

July 23, 2021

Background

In response to the Covid-19 pandemic, shelter-in-place emergency orders and reduction in driving across the country, Encompass was a leader in the insurance industry in initiating refunds to our automobile customers. Encompass contacted the California Department of Insurance (“CDI”) on April 5, 2020 regarding our planned refunds and began a series of conversations surrounding Encompass’ Shelter in Place Payback (“SIPP”). Encompass began issuing its first payments to customers during the week of April 13, 2020. The CDI issued a bulletin the same week mandating all admitted carriers in the state issue a payback for auto policies as well as other impacted lines.

On June 12, 2020, Encompass submitted a report to the CDI outlining the paybacks issued for Auto, Motorcycle, and Motorhome for the months of March, April, and May.

On October 1, 2020, Encompass submitted a report to the CDI outlining the paybacks issued for Auto and Motorcycle for the months of June, July, and August.

On February 1, 2021, Encompass submitted a report to the CDI outlining the paybacks issued for Auto for the months of September, October, November and December.

On April 30, 2021, Encompass submitted a report to the CDI outlining the paybacks issued for Auto in the months of January, February and March.

We have completed our assessment of the months of April through June 2021 and have outlined our response in the narrative below and the accompanying data set.

Report outline

As requested by the California Department of Insurance, Encompass has reviewed policy data and has determined no premium paybacks are warranted for the months of April, May, and June 2021. This Memorandum provides support for this position on lines written in Encompass Insurance Company.

Factors considered:

➤ **Easing of shelter-in-place orders and vaccine availability resulting in a near 90% return to pre-order miles driven.**

- Publicly available data has shown that, in the aftermath of the shelter-in-place orders, miles driven declined 35-50% in the first two weeks after those orders were issued. Since shelter-in-place orders have been eased and/or rescinded, miles driven have increased over time and are nearing pre-pandemic levels as vaccine availability becomes more widespread. The latest Traffic Volume Trends report (May 2021) from the US Department of Transportation shows that 2021 cumulative miles driven are up 12.6% relative to the same period in 2020. As shown on Table 5 (page 6) of the attached link, California miles

driven for April 2021 were up 57.2% compared to April 2020, while May 2021 is estimated to be up 31.3% compared to May 2020. Both April and May are down between 5-15% compared to the same time periods in 2019 for California.

1. https://www.fhwa.dot.gov/policyinformation/travel_monitoring/21maytvt/21maytvt.pdf

- We assumed that auto frequencies declined by a similar proportion thereby producing an approximately 10% reduction in loss costs attributable to the decline in miles driven. Encompass auto frequencies for 2Q21 have nearly rebounded to frequencies in 2Q19.

➤ **We also considered other factors that could influence the overall outcome, including the impacts on claim severities, expanded coverage, patterns of premium payments, written premium and investment returns.**

- For example, early reports show that high speed driving has also modestly increased causing accidents resulting in injuries or death to fall more slowly than minor accidents. https://roadecology.ucdavis.edu/files/content/projects/COVID_CH_IPs_Impacts_updated.pdf.
- Severity pressure is also estimated as impacts will likely be on a lag, since parts and labor pressure builds up over time
- Premium adjustment – Annual Mileage is a mandatory rating factor in California. A decline in premium is projected for the following reasons:
 1. Encompass has a verified annual mileage program for renewal business. Prior to each renewal third-party data or customer provided odometer readings will be used to verify an insured's actual annual mileage.
 2. Declines in actual miles driven as a result of shelter-in-place orders will be realized by insureds at renewal and reflected in a lower written premium for the next policy term based on our filed annual mileage rating factors.
 3. Additionally, through our verified mileage program, insureds may endorse their policy mid-term to update their annual mileage to reflect reduced driving.

Private passenger auto

➤ **Weighing the above considerations, private passenger auto will not receive a premium payback for April, May and June 2021.**

- While frequencies are down slightly relative to the same time period in 2019, severities have increased negating any frequency benefit to pure premium

Motorcycle and Motorhome

➤ **Motorcycle and Motorhome will not receive a premium payback for April, May and June 2021.**

- Encompass insures very few motorcycles. As a result, we have limited data to support the premium payback.
- We only had one motorcycle claim in 2019, so our frequency is already very low.
- Most motorcycles are operated as secondary pleasure vehicles which will not be impacted to the same extent as autos. Additionally, ridership typically increases in the spring months which supports the decision to not issue a payback for April, May and June.
- Motorhome paybacks will not be made for April, May and June. Encompass' data does not support paybacks for these months. Additionally, camping has become a popular recreation option as shelter-in-place orders have been lifted countrywide.

Summary

➤ **We will continue to monitor and update the analysis as we consider actions beyond June 2021.**

Based upon considerations regarding the above decline in driving miles (5-15%) relative to same time period in 2019, the assumed decline in frequencies of approximately 10%, and offsetting mitigating factors mentioned above we selected no premium payback for auto, motorcycle and motorhome policyholders.