1,815	4,871
Rate change selected by FA	Exh C-1, row [33]	50.0%	294.3%	329.3%	-	-	-	-	54.1%
AWP dollar change for Rate change selected by FA	Exh C-1, row [35]	1,417	235	46	-	-	-	-	1,647
Selected Average Written Premium		3,306	275	53	1,242	291	126	1,879	3,726
Alternate rate change basis (0.0% Cost of Capital, leverage 2.0)	Exh C-1, row [29]	69.7%	294.1%	321.0%	(20.0%)	(1.2%)	9.6%	(13.7%)	71.9%
AWP dollar change for Alternate rate change basis (0.0% Cost of Capital, leve	Exh C-1, row [31]	1,975	235	45	(224)	(3)	11	(232)	2,189
Average Written Premium @ Alternate Return Assumption capped		3,864	275	52	1,018	288	137	1,647	4,268

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