

## **Filing Overview**

**07/03/2025**

Within FABF-134508379, The MemberSelect Insurance Company (the Company) is requesting a Personal Auto rate change.

The Company is proposing a 10.0% overall decrease to their rate levels before the application of rate capping. With rate capping, we interpret that the overall rate impact on the renewal book will be -1.0% at their next renewal post the filing effective date.

The Company indicates their overall rate need estimate is a 50.6% increase.

The Company is proposing a new and renewal business effective date of 08/01/2025.

Written premium volume for this company is \$14,777,998.

The most recent prior rate filing for the program appears to have been effective 02/01/2025 and had a rate impact of +10%.

The changes to the rating components being proposed include revising base rates. Further, the Company is removing their automatic trend factor program in response to correspondence with TN Department personnel.

## **Review of Overall Rate Level Changes**

The proposed change by coverage is as follows

<b>Coverage</b>	<b>Proposed (Uncapped)</b>	<b>Proposed (Capped)</b>
BI	-8.5%	-1.0%
PD	-10.8%	-1.0%
MED	-16.1%	-1.0%
Coll	-10.4%	-1.0%
Comp	-4.2%	-1.0%
UM/UIM BI	-14.3%	-1.0%
UMPD	-16.0%	-1.0%
CR	-11.1%	-1.0%

The indication analysis and estimate relies on numerous actuarial assumptions, including the following:

- Experience period
- Current Leveling of Historical Premium
- loss trends
- premium trends
- loss development factors
- expense provisions
- profit provision and investment income
- large loss considerations

- catastrophe considerations
- credibility standards

## Experience Period

In preparing the indication, the Company utilized historical data from experience period years ending 2020-2024 fourth quarter.

## Current Leveling of Historical Premium

The Company appears to have adjusted historical premium to account for past rate changes, including the most recently filed change of +10% effective in February of 2025. The traditional parallelogram method appears to have been utilized.

## Loss Trends

For indication estimates, the Company selected loss trends for all coverages using regional data for all products combined. Retrospective loss trends were found separately for each past year used by considering how the average pure premium in historical accident years compared to the most recent accident year in the experience period.

Prospective loss trend selections for the coverages impacted by the proposed rate changes are shown in the following table. The Company appears to consider industry Fast Track Pure Premium trend data which shows some flatter trends in recent quarters relative to the last several years for certain coverages.

Coverage	Selected Loss Trend
Bodily Injury	5.0%
Property Damage	0.0%
Comprehensive	5.0%
Collision	0.0%

## Premium Trends

The data for the premium trend analyses appears to have been based on TN specific data. Retrospective and prospective premium trends were found by considering how the average premium at current rate level from historical accident years compared to the most recent accident year in the experience period.

## Loss Development Factors

Loss development is found for each coverage for accident years ending December 31, 2024, evaluated as of December 31, 2024, based on incurred and paid losses. The Company utilizes methods such as Bornhuetter-Ferguson and Incremental Paid Loss to Earned Premium development to arrive at ultimate losses, The Company's statewide data was used

## Expense Provisions

The Company provided the following expense provision assumption selections. We understand expense ratios are based on information from the Company's insurance expense exhibits of their financial statements.

Coverage	Expense Ratio			Prof. & Cont.
	LAE	Fixed	Variable	Load
BI	16.3%	37.8%	10.9%	14.4%
PD	16.3%	37.8%	10.9%	14.4%
MED	16.3%	37.8%	10.9%	14.4%
UUBI	16.3%	37.8%	10.9%	14.4%
UMPD	16.3%	37.8%	10.9%	14.4%
CP	7.9%	37.8%	10.2%	17.6%
CL	7.9%	37.8%	10.2%	17.6%
CR	7.9%	37.8%	10.2%	17.6%
Total	12.6%	37.8%	10.6%	15.8%

## Profit Provision and Investment Income

The Company provided the following assumptions used in the derivation of the Company's underwriting profit provision assumption.

### LIABILITY

- Underwriting profit provision 14.4%
- Target return on equity is 15%
- Equity to earned premium ratio is 1.137
- Surplus to earned premium ratio is 1.045
- After tax portfolio yield is 2.8%
- Policyholder surplus fund 100.3%
- Mean UEPR to EP is 26%

### PHYSICAL DAMAGE

- Underwriting profit provision 17.6%
- Target return on equity is 15%
- Equity to earned premium ratio is 1.137
- Surplus to earned premium ratio is 1.045
- After tax portfolio yield is 2.8%
- Policyholder surplus fund 9.7%
- Mean UEPR to EP is 30.5%

## Large Loss considerations

We did not identify any specific excess considerations for losses.

## Catastrophe considerations

The catastrophe loss methodology estimates retained losses by trending ISO-based catastrophe frequency and loss ratios, applying a trended Cat-to-XCat ratio to XCat losses, and multiplying the

resulting average retained loss per event by the trended frequency to calculate the annual retained catastrophe load.

## Credibility

Credibility is calculated as the square-root of (incurred claims / standard for full credibility). Standard for full credibility is set differently for each coverage. The complement of credibility is based on a trended expected loss ratio.

## Key Observations

The following are key observations of importance to the Department.

The Company is selecting to take a rate decrease even though the indicated rate need estimate based on Company analysis is +58.9%. The Company explained in correspondence that several factors are contributing to their selected rate change, such as new expense reduction initiatives which are not reflected in the indicated rate need estimate yet and a desire to maintain their competitive position. The Company explained in correspondence that they are willing to accept a higher combined ratio in the near-term in order to grow their book.

The Company has considered past program experience in the development and evaluation of their rate levels.

Generally accepted actuarial methods, which are subject to company specific considerations at times, were utilized to calculate the indicated rate need estimate. Trends and profit provision assumptions are subject to a higher level of uncertainty due to the recent volatile trend environment and that correspondence with the Company suggests management is willing to not realize their selected 16% profit provision in the short term for business reasons on this TN book of business.

The last filing with a rate effect for the program was reported to be a +10% effective in February of 2025.

The rate support appears to include:

- Relatively current data
- Results that do not produce rates that are excessive, inadequate, or unfairly discriminatory after giving consideration to company goals and initiatives combined with alternative actuarial assumptions within a range of reasonable assumptions. We do recommend the Company closely monitor their rate levels for adequacy and ability to meet financial objectives and respond promptly to material inadequacies.

The rate level indications have been reasonably calculated in accordance with actuarial standards of practice.

The filing also satisfies the Tennessee Department of Commerce and Insurance requirement that (a) investment income is reflected in the proposed rates, (b) support for the proposed rates or rate change is provided, and (c) rate impact by territory of the proposed changes is included.

## Qualifications

I, Kathryn Koch, am a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society. I meet the American Academy of Actuaries' applicable education and experience requirements as well as obtain continuing education that qualifies me to perform this review and prepare the Key Observations.

## Risk and Uncertainty / Limitations

Risk and uncertainty exist in estimates of insurance premiums because of the nature of insurance. A filed rating algorithm produces rates that are intended to be estimates of expected future outcomes. Actual profitability on a filed rating algorithm may deviate significantly from expected for several reasons including, but not limited to, the potential impacts of significant one-time catastrophe events, unexpected changes in legal environment or cost trends varying from expectations.

This report has been prepared for the use of the Tennessee Department of Commerce and Insurance. The data and information presented may not be appropriate for any other purpose. Any user of this memorandum must possess a certain level of expertise in actuarial science and insurance so as not to misinterpret the data presented.