

PUB (CAC) 1-3

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PUB Approved Issue No:	2b. Ratemaking methodology		
Topic:	Ratemaking methodology		
Sub Topic:			

Preamble to IR (If Any):

Oliver Wyman reviews the pure premium trends in Table 6 that MPI uses to allocate the overall required rate change down to a Major Classification level.

MPI trend from Part V – Claims Incurred, (used to project overall required rate change) compared to Pure Premium trends in Table 6 (used to allocate the overall required rate change down to a Major Classification level):

Coverage	Sub Coverage	Part V – Claims Incurred		RM – Table 6
		Frequency	Severity	Pure Premium
Bodily Injury		-1.25-1.06% implied (project no trend in claim counts, with volume factor of +1.25-1.06% per year)	+4.76%	+2.40%
Property Damage	TP Deductible Transfer	-2.87%	+0.50%	+0.50%
	TP Loss of Use	0.00%	0.00%	
	All Other	-2.31%	3.75%	

Collision	Repair	-1.43%	3.73%- 4.51%	+3.75%
	Total Loss	0.00%	4.62%- 4.25%	
Comprehensive	Hail	-1.25%-1.06% implied	+3.5/3.0%	+2.00%
	Theft	0.00%	+1.25/3.0%	
	Vandalism	0.00%	+2.25/3.25%	
	Glass	+2.75%	+4.04%	
	Rodent	0.00%	+3.5/0.0%	
	All Other	0.00%	+4.0/3.75%	
Income Replacement		Approx. -1.5-1.6% (combination of HTA growth and claim count decrease of about 0.5%)	+4.55%	+0.25%
ABO Indexed		About -2.3%	+4.76%	0.00%
ABO – Non Indexed		-1.25-1.06%	+1.56%	0.00%

Question:

- a) Please confirm that the pure premium trends being discussed are only used to allocate the overall required rate change down to a Major Classification level and any change in these values would only result in offsetting changes between the Major Classes, with zero impact on the overall rate indication.

- b) Please comment on the reasonableness of the selected pure premium trends for each coverage, used for allocation to Major Classification, relative to the selected frequency and severity trends, used for calculating the overall required rate change.
- c) Does consideration of the selected frequency and severity trends, used for calculating the overall required rate change, have any impact on conclusions reached by Oliver Wyman on the reasonableness of the selected pure premium trends used for allocation to Major Classification?
- d) Given the selected frequency and severity trends, as shown in the Claims Incurred section and summarized in the preamble above, why does Oliver Wyman believe 0% trends are appropriate for income replacement and ABO-Indexed?
- e) Please provide any significant observations on the frequency and severity trends as shown in the Claims Incurred section, that are used to calculate the overall required rate change?

Rationale for Question:

To understand CAC's view on the reasonableness of the pure premium trends used for allocation to Major Classification.

RESPONSE:

Oliver Wyman response:

- a) Our analysis considered the data used by MPI in its trend analysis presented in Part VI - RM Appendix 9, Table 6.

We would further note that:

- Under Part VI – Ratemaking, RM.4.3, Item 6, states “Appendix 9 Table 6 - Pure Premium Trend – Other Than PIPP shows the *derivation* of the overall trends, by coverage.” (*emphasis added*) The use of “derivation” is inconsistent with “allocation” used in the Preamble to the IR.
- This analysis that we replicated is consistent with that described in the first three paragraphs in Part VI – Ratemaking, RM.4.3, Item 6.

Consistent with these items, the analysis of pure premium trends supports the *calculation* of the overall rate level, not only the allocation to Major Classification.

[For further explanation, please refer to PUB\(CAC\) 1-3 Appendix 1.](#)

- b) As our assignment was based on an assessment of the assumptions for the overall rate level indication, we did not review the selected deviations for each major classification as described in the fourth paragraph of Part VI – Ratemaking, RM.4.3, Item 6.
- c) See response to part a); and only pure premium trends were selected by MPI for the overall rate level indication.
- d) See response to part a)
- e) See response to part a)

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:



Memo

Date: October 14, 2021
From: Rajesh Sahasrabuddhe
Paula Elliott
Subject: **Clarification of Oliver Wyman Responses to Information Requests**

PUB (CAC) 1-3 requested information related to the commentary on loss trends included in our Actuarial Evidence dated September 24, 2021. We submitted our response on October 4, 2021.

We have had an opportunity to review our response with the PUB's actuary, and we offer the following clarifications:

- We recognize that MPI uses the pure premium trends that we reviewed in allocating the overall rate level change to major classification. MPI presents this analysis in the Ratemaking (RM) section of its filing.
- MPI presents the frequency and severity trends used to develop the overall rate level in the Claims Incurred (CI) section of GRA.
- The trends in the CI section and RM section have similarities. The similarity is consistent with our expectations as MPI develops both sources of trend using the same underlying experience.
 - For example, the "Annual Change %" column of Figure CI-39 shows the same flattening of collision trends in recent years as we observe in Figure 5 of our Evidence.
 - After netting volume changes the forecast "Annual Change %" of 4.75%, the resulting trend is consistent with the 3.75% pure premium trend from the CI section.
 - Consistent with our commentary, MPI does not consider statistical significance in reviewing trends in the CI section.
- The scope of our assignment included a high-level review of actuarial assumptions. A review of pure premium trends presented in the RM section is a reasonable approach to test the rate level change need, when the trend included in the CI section and RM section are based on the same (aggregated) data.
- Therefore, we have concluded that the conclusion presented in our Evidence that MPI's trends are overly conservative continues to be valid.