

---

**Application of Electric Insurance Company to Deviate from the  
Fixed-and-Established Rates for Private Passenger Automobile Insurance  
Docket No. R2005-03**

---

**DECISION**

On January 13, 2005, Electric Insurance Company (“Electric”) applied, pursuant to G.L. c. 175, § 113B, for permission to deviate downward from the rates for private passenger automobile insurance for 2005 that had been fixed and established by the Commissioner of Insurance in a decision dated December 15, 2004. The application requests a five percent downward deviation on all coverages for vehicles assigned to Step 9 of the Safe Driver Insurance Plan (“SDIP”). By notice dated January 18, 2005, a hearing on the application was scheduled for February 1, 2005. (Exhibit 1.)

The Commissioner designated me as the presiding officer for the proceeding. Electric was represented by Barnett D. Ovrut, Esq., and the State Rating Bureau (“SRB”) was represented by Thomas A. McCall, Esq. Caleb Huntington, a mathematician for the SRB, was also present. No other person or entity, including the Attorney General and the Automobile Insurers Bureau, sought to intervene or otherwise participate in the hearing.

Electric’s filing consists of the following documents: a deviation abstract on SRB form DV-1; written testimony of Anne Garside, FCAS, MAAA, Chief Actuary for Electric; and written testimony of Katherine Barnes, FCAS, MAAA, a consulting actuary with the Tillinghast business of Towers Perrin, with attached actuarial analysis. (Exhibit 2.)

In her pre-filed written testimony, which she adopted at the hearing, Ms. Garside states that the proposed deviation will be applied to all insured motor vehicles classified in SDIP Step 9 for policies written in 2005. She specifies that, in applying the proposed deviation, Electric will not distinguish between business it writes directly and business solicited through mass-marketing efforts. Ms. Garside states that, within the time frames established under the recently amended Rules of Operation of Commonwealth Automobile Reinsurers (“CAR”), the deviation will apply to business produced by its exclusive representative producers (“ERPs”) and business that Electric cedes or retains in 2005. She

further testifies that the deviation will apply to all coverages and in all rating territories. Ms. Garside states that Electric does not propose any changes to the SDIP, and notes that, in determining the premium for a policyholder, the deviation will be applied multiplicatively in conjunction with any approved group discounts that Electric offers.

Ms. Garside also states that the requested deviation will allow Electric to reduce premiums for approximately 62 percent of its policyholders who have historically been safe drivers. She notes, as well, that the continuation of a deviation that has been approved in past years will enable Electric to maintain a stable book of business. She testifies that Electric does not have any agreements with other carriers relating to the servicing of its ERP business, and that it is not affiliated with any other insurance company that is authorized to write private passenger automobile insurance in Massachusetts.

Ms. Garside testifies that the proposed deviation will have a marginal impact on Electric's business operations during 2005, and will produce rates that are adequate and just. She asserts that the deviation is reasonable, noting that for calendar years 2001 to 2003 the overall loss ratios for vehicles classified in SDIP Step 9, 48.9 percent, are lower than the 76.7 percent loss ratios for vehicles classified at Steps 10 and above. Further, Ms. Garside testifies that the proposed rates will not be used as a means to attract only those risks that present less hazard of loss than other risks in the same classification. In her opinion, if the application is approved, Electric's premium charges will be adequate, just, reasonable and not unfairly discriminatory.

In her written testimony, Ms. Barnes concludes that her actuarial analysis demonstrates that Electric's requested rate deviation satisfies the statutory requirements set out in G.L. c. 175, §113B, *i.e.*, it will produce rates that are adequate, just, reasonable, and not unfairly discriminatory, and that it will not likely impact Electric's solvency. The actuarial analysis compares Electric's estimated 2005 direct combined ratio for business classified in SDIP Step 9 with the combined ratio underlying the Commissioner's decision on 2005 rates, and concludes that Electric's results imply an indicated overall deviation of -27.2 percent for that Step. Ms. Barnes points out that the indicated deviation is greater than the proposed five percent deviation.

Ms. Barnes, testifying at the hearing, summarized her actuarial analysis and confirmed her conclusion that Electric's deviation request for SDIP Step 9 satisfies the statutory requirements. At the conclusion of the hearing, the SRB stated that without endorsing any particular argument, input or methodology presented by Electric, it did not object to the approval of Electric's deviation request.

### ***Analysis***

The statutory standards applicable to rate deviation requests, set out in G. L. c. 175, §113B, ¶1, require that the Commissioner, before approving a request, hold a hearing and, on the basis of the record, find that the deviation is justified and that the reduced premium charges are adequate, just, reasonable and nondiscriminatory and will not be used as a means of attracting risks which present less hazard of loss than other risks in the same classification. Moreover, ¶1 requires that all deviations shall be uniformly applied throughout the Commonwealth. The Commissioner must consider as well whether the proposal complies with all applicable Massachusetts insurance statutes and regulations.

The word “classification” has been interpreted to include all risks at each SDIP step. *Application of Liberty Mutual Insurance Company*, DOI Docket No. R95-23. As discussed in that decision, this interpretation is consistent with the important goal of encouraging safe driving. Electric has shown a reasonable expectation of reduced costs for risks in the classification for which it seeks a deviation. Furthermore, the evidence shows that the proposed rate deviation will produce rates that are adequate, just, reasonable and nondiscriminatory and will not materially affect the company’s solvency. Electric’s IRIS ratios will not change significantly if the deviations are allowed.

Therefore, after consideration of all the evidence presented, I find that the requested deviation is justified and that the deviated premium charges that Electric desires to use are adequate, just, reasonable and nondiscriminatory, and will not be used by Electric as a means of attracting only such risks as are regarded as presenting less hazard of loss than other risks in the same classification. I find, further, that the deviation will be applied uniformly throughout the Commonwealth. Accordingly, Electric’s request for a five percent downward deviation from the 2005 Massachusetts private passenger automobile insurance rates for insured vehicles rated at SDIP Step 9 is approved.

February 8, 2005

---

Jean F. Farrington, Esq.  
Presiding Officer

This decision may be appealed in the manner and to the extent permitted by G.L. c. 26, §7 and G.L. c. 175, § 113B.