Integon National Insurance Company – Summit Program

California

Private Passenger Auto

Filing Memorandum

Integon National Insurance Company respectfully submits this rate filing for review of its Private Passenger Auto Program for the Summit program. The filing proposes an overall rate impact of +6.9%

Proposed Changes

- Base rates have been revised to produce an overall indicated rate change of +6.9%
- Bodily Injury (BI), Property Damage (PD), Medical Payments (MED), and Uninsured Motorists (UM) coverage options will be revised to eliminate certain higher limit selections.
- Rule update to Payment Options
- Clerical update to Rules Manual Table of Contents
- Removal of Phone Processing and Return Mail fees

Underlying Assumptions

No predictive model, scoring model, algorithmic model, or similar methodology was used in any form, manner, or capacity in support of this filing. In addition, the Company has not utilized any price optimization techniques in the development of rates for any segment within the rating plan.

Data Adjustments and Selections

This filing includes a Variance Request pursuant to CCR §2644.27(f)(8)(F). The standard trend methodology prescribed in CCR §2644.7 does not produce the most actuarily sound result because changes in available coverages and policy options materially affect the underlying data. Specifically, the variance is necessary to reflect the impact of removing higher limits for Bodily Injury, Property Damage, Medical Payments, and Uninsured Motorists coverages.

Premium refunds issued by Integon National Insurance Company to policyholders during 2020 have been incorporated into the earned premium data used in both the Rate Template and Standard Exhibit 5. These adjustments are documented in the Supplemental COVID-19 Exposure and Premium Template. No other adjustments were made to premium data for the experience period.

No adjustments were made to losses or Defense and Cost Containment Expenses (DCCE) in the experience period for Exhibits 7 and 8. For loss development purposes, the Incurred Loss and DCCE methodology was selected because it provides the most stable and reliable indication of ultimate losses. Accordingly, this method was used in Exhibit 7 and throughout the Rate Template calculations.

The trend period calculations with the Rate Template assume a proposed effective date of October 20, 2026. Based on this effective date, the future trend period applicable to the most recent accident year in the experience period (AY ending March 31, 2026) is 1.963 years, as reflected in Exhibit 8.

Trend selections presented in Exhibits 5 and 8 were developed in accordance with California rate filing requirements. Frequency trends were calculated using reported claim counts, which provide an appropriate match between claims activity and earned exposure. Severity trends were calculated using total paid losses on closed claims, including payments made in prior calendar periods, which similarly provides an appropriate relationship between losses and exposures.

For all coverages, the Company selected 8-point frequency and severity trends as the most representative measure of current loss experience. California Fast Track data was used as complementary information for all coverage selections. The Company believes the selected 8-point trends most accurately capture emerging loss patterns following the increase in California minimum liability limits effective January 1, 2025.

Since implementation of the higher minimum limits, claims have exhibited longer settlement cycles driven by increased claim complexity and higher levels of attorney involvement. Consistent with this observed development pattern, the Company selected reported frequency rather than closed frequency as the preferred measure of claim frequency. Supporting evidence is provided in the Exhibit BI Close Ratio by Limit.

Differences observed between ultimate loss estimates developed under the Paid Loss method and the Incurred Loss method are primarily attributable to variations in claim settlement productivity. The Company has not implemented any changes to reserving practices, claims handling procedures, or settlement philosophies. Rather, the observed slowdown in claim closures is consistent with the increased complexity associated with the 2025 liability limit changes. More complex claims generally require additional investigation, evaluation, and negotiation, thereby extending the time required to reach resolution. Claim closing patterns are influenced by both claim complexity and adjuster expertise. The Company expects current productivity pressures to moderate over time as claims processes adapt to the new environment.

Additional Information

The significant increase in exposures beginning in 2024 is primarily attributable to overall business growth. This growth was driven by market conditions in which many carriers implemented substantial rate increases, leading consumers to actively seek more affordable alternatives. In addition, the Company expanded its distribution network through the appointment of additional agents and brokers. The combination of increased consumer shopping activity and expanded distribution capacity contributed to the Company's growth and resulting increase in exposures.

Beginning in 2024, the Company also experience a decline in average on-level premium. This decrease was largely driven by changes in the mix of business. Key contributors included an increase in vehicles assigned to lower-cost vehicle symbols, growth in multi-vehicle policies containing excess vehicles with lower premium levels, greater concentration of vehicles garaged in lower-cost territories, different risk types from the expanded distribution network, lower reported annual mileage, and improved driving records resulting in a larger proportion of policyholders qualifying for the Good Driver Discount.

The improvement in driving histories is partially attributable to behavioral changes following the COVID-19 pandemic, during which reduced driving activity led to fewer traffic violations and accidents. Collectively, these factors contributed to the observed reduction in average on-level premium.

The decision to remove higher BI, PD, MED, and UM limits reflects limited customer demand for these options despite their availability since the program's inception in 2011. The removal of these limits is also expected to simplify product administration and reduce training and support requirements for service center personnel and appointed producers. Policyholders currently carrying affected limits will receive a renewal communication explaining that the limits are being discontinued and will be offered the closest available limit combination at renewal.