

**TESTIMONY FOR HEARINGS RH 05042665
BEFORE THE CALIFORNIA DEPARTMENT OF INSURANCE**

**Actuarial Analysis of the Rates for the
California Low Cost Insurance Program**

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1. Summary

AIS Risk Consultants, Inc. (AIS) was retained by the Foundation for Taxpayer and Consumer Rights ("FTCR") to prepare an actuarial analysis related to California Department of Insurance ("CADOI") Notice of Hearing RH05042665 "Notice of Proposed Action and Notice of Public Hearing Regarding Loss Cost Automobile Insurance Rates". This notice deals with rates for the bodily injury liability (BI or BIL) plus property damage liability (PD or PDL) coverage at limits of \$10,000 for liability for bodily injury or death to one person / \$20,000 for the cumulative liability for bodily injury or death in one accident / \$3,000 for liability for damage to property ("10/20/3"). It also deals with the rates for the optional coverages of uninsured motorists (UM) at limits of \$10,000/\$20,000 ("10/20") and the medical payments (MP) at a limit of \$1,000.

We have prepared an actuarial analysis of the indicated rates for each of these coverages. Set forth in the table below are the indicated rates from our analysis, along with the current rates.

Indicated and Current Rates Under the Low Cost Automobile Insurance Program

<u>Coverage</u>	<u>Indicated Rates¹</u>	<u>Current Rates</u>
10/20/3 BI : PD rate for Los Angeles	\$351	\$347
10/20/3 BI : PD rate for San Francisco	\$318	\$314
10/20 UM rate for Los Angeles	\$ 64	\$ 64
10/20 UM rate for San Francisco	\$ 39	\$ 39
\$1,000 MP rate for Los Angeles	\$ 28	\$ 26
\$1,000 MP rate for San Francisco	\$ 26	\$ 24

The values for the indicated rates are summarized in Schedule AIS-1, Sheet 1. The California Automobile Assigned Risk Plan (CAARP) recommends an overall rate increase of +19.3%. We recommend an overall rate increase of +1.2%.²

¹ The indicated rates are after the application of the additional premiums required for the CA assessment.

² Our +1.2% rate change and the CAARP LCA rate change of +19.3% are after the application of the additional premiums required for the CA assessment.

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In our analysis we had differences with CAARP in four items of the rate level calculation.³ These differences are in the areas of: (1) loss trends, (2) loss development, (3) underwriting expenses and (4) credibility. The values we used for each item along with CAARP's selected values are shown in Schedule AIS-1, Sheet 3. The rate effect of these differences between AIS and CAARP are shown in Schedule AIS-1, Sheet 2.

2. Overall Ratemaking Methodology

The ratemaking technique used in this analysis to derive the rate level indications is a modified version of the loss ratio method. The loss ratio method has been described as follows:

The loss ratio method develops indicated rate changes rather than indicated rates. Indicated rates are determined by application of an adjustment factor, the ratio of the experience loss ratio to a target loss ratio, to the current rates. The experience loss ratio is the ratio of the experience losses to the on-level earned premium - the earned premium that would have resulted for the experience period had the current rates been in effect for the entire period.

Foundations of Casualty Actuarial Science, Casualty Actuarial Society, p. 88

The modification I have used is to take into account the limited credibility of the reported experience under the Low Cost Automobile Insurance Program. (This is discussed in more detail in Section 7 below). This modification is a commonly used actuarial procedure which reflects that limited experience should not be given full weight in determining the appropriate rate level.

In algebraic terms, the actuarial rate formula (before reflecting credibility) would be as follows:

$$R = \{ [L \times (1 + G)] + F - Ir \} / [1 - V - U + Ip]$$

or

$$R = \{ [L \times (1 + G) + F] - Ir \} / [P + Ip]$$

Where :

³ For other issues in the rate level calculation which are not discussed in this report, it should not be assumed that we are in agreement with the CAARP values or procedures. For these other issues, the impact on the result of the rate level calculation is simply not sufficiently material in the context of this particular filing.

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L = Experience Losses plus Allocated Loss Adjustment Expenses

G = Factor to Include Unallocated Loss Adjustment Expenses

F = Fixed Expenses (e.g., general and other acquisition expenses)

V = Variable Expenses other than Loss Adjustment Expenses
(e.g. commissions, premium taxes, miscellaneous taxes, etc.)

Ir = Investment Income on Loss & LAE Reserves

Ip = Investment Income on Unearned Premium Reserves

U = Underwriting Profit Factor⁴

P = Permissible Loss, Loss Adjustment Expense & Fixed Expense Ratio⁵

R = Actuarial Rate Indication (Before Credibility)

In instances such as the current one, where the experience rate change is not fully credible, the overall rate level change is calculated according to the following formula.⁶

$$RLCF = RLCI1 \times Z + RLCI2 \times (1 - Z)$$

Where :

⁴ The numerical value of the underwriting profit factor used by CAARP and AIS is 0%. This is consistent with the prior rate calculations for this program.

⁵ $P = 1 - V - U$

⁶ See for example "An Introduction to Credibility" by Curtis Gary Dean, Casualty Actuarial Society Forum, Winter 1997, which states (page 58),

The basic formula for calculating credibility weighted estimates is:

$$\text{Estimate} = Z \times [\text{Observation}] + (1-Z) \times [\text{Other Information}]$$

$$\text{and } 0 \leq Z \leq 1$$

<u>Observation</u>	...	<u>Other Information</u>
Indicated Rate Change for Entire State	...	Trend in loss ratio

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RLCF	=	Final rate level change
RLCI1	=	Rate level change indicated from the limited historical data
Z	=	Credibility of the historical data
RLCI2	=	Rate level change indicated from adjusting the current rates forward for trend
1 - Z	=	Credibility assigned to RLCI2

The application of these formulas to derive the indicated rate level for 10/20/3 BI/PD coverage is set forth in Schedule AIS-2, Sheet 1.

For the UM and MP coverages, historical experience is now available under the Low Cost Automobile Insurance Program. The indicated UM and MP rates are derived by the same methods as used for the indicated BI / PD rates and are set forth in Schedule AIS-2, Sheets 2 and 3.

The following sections of this report discuss the various factors that we used in the rate level formula and the differences we have with the CAARP analysis.

3. Experience Period Data Base

CAARP's rate analysis used an experience base for premiums and loss & allocated loss adjustment expenses covering the period from January 1, 2002 to September 30, 2004. This was also the data base experience period used in our analysis.

4. Loss Development

Loss development enters into the calculation by converting the actual reported losses (plus allocated loss adjustment expenses) for each coverage to a projected ultimate basis. The loss development factors used are shown in Schedule AIS-2, Sheet 1, Line (7) and AIS-2, Sheets 2 and 3, Line (5).

Loss development takes into account that the losses (plus allocated loss adjustment expenses) established by insurance companies at a given point in time are not those that will ultimately be paid out by the insurers. The aggregate ultimate loss is the cost of all claims for the historical time period under consideration (e.g., accident year ending 12/31/02), after all occurrences have been reported and settled. The case incurred losses at any given point in time

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consist of the amount paid, plus case reserves on known claims. A case reserve is the estimated value of the unpaid loss on an individual open claim, taking into account the information known at a particular point in time. Different insurance companies can employ different practices in setting case reserves. Mathematically, incurred losses, paid losses and case reserves are related [both on individual claims and aggregated across groups of claims] as follows:

$$\text{Case Incurred Losses} = \text{Paid Losses} + \text{Case Reserves}$$

Reported case incurred losses change over time for two reasons.

First, as more information becomes known about claims, the reserves may change and/or the amount paid may differ from the reserve. The difference between the previous reserve and the revised reserve or actual settlement will cause the reported incurred losses to change over time.

Second, some occurrences may have already taken place which will lead to claims, but they have not yet been reported to the insurance company. These claims are referred to as incurred but not reported (IBNR). These latter reported claims will not be included in earlier evaluations of the case incurred losses which reflect only known claims. As these IBNR claims are reported, the losses known to the insurer will change.

For our rate level calculation, we used the loss development factors derived from CAARP experience.⁷ CAARP's rate level calculation used CAARP development from 21 months to ultimate. However, for the 9 month to 21 month development factor, CAARP used an average of the CAARP loss development and the Low Cost Auto (LCA) loss development for the BI and PD coverages.⁸

Hence, AIS and CAARP used the same loss development factors from 21 months to ultimate applicable to accident year 2003 experience, and from 33 months to ultimate applicable to accident year 2002 experience. However, for the 9 month to ultimate development factor applicable to the accident period (not a full year) from 1/1/04 to 9/30/04, AIS and CAARP used different loss development factors. For the 9 month to 21 month loss development factor AIS relied on the fitted value derived from CAARP experience.⁹ CAARP used a 50% : 50% average

⁷ CAARP's loss development factors are based upon limits of 15/30/5. The LCA program has lower limits of 10/20/3. Loss development factors are generally expected to be numerically smaller at lower limits of coverage. Hence, the use of CAARP loss development to LCA experience can be expected to result in somewhat inflated projected ultimate losses, which will raise the rate level indication.

⁸ For the UM and MP coverages, CAARP relied completely on CAARP loss development experience.

⁹ The 9 month to ultimate development factor equals the 9 month to 21 month development factor times the 21 month to ultimate development factor.

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of the CAARP fitted loss development experience with the LCA loss development factor as calculated by CAARP from 9 months to 21 months. The procedure used by CAARP for loss development is wrong for two reasons.

The first problem with the loss development procedure used by CAARP is that the credibility of the LCA loss development data is extremely limited, and even if that data could be used (which as explained below it cannot in the form used by CAARP), that experience should be given much less than the 50% credibility that CAARP assigned to it. Set forth below is a summary of the amount of LCA experience upon which CAARP gave 50% weight to the loss development experience.

Amount of Experience Underlying LCA Loss Development from 9 to 21 Months

<u>Accident Year At 9 Months of Development</u>	<u>Bodily Injury Liability</u>		<u>Property Damage Liability</u>	
	<u>Dollars of Losses & ALAE</u>	<u>Number of Claims¹⁰</u>	<u>Dollars of Losses & ALAE</u>	<u>Number of Claims¹⁰</u>
2002	\$ 93,680	16	\$ 64,851	41
2003	\$ 256,440	36	\$ 119,065	57
Combined	\$ 350,120	52	\$ 183,916	98
Full Credibility Standard ¹¹		10,623		10,623
Indicated Credibility ¹²		7%		10%

The amount of LCA development experience to which CAARP assigns 50% weight is obviously very limited, having just two data points (accident years 2002 and 2003), very limited dollar losses – about \$350,000 for BI and \$184,000 for PD, a small number of claims – 52 for BI and 98 for PD, and very little mathematically indicated credibility – 7% for BI and 10% for PD. Even if there were no other problem with using the LCA loss development experience (which

¹⁰ The number of claims as of 9 months for accident years 2002 and 2003 was not available in the filing. These values were estimated as the number of claims as of 9/30/04 multiplied by the ratio of the dollars of losses as of 9 months divided by the dollars of losses as of 9/30/04.

¹¹ This is the full credibility standard that is commonly used for trend for private passenger automobile insurance. Trend and development are similar calculations in that both represent the ratio of one set of losses to another set of losses.

¹² Indicated Credibility = Square Root (Number of Claims / Full Credibility Standard)

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there is), it is clear that CAARP's assignment of 50% weight to the very limited LCA loss development experience is inappropriate and inflated.

The second problem with CAARP's use of the LCA development factor from 9 months to 21 months is that it causes a mismatch between the losses and premiums. Calculating loss development factors from 9 months to 21 months, and then applying that ratio to losses evaluated as of 9 months effectively converts the 9 month period to a 12 month period. This happens because in calculating the 9 month to 21 month development factor, the numerator of the calculation -- which is an accident period evaluated as of 21 months -- contains a full accident year consisting of 12 months of experience, whereas the denominator of the calculation -- which is an accident period evaluated as of 9 months -- contains only a partial accident period consisting of 9 months of experience. When this ratio is calculated, the resulting numerical value effectively incorporates a conversion factor from a 9 month to a 12 month period of losses.¹³ Applying this loss development factor to an accident period evaluated as of 9 months effectively results in a value that incorporates 12 months of projected losses. However, the premium value used is based upon only 9 months of experience. Therefore, CAARP's inclusion of LCA development from 9 months to 21 months causes the CAARP rate level calculation to compare 12 months of projected losses from a full accident year from 1/1/04 to 12/31/04, to 9 months of premium from a partial accident year from 1/1/04 to 9/30/04. It should be obvious that comparing 12 months of losses to 9 months of premium, as CAARP's LCA rate calculation does for 2004, will result in an inflated rate level indication.

Under steady state conditions, the loss development factor from 9 months to 12 months will be overstated by about $1.333 = 12 \text{ months} / 9 \text{ months}$. However, since the LCA program has been growing, the amount of overstatement in the 9 to 12 month development factor will be somewhat higher -- perhaps in the range of 1.4 to 1.5, since under conditions of growth relatively more losses will be in the last 3 months of the year than compared to a steady state condition. This expected difference is actually consistent with a comparison of the CAARP fitted loss development from 9 months to 21 months with the LCA development from 9 months to 21 months, as shown in the following table.

¹³ The loss development factor from 9 months to 21 months based upon CAARP experience does not suffer from this problem because it is based upon a fitted value instead of reported experience. The fitted value loss development factor does not include this conversion from a partial accident period of 9 months to a full accident year of 12 months.

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Comparison of CAARP Fitted and LCA Reported 9 to 21 Months Development

<u>Coverage</u>	<u>Loss Development Factor : 9 to 21 Months</u>		<u>Ratio</u>
	<u>CAARP Fitted</u>	<u>LCA Reported</u>	
Bodily Injury Liability	1.045	1.542	1.476
Property Damage Liability	1.063	1.509	1.420

Hence, the apparent difference between the CAARP fitted loss development and the LCA reported loss development from 9 months to 21 months is essentially fully explained by the fact that the CAARP fitted loss development does not include a conversion from a 9 month partial accident period to a 12 month full accident year, while the LCA reported loss development does include such a conversion. Since it is wrong to convert the losses to a 12 month basis, while using premiums that are based upon only 9 months, it is clear that use of the LCA reported 9 to 21 month loss development as calculated by CAARP should not be used in the rate level calculation.

For the previously discussed two reasons, CAARP's procedure of incorporating LCA reported development from 9 months to 21 months in the rate level calculation is incorrect and should be rejected.

CAARP's proposed adjustment to the CAARP fitted loss development -- by averaging in LCA development as calculated by CAARP -- is unreliable, unsupported and not credible. It has the effect of substantially increasing the loss development factors for the 2004 accident period, as shown in the following table.

Comparison of CAARP, to CAARP Adjusted, BI and PD Loss Development Factors

<u>Evaluation</u>	<u>CAARP BI</u>	<u>CAARP & LCA BI</u>	<u>Difference</u>	<u>CAARP PD</u>	<u>CAARP & LCA PD</u>	<u>Difference</u>
9 - ult.	1.085	1.342	23.9%	1.197	1.364	14.0%
21 - ult.	1.038	1.038	0.0%	1.079	1.079	0.0%
33 - ult.	1.005	1.005	0.0%	1.014	1.014	0.0%

The effect of CAARP's inappropriate adjustment to the loss development factors is to increase the indicated rate level change by +6.1%, as shown on Schedule AIS-1, Sheet 2, Line (3).

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5. Loss Trend

Loss trend enters into the calculation by converting the historical losses for each coverage to a prospective cost basis. The loss trend factors used are shown in Schedule AIS-2, Sheet 1, Line (8) and Schedule AIS-2, Sheets 2 and 3, Line (6). The values for these factors are derived in Schedule AIS-4, Sheets 1-7.

In very general terms, the need to use trend in the ratemaking process results from the fact that the experience used to evaluate rates is from an historical period, whereas the rates under consideration will actually be implemented in the future. The common analogy for trend is inflation. That is, it measures the change in the cost of an item during a period of time.

However, whereas inflation in the general economy has just one component (i.e., price per unit), trend for insurance purposes has many components. The two main components are (a) claim severity and (b) claim frequency.

Actuaries measure trend by examining the historical movement of costs for insurance losses. The total trend factor is obtained by adjusting the annual trend for the length of the trend period in years.

In our analysis of trend, we examined the historic annual changes in California private passenger automobile insurance costs over various periods of time, for both BI and PD. A summary of the results is set forth in Schedule AIS-4, Sheet 1. Based upon this analysis, we selected annual insurance cost trends of -1.3% per year for BI and -0.5% per year for PD. We also used the BI selected loss trend of -1.3% per year for the UM and MP coverages. These values are reasonably reflective of the actual change in insurance costs for these coverages over time.

These annual changes in insurance costs were combined with the length of the trend period, in Schedule AIS-2, to derive the total loss trend factor.

The length of the trend period is derived using the following procedure. As an example, the average date of loss during the accident period 1/1/2002 to 12/31/2002 is July 2, 2002. We assumed that the rates from this proceeding would become effective May 1, 2005; stay in place for one year until April 30, 2006; and be based upon annual policies.¹⁴ Under these conditions, these rates will apply to policies written from 5/1/2005 to 4/30/2006, the last policy which will expire on 4/30/2007. The average date of loss covered during the rate period is therefore 5/1/2006 (halfway between 5/1/2005 to 4/30/2007). Hence, there is a time lag of 3.83 years (= 5/1/2006 - 7/2/2002) between the rate period and the average of the experience period. It should be noted that since the effective date May 1, 2005 has already passed and trend is going down,

¹⁴ This was done to be consistent with the CAARP LCA rate filing.

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lengthening the trend period would lower our rate level indications. Adjusting the annual trend in insurance costs by the length of the trend period gives the total trend factor.

Our analysis of trend contains four differences from CAARP.

First, we used more recent California Fast Track loss trend data through December 31, 2004, compared to the June 30, 2004 data used by CAARP. The loss trends in California have been stable over the last four years, but with the more recent periods showing lower (i.e., more negative) loss trends than the earlier periods. We have reflected this with negative loss trends for both BI and PD coverages. In contrast, CAARP applies positive loss trends to both of these coverages.

Second, while our BI trend selection is reasonably consistent with the historical trend data (see Schedule AIS-4, Sheet 1); the BI trends used by CAARP are not. CAARP used a BI claim severity trend that was more positive than the average of the historical values calculated by CAARP, and used a BI claim frequency trend that was less negative than the average of the historical values calculated by CAARP. This is shown in the following table. CAARP's use of excessive BI loss trends results in an inflated rate level change.

Comparison of CAARP Selected BI Loss Trends with Historical Values
Calculated by CAARP Using Fast Track Trend Data through 6/30/04

<u>Number of Data Points</u>	<u>Indicated Annual Trend for</u>		
	<u>Claim Severity</u>	<u>Claim Frequency</u>	<u>Pure Premium</u>
16 pts	+3.6%	-4.4%	-1.0%
12 pts	+3.8%	-3.9%	-0.2%
8 pts	+3.6%	-3.0%	+0.5%
6 pts	+1.4%	-1.4%	0.0%
4 pts	-3.1%	-0.1%	-3.2%
Average	+1.9%	-2.6%	-0.8%
CAARP Selected	+3.0%	-1.5%	+1.5%

Source: CAARP LCA Rate Filing, Appendix 4 and Appendix 5, Sheet 1

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Third, while our PD trend selection is reasonably consistent with the historical trend data (see Schedule AIS-4, Sheet 1); the PD claim frequency trend used by CAARP is not. While CAARP used a PD claim severity trend that is reasonably consistent with the historical data as of 6/30/04 included in the CAARP filing, CAARP ignored the decreasing trend in the PD claim frequency.¹⁵ This is shown in the following table. CAARP, by ignoring the decreasing PD claim frequency, derived an inflated rate level change.

Comparison of CAARP Selected PD Loss Trends with Historical Values
Calculated by CAARP Using Fast Track Trend Data through 6/30/04

<u>Number of Data Points</u>	<u>Indicated Annual Trend for</u>		
	<u>Claim Severity</u>	<u>Claim Frequency</u>	<u>Pure Premium</u>
16 pts	+3.7%	-0.4%	+3.3%
12 pts	+3.0%	-1.1%	+1.9%
8 pts	+2.2%	-2.1%	+0.1%
6 pts	+1.5%	-2.3%	-0.8%
4 pts	+0.8%	-2.6%	-1.8%
Average	+2.2%	-1.7%	+0.5%
CAARP Selected	+2.5%	0.0%	+2.5%

Source: CAARP LCA Rate Filing, Appendix 4 and Appendix 5, Sheet 2

Fourth, we used the BI loss trends for UM and MP coverages whereas CAARP used external data for the MP loss trend. The use of external data for MP fails to account for the decreases in claim frequency as shown in Schedule AIS 4, Sheet 4 for BI. The CAARP loss trend selections overstate the loss severity compared to the more recent data.

A comparison of the annual selected loss trend factors by AIS and CAARP, along with California Fast Track trend through December 31, 2004, is shown in the following table.

¹⁵ While the CAARP filing may appear to indicate that a -2.0% claim frequency trend was used (Appendix 4, Line (2)), CAARP did not actually use that value as can be seen from the NA values in Appendix 4, Line (4) and from the fact that the claim severity trend values in Line (6) are the same as the pure premium trend values in Line (7).

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Comparison of Annual Pure Premium Trends by Coverage

Coverage	Fast Track 16 Points	Fast Track 12 Points	Fast Track 9 Points	Fast Track 8 Points	Fast Track 6 Points	Fast Track Avg.	AIS	CAARP
BI	-0.9%	-0.6%	-0.7%	-1.2%	-3.2%	-1.3%	-1.3%	1.5%
PD	1.8%	0.3%	-1.0%	-1.4%	-2.0%	-0.5%	-0.5%	2.5%
MP							-1.3%	4.5%
UM							-1.3%	1.5%

The excessive loss trends selected by CAARP have the effect of increasing the indicated rate level by +6.9% as shown in Schedule AIS-1, Sheet 2, Line (2).

6. Underwriting Expense Provision

The permissible loss, LAE and fixed expense ratio is compared to the projected loss, LAE and fixed expense ratio based upon the historic experience to determine the indicated rate level change (before credibility). The expense values used in the calculation of the permissible loss, LAE and fixed expense ratio were derived upon an examination of historical expenses for the property casualty insurance industry for California private passenger automobile insurance (Schedule AIS-6).

The difference between AIS and CAARP in the underwriting expenses pertains to general expenses, other acquisition expenses, premium taxes and miscellaneous taxes. The values used by AIS are from the National Association of Insurance Commissioners (NAIC) Study on Profitability and reflect California specific data for taxes, licenses and fees (this includes premium and miscellaneous taxes). Other acquisition expenses and general expenses are allocations of countrywide expenses to California. CAARP used values without any documentation or source notes as shown in Appendix 7 of their filing. CAARP underwriting expenses amount to 25.6% of premium as shown in Line (C9) of Appendix 7. AIS underwriting expenses amount to 24.4% of premium as shown in Schedule AIS-3, Line (C9).

For the other elements of the underwriting expense provision we have accepted CAARP's values. These items include: (1) installment fee revenue, (2) fixed expenses as 75% of general and other acquisition expenses, (3) a 3.5% annual expense trend applied to fixed expenses and (4) variable expenses of 100% of commissions; taxes, licenses and fees; and the remaining 25% of general and other acquisition expenses.

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The indicated average rate change by coverage, before credibility, is calculated using each of the expense provisions and considers investment income from loss reserves and unearned premium reserves attributable to policyholders as shown in Schedule AIS-3.

The undocumented underwriting expenses used by CAARP have the effect of increasing the indicated rate level change by +1.6% compared to our analysis as shown in Schedule AIS-1, Sheet 2, Line (4).

7. Credibility

As previously discussed, the experience for the Low Cost Automobile Insurance Program is not fully credible. The credibility of the experience was calculated according to the following standard actuarial formula :

$$Z = \text{square root (number of claims in the experience base / full credibility standard)}$$

A common and accepted full credibility standard for overall rate level indications is 1,084 claims.¹⁶

The Low Cost Automobile Insurance Program experience data base for BI/PD had 791 claims. Applying the credibility formula gives a credibility value of 85.4%.¹⁷ [Schedule AIS-2, Sheet 1, Line (16)]

The indicated rate level change before credibility for BI/PD is +0.8% [Schedule AIS-2, Sheet 1, Line (14)]. Applying the credibility factor of 85.4% to this, gives an indicated rate level change after credibility of +0.4%.¹⁸ [Schedule AIS-2, Sheet 1, Line (18)]. Indicated rate level changes before and after credibility for UM and MP are derived similarly in Schedule AIS-2, Sheets 2 and 3, respectively.

¹⁶ The December 27, 2002 report prepared by AIPSO regarding the California Low Cost Automobile Insurance Program states (page 1), "A claim count of 1,084 is a standard utilized to ascertain that prior loss history is a good predictor of future losses."

¹⁷ $85.4\% = 100\% \times \text{square root (791 / 1,084)}$,

¹⁸ $+0.4\% = (+0.8\% \times 85.4\%) + (-1.8\% \times 14.6\%)$

The latest experience period is January 1, 2004 to September 30, 2004 and the projected average date of loss is May 1, 2006. In addition, the annual loss trend for BI plus PD combined is $-0.9\% = -1.3\% \times 56.3\% + -0.5\% \times 43.7\%$ (within rounding). The complement of credibility is $-0.9\% \times 1.96$ years or -1.8% . Hence, it is reasonable to use a value of -1.8% for the second term, "RLC12", of the "RLCF" equation discussed in Section 2.

ACTUARIAL ANALYSIS OF THE 10/20/3 BI/PD; 10/20 UM AND 1,000 MP
RATES FOR THE CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM

CAARP gives every coverage complete credibility, even UM and MP coverages which have 20 and 38 claims during the experience periods, respectively. There are simply too few claims to assign 100% credibility to the actual data.

The absence of a credibility standard raises the indicated rate level change by +3.6% compared to our analysis as shown in Schedule AIS-1, Sheet 2, Line (5).

8. Conclusion

We had differences with the CAARP rate level calculation in four items. These differences are in the areas of: (1) loss trends, (2) loss development, (3) underwriting expenses and (4) credibility. The values we used for each item along with CAARP's selected values are shown in Schedule AIS-1, Sheet 3. The following table shows the rate effect of these differences.

Rate Effect of Differences Between AIS and CAARP*

<u>Item</u>	<u>Effect</u>
Loss Trend	6.9%
Loss Development	6.1%
Underwriting Expenses	1.6%
Credibility	3.6%

* The specific numerical value of the rate effect should be considered approximate, since the exact value depends on the order in which the calculations are performed.

Based upon our analysis we derived indicated rates for the BI/PD, UM and MP coverages set forth in the CADOI Notice of Hearing RH05042665 "Notice of Proposed Action and Notice of Public Hearing Regarding Loss Cost Automobile Insurance Rates". These indicated rates, along with the current rates are set forth in the following table.

ACTUARIAL ANALYSIS OF THE 10/20/3 BI/PD; 10/20 UM AND 1,000 MP
RATES FOR THE CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM

Indicated and Current Rates Under the Low Cost Automobile Insurance Program

<u>Coverage</u>	<u>Indicated Rates</u>	<u>Current Rates</u>
10/20/3 BI : PD rate for Los Angeles	\$351	\$347
10/20/3 BI : PD rate for San Francisco	\$318	\$314
10/20 UM rate for Los Angeles	\$ 64	\$ 64
10/20 UM rate for San Francisco	\$ 39	\$ 39
\$1,000 MP rate for Los Angeles	\$ 28	\$ 26
\$1,000 MP rate for San Francisco	\$ 26	\$ 24

These indicated rates are actuarially sound and are in compliance with our understanding of the applicable statutes.

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Rate Effect of Differences Between AIS and CAARP

<u>Item</u>	<u>Rate Change*</u>	<u>Effect</u>
(1) AIS Indicated Rate Change	1.2%	
(2) Loss Trend		6.9%
(3) Loss Development		6.1%
(4) Underwriting Expenses		1.6%
(5) Credibility		3.6%
(6) CAARP Indicated Change	19.3%	

Note: The specific numerical value of the rate effect depends on the order in which the calculations are performed.

* Includes 0.8% for special assessment.

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Comparison of Selected Values Between AIS and CAARP

<u>Category</u>	<u>AIS Selected</u>	<u>CAARP Selected</u>
<u>(1) Average Annual Loss Trend*</u>		
BI	-1.3%	1.5%
PD	-0.5%	2.5%
UM	-1.3%	1.5%
MP	-1.3%	4.5%
<u>(2) Loss Development</u>		
BI 01/01/2004 to 9/30/2004	1.085	1.342
PD 01/01/2004 to 9/30/2004	1.197	1.364
<u>(3) Underwriting Expenses</u>		
General & Other Acquisition Expense	0.098	0.111
Premium Taxes	0.026	0.024
Miscellaneous Taxes	0.000	0.003
<u>(4) Credibility Assigned to Actual Experience</u>		
BI/PD (791 claims)	85.4%	100.0%
UM (20 claims)	13.6%	100.0%
MP (38 claims)	18.7%	100.0%

Source:

AIS Selections: Schedule AIS-2, Sheets 1-3 and Schedule AIS-3

CAARP Selections: Filing, Exhibits 2-4 and Appendix 7

*CAARP's average annual loss trend over the period 1/1/2002 to 9/30/2004 which varies by the experience year.

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Derivation of BI / PD Indicated Rate Level Change and Rates

(1) Accident Period	(2) Earned Premium	(3) Incurred Losses & ALAE			(6) Loss & ALAE Ratio
		B.I.	P.D.	Total	
01/01/2002 to 12/31/2002	\$764,824	\$289,525	\$152,675	\$442,200	57.8%
01/01/2003 to 12/31/2003	\$1,589,785	\$656,249	\$444,736	\$1,100,984	69.3%
01/01/2004 to 09/30/2004	\$1,684,431	\$539,920	\$462,850	\$1,002,771	59.5%
Combined	\$4,039,040	\$1,485,694	\$1,060,261	\$2,545,955	63.0%
(7) Loss Development Factor					
01/01/2002 to 12/31/2002		1.005	1.014		
01/01/2003 to 12/31/2003		1.038	1.079		
01/01/2004 to 09/30/2004		1.085	1.197		
(8) Trend Factor to:05/01/2006					
	<u>Years</u>	<u>Annual trend</u>			
		<u>BI</u>	<u>PD</u>		
01/01/2002 to 12/31/2002	3.83	-1.3%	-0.5%	0.951	0.981
01/01/2003 to 12/31/2003	2.83	-1.3%	-0.5%	0.964	0.986
01/01/2004 to 09/30/2004	1.96	-1.3%	-0.5%	0.975	0.990
(9) Law Effect 2002 AY BI					
		1.015			
(10) Unallocated Loss Adjustment Expense Factor					
		1.116	1.124		
(11) Projected Premiums					
01/01/2002 to 12/31/2002				\$588,039	
01/01/2003 to 12/31/2003				\$1,447,171	
01/01/2004 to 09/30/2004				\$1,663,223	
Total				\$3,698,433	
(12) Projected Losses and Loss Adjustment Expenses					
01/01/2002 to 12/31/2002		\$313,664	\$170,726	\$484,390	
01/01/2003 to 12/31/2003		\$732,164	\$531,393	\$1,263,557	
01/01/2004 to 09/30/2004		\$636,888	\$616,207	\$1,253,095	
Total				\$3,001,042	
(13) Projected Loss & Loss Adjustment Expense Ratio					
01/01/2002 to 12/31/2002					82.4%
01/01/2003 to 12/31/2003					87.3%
01/01/2004 to 09/30/2004					75.3%
Total					81.1%
(14) Initial Indicated Rate Level Change					
					0.8%
(15) Number of Claims					
					791
(16) Credibility					
					85.4%
(17) Complement of Credibility					
					-1.8%
(18) Credibility Weighted Rate Level Change					
					0.4%
(19) Proposed 10/20/3 Rate - Los Angeles excluding Additional Assessment					
					\$348
(20) Proposed 10/20/3 Rate - San Francisco excluding Additional Assessment					
					\$315

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Derivation of UM Indicated Rate Level Change and Rates

(1) <u>Accident Period</u>	(2) <u>Earned Premium</u>	(3) <u>Incurred Losses & LAE UM</u>	(4) <u>Loss & ALAE Ratio</u>
01/01/2002 to 12/31/2002	\$0	\$0	0.0%
01/01/2003 to 12/31/2003	\$70,666	\$73,958	104.7%
01/01/2004 to 09/30/2004	\$100,875	\$68,226	67.6%
Combined	\$171,542	\$142,184	82.9%
 (5) Loss Development Factor			
01/01/2002 to 12/31/2002		1.011	
01/01/2003 to 12/31/2003		1.037	
01/01/2004 to 09/30/2004		1.063	
 (6) Trend Factor to:05/01/2006			
	<u>Years</u>	<u>Trend</u>	
01/01/2002 to 12/31/2002	3.83	-1.3%	0.951
01/01/2003 to 12/31/2003	2.83	-1.3%	0.964
01/01/2004 to 09/30/2004	1.96	-1.3%	0.975
 (7) Unallocated Loss Adjustment Expense Factor			
		1.116	
 (8) Projected Premiums			
01/01/2002 to 12/31/2002		\$0	
01/01/2003 to 12/31/2003		\$70,666	
01/01/2004 to 09/30/2004		\$100,875	
Total		\$171,542	
 (9) Projected Losses and Loss Adjustment Expenses			
01/01/2002 to 12/31/2002		\$0	
01/01/2003 to 12/31/2003		\$82,429	
01/01/2004 to 09/30/2004		\$78,835	
Total		\$161,264	
 (10) Projected Loss & Loss Adjustment Expense Ratio			
01/01/2002 to 12/31/2002			ERR
01/01/2003 to 12/31/2003			116.6%
01/01/2004 to 09/30/2004			78.2%
Total			94.0%
 (11) Initial Indicated Rate Level Change			
			13.8%
 (12) Number of Claims			
			20
 (13) Credibility			
			13.6%
 (14) Complement of Credibility			
			-2.5%
 (15) Credibility Weighted Rate Level Change			
			-0.3%
 (16) Proposed 10/20/3 Rate - Los Angeles excluding Additional Assessment			
			\$64
 (17) Proposed 10/20/3 Rate - San Francisco excluding Additional Assessment			
			\$39

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Derivation of Medical Payments Indicated Rate Level Change and Rates

(1) <u>Accident Period</u>	(2) <u>Earned Premium</u>	(3) <u>Incurred Losses & LAE MP</u>	(4) <u>Loss & ALAE Ratio</u>
01/01/2002 to 12/31/2002	\$0	\$0	0.0%
01/01/2003 to 12/31/2003	\$11,549	\$16,495	142.8%
01/01/2004 to 09/30/2004	\$20,947	\$24,722	118.0%
Combined	\$32,496	\$41,218	126.8%
 (5) Loss Development Factor			
01/01/2002 to 12/31/2002		0.946	
01/01/2003 to 12/31/2003		0.914	
01/01/2004 to 09/30/2004		0.902	
 (6) Trend Factor to:05/01/2006			
	<u>Years</u>	<u>Trend</u>	
01/01/2002 to 12/31/2002	3.83	-1.3%	0.951
01/01/2003 to 12/31/2003	2.83	-1.3%	0.964
01/01/2004 to 09/30/2004	1.96	-1.3%	0.975
 (7) Unallocated Loss Adjustment Expense Factor			1.116
 (8) Projected Premiums			
01/01/2002 to 12/31/2002		\$0	
01/01/2003 to 12/31/2003		\$11,549	
01/01/2004 to 09/30/2004		\$20,947	
Total		\$32,496	
 (9) Projected Losses and Loss Adjustment Expenses			
01/01/2002 to 12/31/2002		\$0	
01/01/2003 to 12/31/2003		\$16,204	
01/01/2004 to 09/30/2004		\$24,244	
Total		\$40,447	
 (10) Projected Loss & Loss Adjustment Expense Ratio			
01/01/2002 to 12/31/2002			ERR
01/01/2003 to 12/31/2003			140.3%
01/01/2004 to 09/30/2004			115.7%
Total			124.5%
 (11) Initial Indicated Rate Level Change			52.9%
 (12) Number of Claims			38
 (13) Credibility			18.7%
 (14) Complement of Credibility			-2.5%
 (15) Credibility Weighted Rate Level Change			7.9%
 (16) Proposed 10/20/3 Rate - Los Angeles excluding Additional Assessment			\$28
 (17) Proposed 10/20/3 Rate - San Francisco excluding Additional Assessment			\$26

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Notes For Derivation of Indicated Rate Level Change

Schedule AIS-2, Sheet 1

Notes:

- (1) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (2) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (3) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (4) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (5) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (6) : (5) / (2)
- (7) : AIPSO Analysis dated January 6, 2005; Appendix 3, Sheets 1 and 3, Line (C)
- (8) : Schedule AIS-4, Sheet 1
- (9) : Filing, Exhibit 2, Sheet 1, Col. (7)
- (10) : Filing, Exhibit 2, Sheet 1, Cols. (4) and (11)
- (11) : Filing, Exhibit 2, Sheet 1, Col. (2)
- (12) : $BI = (3) \times (7) \times (8) \times (9) \times (10)$, $PD = (4) \times (7) \times (8) \times (10)$
- (13) : (12) / (11)
- (14) : Schedule AIS-3
- (15) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (16) : Square root [(15) / 1,084]
- (17) : Loss trend from midpoint of latest experience period to May 1, 2006.
- (18) : $(14) \times (16) + [1.0 - (16)] \times (17)$
- (19) : [1 + (18)] X Current Rate { see Filing, Exhibit 2, Line (20) }
- (20) : [1 + (18)] X Current Rate { see Filing, Exhibit 2, Line (20) }

Schedule AIS-2, Sheet 2 & Schedule AIS-2, Sheet 3

- (1) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (2) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (3) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (4) : (3) / (2)
- (5) : AIPSO Analysis dated January 6, 2005; Appendix 3, Sheets 5 and 6
- (6) : Schedule AIS-4, Sheet 1
- (7) : Filing, Exhibits 3 and 4, Sheet 1, Col. (7)
- (8) : Filing, Exhibits 3 and 4, Sheet 1, Col. (4)
- (9) : (3) X (5) X (6) X (7)
- (10) : (9) / (8)
- (11) : Schedule AIS-3, Line (G)
- (12) : AIPSO Analysis dated January 6, 2005; Appendix 1
- (13) : Square root [(12) / 1,084]
- (14) : Loss trend from midpoint of latest experience period to May 1, 2006.
- (15) : $(11) \times (13) + [1.0 - (13)] \times (14)$
- (16) : [1 + (15)] X Current Rate { see Filing, Exhibits 3 and 4, Line (15) }
- (17) : [1 + (15)] X Current Rate { see Filing, Exhibits 3 and 4, Line (15) }

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Indicated Rate Level Change Before Credibility and Reflecting Investment Income

	<u>BI/PD</u>	<u>Medical Payments</u>	<u>UMBI</u>
A. Indicated loss and loss adjustment expense ratio	0.811	1.245	0.940
B. Trended Fixed Expense Ratio	0.079	0.079	0.079
C. Expenses			
1) Commission	0.120	0.120	0.120
2) General & Other Acquisition Expense	0.098	0.098	0.098
3) Premium Taxes	0.026	0.026	0.026
4) Miscellaneous Taxes	0.000	0.000	0.000
5) Contingency	0.000	0.000	0.000
6) Cost of Capital	0.000	0.000	0.000
7) Premium Charge-Off	0.003	0.003	0.003
8) Installment Fee Revenues	-0.005	-0.005	-0.005
9) Totals	0.242	0.242	0.242
10) Non-Variable Expense	0.074	0.074	0.074
11) Variable Expenses [(9)-(10)]	0.169	0.169	0.169
D. Unearned Premium Reserve			
1) Ratio of Unearned to Earned Premium	0.500	0.500	0.500
2) Deduction for Prepaid Expenses	0.098	0.098	0.098
3) Deduction for Delayed Remission of Premium	0.140	0.140	0.140
4) Ratio of Investible Unearned Premium to Earned Premium	0.263	0.263	0.263
E. Investment Yield Rate	5.6%	5.6%	5.6%
F. Mean Loss Reserve	0.828	0.428	1.070
G. Indicated Average Rate Change	0.8%	52.9%	13.8%

NOTES:

A: Schedule AIS-2, Sheet 1, Line (13) Total and Sheets 2 and 3 Line (10) Total

B: C10 x 1.078

C1: Filing, Appendix 7, Sheet 1, Line C1.

C2: Schedule AIS-6, Col (3) - Line (C1) + Schedule AIS-6, Col (2)

C3: Schedule AIS-6, Col (4)

C5 to C8: Filing, Appendix 7, Sheet 1, Lines C5 to C8.

C10: = C2 x .75

D2: Deduction = $\{(D1) \times [(C1+C3+C4)+(.50 \times C2)]\}$

D4: Ratio = $[(D1)-(D2+D3)]$

G: $\{[Ax(1-ExF)+B] / [1-C11+ExD4]\} - 1.0$

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Derivation of Annual Loss Trend Factor

<u>Coverage</u>	<u>Annual Pure Premium Loss Trend Covering *</u>					<u>Average</u>	<u>Selected</u>
	<u>16 Points</u>	<u>12 Points</u>	<u>9 Points</u>	<u>8 Points</u>	<u>6 Points</u>		
Bodily Injury Liability**	-0.9%	-0.6%	-0.7%	-1.2%	-3.2%	-1.3%	-1.3%
Property Damage Liability	1.8%	0.3%	-1.0%	-1.4%	-2.0%	-0.5%	-0.5%

* Based upon quarterly year ending data through December 31, 2004
Linear Trend Calculations

** Bodily Injury Liability loss trend used for uninsured motorist and medical payments.

Source : Calculations based upon Fast Track data for California Private Passenger Automobile Insurance
See Schedule AIS-4, Sheets 2 to 7

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE POLICY

CALIFORNIA PRIVATE PASSENGER AUTOMOBILE INSURANCE

Bodily Injury Liability Loss Trend - Fast Track Data

Calendar Year Ended	(1)	(2)					
	Paid Pure Premium	Fitted Pure Premium - Linear					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	\$119.62	\$118.09					
06/30/2001	\$118.65	\$117.84					
09/30/2001	\$116.72	\$117.59					
12/31/2001	\$116.64	\$117.33					
03/31/2002	\$116.58	\$117.09	\$116.62				
06/30/2002	\$116.30	\$116.84	\$116.44				
09/30/2002	\$116.05	\$116.58	\$116.26				
12/31/2002	\$115.10	\$116.33	\$116.09	\$116.28			
03/31/2003	\$115.19	\$116.09	\$115.91	\$116.07	\$116.66		
06/30/2003	\$115.27	\$115.84	\$115.73	\$115.85	\$116.32		
09/30/2003	\$116.42	\$115.58	\$115.55	\$115.64	\$115.97	\$117.86	
12/31/2003	\$117.78	\$115.33	\$115.37	\$115.42	\$115.63	\$116.93	\$118.52
03/31/2004	\$116.53	\$115.08	\$115.20	\$115.20	\$115.29	\$116.00	\$117.02
06/30/2004	\$116.24	\$114.83	\$115.02	\$114.99	\$114.95	\$115.08	\$115.52
09/30/2004	\$114.01	\$114.58	\$114.84	\$114.77	\$114.61	\$114.14	\$114.00
12/31/2004	\$112.24	\$114.32	\$114.66	\$114.56	\$114.26	\$113.21	\$112.48
Annual Percent Change		-0.9%	-0.6%	-0.7%	-1.2%	-3.2%	-5.1%
Correlation Coefficient		-0.6927	-0.4471	-0.3661	-0.4876	-0.8584	-0.9656
T-Statistic		-3.5937	-1.5808	-1.0410	-1.3680	-3.3474	-5.2535
Constant		219.6465	189.3928	204.9193	257.5038	502.6459	745.0205
Slope		-0.0027	-0.0019	-0.0024	-0.0037	-0.0102	-0.0165
R Squared		0.4798	0.1999	0.1341	0.2378	0.7369	0.9324
Standard Error of Y Estimate		1.2871	1.3474	1.6029	1.6198	1.1613	0.6437
Standard Error of Coefficient		0.00076	0.00123	0.00226	0.00273	0.00303	0.0031

Calendar Year Ended	(3)	(4)					
	Paid Pure Premium LN	Fitted Pure Premium - Exponential					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	4.7843	\$118.10					
06/30/2001	4.7762	\$117.84					
09/30/2001	4.7598	\$117.59					
12/31/2001	4.7591	\$117.33					
03/31/2002	4.7585	\$117.08	\$116.63				
06/30/2002	4.7562	\$116.83	\$116.45				
09/30/2002	4.7540	\$116.57	\$116.27				
12/31/2002	4.7458	\$116.32	\$116.08	\$116.29			
03/31/2003	4.7466	\$116.07	\$115.91	\$116.07	\$116.67		
06/30/2003	4.7473	\$115.82	\$115.73	\$115.85	\$116.32		
09/30/2003	4.7572	\$115.57	\$115.54	\$115.63	\$115.97	\$117.88	
12/31/2003	4.7688	\$115.32	\$115.36	\$115.41	\$115.62	\$116.93	\$118.58
03/31/2004	4.7581	\$115.07	\$115.18	\$115.19	\$115.28	\$115.99	\$117.03
06/30/2004	4.7557	\$114.82	\$115.00	\$114.97	\$114.93	\$115.06	\$115.51
09/30/2004	4.7363	\$114.57	\$114.82	\$114.75	\$114.59	\$114.13	\$113.99
12/31/2004	4.7206	\$114.32	\$114.64	\$114.54	\$114.24	\$113.21	\$112.49
Annual Percent Change		-0.9%	-0.6%	-0.8%	-1.2%	-3.2%	-5.1%
Correlation Coefficient		-0.6926	-0.4503	-0.3705	-0.4911	-0.8585	-0.9652
T-Statistic		-3.5922	-1.5948	-1.0555	-1.3809	-3.3478	-5.2234
Constant		5.6470	5.3967	5.5365	5.9937	8.1194	10.2482
Slope		-0.0000	-0.0000	-0.0000	-0.0000	-0.0001	-0.0001
R Squared		0.4796	0.2028	0.1373	0.2412	0.7370	0.9317
Standard Error of Y Estimate		0.0111	0.0117	0.0139	0.0141	0.0101	0.0057
Standard Error of Coefficient		0.00001	0.00001	0.00002	0.00002	0.00003	0.0000

Source: Insurance Services Office, Fast Track Trend Data

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE POLICY

CALIFORNIA PRIVATE PASSENGER AUTOMOBILE INSURANCE

Bodily Injury Liability Loss Trend - Fast Track Data

Calendar Year Ended	(1)	(2)					
	Paid Claim Cost	Fitted Claim Cost - Linear					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	\$8,680.25	\$8,657.93					
06/30/2001	\$8,696.23	\$8,723.36					
09/30/2001	\$8,767.55	\$8,789.51					
12/31/2001	\$8,806.22	\$8,855.65					
03/31/2002	\$8,875.35	\$8,920.36	\$8,946.07				
06/30/2002	\$8,883.43	\$8,985.79	\$9,007.99				
09/30/2002	\$8,930.20	\$9,051.93	\$9,070.60				
12/31/2002	\$9,075.13	\$9,118.08	\$9,133.20	\$9,299.68			
03/31/2003	\$9,221.79	\$9,182.79	\$9,194.44	\$9,329.04	\$9,440.92		
06/30/2003	\$9,453.95	\$9,248.21	\$9,256.36	\$9,358.72	\$9,446.79		
09/30/2003	\$9,643.48	\$9,314.36	\$9,318.96	\$9,388.73	\$9,452.72	\$9,625.38	
12/31/2003	\$9,598.62	\$9,380.50	\$9,381.56	\$9,418.74	\$9,458.65	\$9,576.10	\$9,506.56
03/31/2004	\$9,521.93	\$9,445.93	\$9,443.48	\$9,448.42	\$9,464.52	\$9,527.36	\$9,481.49
06/30/2004	\$9,417.30	\$9,511.36	\$9,505.40	\$9,478.11	\$9,470.39	\$9,478.61	\$9,456.42
09/30/2004	\$9,388.46	\$9,577.50	\$9,568.00	\$9,508.12	\$9,476.32	\$9,429.33	\$9,431.08
12/31/2004	\$9,447.04	\$9,643.65	\$9,630.61	\$9,538.13	\$9,482.25	\$9,380.05	\$9,405.74
Annual Percent Change		2.8%	2.7%	1.3%	0.2%	-2.0%	-1.1%
Correlation Coefficient		0.9055	0.7979	0.4590	0.1101	-0.8921	-0.5683
T-Statistic		7.9841	4.1864	1.3668	0.2715	-3.9498	-0.9768
Constant		-17930.5621	-16465.9597	-2971.7656	7009.7341	29923.0063	19971.1167
Slope		0.7190	0.6804	0.3262	0.0645	-0.5356	-0.2755
R Squared		0.8199	0.6367	0.2107	0.0121	0.7959	0.3230
Standard Error of Y Estimate		151.6776	177.6704	169.0159	140.9045	51.9168	57.8280
Standard Error of Coefficient		0.09005	0.16254	0.23864	0.23749	0.13561	0.2820

Calendar Year Ended	(3)	(4)					
	Paid Claim LN Cost	Fitted Claim Cost - Exponential					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	9.0688	\$8,663.33					
06/30/2001	9.0706	\$8,725.74					
09/30/2001	9.0788	\$8,789.29					
12/31/2001	9.0832	\$8,853.31					
03/31/2002	9.0910	\$8,916.39	\$8,945.03				
06/30/2002	9.0919	\$8,980.62	\$9,005.50				
09/30/2002	9.0972	\$9,046.03	\$9,067.05				
12/31/2002	9.1133	\$9,111.92	\$9,129.01	\$9,296.73			
03/31/2003	9.1293	\$9,176.84	\$9,190.04	\$9,326.30	\$9,439.08		
06/30/2003	9.1542	\$9,242.95	\$9,252.16	\$9,356.29	\$9,445.24		
09/30/2003	9.1740	\$9,310.27	\$9,315.39	\$9,386.71	\$9,451.47	\$9,625.46	
12/31/2003	9.1694	\$9,378.08	\$9,379.06	\$9,417.24	\$9,457.70	\$9,575.77	\$9,506.43
03/31/2004	9.1614	\$9,445.64	\$9,442.46	\$9,447.52	\$9,463.87	\$9,526.88	\$9,481.31
06/30/2004	9.1503	\$9,513.69	\$9,506.29	\$9,477.91	\$9,470.05	\$9,478.23	\$9,456.26
09/30/2004	9.1472	\$9,582.98	\$9,571.26	\$9,508.73	\$9,476.30	\$9,429.30	\$9,431.00
12/31/2004	9.1535	\$9,652.78	\$9,636.67	\$9,539.64	\$9,482.55	\$9,380.62	\$9,405.81
Annual Percent Change		2.9%	2.7%	1.3%	0.3%	-2.0%	-1.1%
Correlation Coefficient		0.9085	0.8013	0.4646	0.1156	-0.8916	-0.5673
T-Statistic		8.1342	4.2357	1.3881	0.2850	-3.9378	-0.9743
Constant		6.1497	6.3340	7.8099	8.8823	11.3040	10.2641
Slope		0.0001	0.0001	0.0000	0.0000	-0.0001	-0.0000
R Squared		0.8254	0.6421	0.2158	0.0134	0.7949	0.3218
Standard Error of Y Estimate		0.0163	0.0191	0.0180	0.0149	0.0055	0.0061
Standard Error of Coefficient		0.00001	0.00002	0.00003	0.00003	0.00001	0.0000

Source: Insurance Services Office, Fast Track Trend Data

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE POLICY

CALIFORNIA PRIVATE PASSENGER AUTOMOBILE INSURANCE

Bodily Injury Liability Loss Trend - Fast Track Data

Calendar Year Ended	(1) Paid Claim Frequency	(2) Fitted Claim Frequency - Linear					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	1.3770	1.3765					
06/30/2001	1.3770	1.3638					
09/30/2001	1.3519	1.3509					
12/31/2001	1.3383	1.3381					
03/31/2002	1.3291	1.3255	1.3194				
06/30/2002	1.3142	1.3128	1.3076				
09/30/2002	1.3073	1.2999	1.2956				
12/31/2002	1.2867	1.2870	1.2836	1.2694			
03/31/2003	1.2654	1.2744	1.2719	1.2604	1.2518		
06/30/2003	1.2442	1.2617	1.2600	1.2513	1.2446		
09/30/2003	1.2267	1.2489	1.2480	1.2421	1.2372	1.2265	
12/31/2003	1.2195	1.2360	1.2361	1.2330	1.2299	1.2226	1.2266
03/31/2004	1.2148	1.2233	1.2242	1.2239	1.2226	1.2187	1.2214
06/30/2004	1.2241	1.2105	1.2124	1.2148	1.2154	1.2149	1.2162
09/30/2004	1.2151	1.1977	1.2004	1.2056	1.2080	1.2109	1.2110
12/31/2004	1.2004	1.1848	1.1884	1.1964	1.2007	1.2070	1.2057
Annual Percent Change		-4.1%	-3.9%	-3.0%	-2.4%	-1.3%	-1.7%
Correlation Coefficient		-0.9808	-0.9563	-0.9079	-0.8897	-0.7779	-0.6883
T-Statistic		-18.8014	-10.3482	-5.7286	-4.7736	-2.4760	-1.3418
Constant		6.5482	6.1822	5.0281	4.2605	2.8333	3.3916
Slope		-0.0001	-0.0001	-0.0001	-0.0001	-0.0000	-0.0001
R Squared		0.9619	0.9146	0.8242	0.7916	0.6052	0.4737
Standard Error of Y Estimate		0.0125	0.0138	0.0124	0.0099	0.0066	0.0087
Standard Error of Coefficient		0.00001	0.00001	0.00002	0.00002	0.00002	0.0000

Calendar Year Ended	(3) LN Paid Claim Frequency	(4) Fitted Claim Frequency - Exponential					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	0.3199	1.3784					
06/30/2001	0.3199	1.3648					
09/30/2001	0.3015	1.3512					
12/31/2001	0.2914	1.3377					
03/31/2002	0.2845	1.3247	1.3200				
06/30/2002	0.2732	1.3116	1.3076				
09/30/2002	0.2680	1.2986	1.2953				
12/31/2002	0.2521	1.2856	1.2830	1.2694			
03/31/2003	0.2354	1.2731	1.2712	1.2603	1.2518		
06/30/2003	0.2185	1.2605	1.2593	1.2511	1.2445		
09/30/2003	0.2043	1.2480	1.2474	1.2419	1.2371	1.2265	
12/31/2003	0.1985	1.2355	1.2356	1.2327	1.2297	1.2226	1.2267
03/31/2004	0.1946	1.2234	1.2240	1.2237	1.2225	1.2187	1.2214
06/30/2004	0.2022	1.2113	1.2126	1.2148	1.2153	1.2148	1.2162
09/30/2004	0.1949	1.1992	1.2011	1.2058	1.2081	1.2109	1.2109
12/31/2004	0.1826	1.1873	1.1898	1.1969	1.2009	1.2070	1.2057
Annual Percent Change		-3.9%	-3.7%	-2.9%	-2.3%	-1.3%	-1.7%
Correlation Coefficient		-0.9817	-0.9580	-0.9101	-0.8914	-0.7778	-0.6894
T-Statistic		-19.2739	-10.5625	-5.8110	-4.8167	-2.4748	-1.3459
Constant		4.3460	4.1322	3.2672	2.6674	1.5283	1.9942
Slope		-0.0001	-0.0001	-0.0001	-0.0001	-0.0000	-0.0000
R Squared		0.9637	0.9177	0.8283	0.7945	0.6049	0.4753
Standard Error of Y Estimate		0.0095	0.0107	0.0098	0.0080	0.0054	0.0072
Standard Error of Coefficient		0.00001	0.00001	0.00001	0.00001	0.00001	0.0000

Source: Insurance Services Office, Fast Track Trend Data

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE POLICY

CALIFORNIA PRIVATE PASSENGER AUTOMOBILE INSURANCE

Property Damage Liability Loss Trend - Fast Track Data

Calendar Year Ended	(1) Paid Pure Premium	(2) Fitted Pure Premium - Linear					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	\$98.80	\$102.13					
06/30/2001	\$100.38	\$102.59					
09/30/2001	\$102.11	\$103.07					
12/31/2001	\$103.63	\$103.54					
03/31/2002	\$104.75	\$104.00	\$106.73				
06/30/2002	\$105.83	\$104.47	\$106.80				
09/30/2002	\$106.83	\$104.94	\$106.87				
12/31/2002	\$107.53	\$105.42	\$106.94	\$108.58			
03/31/2003	\$108.19	\$105.88	\$107.01	\$108.33	\$108.86		
06/30/2003	\$108.43	\$106.34	\$107.08	\$108.07	\$108.49		
09/30/2003	\$108.51	\$106.82	\$107.15	\$107.81	\$108.11	\$108.69	
12/31/2003	\$108.21	\$107.29	\$107.23	\$107.55	\$107.74	\$108.13	\$108.37
03/31/2004	\$107.67	\$107.76	\$107.30	\$107.30	\$107.37	\$107.58	\$107.74
06/30/2004	\$107.11	\$108.23	\$107.37	\$107.04	\$107.00	\$107.03	\$107.10
09/30/2004	\$106.66	\$108.70	\$107.44	\$106.78	\$106.63	\$106.48	\$106.46
12/31/2004	\$105.69	\$109.17	\$107.51	\$106.52	\$106.26	\$105.92	\$105.82
Annual Percent Change		1.8%	0.3%	-1.0%	-1.4%	-2.0%	-2.4%
Correlation Coefficient		0.7498	0.2130	-0.7544	-0.9073	-0.9875	-0.9857
T-Statistic		4.2395	0.6894	-3.0411	-5.2854	-12.5217	-8.2608
Constant		-87.8448	77.5439	214.7824	261.6708	337.4381	373.1297
Slope		0.0051	0.0008	-0.0028	-0.0041	-0.0060	-0.0070
R Squared		0.5621	0.0454	0.5692	0.8232	0.9751	0.9715
Standard Error of Y Estimate		2.0410	1.2390	0.6574	0.4549	0.1846	0.1730
Standard Error of Coefficient		0.00121	0.00113	0.00093	0.00077	0.00048	0.0008

Calendar Year Ended	(3) LN Paid Pure Premium	(4) Fitted Pure Premium - Exponential					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	4.5931	\$102.09					
06/30/2001	4.6090	\$102.55					
09/30/2001	4.6261	\$103.02					
12/31/2001	4.6408	\$103.49					
03/31/2002	4.6516	\$103.95	\$106.71				
06/30/2002	4.6619	\$104.42	\$106.79				
09/30/2002	4.6712	\$104.89	\$106.86				
12/31/2002	4.6778	\$105.37	\$106.93	\$108.59			
03/31/2003	4.6839	\$105.84	\$107.00	\$108.33	\$108.86		
06/30/2003	4.6861	\$106.32	\$107.07	\$108.07	\$108.49		
09/30/2003	4.6869	\$106.80	\$107.15	\$107.81	\$108.11	\$108.69	
12/31/2003	4.6841	\$107.29	\$107.22	\$107.55	\$107.74	\$108.13	\$108.38
03/31/2004	4.6790	\$107.77	\$107.29	\$107.29	\$107.37	\$107.58	\$107.74
06/30/2004	4.6739	\$108.26	\$107.36	\$107.04	\$107.00	\$107.03	\$107.10
09/30/2004	4.6696	\$108.75	\$107.44	\$106.78	\$106.63	\$106.48	\$106.46
12/31/2004	4.6605	\$109.25	\$107.51	\$106.52	\$106.26	\$105.93	\$105.82
Annual Percent Change		1.8%	0.3%	-1.0%	-1.4%	-2.0%	-2.4%
Correlation Coefficient		0.7502	0.2149	-0.7548	-0.9067	-0.9869	-0.9852
T-Statistic		4.2458	0.6957	-3.0443	-5.2668	-12.2320	-8.1349
Constant		2.7980	4.3945	5.6789	6.1150	6.8227	7.1673
Slope		0.0000	0.0000	-0.0000	-0.0000	-0.0001	-0.0001
R Squared		0.5629	0.0462	0.5697	0.8222	0.9740	0.9707
Standard Error of Y Estimate		0.0196	0.0116	0.0061	0.0043	0.0018	0.0016
Standard Error of Coefficient		0.00001	0.00001	0.00001	0.00001	0.00000	0.0000

Source: Insurance Services Office, Fast Track Trend Data

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE POLICY

CALIFORNIA PRIVATE PASSENGER AUTOMOBILE INSURANCE

Property Damage Liability Loss Trend - Fast Track Data

Calendar Year Ended	(1) Paid Claim Cost	(2)					
		Fitted Claim Cost - Linear					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	\$2,336.27	\$2,368.86					
06/30/2001	\$2,369.56	\$2,386.44					
09/30/2001	\$2,398.09	\$2,404.21					
12/31/2001	\$2,418.64	\$2,421.98					
03/31/2002	\$2,442.08	\$2,439.37	\$2,464.28				
06/30/2002	\$2,462.85	\$2,456.94	\$2,478.24				
09/30/2002	\$2,486.37	\$2,474.72	\$2,492.35				
12/31/2002	\$2,512.40	\$2,492.49	\$2,506.46	\$2,529.75			
03/31/2003	\$2,535.79	\$2,509.87	\$2,520.26	\$2,539.00	\$2,547.64		
06/30/2003	\$2,556.65	\$2,527.45	\$2,534.22	\$2,548.35	\$2,555.15		
09/30/2003	\$2,571.50	\$2,545.22	\$2,548.33	\$2,557.81	\$2,562.75	\$2,571.35	
12/31/2003	\$2,573.10	\$2,562.99	\$2,562.44	\$2,567.26	\$2,570.35	\$2,576.18	\$2,580.47
03/31/2004	\$2,580.61	\$2,580.57	\$2,576.39	\$2,576.61	\$2,577.86	\$2,580.96	\$2,583.83
06/30/2004	\$2,586.90	\$2,598.15	\$2,590.35	\$2,585.97	\$2,585.37	\$2,585.74	\$2,587.19
09/30/2004	\$2,600.82	\$2,615.92	\$2,604.46	\$2,595.42	\$2,592.97	\$2,590.57	\$2,590.59
12/31/2004	\$2,587.28	\$2,633.69	\$2,618.57	\$2,604.88	\$2,600.56	\$2,595.40	\$2,593.99
Annual Percent Change		2.8%	2.2%	1.5%	1.2%	0.7%	0.5%
Correlation Coefficient		0.9694	0.9472	0.9203	0.9136	0.8303	0.5135
T-Statistic		14.7672	9.3454	6.2239	5.5051	2.9799	0.8463
Constant		-4774.7371	-3263.3846	-1336.6909	-565.6025	581.3155	1177.1928
Slope		0.1932	0.1534	0.1028	0.0826	0.0525	0.0369
R Squared		0.9397	0.8973	0.8470	0.8347	0.6894	0.2637
Standard Error of Y Estimate		22.0330	17.9389	11.6950	8.8972	6.7467	8.9502
Standard Error of Coefficient		0.01308	0.01641	0.01651	0.01500	0.01762	0.0436

Calendar Year Ended	(3) LN Paid Claim Cost	(4)					
		Fitted Claim Cost - Exponential					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	7.7563	\$2,370.03					
06/30/2001	7.7705	\$2,386.87					
09/30/2001	7.7824	\$2,404.02					
12/31/2001	7.7910	\$2,421.28					
03/31/2002	7.8006	\$2,438.29	\$2,464.52				
06/30/2002	7.8091	\$2,455.62	\$2,478.17				
09/30/2002	7.8186	\$2,473.26	\$2,492.04				
12/31/2002	7.8290	\$2,491.02	\$2,505.99	\$2,529.77			
03/31/2003	7.8383	\$2,508.52	\$2,519.72	\$2,538.93	\$2,547.66		
06/30/2003	7.8465	\$2,526.34	\$2,533.67	\$2,548.22	\$2,555.12		
09/30/2003	7.8522	\$2,544.49	\$2,547.86	\$2,557.66	\$2,562.68	\$2,571.36	
12/31/2003	7.8529	\$2,562.77	\$2,562.12	\$2,567.13	\$2,570.27	\$2,576.17	\$2,580.47
03/31/2004	7.8558	\$2,580.97	\$2,576.31	\$2,576.53	\$2,577.80	\$2,580.94	\$2,583.82
06/30/2004	7.8582	\$2,599.31	\$2,590.58	\$2,585.96	\$2,585.35	\$2,585.72	\$2,587.18
09/30/2004	7.8636	\$2,617.98	\$2,605.08	\$2,595.53	\$2,593.00	\$2,590.56	\$2,590.58
12/31/2004	7.8584	\$2,636.78	\$2,619.66	\$2,605.14	\$2,600.68	\$2,595.41	\$2,593.99
Annual Percent Change		2.9%	2.2%	1.5%	1.2%	0.7%	0.5%
Correlation Coefficient		0.9670	0.9455	0.9192	0.9131	0.8311	0.5142
T-Statistic		14.2099	9.1849	6.1753	5.4859	2.9886	0.8479
Constant		4.8938	5.5434	6.3249	6.6310	7.0818	7.3135
Slope		0.0001	0.0001	0.0000	0.0000	0.0000	0.0000
R Squared		0.9352	0.8940	0.8449	0.8338	0.6907	0.2644
Standard Error of Y Estimate		0.0092	0.0072	0.0046	0.0035	0.0026	0.0035
Standard Error of Coefficient		0.00001	0.00001	0.00001	0.00001	0.00001	0.0000

Source: Insurance Services Office, Fast Track Trend Data

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE POLICY

CALIFORNIA PRIVATE PASSENGER AUTOMOBILE INSURANCE

Property Damage Liability Loss Trend - Fast Track Data

Calendar Year Ended	(1) Paid Claim Frequency	(2) Fitted Claim Frequency - Linear					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	4.2291	4.3066					
06/30/2001	4.2362	4.2958					
09/30/2001	4.2581	4.2849					
12/31/2001	4.2847	4.2739					
03/31/2002	4.2894	4.2632	4.3288				
06/30/2002	4.2973	4.2524	4.3084				
09/30/2002	4.2967	4.2415	4.2878				
12/31/2002	4.2800	4.2305	4.2672	4.2916			
03/31/2003	4.2667	4.2198	4.2470	4.2666	4.2724		
06/30/2003	4.2412	4.2090	4.2267	4.2413	4.2458		
09/30/2003	4.2198	4.1981	4.2061	4.2157	4.2190	4.2268	
12/31/2003	4.2054	4.1871	4.1855	4.1901	4.1921	4.1975	4.1996
03/31/2004	4.1722	4.1763	4.1651	4.1647	4.1656	4.1685	4.1697
06/30/2004	4.1405	4.1655	4.1447	4.1394	4.1390	4.1396	4.1398
09/30/2004	4.1008	4.1545	4.1241	4.1138	4.1122	4.1103	4.1096
12/31/2004	4.0849	4.1436	4.1035	4.0882	4.0853	4.0810	4.0794
Annual Percent Change		-1.0%	-2.0%	-2.4%	-2.5%	-2.8%	-2.9%
Correlation Coefficient		-0.7586	-0.9678	-0.9921	-0.9933	-0.9923	-0.9877
T-Statistic		-4.3567	-12.1594	-20.8674	-21.0538	-16.0401	-8.9156
Constant		8.7038	12.6919	14.7608	15.2798	16.2876	16.6799
Slope		-0.0001	-0.0002	-0.0003	-0.0003	-0.0003	-0.0003
R Squared		0.5755	0.9366	0.9842	0.9866	0.9847	0.9755
Standard Error of Y Estimate		0.0460	0.0201	0.0094	0.0082	0.0076	0.0076
Standard Error of Coefficient		0.00003	0.00002	0.00001	0.00001	0.00002	0.0000

Calendar Year Ended	(3) LN Paid Claim Frequency	(4) Fitted Claim Frequency - Exponential					
		16 Points	12 Points	9 Points	8 Points	6 Points	4 Points
03/31/2001	1.4420	4.3076					
06/30/2001	1.4437	4.2964					
09/30/2001	1.4488	4.2852					
12/31/2001	1.4551	4.2741					
03/31/2002	1.4561	4.2632	4.3301				
06/30/2002	1.4580	4.2522	4.3091				
09/30/2002	1.4578	4.2411	4.2880				
12/31/2002	1.4539	4.2301	4.2670	4.2925			
03/31/2003	1.4508	4.2193	4.2466	4.2669	4.2731		
06/30/2003	1.4448	4.2084	4.2261	4.2411	4.2460		
09/30/2003	1.4398	4.1974	4.2054	4.2153	4.2188	4.2271	
12/31/2003	1.4364	4.1865	4.1848	4.1895	4.1917	4.1974	4.2001
03/31/2004	1.4284	4.1757	4.1646	4.1643	4.1651	4.1683	4.1698
06/30/2004	1.4208	4.1649	4.1444	4.1391	4.1387	4.1393	4.1397
09/30/2004	1.4112	4.1541	4.1242	4.1139	4.1122	4.1102	4.1095
12/31/2004	1.4073	4.1432	4.1040	4.0888	4.0858	4.0813	4.0795
Annual Percent Change		-1.0%	-1.9%	-2.4%	-2.5%	-2.8%	-2.9%
Correlation Coefficient		-0.7594	-0.9666	-0.9914	-0.9928	-0.9922	-0.9879
T-Statistic		-4.3676	-11.9338	-20.0384	-20.3326	-15.9073	-9.0004
Constant		2.5094	3.4563	3.9592	4.0892	4.3461	4.4589
Slope		-0.0000	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001
R Squared		0.5767	0.9344	0.9829	0.9857	0.9844	0.9759
Standard Error of Y Estimate		0.0109	0.0049	0.0024	0.0020	0.0018	0.0018
Standard Error of Coefficient		0.00001	0.00000	0.00000	0.00000	0.00000	0.0000

Source: Insurance Services Office, Fast Track Trend Data

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Derivation of Permissible Loss & LAE Ratio

	<u>Overhead Component</u>	<u>Value</u>
(1)	General Expenses	5.2%
(2)	Selling Expenses	16.6%
(3)	Premium Taxes, Licenses and Fees	2.6%
(4)	Combined	24.4%
(5)	Permissible Loss & LAE Ratio Before Investment Income	75.6%

Notes:

- (1) Schedule AIS-6 , Column (2) Average
- (2) Schedule AIS-6 , Column (3) Average
- (3) Schedule AIS-6 , Column (4) Average
- (4) (1) + (2) + (3)
- (5) 100% - (4)

CALIFORNIA LOW COST PRIVATE PASSENGER AUTOMOBILE INSURANCE PROGRAM

Derivation of Overhead Provisions*

(1)	(2)	(3)	(4)
<u>Year</u>	<u>General Expense</u>	<u>Selling Expense</u>	<u>Taxes, Licenses and Fees</u>
1998	4.7%	15.4%	2.4%
1999	5.0%	16.6%	2.5%
2000	6.4%	18.5%	2.5%
2001	5.1%	16.5%	2.6%
2002	4.7%	16.5%	2.8%
2003	5.4%	16.2%	2.7%
(5) : Average	5.2%	16.6%	2.6%

Source : NAIC Profitability Studies - California Private Passenger Automobile Liability Data

* Ratio to Earned Premium