



"Serving the Insurance Industry"

September 11, 2008

Members of the Florida Board of Governors
c/o Ms. Eugenia Tyus, General Manager
Florida Automobile Joint Underwriting Association
1425 Piedmont Drive East, Suite 201A
Tallahassee, FL 32308

Florida Automobile Joint Underwriting Association
Commercial Automobile Experience Proposal

Dear Board Members:

A review of the latest commercial automobile experience for the Florida Automobile Joint Underwriting Association (FAJUA) has been completed. The details of both the statistical and financial data indications are enclosed for your review.

BACKGROUND

Commercial Auto rates for the FAJUA were last revised effective April 1, 2008 for an overall decrease of 7.3%.

The following table provides a comparison of new applications to the Plan:

	<u>06/07</u>	<u>06/08</u>	<u>% Change</u>
12 Months Ending	793	374	-52.8%
6 Months Ending	299	120	-59.9%
3 Months Ending	128	73	-43.0%
Month Ending	45	23	-48.9%

FINANCIAL DATA INDICATIONS

This indication contains financial data for accident year 2007. While the financial data is not available in sub-line detail, it is more current data. A summary of these indications is attached as Exhibit A.

STATISTICAL DATA INDICATIONS

These indications are based on fiscal accident/calendar years 2006 and 2007. The statistical data enables a detailed breakdown by sub-line. Although the statistical data is not as current as the financial data, the statistical indication has been the primary measurement of rate adequacy.

The fee structure for the Administrative and Claims expense fees paid to the service provider greatly impact the indications (financial and statistical). Due to the decreasing premium volume, the minimum dollar amounts for these fees take effect. These minimums result in significantly higher fees as a percent of premium: the Administrative fee is 35% (the contractual fee is 6%) and the Claims fee is 45% (the contractual fee is 14%).

The new membership fee structure (\$2500 per company versus \$25 per company) also has a large impact on the indication. Miscellaneous expenses, charge-offs, investment income, and all other miscellaneous income (which contains the membership fees) are combined into a net miscellaneous expense (income) provision, which is greatly

affected by the larger membership fees. The result is a net miscellaneous income selection of 40.0%

PROPOSAL

Indicated changes based on statistical data and proposed percent changes by sub-line and coverage are displayed on Exhibit B.

The proposed rate changes reflect the limiting of statewide rate changes by sub-line and coverage to a maximum of +/-25% and were selected based on judgment and the all sub-lines combined relativity to ISO resulting from the indicated changes by coverage. [For example, the current ISO relativity for bodily injury of 2.655 times the indicated adjustment of (1-3.3%) results in an indicated relativity of 2.57. We targeted an ISO relativity of 2.55 for bodily injury and property damage coverages but selected percentage changes in 5% increments.] The personal injury protection indication is driven by extremely poor experience in the Trucks sub-line in the Miami/Dade area. Given the history of fraud in this area, and the fact that the indication excluding Trucks Miami/Dade data is +0.1%, we propose no change for PIP. The proposed changes result in an overall decrease of 3.2%.

AIPSO's Commercial Lines Rating Committee has reviewed the indication and agrees with this proposal.

ADMINISTRATIVE

As required by Section 627.351, the FAJUA polled each member company as to the need for an independent actuarial certification of the FAJUA's rate adequacy. The majority of the respondents voted against an independent certification (74 Not For, 8 For).

ATTACHMENTS

- Exhibit A - Summary of Financial Rate Level Indications
- Exhibit B - Summary of Statistical Rate Level Indications and Proposed Rate Changes

As you are aware, this data must be filed with the Florida Office of Insurance Regulation by September 30th. Please advise us, as soon as possible, as to the action taken by the Board of Governors with respect to this review. We look forward to discussing this review at the meeting. If you have any questions, please feel free to contact me.

Sincerely,



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Florida
Automobile Joint Underwriting Association

Summary of Indicated Percent Changes
Based on Financial Data - Accident Year 2007

Coverage	Premium On-Level	Indicated* Percent Change
Liability and PIP	\$2,988,910	10.5%
<u>Physical Damage</u>	<u>\$3,994</u>	<u>5.2%</u>
Total	\$2,992,904	10.5%

* Indicated rate changes calculated using a proposed effective date of 04/01/2009

