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Oregon Mutual Insurance

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To: RSBCovid19PR@insurance.ca.gov

Fr: Oregon Mutual Insurance Company

Our response must start with a statement of respect for the law and compliance therewith. Oregon Mutual Insurance Company has a track record and history of respect for and cooperation with our regulators. As a mutual insurance company we are tasked with making prudent decisions with the resources entrusted to us by our member/policyholders.

We have carefully evaluated the wisdom of providing refunds and have consistently come to the conclusion that anticipatory refunds are not the best use of our mutual company's precious assets. As such, we have not and do not intend to announce refunds at this time. Time will give us a better sense of how headwinds, both known and unknown compare to any immediate benefit resulting from shelter in place orders, whether those benefits are real or perceived.

We want you to know we have proactively provided relief to members (policyholders) on an individual basis. For members who are not currently rated in a lower annual mileage tier (low or pleasure mileage) for personal auto rate purposes, we have worked with agents to evaluate member policies and if appropriate amend estimated miles that will be driven in the current policy period. For commercial policies where premiums are based on a sales or a payroll exposure base, we have worked with any agent/members who will have lower than expected annual totals as a result of closure or slowdown in order to adjust premium. These adjustments can be of more financial benefit than any of the refunds we have seen advertised by our competitors. In addition, our assistance is targeted. One size fits all is neither accurate or a wise use of resources. We have a large majority of personal auto policy members who already receive a low mileage / pleasure mileage discounts. We also have commercial fleets with telematics that have shown increased mileage during the orders. To date we have had some disparity in the reduction in claims without a commensurate reduction in incurred loss.

We believe it is too early to determine what the ultimate impact to the company and our loss experience will be as a result of this slowdown. We also do not know what the impact will be once the economy starts to recover. We have already seen signs of increasing frequency as people participate in the reopening of the economy. There are other headwinds that we and others are facing as well. These include slower new business growth, a drop in policy retention on personal lines policies due to members dropping their insurance, lost premium revenue from commercial insureds due to lower receipt levels or going out of business, lower than expected investment income from historically and unprecedented low interest rates,



and potentially large premium write-offs from members who have deferred payment of premiums under orders that prevent cancellation for non-payment of premium and who may walk away or change insurers after the orders are lifted. This will occur despite our willingness to work with members and their agents to work out payment issues. Getting people to pay for protection that has already been given and was not used is difficult. We know those with claims will stay and pay for the coverage but those without claims may not. The more time passes the more potential write-off or collection exposure we will have. This is a recipe for higher loss ratios.

While personal auto frequency is down for us, as it is with our competitors, ultimate loss costs when combined with severity is not yet known. What is known is that average driving speeds are up, the composition of drivers has trended younger, alcohol sales are up, gas prices are down and we are nearing the season of the highest miles driven, all of which suggest that any improvement in frequency could easily be offset by higher average severity as the facts about claims come in. In fact a recent study suggests fatalities per miles driven is up as much as 14% during the pandemic. For lines other than personal auto, any reduced overall exposure has not manifested itself in lower frequency. Our California year to date results look normal. Despite this, we responded to a Department request to reconsider an existing 3.1% rate change for Businessowners policies in light of the impact of the state shelter orders and business closures. We amended the filing to a 0% rate change with an estimated impact of \$450,000. The result is also a rate decrease for the large majority of those insureds.

It should be noted that we are not starting from a position of profitability in the state of California overall and particularly in personal auto. We have been in California since 1923. It is proudly the second state that we entered. As a small regional mutual insurer, our ability to grow can be limited by our ability to build capital which must be achieved through performance as we do not have stockholders and can't raise money by offering stock. In other words, our performance matters and we have had significant underwriting losses over the past 5 years. In particular, our 5 year personal auto loss ratio in California is 83.7%, and 75.6% year to date. Respectfully, while we have a good and constructive relationship with your Department, California is not the easiest state to get needed or timely rate filings approved. During months of higher driving mileage and/or higher losses we do not send customers a bill for additional premium nor do we expect an order from the Department to do so. That is, of course, appropriate because it is addressed through the rate making process where both history and trends are factored in to assure adequacy and stability. That stability is important to us as our A- (Excellent) financial rating was reaffirmed and outlook upgraded to "stable" in January of this year.

In the final analysis, we believe that to announce refunds/credits/dividends/rebates of premium during such uncertain times is contrary to sound insurance principles. In addition with, civil unrest and the resulting claims, wildfire and peak driving season approaching, insurer solvency and competition in a fair marketplace should also be considerations. As we prepare to send this today, we see the East Contra Costa Fire Protection District will no longer save structures from fire. Withdrawn policing, crime, looting, vandalism are all new factors that have increased. To what extent incidents like the "Chaz" takeover of part of a city like Seattle have or will occur in California is yet unknown. Please remember, insurers



don't charge the same premium up front. We can think of several competitors and national carriers advertising refunds/credits that were up to hundreds of dollars more than Oregon Mutual when quoted for some of our current members. In those cases our members saved money up front. Our agents and members overwhelmingly understand this, which is why this has not been a big issue between us and our members. As a mutual company we have the ability to look at our results and determine, through our Board of Directors, whether they exceed the capital needs of the organization such as to merit a dividend to our members/policyholders. Of course, as we have seen, financial and marketing considerations can be part of a company's decision also. Oregon Mutual has provided the assistance we have discussed herein in all of our states without issuing rebates or renewal credits. Certainly future filings may, if the trend continues, lower rate needs in applicable lines.

In summary, we respect the Department and the Commissioner's wishes and yet believe we have and will continue to meet both the spirit of the order and the best interest of our mutual company members through the efforts we are currently making to help members affected without issuing any arbitrary, uniform and premature refunds.

Sincere Regards,

Steven L. Patterson,
President & CEO
Oregon Mutual Insurance Company