



September 5, 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
Private Passenger Non-Fleet Rate Proposal

Dear Board Members:

The following is a proposal for your review and actions.

BACKGROUND

Private passenger rates for the FAJUA were last revised effective March 1, 2008 for an overall decrease of 5.7%. The table below shows the continued decline in new applications to the FAJUA:

	<u>06/07</u>	<u>06/08</u>	<u>% Change</u>
12 Months Ending	72	18	-75.0%
6 Months Ending	40	7	-82.5
3 Months Ending	20	5	-75.0
Month Ending	11	2	-81.8

As of June 2008, the JUA had 11 in-force private passenger vehicles. Due to the continued decline in volume and the statutory requirement that the JUA's rates be based on experience, we continue to use the blended methodology discussed at last year's September Board meeting. This methodology combines an experience based rate indication with a market comparison. This allows us to give as much weight as possible to the JUA's actual experience (and thus meet the statutory requirement) but also relies on a market comparison to the extent that the JUA's experience is not fully credible (and thus produces an answer that is actuarially sound despite the JUA's small book of business).

Market Comparison

If the JUA volume continues to decline, the blended methodology will rely more and more on the market comparison. Market comparisons compare plan rates to the rates currently available in the voluntary market. Typically, AIPSO attempts to perform a comparison utilizing the rates of the five leading non-standard companies in the state. A rate level 20% higher than the average rate level of these companies is targeted to ensure that a plan remains the market of last resort.

In Florida, however, rather than using the largest non-standard writers, the OIR was able to identify writers that actively pursue non-standard auto business at the margins of the involuntary market (i.e. take-out, keep-out, previously uninsured or excessive incident history). The companies utilized are Direct General, Seminole Casualty, Star Casualty, United Automobile and U.S Security. In addition, rather than targeting a rate level 20% above the average non-standard rate level, last year we are targeting a rate level 100% above for all

coverages except Uninsured Motorists (20% above) for the JUA. The 100% target was based on the historical relationship of the JUA's rates and the average rate of the non-standard writers. This year we have targeted a rate level 75% above the market; this lower target is intended to smooth the transition from an experience based indication to a market comparison.

The comparison is based upon the JUA's territory definitions, and the risk scenario utilized is the OIR's "Platinum A" Rating Example:

- Operators: Married Male Age 40, Married Female Age 40, No Additional Operators; Annual Policy; New Business; Insured for the Previous 3 Years; Purchased BI (10/20), PD (10), PIP (10), MP (1), UM (10/20 Non-Stacked), CM (\$100 Ded), CL (\$250 Ded); Single Car Policy; No violations/accidents in previous 3-years; Pleasure Use; 8,000 miles per year
- Vehicle: Toyota Camry LE; Age Group 1 or Latest Model Year in Manual Pages; Driver's Side Airbag

PROPOSAL

The blended methodology results in an overall indicated change of +23.9%. Similar to last year, we have capped decreases at -25% and increases at 0%. The 0% cap recognizes the fact that the market comparison indicates that decreases are merited. We do not want to implement increases now only to reverse them next year when we rely more heavily on the market comparisons. Rather, we prefer to smooth the changes by taking less than the indicated amounts now, which allows us to moderate the decrease we take next year. That is also the reason why we have proposed -10.7% for Personal Injury Protection despite the indication of +42.4%. The JUA's experience for this coverage is particularly poor, but the market comparison indicates that we are significantly above the market. Our proposed change of -10.7% is intended to smooth the current indication with the indicated change that is anticipated in future reviews that rely more heavily on the market comparison. This results in an overall proposed change of -9.4%.

Administrative

As required by Section 627.351 of the Florida Insurance Statutes, the FAJUA polled each member company of the need for an independent actuarial certification of the FAJUA's rate adequacy. Of the 82 members that responded, the majority voted against an independent certification (74 not for, 8 for).

Attachments

- Exhibit 1 – Summary of Rate Level Changes

Please keep us advised of the actions taken by the Board with respect to this proposal.

Sincerely,



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Florida (09)
Automobile Joint Underwriting Association

SUMMARY OF RATE LEVEL CHANGES

	(1) Calendar Year 2007 Total Limits/All Deductibles Trended On-Level Premium	(2) Indicated Change	(3) Proposed Change
Total Limits Bodily Injury	5,925	-30.1%	-25.0%
Total Limits Property Damage	14,291	10.3%	0.0%
Personal Injury Protection	52,800	42.4%	-10.7%
SUB-TOTAL	73,016	30.2%	-9.8%
Total Limits Medical Payments	112	-44.7%	-25.0%
Total Limits Uninsured Motorists	984	-31.0%	-25.0%
LIABILITY SUB-TOTAL	74,112	29.3%	-10.0%
All Deductible Comprehensive	3,195	-70.7%	-25.0%
All Deductible Collision	10,387	14.3%	0.0%
PHYSICAL DAMAGE SUB-TOTAL	13,582	-5.7%	-5.9%
TOTAL	87,694	23.9%	-9.4%

LIABILITY EXPOSURE GROWTH:

<u>Year</u>	<u>Earned Exposures</u>	<u>Percent Change</u>
2005	1,859	
2006	134	-92.8%
2007	33	-75.2%

CHANGE IN APPLICATION VOLUME (Mar-07 to Mar-08): -63.3%