
**Proceeding to Designate 2007 Territories
For Motor Vehicle Insurance Rating
Docket No. R2006-03
Proceeding to Fix-and-Establish Private Passenger Automobile
Insurance Rates for 2007; Main Rate
Docket No. R2006-07**

Decision on Proposed Stipulation

Introduction

On May 15, 2006, the Automobile Insurers Bureau (“AIB”) submitted a filing proposing revisions to the assignment of Massachusetts cities and towns to territories for purposes of underwriting motor vehicle insurance.¹ A public hearing occurred on June 8, 2006. The AIB’s witness was cross-examined on June 15. A dispute arose over the production, in response to a discovery request, of certain spreadsheets relating to the effect of rate subsidies on the proposed new territorial assignments. On July 17, the AIB notified the Commissioner that it was withdrawing its filing. On August 2, the AIB was ordered to file a motion if it wished to withdraw its filing. The order also provided that other parties to this proceeding, the State Rating Bureau (“SRB”) and the Attorney General (“AG”), could file responses addressing the AIB’s notice of withdrawal.

The parties thereafter advised the Presiding Officers that they were engaged in settlement discussions. For that reason, no schedule was set for advisory filings by the SRB and the AG and no order was issued on the AIB’s purported withdrawal of its filing.

¹ On May 17, the AIB submitted a two-page supplement to that filing.

On October 3, the parties submitted an executed stipulation to the Commissioner for her approval (the “Proposed Stipulation”).

1. The Substantive Sections of the Proposed Stipulation.

The Proposed Stipulation intends to settle the territorial assignments at issue in this proceeding and the calculation and application of certain rate relativities, an issue that is addressed fully in the Main Rate portion (Docket No. R2006-07) of the *Proceeding to Fix and Establish Private Passenger Automobile Insurance Rates for 2007*. The Proposed Stipulation sets out the parties’ agreements on several distinct issues. Section 1 adopts the territorial assignments set out on pages 116-121 of the AIB’s filing to rate policies that incept on or after April 1, 2007 through March 31, 2009. Section 2 addresses four aspects of the manual rates that are calculated in the Main Rate case: a) relativities; b) credibility; c) rate changes relative to statewide average rate changes; and d) rate subsidies.

Based on the record in the Territories case, the Commissioner has concerns about the provision in the Proposed Stipulation relating to the period for which the proposed territorial assignments would be effective. In accord with longstanding practice, the AIB recommends that those assignments remain in place for two years, through March 31, 2009. The rationale underlying biennial filings is that the underlying data do not change sufficiently quickly to merit annual review of territories. However, the proposal to create new territories for some cities in which Community Insurance Fraud Initiative (“CIFI”) Task Forces have been established acknowledges that their experience is changing; the changes in Lawrence demonstrate that those changes can be substantial. The AIB’s witness, William Scully, testified that experience has been changing rapidly in the CIFI territories, and that it might make more sense to review the experience again in a year, rather than two years. For that reason, she concluded that the Proposed Stipulation should be effective only for the rate year from April 1, 2007-March 31, 2008.

Section 2 (a) and (b) modifies the methodology for determining the class/territory relativities to be used to calculate the 2007 manual rates for coverages A-1/B and A-2, with respect to drivers in rating classes 10 and 15. Section 2 (c) sets mandatory percentage changes from 2006 to 2007 to be applied to the rates for coverages A-1/B and

A-2 for experienced drivers in six cities and towns in which CIFI Task Forces are operating, as well as the ten Boston territories.²

On October 6, the parties were advised that the Commissioner could make no decision about the Proposed Stipulation without reviewing the underlying data on which the parties relied to select the proposed specific rate changes set out in Section 2 © for the six CIFI cities and towns and the individual Boston territories. They were asked to submit data and a statement of the rationale for the selected rate changes by October 11, a date that was later extended, at the AG's request, to October 13.

In response to the October 6 request, the AIB stated that the rate level changes were judgmental negotiated values, not necessarily the result of any specific calculation, and that it considered them "compatible" with supporting data. That data, it noted, is the Accident Year 2005 loss data by city and town for the A-1/B and A-2 coverages that is in the record for establishing 2007 rates. The AIB commented that the proposed rate level changes appeared generally consistent with improvements in the loss factors typically used to evaluate fraudulent activity.

The SRB's response to the October 6 request affirmed that the values in the proposed stipulation were negotiated among the parties and based primarily on judgment. It commnted that reducing rates in the six cities and towns and Boston by a percentage below the statewide average rate reduction was a necessary compromise, and that it agreed with the AIB that the reductions seemed reasonable. The SRB further indicated that the AG had done the calculations that underlie the specific percentage recommendations.

The AG, in his response to the October 6 request, agreed that the rating factors in the stipulation were negotiated values, and stated that all relevant data were in the possession of the Commissioner and the SRB. He also attached an affidavit from an actuary, Stacey Gotham, FCAS, MAAA, with attached charts comparing formula relativities for experienced drivers in classes 10 and 15 by territory for the years 2006 and 2007 and an analysis showing, for Brockton, Lynn, Lawrence and Boston, the ratio of changes in A-1/B and A-2 pure premiums in each city to statewide changes in pure

² Coverage A-1/B is the mandatory basic bodily injury coverage with extra-territorial application; Coverage A-2 is Personal Injury Protection ("PIP").

premium for the years 2003 through 2005. After reviewing the data which, we note, does not address all the sections of the Proposed Stipulation, the Commissioner's concerns about the Proposed Stipulation have not been entirely eliminated. To the extent that Sections (2) (a) and (b) address territorial assignments of individual cities and towns and the methodology for calculating rate relativities for experienced drivers for the A-1/B and A-2 coverages, the proposals appear to be reasonable. The Commissioner is concerned, however, that with respect to Section (2) (c), except for Lawrence, the data submitted by the parties in response to the October 6 Request provide problematic support for the particular additional rate reductions below the statewide average in the six CIFI cities and Boston.

The three-year town data submitted for Lawrence, in which a CIFI Task Force began operating in 2003, differs markedly from the data for Lynn and Brockton, where task forces were established only in mid-2004. Because data for Boston is not broken out by territory, the basis for offering different reductions in those territories is difficult to determine. No three-year data was submitted for Springfield, Lowell or Holyoke.

Nevertheless, the parties agree that the stipulation was the result of negotiations and that it is reasonable. We note that throughout these proceedings each party had available to it the services of qualified actuaries.

On November 9, we held a telephone conference with the parties to address changes to two dates in the Proposed Stipulation: the period for which it would be effective and the approval date in Paragraph (1) of the Conditions section of the document. In the course of the conference, the SRB stated that it had no objections to changing the effective period to April 1, 2007 through March 31, 2008 or to enlarging the date by which the Proposed Stipulation must be approved. The AIB and the AG subsequently notified us that they agreed to these changes. With the changes agreed to after the November 9 telephone conference, we approve the Proposed Stipulation.

2. Other issues

Issues about territorial numbering have been raised periodically in these proceedings. This year, the AIB proposes to create six new territories and assigns them numbers 40 through 45. Although we do not object to the numbering scheme proposed for 2007, we conclude that it is preferable to develop a better system that incorporates the

principle that territories should be numbered sequentially and, at least for the non-Boston territories, assigns the lowest number to the territory with the lowest combined index. It is also reasonable to reconsider the rationale for placing the Boston territories into a separate sequence. Therefore, any approval of the territory numbers proposed this year does not constitute a change in the applicable decision methodology; the parties should be prepared to propose a revised system in the next filing on territories.

3. The Purported Withdrawal of the Filing

The AIB, by letter dated July 17, purported to withdraw its filing on territorial assignments. Because the parties have now entered into a stipulation, we find that the issue is moot.

Conclusion

The Proposed Stipulation presented by the parties on October 3, as revised to reflect that it is to be in effect for one year only, and to reflect a later deadline for approval is hereby approved.

November 14, 2006

Stephen M. Sumner
Presiding Officer

Jean F. Farrington
Presiding Officer

Julianne M. Bowler
Commissioner of Insurance