Office of Public Insurance Counsel

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Via Hand Delivery

J'ne Byckovski, FCAS, MAAA
Chief Actuary, Property and Casualty
Texas Department of Insurance
333 Guadalupe Street, MC 105-5F
Austin, TX 78701

Re: Redpoint County Mutual Insurance Co.
Elephant Insurance Co.
Private Passenger Auto Rate Filing
TDI Link #s S646044, S646045 and S646072

Dear Ms. Byckovski:

Pursuant to TEX. INS. CODE ANN. Section 2251.106, the Office of Public Insurance Counsel (OPIC) objects to the above captioned private passenger auto rate filings. The filings do not comply with rating standards set forth in TEX. INS. CODE ANN. Sections 2251.051, 2251.052, and 560.002.

Objection

Our objection applies to three separate filings for Elephant Insurance Co. Two are written through Redpoint County Mutual and the third is written by the company's own carrier. The company proposes to overlay a new credit scoring model on top of their own current model to determine rating tiers. This practice appears actuarially unsound.

Elephant's actuarial filing memorandum explains that Elephant has determined its own credit scoring model is ineffective at predicting risk and its results are significantly different than Transunion's credit model.[1] Rather than discard their model entirely, they attempt to retrofit a different credit scoring model on top of it. The end result is a table that combines Transunion's credit score, Elephant's credit score, and policyholder age.

Elephant's Hybrid Credit Rating is Actuarially Unsound

No basis has been provided to indicate this hybrid method is either predictive of loss or an appropriate means of using Transunion's credit model. It appears the purpose of the exercise is to allow the company to arbitrarily set rates under the veneer of a rating methodology.

[1] *See* Elephant's Actuarial Filing Memorandum in State Filing No. S646044 submitted September 19, 2017.

A cursory review of Elephant's rating table reveals serious concerns regarding the accuracy of this hybrid model. Selecting the 31-45 age group as a random example, we found the selected rate relativities under this method universally differed from those indicated by the company's loss ratios. For this particular group, the selected relativities were frequently 15-20% higher than indicated. The differences between selected and indicated relativities were particularly egregious for the No Hit/Score category of those with no credit history.

There are other age groups where the selected rate relativities are much lower than indicated. Our point is not that rates are always set higher than indicated, but that there is no clear pattern of how this rating method informs the rate selections. Given that, we do not see an actuarial argument for its use.

Summary

The use of credit scoring models has become an accepted practice in ratemaking. However, OPIC becomes concerned when these models appear to be misused. Elelphant's decision to use two completely different models to create a hybrid model that lacks basic actuarial support is an example of misuse.

As always, we are willing to review any supplemental information that provides additional support. Based on the information in the filing, we do not believe this rating practice is reasonable or well justified.

Sincerely,

Joe Matetich
Deputy Public Counsel

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