American Family Insurance Company

Private Passenger Auto Program

Arizona Filing Memorandum

Filed for review are revisions to Arizona American Family Insurance Company (AFIC) Private Passenger Auto rules and rates. These rates are scheduled to be effective Sept 1, 2025 for both new and renewal business. The revision includes base rate and factor changes. The overall proposed impact is -2.0%, based on an indication of -2.0%. This memo will detail the changes to the current rate plan and will provide information concerning support for the indication.

Private Passenger Auto Rate Level Indication Summary

The following exhibits provide support for the overall rate level indications for the Arizona AFIC Private Passenger Auto program effective Sept 1st, 2025, for both new and renewal business. Exhibit A summarizes the overall rate level indications and selected overall rate changes by coverage. Exhibit B provides overall historical rate changes for AZ AFIC Private Passenger Auto program. Exhibits C through Exhibit J provide further detail into the adjustments to experience used to compute indicated rate changes. Because of the recent launch date of this program, certain assumptions are derived based on the experience of legacy auto products, written in American Family Mutual Insurance Company, S.I. (AFMIC) and/or American Standard Insurance Company (ASIC), or from the combination of all companies, depending on what company or group of companies is most appropriate for each assumption. American Family has noted these cases in the discussion of individual assumptions below.

Development of Indication and Experience Considerations

Introduction

Each of the adjustments that have been made to earned premium and incurred losses to calculate rate level indications is shown, by coverage, in Exhibit C. Additional support is provided in Exhibits D through J.

Premium Adjustments

All premiums in the experience period were adjusted to current rate level. American Family applies the "Parallelogram" method to adjust premiums under the assumption exposures are written uniformly throughout the year.

Exhibit B provides a summary of the historical rate changes that have been addressed in current rate level factors, which can be seen by coverage on Exhibit C.

Exhibit D shows the selection of premium trends by coverage. In this exhibit, supporting premium trend fits are shown. Premium trends for individual coverages are selected based on the experience from auto product written in AFIC for all coverages. The prospective premium trend selections also account for the refinement factor, ensuring alignment with expected market adjustments.

Loss Adjustments

Losses for all coverages for each accident quarter are adjusted for future development and for frequency and severity trend. In addition, losses under the Comprehensive coverage are adjusted to replace actual storm losses for a given accident year with the long-term average annual level of expected storm losses.

Exhibit E shows the actual and fitted changes in loss cost for each coverage. A two-step trending approach is used to select historical and prospective lost cost trends. Loss cost trends are selected based on the experience from auto product written in AFIC for all coverages. The fitted trend lines are used to project loss costs in developing the rate level indication. These fitted trend lines are based on the historical average percentage changes per year. Although the percent change from year to year varies considerably, a percent change is selected to project into the future. When warranted, companywide data is also considered for loss cost selections to take advantage of the increased volume and credibility of companywide data. To the extent that American Family relies on companywide data for selections, actual reliance is noted within the exhibit. Both historical and prospective loss cost trend selections can be found in Exhibit E.

Exhibit F shows how loss development factors that are applied to accident quarter incurred losses are derived. This exhibit shows actual private passenger incurred losses (excluding storms) by development period and the link ratios that result from this data. Loss development factors were derived from the experience of AFIC and AFMIC.

Exhibit G shows the calculation of loss development for UM/UIM coverage. The UM/UIM loss development factors from Exhibit F are highly leveraged, so an additional actuarial methodology is utilized: the Bornhuetter-Ferguson. The final UM/UIM selected loss projections are based on actuarial judgment with consideration given to both of these standard actuarial methodologies.

The final adjustment to losses is unique to the Comprehensive coverage. For this coverage, storm losses are excluded from the accident quarter loss totals. Actual storm losses are replaced with an expected level of storm losses based on a fifteen-year average of annual storm losses, companywide storm trends, and the number of annual units earned (measured similarly to earned car-years). The storm load calculation is based on data from AFIC and AFMIC. Exhibit H displays the details of this calculation.

For coverages that are not fully credible, the projected loss ratio is credibility-weighted with a complement of credibility. The trended permissible loss ratio for a given coverage is used as the complement of credibility. Additionally, the UM loss cost approach is also considered as a complement of credibility.

Expense Information

The final step incorporates the variable expense provisions and provisions for underwriting profit and contingencies. These are used to calculate the permissible loss ratio (PLR), as shown by coverage in Exhibit I. The PLRs are calculated using expense and premium data from AFIC, AFMIC, and ASIC on a combined basis. The PLR is offset for expected fee income.

These profit margins are expected to allow American Family to achieve the desired target return on equity after accounting for investment income as estimated using a discounted cash flow approach.

Policy Administration Constant Indication

The indicated Policy Administration Constant (PAC) per policy used to calculate the PAC indicated rate change in Exhibit C is developed as shown in Exhibit J.

Programs Addressed

With this revision, we are making changes to several rating variables based on univariate analyses and our competitive position. Exhibits K-P contain support for the univariate analyses and competitor support. Changes have been made to the following rating variables:

DriveMyWay (DMW)

With this filing, we are making changes to DMW Introductory, DMW Participation, and DMW Program Discount factors for the BI, COLL, COMP, MED, and PD coverages. Please refer to exhibit K for additional support.

Generational Discount

With this filing, we are making changes to Generational Discount factors for the BI, COLL, COMP, MED, and PD coverages. Please refer to exhibit L for additional support.

Homeownership Discount

With this filing, we are making changes to Homeownership Discount factors for the BI, COLL, COMP, MED, and PD coverages. Please refer to exhibit M for additional support.

Insurance Score Group (ISG)

With this filing, we are making changes to ISG factors for the BI, COLL, and PD coverages. Factors were derived using a univariate analysis. Please refer to exhibit N for additional support.

MilesMyWay/MMW2:

With this filing, we are making changes to MilesMyWay/MMW Discount factors for the BI, COLL, COMP, MED, PD, UIM, and UM coverages. Please refer to exhibit O for additional support.

Multi-Product Discount (MPD)

With this filing, we are making changes to Multi-Product Umbrella Discount for the BI, COLL, COMP, ERS, MED, PD, and RR coverages. Selected factors are based on the consideration of our competitive position in the market. Please refer to the rate pages for the MPD factors.

Prior Insurance Score (PINS)

With this filing, we are making changes to PINS factors for the BI, COLL, COMP, MED and PD coverages. Factors were derived using a univariate analysis. Please refer to exhibit P for additional support.