

Esurance Insurance Company
Private Passenger Automobile Rules
Massachusetts

P10 - Tier

Each policy will be assigned to a risk category at new business based on criteria that are mutually exclusive. The tier assignment will not be changed at mid-term or renewal afterward. The criteria used do not include sex, marital status, race, creed, national origin, religion, age, occupation, income, education, home ownership, principal place of garaging of the vehicle, or credit information contained on a consumer report obtained from a consumer reporting agency.

The criteria are:

- Not at Fault/Comprehensive Claims/NCP's
- Quote Channel
- Driving Record Indicator
- Prior Insurance Category
- Minimum of Prior/Selected BI Limit
- Policy Reissue
- Full Coverage
- Number of Drivers
- Number of Cars
- Number of At-Fault Accidents
- Number of Violations

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Esurance Insurance Company Commonwealth of Massachusetts

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A modification to Esurance Insurance Company's private passenger auto program is submitted for the Department's review. The overall impact of the submitted program changes is +9.0%. The Company requests that this filing apply to all new business policies written on or after December 16th, 2015 and to all renewal policies effective on or after February 4th, 2016. Revised rate manual pages are included to replace those currently on file.

Summary of Changes

1. **Rate Level**

The base rates are offset to arrive at an overall rate level of +9.0%. Please see the "Ratemaking Indication" section below for a summary of how the indication is developed.

2. **Driver Vehicle Factors**

We are proposing Driver Vehicle Factors to maintain adequate rates based on loss experience. The justification for this change can be found in Rate Manual Change Supporting Exhibit 1.

Ratemaking Indication

The ratemaking indications are calculated using the loss ratio method. The following is a discussion of each of the major components to the calculation.

Adjustments to Premiums

All historical premiums in the experience period are brought to the current rate level using an extension of exposures technique. Also, the extension of exposure technique is used to bring premiums to current rate level prior to calculating the changes in average written premium. Massachusetts-specific Esurance data is used in selecting premium trends. These selected trends and the trend data are displayed in Indication Exhibit 5. These selections are used to project the data from the midpoint of the experience period to the midpoint of the future effective period.

Loss Trend

Due to the limited amount of data in Massachusetts, the selected loss trends are developed by coverage considering Massachusetts-specific Esurance data, ISO Industry FastTrack data for Massachusetts and Esurance countrywide trends. These selected trends are displayed in Indication Exhibit 6. These selections are used to project the losses from the average occurrence date of the experience period to the average occurrence date of the future effective period. To avoid drastic trend changes caused by limited amount of data, we capped the frequency and severity trends between -10.0% and 10.0%.

Loss and ALAE Development

Given the Company's limited experience in Massachusetts, the loss development factors derived from our countrywide data are used to develop Massachusetts losses to ultimate. Refer to Indication Exhibit 3.1 for the loss development using the Bornhuetter-Ferguson method and Link Ratio method for different coverages. Losses through June 30th, 2015 are developed to ultimate using countrywide loss development triangles with an evaluation date of June 30th, 2015.

Separate Allocated Loss Adjustment Expense (ALAE) development factors are developed for all liability and physical damage coverages. The ALAE development factors are derived from the aggregate development triangles of countrywide data. The Stanard-Buhlmann method, utilizing the ALAE

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development factors to derive the expected percentage paid-to-date, is then used for major coverages to develop Massachusetts ALAE through June 30th, 2015, evaluated at June 30th, 2015, to ultimate. Refer to

Indication Exhibit 3.2 for the development of each coverage using the Stanard-Buhlmann method and refer to Indication Exhibit 4 for the countrywide ALAE development triangles.

ULAE:

Losses in the experience period for each coverage have been adjusted to account for Unallocated Loss Adjustment Expense (ULAE). A three year average of the ratios of countrywide calendar year ULAE to countrywide calendar year incurred losses and ALAE is used to determine the ULAE provision. The selected ratio is then applied to the losses for each associated coverage for each year used in the formula calculation. The ratios that have been used in this filing are shown in Indication Exhibit 7.

Credibility:

The credibility standard used to determine the indication calculation for each coverage is derived from a credibility procedure based upon the number of paid claims and the distribution of claims for each coverage. The procedure that was used is more fully described in the paper “On the Credibility of the Pure Premium” (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968) by Mayerson, Jones and Bowers. The complement of credibility being used is the trended permissible loss ratio.

Catastrophic Load:

An 8% catastrophic load is applied to Comprehensive coverage. This load is based on competitors’ experience because we launched in the state only about 2 years ago and have very limited catastrophic data.

Permissible Loss Ratio:

The derivation of the permissible loss ratio and the underwriting profit provision is displayed in Indication Exhibits 9.

Schedule of Indication Exhibits

- Indication Exhibit 1 – Indication Summary
- Indication Exhibit 2 – Indication Calculation
- Indication Exhibit 3 – Ultimate Loss and ALAE
- Indication Exhibit 4 – Loss and ALAE Development Triangles
- Indication Exhibit 5 – Premium Trend Factors and Premium Trend Details
- Indication Exhibit 6 – Loss Trend Factors and Loss Trend Details
- Indication Exhibit 7 – Development of ULAE Provision
- Indication Exhibit 8 – Development of Permissible Loss Ratio
- Indication Exhibit 9 – Permissible Loss Ratio Support
- Indication Exhibit 10 – Underwriting Profit Load Calculation
- Indication Exhibit 11 – Investment Income Offset
- Indication Exhibit 12 – Investment Income Yield

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Replacement of Rate Manual Exhibits

- Rate Manual Exhibit 2 – Base Rates
- Rate Manual Exhibit 8 – Driver Vehicle Factors

Rate Manual Change Supporting Exhibits

- Supporting Exhibit 1 – Driver Vehicle Factors - Change Support