

RESPONSE MEMORANDUM

TO

Bulletin 2020-3

As previously communicated, for all programs, Response Indemnity Company of California (“RICC” or “the Company”) has implemented procedures to accommodate insureds impacted by this unprecedented event. These include but are not limited to grace periods, waiving of all late fees, and a letter included with billing statements advising insureds to contact the Company if their employment and income have been directly affected by COVID-19. Further, RICC has implemented procedures to adjust due dates or further adjust mileage as needed to ensure that an insured is able to maintain coverage.

Please find below the current submission for each of RICC’s programs as it relates to the recent directive from the Commissioner’s office.

General Public Non-Minimum Limits Auto Program

The Company’s general public, non-minimum limits auto portfolio has been underperforming loss benchmarks since inception in 2018. Based on an analysis of experience evaluated as of May 31, 2021, that includes experience from the period after implementation of the Governor’s March 19, 2020 Stay at Home Order (the “SAH Order”), the 2020 and 2021 accident years are running at a 104.8% ultimate loss and loss adjustment expense ratio (101.9% for auto liability and 107.9% for auto physical damage), which is considerably higher than the approved 70.3% permissible loss and expense ratio.

Experience evaluated as of May 31, 2021

Calendar/ Accident/ Year	Auto Liability			Auto Physical Damage			Total		
	Earned Premium	Reported Loss Ratio	Projected Ultimate Loss Ratio	Earned Premium	Reported Loss Ratio*	Projected Ultimate Loss Ratio	Earned Premium	Reported Loss Ratio*	Projected Ultimate Loss Ratio
2018	\$2,843,505	127.9%	129.0%	\$2,433,707	109.5%	109.8%	\$5,277,213	119.4%	120.1%
2019	\$9,915,486	128.1%	133.1%	\$8,866,842	114.5%	114.2%	\$18,782,328	121.7%	124.2%
2020	\$11,958,478	82.3%	101.2%	\$11,532,314	112.0%	108.3%	\$23,490,792	96.8%	104.7%
2021	\$4,641,804	63.1%	103.7%	\$4,516,254	112.0%	106.7%	\$9,158,058	87.3%	105.2%
Total	\$29,359,274	99.1%	115.0%	\$27,349,117	112.6%	110.1%	\$56,708,391	105.6%	112.7%
AYs 20-21	\$16,600,282	76.9%	101.9%	\$16,048,568	112.0%	107.9%	\$32,648,850	94.2%	104.8%

**Future salvage and subrogation efforts are expected which will reduce the loss ratio for the 2020 Accident Year to projected levels.*

Comparing claim frequency for the book of business before and after implementation of the SAH Order shows a reduction in the level of reported claims after implementation of the SAH Order; however, even with this improved claim frequency the book of business is underperforming and unprofitable. Given this, we do not believe that offering a premium rebate or reduction would result in a rate that is reasonable and not excessive, inadequate, or unfairly discriminatory. Rather, offering a premium rebate or reduction would result in a rate charged that is inadequate which violates general ratemaking principles.

General Public Minimum Limits and Affinity Motor Club Auto Programs

Considering the immature age of the Company's general public, minimum limits auto program and the actions already taken in rating a significant portion of policies at below average mileage bands, our opinion is that we are complying with the California Commissioner's bulletin.

As history, this program was recently launched in January 2020. The following table summarizes sales volume and the decrease in rated miles that we built into the program since inception. Our plan with this new program is to sell new policies through an established network of independent brokers as well as to offer policies to insureds previously insured with other carriers that are serviced by our MGA partner.

At the beginning of 2020, our MGA partner had 19,384 vehicles insured with other carriers, and those vehicles had an average annual rated mileage of 12,102. A sampling of these policies run through Car Fax data revealed that these insureds drove approximately 12,759 annual miles per public data sources compiled by Car Fax. Due to the similarity of averages between the Car Fax data review and the average rated miles of this book of business, we believe the book of business was priced correctly at the beginning of 2020. However, with the arrival of the pandemic in March 2020 and the corresponding decrease in miles driven, we felt the best way to adjust the pricing of our 6-month insurance policies was to lower the annual mileage on policies that were being offered by RICC through our MGA partner. The following table summarizes the impact and shows, for example, that in March 2020, 871 policies or 1,347 vehicles that were previously rated at an average of 12,204 annual miles, were renewed to RICC with an average of 8,774 rated miles. The difference in premium between 8,774 miles and 12,204 miles is approximately 20%. In April 2020, the difference between now charging the insured for an average of 8,481 miles versus a previous term average of 11,727 miles is a premium difference of approximately 15%. The action of lowering miles on policies that we are offering at renewal is providing insureds, on a go forward basis, with a savings of 15-20%. Columns (b)-(d) of the following table show the average miles rated for new insureds, while columns (e)-(h) show the averages for customers that elected to renew over from other carriers to RICC. Column (i) shows the growth of in-force policies for RICC since program inception.

(a) Month	(b)New Policies Bound	(c)New Vehicles Insured	(d)Avg Rated Miles for New Policies	(e)Renewal Policies Bound	(f)Renewal Vehicles Insured	(g)Prior term avg miles rated	(h) Renewal term avg miles rated	(i)Total In Force Policies
January-20	66	81	11,019					66
February-20	76	86	10,504					163
March-20	14	17	10,676	871	1,347	12,204	8,774	931
April-20	10	15	12,066	915	1,527	11,727	8,481	1,798
May-20	42	70	11,178	960	1,617	12,004	8,414	2,735
June-20	122	135	10,993	932	1,569	11,737	8,172	3,677
July-20	141	222	10,265	928	1,542	11,902	8,190	4,653
August-20	256	430	9,840	1,078	1,686	11,539	8,041	5,701
September-20	310	538	10,231	1,165	2,430	11,977	8,473	6,259
October-20	383	661	9,880	1,769	3,788	11,773	7,438	7,403
November-20	450	772	9,302	1,120	2,410		8,246	7,768
December-20	564	943	9,188	947	1,956		8,557	8,077
January-21	719	1,257	8,740	1,083	1,960		8,578	8,457
February-21	587	1,022	9,040	1,119	2,031		8,652	8,734
March-21	519	896	9,307	1,810	3,613		7,349	8,883
April-21	347	563	9,730	1,188	3,702		7,453	8,827
May-21	264	409	9,850	1,213	2,501		8,161	8,702
June-21	239	397	9,743	1,186	2,285		8,614	8,618
Mar-Sep 20	895	1,427	10,262	6,849	11,718	11,869	8,361	8,567

In summary, during the height of the pandemic from March through September 2020, new policy holders advised their brokers that they were driving an average of 10,262 miles (column (d) subtotal) and the

Company, in response to the knowledge that insureds were driving less during the height of the pandemic, lowered the mileage on renewal policies to an average of 8,361 (column (h) subtotal).

This overview and summary of the Company’s new book of general public, minimum limits auto business provides evidence that RICC appropriately charged its insureds lower than average premiums during the height of the pandemic based on lower than average miles driven, and that no further overall rate adjustments are necessary at the current time. That is, the mileage component of the rating plan for this program explicitly includes miles driven as a rating variable. Thus, in a period where fewer miles are driven, the Company’s general public, minimum limits auto rating plan includes a self-correcting mechanism that adjusts the rate charged for fewer miles driven.

Additionally, based on an analysis of experience evaluated as of May 31, 2021, that includes experience from the period after implementation of the SAH Order, the 2020 and 2021 accident years are running at a 78.7% ultimate loss and loss adjustment expense ratio (71.3% for auto liability and 90.7% for auto physical damage), which is higher than the applicable permissible loss and expense ratio of 70.3% for this program.

Experience evaluated as of May 31, 2021

Calendar/ Accident Year	Auto Liability			Auto Physical Damage			Total		
	Earned Premium	Reported Loss & LAE Ratio	Projected Ult Loss & LAE Ratio	Earned Premium	Reported Loss & LAE Ratio*	Projected Ult Loss & LAE Ratio	Earned Premium	Reported Loss & LAE Ratio*	Projected Ult Loss & LAE Ratio
2020	\$2,286,560	46.5%	65.5%	\$1,414,666	72.7%	72.4%	\$3,701,227	56.5%	68.1%
2021	\$2,211,604	54.0%	77.3%	\$1,369,940	115.5%	109.6%	\$3,581,543	77.5%	89.6%
Total	\$4,498,164	50.2%	71.3%	\$2,784,606	93.8%	90.7%	\$7,282,770	66.9%	78.7%

**Future salvage and subrogation efforts are expected which will reduce the loss ratio for the 2020 Accident Year to projected levels.*

Given the information presented above on reduced renewal premiums resulting from lowered mileage driven assumptions and an evaluation of program profitability with conclusion that the book of business did not generate excess profits, we do not believe that offering a premium rebate or reduction is appropriate or necessary.

Other Business Identified in Bulletin 2020-3

In addition to the personal auto experience discussed above, the Company writes small amounts of other business identified in Bulletin 2020-3, with direct earned premiums in 2020 totaling \$5.0 million.

The Company wrote Commercial Multiple Peril business in 2020, as summarized below. Our belief is that no premium refund is appropriate or necessary for these classes of business.

(1) Liability coverage provided to mobile home parks – it is our belief that the liability exposure in mobile home parks was not reduced as a result of COVID-19 (direct earned premiums in 2020 totaled \$3.2 million).

(2) Liability coverage provided to supermarkets – it is our belief that supermarkets were not impacted by COVID-19 in a negative way (direct earned premiums in 2020 totaled \$0.8 million).

The Company also wrote small amounts of Commercial Liability Insurance in 2020/2021, as summarized below. Our belief is that no premium refund is appropriate or necessary for these classes of business.

(3) Personal Liability and Firearms Legal Defense – not impacted by COVID-19 as the liability remains unchanged (direct earned premiums in 2020 totaled (\$1.1 million).

(4) Photographers General Liability – not impacted by COVID-19 as premiums charged are generally per event (less than \$0.1 million in premiums earned in 2020).

I am available to answer questions or provide additional information as necessary.



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