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Record No. 4958

In the Supreme Court of Appeals of Virginia at Richmond

VIRGINIA ASSOCIATION OF INSURANCE AGENTS, ETC.

v.

NATIONAL BUREAU OF CASUALTY UNDERWRITERS, ET AL.

FROM THE STATE CORPORATION COMMISSION

RULE 5:12—BRIEFS.

§5. Number of Copies. Twenty-five copies of each brief shall be filed with the clerk of the Court, and at least three copies mailed or delivered to opposing counsel on or before the day on which the brief is filed.

§6. Size and Type. Briefs shall be nine inches in length and six inches in width, so as to conform in dimensions to the printed record, and shall be printed in type not less in size, as to height and width, than the type in which the record is printed. The record number of the case and the names and addresses of counsel submitting the brief shall be printed on the front cover.

HOWARD G. TURNER, Clerk.

Court opens at 9:30 a. m.; Adjourns at 1:00 p. m.

IN THE

Supreme Court of Appeals of Virginia

AT RICHMOND.

Record No. 4958

VIRGINIA:

In the Clerk's Office of the Supreme Court of Appeals at the Supreme Court of Appeals Building in the City of Richmond on Monday the 3rd day of November, 1958.

VIRGINIA ASSOCIATION OF INSURANCE AGENTS, ETC., Appellant,

against

NATIONAL BUREAU OF CASUALTY UNDERWRITERS AND MUTUAL INSURANCE RATING BUREAU, Appellees.

From the State Corporation Commission

Upon the petition of Virginia Association of Insurance Agents, a corporation, an appeal is awarded it by one of the Justices of the Supreme Court of Appeals on November 3, 1958, from an order entered by the State Corporation Commission on the 11th day of July, 1958, in a certain proceeding then therein depending entitled: Application of National Bureau of Casualty Underwriters and Mutual Insurance Rating Bureau; upon the petitioner, or some one for it, entering into bond with sufficient security before the clerk of the said Corporation Commission in the penalty of three hundred dollars, with condition as the law directs.

On further consideration whereof, the *supersedeas* prayed for is denied.

RECORD

* * * * *

NATIONAL BUREAU OF CASUALTY UNDERWRITERS
60 John Street, New York 38, N. Y.
William Leslie, General Manager
Thomas O. Carlson, Actuary
James M. Cahill, Secretary James B. Donovan, General Counsel

May 23, 1958.

Honorable T. Nelson Parker, Commissioner
of Insurance
State Corporation Commission
Richmond 9, Virginia

Attention Mr. Courtenay W. Harris, Deputy Commissioner

Dear Commissioner Parker:

Proposed Revision of Automobile Liability Rates for Private Passenger Cars

On behalf of our members and subscribers, we are filing a proposed revision of Automobile Liability rates for private passenger cars as set forth in the enclosed memorandum.

The upward trend of the automobile liability experience in Virginia is shown in Exhibit A attached to this letter which displays graphically the average loss cost per insured car for the years 1954, 1955, and 1956. The serious inadequacy of the present average loss provision of $21.27 per car in Virginia rates is clearly evident. This provision is below the actual average loss cost per insured car for all companies in 1955 and in 1956. For companies reporting to the National Bureau, it is below their actual loss cost per car in 1954, 1955, and 1956. In fact, for our group of companies even the proposed provision of $27.38 is below the actual loss cost per car of $28.27 incurred in accident year 1956.

It is proposed that the changes shall become effective September 1, 1958, in accordance with the following rule of application:

The new rules and rates are applicable to all new and renewal policies written to become effective on and after September 1, 1958, but no policy effective prior to September 1,

1958 shall be endorsed or canceled and rewritten to take advantage of, or to avoid the application of, the new rules and rates except at the request of the insured and at the customary short rate charges as of the date of such request.

Exception—Experience Rated Policies. The new rules and rates are applicable as of the experience rating date to all policies to which an experience rating modification which becomes effective on or after October 1, 1958 is to apply and may not be applied to such policies prior to the experience rating rate. As respects any policy to which an experience rating modification applies which policy became effective prior to October 1, 1958, the new rules and rates are not applicable until the first experience rating date after October 1, 1958.

We believe that it will be desirable for a member of our staff to discuss the enclosed proposals with you. We look forward to hearing from you soon as to what date will be satisfactory for such a conference.

page 2 } This filing has been prepared in cooperation with the Mutual Insurance Rating Bureau.

Yours very truly,

J. M. CAHILL
Secretary.

JMC/eh
Enclosures

bc to Mr. Cadmus (1)
Virginia Association of Insurance Agents (9)
Mr. Harris
Mr. Elliott

NOTE: The enclosures, revised as indicated in the following letter, dated June 5, 1958, have been transmitted to the Supreme Court of Appeals of Virginia with the exhibits received with the evidence.

page 3 } NATIONAL BUREAU OF CASUALTY UNDERWRITERS
60 John Street, New York 38, N. Y.
William Leslie, Jr., General Manager
Thomas O. Carlson, Actuary
James M. Cahill, Secretary James B. Donovan, General Counsel

June 5, 1958.

Honorable T. Nelson Parker, Commissioner
of Insurance
State Corporation Commission
Richmond 9, Virginia

Attention Mr. C. W. Harris, Deputy Commissioner

Dear Commissioner Parker:

Proposed Revision of Automobile Liability Rates

On behalf of our members and subscribers, we are amending our filing dated May 23, 1958 as outlined below:

Private Passenger Cars

We received this week from the National Association of Independent Insurers revised experience data for policy year 1956 transferring certain bodily injury basic limits incurred losses previously reported for the Petersburg territory to the Arlington and the Remainder of State territories.

Attached are revised Exhibits 2, 2a, and Exhibit 3, Sheet 1, reflecting these changes in the NAII experience data. These exhibits replace the corresponding exhibits attached to our filing letters.

Commercial Cars, Public Autos, and Garages

The proposed changes in territorial definitions set forth in Exhibit 5a, Sheets 1-4, of the filing should for practical reasons apply to all types of vehicles and not be restricted to private passenger cars.

The attached Exhibit 6, Sheets 1 and 2, contains the proposed rate schedules corresponding to the revised territorial definitions. The proposed rates are the weighted average of the present rates by territory reflecting the estimated distribution of exposures within the new territorial definitions. This adjustment was made utilizing population data for the areas affected and the overall effect is to reproduce the present statewide rate level for these categories of automobile risks.

Yours very truly,

J. M. CAHILL
Secretary.

JMC/eh
Attachments

NOTE: The enclosures received with the letter dated May 23, 1958, above, with the changes indicated in this letter of June 5, 1958, have been transmitted to the Supreme Court of Appeals of Virginia with the exhibits received with the evidence.

page 4 } COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 11, 1958

APPLICATION OF

NATIONAL BUREAU OF CASUALTY UNDERWRITERS and MUTUAL INSURANCE RATING BUREAU

For revision of automobile liability insurance rates.

CASE NO. 13936.

THE National Bureau of Casualty Underwriters and the Mutual Insurance Rating Bureau, having filed pursuant to the provisions of Chapter 6 of Title 38.1 of the Code on behalf of all members and subscribers of said Bureaus and requested approval for use in this State of certain amendments to the manual of classifications, rules and rates, rating plans, and modifications thereof, for writing automobile bodily injury and property damage liability insurance, heretofore approved by the Commission, and it appearing that a hearing will be necessary before acting thereon and that notice of such hearing should be given to the public.

IT IS ORDERED:

(1) That this proceeding be instituted to investigate and determine (a) whether the rates proposed to be charged in said filing for automobile liability insurance are excessive, inadequate or unfairly discriminatory, and (b) any other matter which may be the proper subject of investigation, assigned Case No. 13936, docketed and set for hearing at 10:00 A. M. on July 2, 1958 in the Courtroom of the Commission, Blanton Building, Richmond, Virginia, at which time and place the applicants and all parties in interest desiring to be heard may appear and present such facts and file such data relevant to the matters involved as may be desired;

(2) That the applicants submit to the Commission at said hearing all available facts, information, data and statistics

with respect to the proposals contained in the filing concerning: (a) Past and prospective loss experience within and outside this State; (b) Catastrophe hazards, if any; (c) Reasonable margins for underwriting profits and contingencies; (d) Dividends, savings or unabsorbed premium deposits allowed or returned by the insurers represented by the applicants to their policyholders, members or subscribers; (e) Past and prospective expenses, both countrywide page 5 } and those especially applicable to this State; and, (f) All other relevant factors within and outside this State;

(3) That applicants publish notice of the time and place of hearing, setting forth the substance of said filing and the place or places where the exact program, as proposed therein, may be seen by any party in interest, in a newspaper or newspapers of general circulation published in each of the following cities in this State, viz: Richmond, Norfolk, Roanoke, Lynchburg, Newport News, Danville, Winchester, Fredericksburg, Martinsville, Petersburg, and Alexandria at least once a week for two successive weeks and that proof of such publications be made and filed herein, which notice shall be substantially in the following words and figures, to-wit:

"NOTICE TO THE PUBLIC.

"Notice is hereby given to the public that the National Bureau of Casualty Underwriters and Mutual Insurance Rating Bureau have filed with and requested the approval of the State Corporation Commission of certain amendments to the manual of classifications, rules and rates, rating plans, and modifications thereof for writing automobile bodiy injury and property damage liability insurance heretofore approved by the Commission. The proposed increase in basic limits premiums for private passenger automobiles effects an over-all increase of 24.9%, being an increase of 21.1% in bodily injury liability insurance premiums and an increase of 30.8% in property damage liability insurance premiums.

"The following increases are proposed for Class 3:

Territory	*Per Cent of Increase in Basic Limits Premiums for Class 3 Private Passenger Automobiles*	
	Bodily Injury	*Property Damage*
Richmond	37.04	44.44
Norfolk	31.03	31.58
Martinsville	32.00	64.71
Nansemond County	36.00	47.06
Arlington and Fairfax Counties	20.00	22.22
Lynchburg, Petersburg, Roanoke	8.00	35.29
Newport News	0.00	27.78
Danville	20.00	17.65
Remainder of State	20.00	33.33

"The proposed differentials of the other classes of private passenger automobiles to Class 3 are:

Rate Class	Differentials
1A	.73 No change
IB	.80 No change
2A	1.09 Reduced from 1.20
2C	1.91 Reduced from 2.00
3	1.00 No change

page 6 } "Increases will be effected in the premiums for Hired Automobiles, Non-Ownership Class 1, Funeral Automobiles, and School Buses, which, by relativity, are based upon the premiums for Class 3 private passenger automobiles.

"Changes are proposed in the Danville, Fairfax County, Lynchburg, Petersburg, Richmond, and Roanoke territorial definitions, which will result in additional increases in premiums charged for those automobiles which now are assigned to a lower rated territory. They are as follows:

1. Danville—The Danville territory is to be eliminated and the area included therein will be assigned to the Remainder of State Territory.

2. Fairfax County—This territory has been expanded to include all of Fairfax County.

3. Lynchburg—The revised definition includes the city of Lynchburg and Brookville District in Campbell County, Elon District in Amherst County, and Forest District in Bedford County. Reference to territory within a five mile radius of the city limits of Lynchburg has been deleted from the definition.

4. Petersburg—The revised Petersburg territory includes the cities of Colonial Heights, Hopewell, and Petersburg, Districts of Bland and Rives in Prince George County, and Namozine District in Dinwiddie County. The portions of Bermuda, Dale and Matoaca Districts in Chesterfield County which are presently included in the Petersburg territory are being transferred to the Richmond territory and reference to territory within a five mile radius of the city limits of Petersburg also has been deleted from the definition.

5. Richmond—The new Richmond territory comprises the city of Richmond and all of Chesterfield and Henrico Counties.

6. Roanoke—The Roanoke territory has been expanded to include the city and county of Roanoke.

"The proposed amendments to the manual of classifications, rules and rates, rating plans, and modifications thereof may be seen at the Bureau of Insurance, Eighth Floor, Blanton Building, Richmond, Virginia.

"The State Corporation Commission has instituted an investigation and hearing upon the proposed amendments to the manual of classifications, rules and rates, rating plans, and modifications thereof to be held at the Courtroom of the Commission, Blanton Building, Richmond, Virginia, at 10:00 A. M., July 2, 1958, at which place and time all parties to the pending proceeding, Case No. 13936, and all other persons in interest, all insurers in interest not parties to this proceeding, and members of the public generally may appear, present such relevant data as desired, and be heard.

NATIONAL BUREAU OF CASUALTY UNDERWRITERS MUTUAL INSURANCE RATING BUREAU."

page 7 } and

(4) That an attested copy hereof be sent to National Bureau of Casualty Underwriters, 60 John Street, New York 38, New York, to Mutual Insurance Rating Bureau, 111 Fourth Avenue, New York 3, New York, to John J.

Wicker, Jr., Mutual Building, Richmond, Virginia, counsel for Mutual Insurance Rating Bureau, and to the Bureau of Insurance.

A True Copy

Teste:

N. W. ATKINSON
Clerk of the State Corporation Commission.

page 8 } COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF

NATIONAL BUREAU OF CASUALTY UNDERWRITERS AND MUTUAL INSURANCE RATING BUREAU

CASE NO. 13926.

Present: Commissioners H. Lester Hooker (Chairman) Jesse W. Dillon, Ralpth T. Catterall (Chairman Dillon presiding).

Appearances: M. Wallace Moncure, Jr., National Bureau of Casualty Underwriters.

John J. Wicker, Jr., Counsel—Mutual Insurance Rating Bureau.

William H. King, Counsel for Virginia Association of Insurance Agents.

Hon. O. L. Shewmake, Virginia Mutual Insurance Company.

Russell H. Matthias, General Counsel—State Farm Mutual Automobile Insurance Company.

D. A. Tapley, State Farm Mutual Automobile Insurance Company—actuary.

page 9 } E. Ballard Baker, Counsel—Mutual Insurance Rating Bureau.

Alden E. Flory, Counsel and General Manager, Virginia Farm Bureau Mutual Insurance Company.

E. W. Frise, Observer—Virginia Automobile Rate Administrative Bureau.

Norman S. Elliott, Counsel for the Commission.

Date of Hearing
July 2, 1958.

* * * * *

page 10 } Commissioner Dillon: We have set aside two days to hear this case, today and most of tomorrow, and while we, of course, want to hear all the evidence to assist us in deciding this matter, we do want to ask you to present the case as concisely and as promptly as you can because, if we don't finish in these two days, it will have to be carried over until September 15th.

Senator Wicker: If the Commission please, I want to present the notices in accordance with the order of the Commission.

Commissioner Dillon: They will be received as Exhibit A.

Mr. Moncure: If the Commission please, I am appearing as counsel for the National Bureau of Casualty Underwriters. They have duly filed this application, and I will briefly point out the real issues that are involved.

page 11 } The proposed rates bring about a revision of Statewide rate level for private passenger automobiles, amounting to an increase of 24.9 per cent.

Secondly, a revision of territorial rate levels, together with changes in territorial definitions.

Thirdly, a revision of differentials by class for the private passenger classification, but does not change the classification plan itself.

Then, a reduction in the total production cost allowance for Class 2 risks from twenty five per cent to fifteen per cent.

Then certain changes in the rates for the Miscellaneous classes, which are determined as function of Class 3 rates.

The real issue is the 24.9 per cent. On its face it looks large, but it is, not only a situation that has developed in Virginia, but Countrywide.

page 12 } Frankly, this is the first rate case I have been in. I am usually at the other end of the thing, and we have a rule of thumb method that we settle these things the actual value of claim. The doctor's bill, when I came to the Bar was possibly at ten dollars a throw, is now thirty dollars. You never heard of a verdict of $30,000, and now you get a verdict close to the level of $125,000. Two years ago a verdict of thirty thousand dollars would have been most unusual and the Company I represent lost Nationwide last year eighteen million dollars on property damage and bodily injury insurance.

The gentlemen from the Bureaus are here with the statistical data to pick up the trend, and if the trend is followed, we believe it will more than amply support the request made in the filing.

Senator Wicker: I am agreeing with everything Mr. Moncure has said. Sometimes these Bureaus are in conflict and in other cases we find ourselves "Brethern of the less fortunate together." Without any desire to use the old vernacular "everybody has been losing their shirts," and

page 13 } this is the first revision in two and a half years on private passenger bodily injury and property damage liability. If they had asked for them before, the increase would not have been as great, but there has always been the hope that, if conditions got better, there would not be the necessity for as much increase.

While our evidence won't show it, it is a matter of common knowledge by all, so far as losses go, and that is what it is based on,—that 1958, unfortunately, thus far is worse than 1957. The evidence presented is based on the two full years 1956-1957 because they are the two latest years on which credible experience has been developed. Until the passage of reasonable time after a policy has been issued or expired, it is very difficult to say what the results are. The last day of the year a claim may not have been put in. They have two years now to bring action, and if litigation develops, it may be longer. So 1956-1957 are the two latest years, and on that basis it shows what losses have occurred

page 14 } and how divided and what the needs are based on to prove the loss development factor, which is sort of a "hindsight" testing of the estimates presented previously.

Taking the year 1955 or 1954—at the end of the year the losses (they know what the premiums are), but the losses at the end of 1954 were very slight, 1955 they have developed more and from that time they have put up estimates by the most skilled investigators, and by 1956 some had been settled, so that they are able to adjust that and reverted it back to the original year and adjusted that and we have done that on the basis of five years, and they have compared that with what they evaluate it and in that way they have developed a loss adjustment factor either too high or too low, and the evidence will show that the evaluation is just about as close and accurate as human beings can make it, even with the aid of modern machinery.

page 15 } It is exceedingly disagreeable for the Bureaus representing the companies to ask for the overall increase of 24.9 per cent. The increase in Bodily Injury is 21.5 per cent and the increase in Property Damage is 34.8 per cent. Where they used to fix a fender, now they have to fix the whole side of a car, and those increases are 21.5 per cent for Bodily Injury and 34.8 for Property Damage.

It is *esxtrmely* unpleasant for us to ask for those, but the Commission, and everybody else connected with the happy past, know that the losses were less than anticipated, and, therefore, we could stand and ask for a decrease in cost, but here we are having to ask for an increase.

There is one significant plan which the Memorandum embodies, and that is a change in the year of calculation, and that, we think, is a very fine thing. That will be developed in detail, and it is an effort on the part of the Bureaus at this time to make the calculations more realistic and more current instead of having to come along afterwards where you never catch up with the trend. The changes that are
page 16 } presented will help to do that.

Those changes, in brief, are that the losses will be charged to the calendar year in which the accident occurred, out of which the claim and loss was developed that year, rather than charged to a policy year.

A brief illustration would be that a policy might be issued on December 31st, 1954 that would run to December 31st, 1955. The accident might not have occurred until the last day of the policy year and yet that accident would be charged back to 1954 when only one day out of 365 days' premium had been actually earned. Under the proposal, we propose to make it more realistic and to make it on the basis of the year in which the accident occurs, and on the other side we will try to bring up the earned premium to compare it with your income.

The proposal involves getting it closer to the actual premium involved in relation to the accident. You can't do it ideally. We may some day with modern machinery
page 17 } be able to find out how much the premium has earned by day or by hours, but the evidence will be based on 1956 and 1957. I should have said 1955 and 1956. They are the two latest years on which credible experience has been developed either by increases or decreases.

Commissioner Dillon: Do you have a statement, Mr. King?

Mr. King: My statement is very brief. This matter, as the Commission well knows, is one of great interest, not merely to the companies, but also to the insuring public. The Virginia Association of Insurance Agents has just completed its annual meeting at Virginia Beach and that was completed yesterday evening. I left before it was all over to be here this morning and it was not known until two weeks ago that the case would be heard today. By some inadvertence it was not put on the regular docket of the Commission and not known to the committee of the Association that had the work

to do on the matter. I do not ask that this case be
page 18 } continued, but I would like the privilege on the
part of the Association to file a memorandum before the case is decided. That can be done in very short order, and I don't feel that a request of that kind will be opposed by anyone.

Commissioner Dillon: Any objection?

Senator Wicker: No.

Commissioner Dillon: The Commission will grant you that privilege.

Judge Shewmake, do you have any statement which you wish to make?

Judge Shewmake: There is just one thought I want to leave with the Commission. What Senator Wicker has said with respect to the experience of 1955 and 1956, of course, runs counter to the plan, the plan we worked for before on a five-year basis, and it may be something new but it is not the first time this matter has come up. I hold in my hand a copy of the Journal of American Insurance, issue of June 23rd, 1958, in which it is stated,

page 19 } "In a unanimous opinion rendered June 17th,
1958 by the Appellate Division, Third Department, New York Supreme Court, annulled the ruling made January 20th, 1958 by former State Superintendent of Insurance, Lefert Holz, in which he refused to grant automobile liability insurance rate increases requested by Mutual Insurance Rating Bureau and National Bureau of Casualty Underwriters. Members and subscribers of the two Bureaus write about 80 per cent of the automobile liability insurance written in New York."

What happened was these two Bureaus last Fall went to the Insurance Commissioner of New York and asked for an increase of 9.5 per cent for private passenger cars and 5.9 per cent for commercial automobiles. In support of their application to Superintendent Holz they put in their experience for 1955 and 1956 just as they have done here, and showed
to the Commissioner that, nobody knows why, but,
page 20 } beginning immediately after 1954 there began and
continued a terrific trend, not only in the number of accidents, but the cost of claims, so that over and over again these companies paid two or three times what they had been paying and paid more often. The Superintendent said that was something new—that they had never made rates on two years, but on a five years' experience, three of which were fairly good and which would not have benefited the com-

panies at all and the application for an increase was denied. The companies took that to the Appellate Department of the New York Supreme Court and the Court there decided that the Superintendent was wrong and that the Court would take judicial notice that the situation had changed. That the Court was supposed to know that, as everybody else knew it, and they remanded it back to the Superintendent to make those rates and consider 1955 and 1956 in so doing.

That departs from the rule we have had for the experience of five years but it is true.

page 21 } Senator Wicker said that he would be happy to come in here and ask for a decrease in rates "slap-happy," I might say, as I told them at the time but nobody paid any attention to me. The Commission will recall that in 1942 when the war hysteria was on, these companies came in and voluntarily offered to reduce their rates. They said that there was less exposure, but, having grown up in the shadow of the War between the States, and having seen more wars than all the rest of them, I knew what I was talking about but they went on and made it and the Commission said that they would take notice of the fact that the war was on. You will find that in your report for 1943 and the rates were reduced and the formula thrown out of the window. Now, if we could do it in 1943 we can do it in 1958.

Before I take my seat the Commission will recall that I appeared here always asking for a decrease from the manual rates. I suppose I will be twitted for my inconsistency in appearing here asking that they be increased but as Carlyle stated "Consistency is the hobgoblin of little minds." I am consistent in the fact that they ask for rates that are fair and reasonable.

page 22 }

Mr. Elliott: As I listened to these distinguished counsel, I am beginning to feel that I have prepared the wrong case. Senator Wicker started off talking about 1956 and 1957 and Judge Shewmake refers to a rule of using the five-year rule but changing it in this case and that we could change it in this case if we wished. Mr. Moncure startled me by talking about territorial changes. I thought we had had that out and settled.

Mr. Moncure: We got that out all except Danville.

Senator Wicker: And that works out a decrease.

Mr. Elliott: The other question did not so work out.

The filing in this proceeding, if the Commission please, proposes an increase in rates for bodily injury of 21.1 per cent and for property damage of 30.8 per cent, or an overall increase of 24.9 per cest, but that is far from what the story is. These are average in-

page 23 }

creases. For many of the territories the proposed indicated rate level changes are substantially higher than the overall average of 24.9 per cent. In Richmond, for instance, the proposed indicated increase in bodily injury is 40.2 per cent; Norfolk 35.7 per ent; Martinsville 35.8 per cent, and Nansemond 36.7 per cent.

The same holds true for property damage, for instance, in Richmond it is proposed to increase property damage 50.9 per cent; Norfolk 36.8 per cent; Martinsville 67.2 per cent; Nansemond 45.3 per cent and Lynchburg, Petersburg, Newport News and Roanoke 36.4 per cent.

It was originally proposed in this filing that material changes be made in the present territories of the
page 24 } state, but when we considered that, along with these very substantial increases, it was found that the people of the State could not bear it so they withdrew those and there is now proposed one minor change in territory in the case of Danville.

Let's look at the filing in this case and see what it is based on. The filing in this case is based on the 1955 and 1956 Virginia Experience.

Secondly, weighting the 1956 experience of the companies reporting to the two Bureaus at 70 per cent and the 1955 experience of such companies at 30 per cent.

Third, weighting at 50 per cent for each year the 1955 and 1956 experience of the companies reporting to the National Association of Independent Insurers.

Fourth, using in the rate formula for Classes 1 and 3 a provision for 25 per cent for acquisition costs;

Five, using in the rate formula for Class 2 a
page 25 } provision for 15 per cent for acquisition costs. These are the Class 2 that they write at twice and more of the base rate.

And finally the use of a trend factor which has the effect of projecting the losses used for a period of eighteen months.

In advance of some kind of data they will show you, I will state that in the past rates have been made on the basis of the experience of the two latest policy years. In 1957 the Commission authorized the National and Mutual Bureaus to record their experience on the accident year basis. The National Association of Independent Insurers did not start recording data on this basis until January 1, 1958, consequently, we do not have that complete data. In the past the two latest years of experience have been given equal weight. Traditionally, a trend factor has not been used by the Commission in making rates. We tried it in 1952. We used the trend factor in that year and the rates became so high that they

were ample for 1953 and 1954 and they had to re-
page 26 } duce them in 1955 and they are still in effect. In a
modified form it was adopted in that case, and
even in that case, they did not cut the rates proposed but we had to reduce them in 1955.

This case proposes the following differences from that heretofore followed by the Commission:

(a) Weighting 1956 experience of the Bureau companies 70 per cent;

(b) Weighting 1955 experience of the Bureau companies 30 per cent;

(c) Reduce Class 2 acquisition costs from 25 per cent to 15 per cent; and

(d) The use of a trend factor which has the effect of increasing the rates by 10 percentage points or almost half the rate proposed in this proceeding.

Perhaps, as the Commission knows from recent bulletins appearing in the papers, a proposal has been made to reduce agents' commissions for writing automobile bodily injury
and property damage insurance from 25 per cent
page 27 } to 20 per cent. A bulletin will be introduced to
show this action. If this is done in Virginia, it
has the effect of increasing the permissible loss ratio from 59.6 per cent to 64.6 per cent, which means that the amount in the rate dollar available for loss, increases from 59.6 per cent to 64.6 per cent, which means a further decrease in rates of 8 per cent.

The evidence will disclose to the Commission the effect of the various proposals in this case. For instance:

(a) The weighting of 1956 Bureau experience has the effect of increasing the rate by 2.6 percentage points;

(b) The proposal to reduce Class 2 acquisition costs to 15 per cent will decrease the rate level by 3.5 percentage points; and

(c) The use of a trend factor will reduce rates by 10 percentage points.

Should the Commission follow the recommendations con-
tained in the bulletin which will be introduced in
page 28 } evidence that acquisition costs be reduced from 25
per cent to 20 per cent the rates proposed in this
proceeding would be reduced by 6½ percentage points, and should the Commission go further and reduce acquisition costs on Classes 1 and 3 to 20 per cent and follow the proposal to reduce acquisition costs on Class 2 to 15 per cent, the rates

proposed would be reduced by at least 8 percentage points.

At the conclusion of the evidence I propose to give to the Commission a summary exhibit, which will show these various factors and how they affect the proposed increases.

I want it understood here and now by everybody that I am not proposing anything. What I propose to do is to give the Commission the facts on which it can base its final decision and reach a just and reasonable decision.

Commissioner Dillon: Anything further?

Mr. Moncure: I believe it would be a simpler matter if I handed the Commission a copy of the filing and page 29 } the revisions and as we put the exhibits in they will be able to follow them.

JAMES H. CAHILL,

a witness introduced on behalf of Petitioners, being first duly sworn, testified as follows:

DIRECT EAMINATION.

Mr. Elliott: I am willing to stipulate Mr. Cahill's qualifications on the record. He has testified here many times before.

By Mr. Moncure:

Q. I think for the record I will have you to state your name.

A. James H. Cahill.

Q. And your position?

A. I am Secretary of the National Bureau of Casualty Underwriters.

Q. Your qualifications being admitted, we are going ahead with the meat of the thing. Will you outline the various proposals and issues involved in this filing?

A. The basic issues are to determine, to the best of our ability, rates that will be as accurate as possible page 30 } for the period to which they are applied, and to accomplish that, we have proposed changes in the overall rate level for the State which, though substantial, we sincerely believe are not excessive, and then a distribution of that overall rate level by territory and by classification, so that each class of risk will pay its fair share of the premium bill.

I might bring out, if I may, that the automobile liability situation is really a desperate one, not only in Virginia; but

James H. Cahill.

throughout the entire Country, not only now but for some time past.

We recently compiled underwriting losses of our member companies for automobile liability only for the calendar year 1957, and the underwriting losses Countrywide of our companies amounted to $147,051,341.00, which represents considerably more than a doubling of the underwriting losses which they suffered for automobile liability insurance the year before when the figure totaled $64,221,505 of
page 31 } underwriting losses suffered on automobile liability insurance.

Within the last week or so the New York Insurance Department has published the results of its compilation of the Countrywide automobile underwriting losses suffered by all stock companies entered in New York, which encompasses a larger group of companies than our own membership. Their figures developed underwriting losses of $216,283,000, which was twice as high as the underwriting losses of $109,313,000 suffered by those companies in 1956. That is why I say the situation is desperate. The rate structure must be brought to an adequate level or many companies will not be able to stand the gaff and some companies will not be able to continue.

You will be interested in the figures in Virginia as found from the Annual Statements filed by the companies individually in this State and other states. That concerns Page 14 which gives the underwriting experience loss ratio-wise in Virginia. We do not have access to all of the
page 32 } statements filed in the State, but the companies that report their statistics to the National Bureau supply us with a copy of their annual statement filings with the different states. We compile the automobile liability experience in Virginia for those companies for calendar year 1957 from Page 14 from the Virginia Annual Statement. Including the appropriate provision for loss adjustment expenses with the losses incurred, your Virginia results on the liability on direct losses incurred including loss adjustment expenses to direct earnings, showed a loss ratio on bodily injury of 79.8 per cent and on property damage 75.5 per cent and for the two combined losses and loss adjustment ratio 78.4.

That average result is roughly 30 per cent higher than it should be because the expected losses and loss adjustment ratio contemplated by the rate structure at present is in the neighborhood of 60 per cent.

James H. Cahill.

For comparison, I would like to add that the Country-
wide loss ratio of our member companies on the
page 33 } net incurred losses, including loss adjustment ex-
pense, related to unearned premiums, as reported
in the insurance expense exhibit, ran 80.3 per cent, some three points higher than the Virginia figure.

The New York compilation for all companies entered in New York showed the comparable 1957 result on their operation for automobile liability insurance of 79.4 per cent, or approximately 1 per cent higher than the Virginia figure.

The conclusion must be, therefore, that the experience figure in Virginia is very much in line with what it is Countrywise, and if it is better, only better in a minor degree. I hasten to mention that the Page 14 data is not of the type for rate development because it includes all types of cars, commercial and other types, and includes excess limits and national experience too, but that adverse experience, as reported in the annual statement, cannot be disregarded. It points the finger to the fact that the present rate structure is seriously inadequate and certainly for the bulk of private
passenger cars, which make up the bulk of the ex-
page 34 } perience.

In consequence of that adverse experience rate levels became effective in 1957 in all states and territories simultaneously, all territories and states except Virginia, where the rate revision consisted solely of adjusting by rate level development.

Mr. Elliott:

Q. You did not ask for any increase in Virginia in 1957?

A. Not generally. We had discussions with the Department, but having just gone through the lengthy discussions on the rate level factors and just printed and distributed the printing job in regard to the change in the rate level rate of 5 per cent, we decided not to go forward and make another application before the ink was dry on the preceding pages.

Q. The point I want to make is that this Commission was always open to you in event you needed relief in 1957 or at any other time?

A. I agree whole heartedly with that.

Senator Wicker: I think I mentioned in the
page 35 } statement that we had not.

Mr. Elliott: It looks like to me that this 1957 data is wholly immaterial.

James H. Cahill.

A. We all agree with that.

Mr. Elliott: It looks like to me that what we mant to get to is the rate and to the point as to how much.
Commissioner Dillon: Just keep it on the basis of what you need and intend to show.

A. Coming now to the filing itself, as amended today by a series of exhibits, which will eliminate the effect of changes in territorial definitions, which might have had the effect of pyramiding increases from one territory to another territory, we submit those increases, and I think it is generally part of the filing.

Mr. Elliott: I think it should be tendered right now.
Mr. Cahill: Have these formal submissions been entered in the record?
Mr. Elliott: No, they have not.

A. The May 23rd, 1958 letter was the initial official filing.

page 36 } Mr. Elliott: Anything up to June 11, 1958 is a part of the filing and anything after June 11th, the filing should be amended according to that.

A. I would like to submit the amendments dated June 23rd, 1958 which consist of eleven sheets.

Commissioner Dillon: That will be Exhibit No. 1.
Mr. Moncure: We would like to revise our filing, it does not change the rate structure, but only deals with the territorial changes.

A. The effect of these changes is to eliminate any pyramiding of increases in consequence of charges in definitions of individual territories.

Mr. Elliott: We accept that amendment and our case has been prepared on the theory of the elimination of that part of the filing.

A. Coming specifically to the basis for the filing revision as to rate level, this is private passenger only and the statistics used are the basic limits experience of all carriers

for Virginia as reported in detail under the approved statistical plans to the three statistical organizations
page 37 } recognized by the Commission, namely, the National Bureau, the Mutual Bureau and the National Association of Independent Insurers.

As brought out previously, the experience data used by the National Bureau and Mutual Bureau, used by the companies reporting to the Bureau, is on an accident year basis. Under the statistical plans that the two Bureaus have been using for two years now, and basically on the statistical plan as far back as 1953, the exposure and premiums by classification and territory are reported to the two Bureaus by each company quarterly, and the loss experience is reported more frequently in that a punch card is sent in on every loss which is paid, and twice a year we get a reporting of the outstanding losses which are in the open category.

From that very elaborate system of statistics, which is very expensive for both the companies and the Bureaus, we are able to match up the exposures earned, the losses earned and premiums earned by accident year, rather than by the policy year which encompassed two policy
page 38 } year periods. At the moment we are using accident year which is in combination with the policy year. Under the system proposed, it will be possible in due course for us to compile on accident basis, December 31st to December 31st accidents and the other half through July 1st to July 1st the next year, to get it as currently possible for rate review in the filings.

I mentioned that the statistical plan was approved by the Virginia authorities as far back as 1953 to permit testing the desirability of substituting accident year data for policy year data in rate making.

As the result of the extensive studies that have been made by both the National and Mutual Bureaus, we addressed a letter dated July 9th, 1957 to all Insurance Departments explaining that it was our intention, beginning with rate revision filings in 1958, to revert to the use of accident year data in the statistics utilized from the two Bureaus. If I may, I would like to put a copy of that letter in the record. This would be exhibit number what, sir?

Commissioner Dillon: Exhibit 2. It will be re-
page 39 } ceived.

Witness: I won't bother to read from that.

James H. Cahill.

That is merely to show that, as far back as a year ago, we brought out the details of the change in procedure contemplated and gave an explanation of the reasons we thought it highly desirable to make this change.

Subsequently, conferences were held with the Insurance Department on this matter and statistical data was submitted based on the years 1954 and 1955 to demonstrate that of itself the change from policy year to accident year data would not produce radical changes in the indication.

I would also like to put in the record an excerpt from the Bulletin published by the Department of Insurance of the State of New York in 1955, and in which their statisticians have paid a compliment to the possibility in the not too distant future for statistical data for rate-making purposes that it will become available in credible volume with little timelag between the experience period and the time when the experience is used for rate-making purposes.

Mr. Elliott: May I have a copy of that, please?

page 40 } Mr. Moncure: Certainly.

Mr. Moncure: We would like to offer this as the next exhibit.

Commissioner Dillon: That will be received as Exhibit No. 3.

Witness: The National Association of Independent Insurers did not amend its statistical plan to this type or basis until January 1st, 1958, and that experience, while at the present time the experience data for their companies is not available on the accident year basis, and will not become available until the data for the year 1958 is utilized sometime hence.

Now, coming specifically to the calculation of the rate level changes which are developed in Exhibit 1, Sheet 1 of our initial filing, dated May 23rd, 1958—

Mr. Elliott: In order to keep the record straight, don't you think it should be designated as Exhibit 4 and referred to as Exhibit 4? The filing is in the record but you are going to get it all mixed as you discuss the case unless you can refer to it under an exhibit number.

page 41 } Mr. Moncure: I would like to have designated as Exhibit 4, Sheets 1, 2 and 3 of the original filing of May 23rd.

Commissioner Dillon: Exhibit 1, Sheets 1, 2 and 3 are designated as Exhibit 4.

Mr. Moncure: You are speaking of the latest revision of those three sheets?

Mr. Elliott: Yes, sir.

Mr. Moncure: Part of them were revised by you on June 5th, were they not?

Commissioner Dillon: But your Exhibit 1 is not amended.

Mr. Moncure: Shall we say Exhibit 1, Sheets 1, 2 and 3 as revised, wherever any reference or meaning in reference to those pages in each instance they refer to the exhibit as revised by the June 5th or the May 23rd revision—

Q. Go ahead.

A. As brought out in this exhibit, the rate level changes have been based on the experience of accident years 1955 and 1956 for the companies that report their page 42 } statistics to the National and Mutual Bureaus and experience of policy years of 1955 and 1956 for those companies that report their statistics to the National Association of Independent Insurers. That data supplemented, however, by factors that reflect the increases in average claim cost since the experience period.

In developing this filing we used the latest available data we had at the time the filing was made, but in the course of this hearing I will have exhibits of additional data which we have been able to complete recently.

Mr. Moncure:

Q. Is all that data Virginia data?

A. Yes, Virginia and only Virginia.

Q. And not any Nationwide?

A. As to figures and experience and statistics shown, it is all Virginia, and the development factors reflect the Nationwide experience because we did not have the background for Virginia alone to utilize that for the development factor.

Mr. Elliott:

Q. You mean development factors used to com- page 43 } plete experience which would not be complete unless such factors are used?

A. But I hasten to add that we have carried the development of the bodily injury incurred losses to sixty months whereas in previous filings in Virginia and elsewhere it had been the practice to develop the bodily injury experience only to thirty-six months.

The development factors we computed using Nationwide data are, in large measure, credit factors; in other words, they do not operate to raise the losses but rather to decrease

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the losses somewhat, and because of carrying out the development to sixty months in the aggregate the credit development is on the average larger than it was on previous Virginia revisions.

I would also like to add the comment, responding to what Mr. Elliott said in his opening statement, that it has been the practice of Virginia to base the rate level on the mean of the two latest years available at the time of the filing and not on five years of experience, although five years of experience was used, I believe, in distributing the
page 44 } Statewide rate level by territory.

Mr. Elliott: That is a question of distribution and not one of determination.

A. That is right and, as Mr. Elliott pointed out those factors were used in the 1953 revision.

Mr. Elliott: That was 1952.

A. It was effective January 1, 1953.

Q. The hearing was in the fall of 1952?

A. It was effective January 1, 1953. In determining the Statewide rate level changes, we have utilized the Countrywide customary method followed in Virginia of comparing the basic limits pure premium indication including trend factors with the corresponding underlying pure premium. When I said the customary method was followed, I meant that the method of computing the pure premium change, and I did not mean that the method was different as used before because of the method and the different trend factors.

Mr. Elliott:

Q. Will you explain what you mean by "Pure
page 45 } Premium"?

A. Pure Premium is defined to be the average in annual incurred losses for insuring car basic limits coverage.

Q. It is the loss portion of the premium?

A. It is the loss adjustment portion of the premium.

Commissioner Catterall: What does it not include?

A. It does not include the operational costs, which is the acquisition cost with taxes, company expenses for general

administration and audit which in the commercial have to be audited quite frequently, and also the provision for underwriting profit and contingencies.

Mr. Moncure:

Q. Exhibit 4 has the break down of 59.6 per cent of every premium dollar for the account of losses, which leaves 46.4 per cent for acquisition costs and what have you.

A. I would like to explain the weighting system which has been utilized in this filing developing the proposed rate level increases.

page 46 } In the case of the accident year experience the weight of 70 per cent was used for accident year 1956 data and a weight of 30 per cent for the accident year 1955 data.

In the case of policy year experience the past procedure of assigning 50 per cent weight for each policy year, namely 1955 and 1956, was followed.

This decision to change the weights was not a purely arbitrary one, but a very logical one for reasons I will now cover.

In establishing rates, we want to try to get them to fit as accurately as possible during the period to which they will apply, and obviously. to the extent that we recognize the most recent experience, the probability of having accurate rates has increased. In using policy year experience we have to remember the experience for the latest year is on an incomplete year basis. In that the experience first used, the rate-making calculations contain a prediction as to what is expected to happen in the second half of the policy year.

page 47 } The indication for the policy year 1956, for example, reflected a prediction of what is expected to happen in the whole year, including the part of the coverage in 1957. The method has worked fairly well in the past, but in view of that element of uncertainty of prediction, it was felt unwise or unsafe to assign a greater weight than 50 per cent to the experience of the latest year, which was on a so-called "incomplete plus" basis.

In the case of accident year basis that hazard is not encountered because the losses are assignable to a particular accident year. They have all happened and are evaluated, and the experience of each accident year is on a complete basis, although necessary to the development of appropriate factors. If it was logical to give a weight of 50 per cent to the experience of the incomplete policy year in determining

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the mean indication from the policy year data, it is certainly logical to step up the amount of weight that should be assigned to the latest accident year, and in our belief a weight of 70 per cent in the case of the latest year and 30 per cent in the case of the preceding year, does not over-step the mark.

As a matter of fact, in the case of states with very
page 48 } large premium volume, and I think it will develop
that the rate structures will be determined on the basis of just the one latest year of accident year experience. That was actually done in the 1958 rate experience in California where only one year was used. That has been the practice of Massachusetts in the establishment of rates for commercial bodily injury insurance and in the State of New York where there is a very large volume, the trend will be to use one year and no longer than one year for the trend to use for the rate level supplemented by the trend factors.

If this weighted process was followed in the case of two sets of data, a weighted average of the accident year and policy year pure premium indication would be determined using the 1956 exposure as weights.

As was previously pointed out, trend factors were derived and applied to the experience in order to reflect the increase in average paid claim costs that can be expected to result in the eighteen months following the period of experience
data. These factors were determined on Sheet 3
page 49 } of Exhibit 4 as entered in the record from the
average annual rate of increase in paid claim costs in the two year period ending September 30th, 1957.

I would like to make it clear that the use of these trend factors is not really a projection in the future as such but based on actual factual results that have happened. The basic starting point of these calculations was the experience in 1955 and 1956 which is a considerable period in the past. We have kept a record of what has happened in the case of average claim costs since 1954, and in Virginia, as in most other states, there has been a pretty steady upward trend in those average claim costs right up through figures we have well into 1957.

The trend factors we have worked out were determined from the rate of increase that happened in the two year span from the year ending September 30th, 1955 through the year ending September 30th, 1957, and a good part of that period would be subsequent to the date reflected in the experience

page 50 } for the years 1955 and 1956. Maybe this span selected should have been longer, but it is not a matter of conjecture but what has actually happened in the actual trend in actual paid claim costs as reflected in the rate revision trend calculation. It is hopeless to expect that the revised rates would be accurate. They would fail to reflect what we know has happened in settling claims, noticeably that in bodily injury and property damage there has been a more or less steady rise in the amounts that have to be paid to close out claims. These new rates will not, under any circumstances, become effective before September 1st, 1958, and will be used in writing policies in 1959 and on exposures in 1960 and this trend factor, even though it does reflect the increases that can be expected in the eight month span, does not bring up to the present time, let alone the mean period, that will be covered when the rates are in effect. We are not projecting these into the future. We have not come up to where we are today in the claim cost.

I would like to point out that in the computation of Sheet 3 of Exhibit 4 in this record that the average paid claim

page 51 } costs are actually based on the data of all companies reporting to the National and Mutual Bureaus and not just to the members and subscribers of the two Bureaus. That brings in a much larger flock of business.

Commissioner Catterall: Does that assume that the claims will go up by 4.9 per cent per year indefinitely in the future?

A. No, I would not say that. All we know is that for 1955 and 1956 the claims have continued to go up and we have included the trend factor and now have the trend factor on bodily injury of 7.4 and property damage of 12.2. It is not anything in the future but what we are taking up is where we are today.

Q. You are certainly taking something in regard to the eighteen months' claims?

A. We took the average annual rate of increase and average paid claim cost during the two year span and assumed that in the eighteen months following the experience period represented by the 1955 and 1956 experience, that that rate of increase would result, but 18 months after 1955 and 1956 does not take you up even to where we are today and we

have proof that up right through 1957, average by the paid claim cost continued its upward trend.

page 52 } Commissioner Catterall: You are saying that it is worse and that your rates will continue to increase. It would be just as accurate to say the cost of living is going up and the cost of claims would go up five per cent each year.

A. We have not gone that far. We have not said that our average rate increase is going to continue.

Q. You are saying that, because last year they went up 5 per cent, that they will go up 5 per cent this year?

A. No, we said that for the 1955 and 1956, for the years for which we have shown the experience, it shows that the average was 4.5 per cent in bodily injury and 8.1 per cent increase in property damage, and we are saying on the basis of that experience for 1955 and 1956, would leave us back on a hopelessly inadequate level. We have to modify the 1955 and 1956 experience to give due recognition to what has happened on the average paid claim cost.

Commissioner Catterall: Is this any more significant than to say "We know claims are going up so give us increased rates annually"?

page 53 } A. I think it would. Not only would a plan in that way build in a projection factor that would take us into the main factors that would get us somewhere near the new rates. We are not trying to do that but trying to get into this the actual factors and we have not built any projection factor into the future. In my judgment that is one of the problems of the automobile field. There does not seem to be much hope that that can be done without projection factors in there and it is a pretty big picture in getting rates to the rate level and keeping them there in the future.

Commissioner Dillon: 11:30 A. M. The Commission will recess for ten minutes.

11:40 A. M. The Commission resumes its session.

Witness (cont.) Individual trend factors that were used were 1.074 for bodily injury and 1.122 for property damage

and in the rate provision the effect of the combined basis would be 1.93.

Again I repeat, that does not take into consi-
page 54 } deration for the future any projection, but merely takes past experience, precisely years 1955 and 1956 nearer to the place of what we have seen as to the upward trend of average claim cost.

In making the comparison of the indicated pure premium, including trend factors with the underlying pure premiums, the rates are based on present rates and, therefore, give full recognition to all rate revisions and rate regulations entered in the past.

I would like to introduce as Exhibit 5 the amended copy of Exhibit headed "Automobile Liability Insurance Private Passenger Cars expense provisions and Manual Rates. I said "amended copy" because in that the assessment for the Statutory Administrative Bureau in Virginia was included improperly with the tax provision instead of being kept with the inspection provision as has been the case in previous years.

Mr. Moncure: That is Exhibit 4 in the original filing.

A. Yes.

Commissioner Dillon: That has to be received
page 55 } as Exhibit 5.

Mr. Elliott: It is part of the filing but now becomes a part of his evidence.

Commissioner Dillon: It is not like Exhibit 4.

Mr. Elliott: It was part of the record but now it is part of his evidence.

Commissioner Dillon: Then we have to receive this because of the amendments to the exhibit.

Mr. Moncure:

Q. There is no change in the exhibit so far as the totals are concerned, that is, the 59.6 per cent loss ratio. It is only a jockeying of the figures in one or two lines?

A. Yes. Previously in Virginia the assessment for the support of the Statutory Administrative Bureau was included in the inspection figure, but in preparing the filing the assessment was included in the tax item, but I think under uniform accounting regulations, it belongs in the inspection item, and therefore, I transferred it back in this

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amended exhibit to where it was in the 1956 re-
page 56 } vision.

Q It does not make any difference in the totals?

A. No, it does not make any difference in the ultimate totals.

I would also like to enter as Exhibit 6, two pages which outline the derivation of the present Nationwide provisions for the various expense items which were determined from a review of the expense costs for the National Bureaus Companies through the year 1956. These exhibits are compiled annually and reviewed annually, and changes and revisions for individual expense items are proposed whenever an individual change is indicated to be in order. For example, as pointed out in previous filings, the provision for General Administrative Expenses has been reduced from 7.4 per cent, which it was in 1952 to the present provision of 5.05 per cent during the intervening period of years.

The results through the year 1957 will be reviewed in due course but are worthless as they are completed in final form from the expense exhibit and any necessary action based on the acquisition costs will be reflected in future
page 57 } filings for automobile insurance.

Commissioner Dillon: That will be received as Exhibit 6.

Witness (cont.) A comparison of the pure premium compared with underlying pure premium base, indicates Statewide rate level increase of 24.8 per cent for bodily injury and 34.8 per cent for property damage or an average of 28.7 per cent, however, in this filing we have specifically proposed that the total production allowance be changed from 25 per cent to 15 per cent on all Class Two Risks. In other words, ten percentage points would be transferred from the expense portion of the rate and added to the portion available for losses and loss adjustment expense. The reasons for this change are as follows:

The rates for Class 2 Risks today are relatively high because of the bad loss experience of those risks and the use of a percentage expense loading produces manual rates high in dollars.

Senator Wicker:

Q. You might state what Class 2 Risks are.

James H. Cahill.

A. Class 2 Risks are the male driver under 25.
page 58 } There are three classes. Class 2-A is a typical family risk, with sons under age 25 in the household who have the use of the car, and also the young married couple where the husband is under the age of 25.

Class 2-C is the car owned or principally operated by the person under age 25, his own car or one he has use of.

Commissioner Catterall: Unmarried?

A. Yes, unmarried, and the Class 2-AF and 2-CF are the corresponding classes of farmer risks with male operator under 25 which is the rate as compared with the other rates with discount of 25 per cent.

These two rates present a rate analogous to longhaul truckmen and public vehicles whereas for many years, because of the highly dangerous type of risk, the rate structure has included a total production cost allowance of only 15 per cent as compared to 25 per cent, and as the Commission knows, this Class 2 business is the least desired business from an underwriting standpoint. So the question inevitably arises in the case of underwriters as to why they should pay so much in dollars to acquire that business than they do to
page 59 } acquire Class 1 and Class 3 business.

Mr. Elliott:

Q. State in dollars and cents—the 2-C is twice the rate of Class 3, the business car at present.

A. The present Class 2-C is twice the business car rate.

Q. And the business car rate is how much higher, 25 per cent higher than Class 1-A rate?

A. It is actually about 37 per cent higher than the Class 1-A rate. The differential is 73 for Class 1-A and unity for Class 3, so Class 3 Rate today is about 37 per cent higher rate than Class 1-A.

Q. To put it concretely and to have a specific example in the record, if we had a male operator 26 years old who was entitled to Class 1-A, and if we assumed that his policy would be $73.00, then, if he was 24 years old and unmarried and owned a car, what would his rate be?

A. It would be $200.

Q. And the commission would be how much?

A. The provision for a total production cost
page 60 } would be 25 per cent of the $73.00 or $18.25 and on the other one it would be $50.

James H. Cahill.

Commissioner Dillon: Is there that much more work involved in that?

A. We think not. We think the situation is quite comparable to what it is on longhaul truckmen as compared to commercial car trucks.

Q. About how much time would it take to write it?

A. It would take more time to service it. We get more loss reports.

Commissioner Catterall: The agent does not get the whole $50.00?

A. A general agent would.

Chairman Hooker: What agents would?

Commissioner Catterall: That would be a temptation to put more people in that class?

A. These are relationships. I don't recall what that is in Virginia—maybe $73.00 for Class 1?

Mr. Elliott: That is proposed.

Q. On your exhibit you have "Other Production Expenses to Earned Premium 4.46." Does all of that go to the General Agent?

page 61 } A. Generally speaking, he would get the whole 25 per cent. The breakdown reflects the fact that some producers receive only local commissions and the items for addition is running branch offices, etc., but in the case of a general agent, he would get 25 per cent. If the agent was a local agent or broker in other states he would get normally 17 per cent on bodily injury and 20 per cent on property damage. These are not firm figures that apply to all agents because it is a matter of private contract between a company and agent as to what percentage is paid.

Mr. Elliott:

Q. The only question for that is what the Commission will allow in the formula?

A. Yes.

Q. We are not concerned with private contracts between the companies and the agents. They can pay them what they want?

James H. Cahill.

A. Correct. The effect of this proposed change in the total production cost allowance for Class 2 is to lessen the proposed rate level changes to be 21.1 per cent for Statewide bodily injury and 30.8 per cent for Statewide page 62 } property damage, averaging an increase of 24.9 for the two coverages combined.

Next, I would like to enter as Exhibit 7 a chart showing the trend of the loss cost, a comparison of the basic limits loss cost per insured car for the last three years with those underlying the proposed private passenger rate structures based on all carriers' experience in Virginia.

Commissioner Dillon: That will be received as Exhibit 7.

A. (Cont.) This is quite similar to a chart which was included as Exhibit A attached to our initial filing, but we have drawn it to show a more accurate spacing time-wise. The loss cost for insured cars showed for the years 1954, 1955 and 1956 is based on the accident year data for all companies reporting to the National and Mutual Bureaus and the policy year data for all companies reporting to the National Association of Independent Insurers. The loss cost includes all loss adjustment expenses and reflects the development factors to sixty months for bodily injury and twenty-four months for property damage, ex- page 63 } plained and utilized in the filing.

It will be readily seen that there has been a variable upward trend in the cost in Virginia on insured cars.

We have cited a trend line, not to say that that trend will be borne out in 1958 and 1955, but to give an indication of what we seem to be up against and we have also shown that as compared with an incurred loss cost per insured car of $20.10 in 1954, it was $23.09 in 1955 and $26.64 in 1956. The present rates include the provision for loss cost of only $21.27, which is substantially below the indications for each of the two latest years.

Furthermore, the proposed provision of $27.38 is not much higher than the actual indications of the latest year, 1956, although the new rates would be affording coverage in 1958 and 1959, and to some extent in 1960. This chart throws considerable doubt as to, even if the proposed revision, including the trend factor, as to whether it would provide rates that will prove adequate.

James H. Cahill.

Mr. Moncure:

Q. When Commissioner Catterall asked you
page 64 } about your trend factor looking upward, looking at
Chart 8, has that trend factor continued upward?

A. Yes.

Q. And this only carries it slightly above your losses in 1956?

A. Yes, it would not take you far beyond the year 1956.

Q. And that shows the actual effect of your trend factor used in Exhibit 3?

A. Yes.

Commissioner Catterall: Does that not mean that you are giving 100 per cent weight to 1956?

A. Yes.

Mr. Elliott: Plus super impositions.

A. We are fearful that this trend has not leveled off because the trend of average paid claim costs definitely demonstrates that average claim costs continue to go up right through 1957.

Mr. Elliott:

Q. Let me interrupt you there. Would not more often rate reviews and more often rate filings have a more accurate
effect than just conjecture about these things?

page 65 } A. No, I think it more accurate to get them for
the period when they apply and even if you got the immediate trend claim cost and get them more often, you would still be behind.

Q. In many kinds of insurance the Commission reviews rates annually, and I have in mind compensation insurance and fire insurance. What is so peculiar about this insurance that we have to enter into projections?

A. I think this kind of insurance is different from fire. That we run into cycles and to produce accurate rates, we have to take into account these cycles. I think the Virginia statutes in fixing rates is like many other states, that they have to review five years, and it does not do it in casualty rates, but we will have to reduce that, and we do have to, if we get the correct rates, and particularly if we fail to recognize appropriate trend factors, you won't satisfy the need of the business to base it on past experience without

adjusting it to trends known to have occurred and to be occurring.

I would like to refer briefly to the chart captioned "Exhibit A," which was in our initial filing dated
page 66 } May 23rd, 1958. The third page of that submission, which I would like to enter as Exhibit 8 in this record—

Commissioner Dillon: That will be received as Exhibit 8 in the record.

Mr. Elliott: It is a part of the filing and the only way we can keep it straight is by entering it as a separate exhibit in this case.

Commissioner Dillon: It will be Exhibit 8.

A. I have pointed out previously that in proposing revised automobile rates in Virginia, we have followed the customary procedure of using the experience of all companies that write liability insurance, but that from year to year turns out to be inadequate to the companies that report to the National Bureau. The companies that report to us are stock companies that write under the American Stock Company Act, and they cannot be so selective as the mutual companies and other companies, and the result is that we end up with a figure indication substantially higher than for all companies,
and thus when the rate structure for all companies
page 67 } is in, it eventually turns out to be not high enough for the companies in our Association, even though it is for the companies in general. I mention this to show that all companies have a peculiar plight, that even if the rate is adequate for the business in *toto,* it proves to be inadequate for the type of risks we write on the average.

Next, I would like to enter a chart as Exhibit 9, which shows the trend of average paid claim costs for Virginia.

Commissioner Dillon: It will be received as Exhibit 9.

Witness (cont.) This reflects data that underlies the filing supplemented by the average paid claim cost for which supplemental figures became available during the year 1957. You will note that there is a pretty steady upward trend in the average paid claim cost for Virginia for both automobile bodily injury and automobile property damage cases. For automobile bodily injury the average paid claim cost for the year ending September 4th, 1955 was $674.00 and

James H. Cahill.

page 68 } that dropped to $652.00 for the year ending December 31st, 1955, and since that time has gone up rather steadily to the point where the average paid claim cost reached $740 for the year ending September 30th, and then on up to $765 for the year ending Derember 31st, 1957.

Now, for property damage the average for the claim cost for the year ending September 30th, 1955 was $99. There was a rather steady climb in the average claim cost until it reached $115 for the year ending September 30th, 1957, and stayed at that figure until the year ending December 31st, 1957. These are accident year and policy year statistics back in the period of 1955 and 1956, and this chart brings out graphically that, since that time the average paid claim costs have continued a general upward rise.

Commissioner Catterall: Is the property damage of $115.00 the amount paid by the insurance carriers over and above the deductible?

A. I don't believe there is any deductible involved in the automobile property damage, that is, on the deductible basis there is the third party basis and practically no third party in this so this means that on paid claim cost there

page 69 } is now in the neighborhood of $115 on claims, whereas, for the year ending September 30th, 1955, it was only $99. In the meantime it has gone from $99 to $115.

Next, I would like to point out that in developing the rate revision filing, not everything was taken into account that possibly could have been. For example, in Virginia the experience of assigned risks is excluded in its entirety so far as manual rates are concerned. Assigned risks are treated as a separate category of business and its figures do not enter into this class of business, but they mean exceedingly costly business and that is to say that the assigned risk is pretty sizeable part of the total in Virginia. The assigned risks represent approximately 4.7 per cent of the total automobile liability premiums or premium volume in this State. The statistics compiled by the Virginia Automobile Assigned Risk Plan, show that these risks have produced a substantial underwriting loss consistently as shown by the following experience.

On bodily injury and property damage combined, all carriers, the plan as it was for 1953 produced an earned premium

of $1,119,433 with incurred losses of $1,137,938 with a loss ratio of 1.017—

page 70 } Commissioner Catterall: Why did you not ask for that to be increased?

A. We had that in mind after this rate revision program is acted upon, to review this assigned risk block of business and that would have to be a supplemental action. I think the Commission has taken the position that that is a category of business that should stand on its own two feet, and if increases on the surcharges are needed it will be considered.

Q. It would have no influence on this?

A. No. I am just indicating that in the past that, not only on the base that they have taken, this would be on the effect in 1954, the premium volume went up and the loss ratio turned out to be 102 per cent.

In 1955, the latest year for which figures have been published, the assigned risk earned premium of $1,510,375.00, the losses were $2,181,789.00, and the loss ratio was 1.445, and even though some of the outstanding losses might be compiled after that experience is run over, the paid losses as of the date of compilation had already amounted to

page 71 } 97 per cent of the premium.

I mentioned previously that the average claim cost for bodily injury had continued to go up for the year September 1957 to December 31st, 1957. Just between the period of time that had elapsed from the mailing of our initial filing and the hearing on that filing, the figures for that latest three months became available, and for bodily injury the average paid claim cost went up 3 per cent going from September 1957 to the year ending December 31st, 1957.

We also in that interval of time have been able to compile the Virginia experience of companies reporting to the National and Mutual Bureaus for the first six months of the accident year 1957. We are not proposing that the rate level indication be modified in any way to reflect the continued upward trend shown but present this as additional supporting information that the adverse trend has continued in marked degree. I would like to offer as Exhibit 10 this experience.

Commissioner Dillon: Exhibit 10 is received.

page 72 } Witness (cont.): I mentioned earlier that under the provisions of the Statistical Plan, we get the loss reports in such detail that we are able to take up the

experience results for periods ending June 30th as well as December 31st. We have no knowledge of what development facts should be used in the case of this 1957 experience because this is the first time we have been able to complete the experience for that six months' period running from January 1st to June 30th. Such studies as have been made in the past in the automobile liability insurance field indicates that there is a marked seasonal variation, and the second half of the year can be expected to show much worse results than the first half. This is logical because the heavy vacation falls in the second half of the year and your larger holidays such as the 4th of July, Labor Day, Thanksgiving and Christmas fall in the last half of the year.

Such analysis as I have been able to make of the State situation by the State Motor Vehicle Department, is that usually more accidents are reported in the second

page 73 } half than in the first half of the year. So we are confident that, when the full report of the accident reports are filed for the further six months when they become due they will be even worse than the trend shown by this Exhibit 10. You will note that for both bodily injury and property damage, and that is a combination coverage for the two coverages, that there is a continuing upward trend in the basic limits indicated indication.

I think that that is an important exhibit, in that it brings out that the upper trend did not level off or end in 1957.

Next, I would like to comment briefly on the distribution of the Statewise rate level changes proposed by territory in order to make each separate area pay only its fair share of the premium bill.

Mr. Elliott: Unless you have something specific on that, we are willing to accept the distribution on that . Our trouble is what you are going to distribute rate-wise and not interested in where you are distributing it.

Mr. Moncure: There is no reason to discuss that if everybody is in agreement.

page 74 } Witness (cont.) Likewise in the private passenger classification plan below.

Mr. Elliott: There is no need to go into that.

A. We are proposing to change the farmer's discount from 20 to 30 per cent. I think the Commission would be interested in having an exhibit which shows a comparison of the present and proposed basic limits rates by class within the territory in order to be able to see what dollar increases occur.

James H. Cahill.

Mr. Moncure: We would like to file that as Exhibit 11.

Commissioner Dillon: It will be received as Exhibit 11.

Witness (cont.): This shows that the dollar increase and percentage increase varies considerably by class and from one territory to another. Again, based on recognition of the indication of Virginia experience by territory and also the experience by class, which was the basis of the distribution method used. In Richmond, for example, the Class 1-A for bodily injury and property damage combined will page 75 } be increased from $33 to $46, a total of $13.

In the Remainder of State Territory, which is a big one, the number of cars involved in Class 1-A rate, would be increased from $29 to $37, an increase of $8.00.

On the other hand, in Newport News, the present Class 1-A rate of $33 would be increased to $37.00, an increase of only $4.00.

This information by territory and class reflects the indication by experience and reflects the increase in costs in those territories and those classes which have been mainly responsible for the losses.

It might be of interest to know that the rates in Virginia average today the ninth lowest in the Country for private passenger cars and the proposed increase would take Virginia to the place where it would be the nineteenth lowest rated in the Country on private passenger cars.

As to the dollar effect of the proposed revision, we have computed that it would increase the basic limits premium volume on bodily injury by approximately $3,405,000. The property damage basic limits volume by $3,197,000, page 76 } and the combined effect basic limits premiums by an increase of $6,602,000.

There would, of course, be some collateral increases in excess limits and medical payment premiums.

Commissioner Catterall: Do you have credible experience to put Nansemond County and Suffolk in a different territory—would there be any distinct difference if put in the other classification?

A. No, that would be a case of subsidizing those areas.

Commissioner Catterall: You are putting Martinsville up 47 per cent.

Mr. Elliott: Let me say this in answer to this question of territorial changes, that this is something that has been before the Commission a number of times for a long time.

James H. Cahill.

It is evident, it seems to me, and I have given a lot of thought to the change in territories proposed, that probably the territories need some study, but in view of the fact that we are going through a period such as that when we get page 77 } the proposed increases from 20 to 50 per cent, I think on this question of territories, we had better wait until it levels out and then have the Bureaus to make further study and then we can get rid of some of these territories, some or all of them, but it must be borne in mind that when you change the territory for private passenger cars you have to do it for commercial cars and when you change territories you change people and some get some increases and some decreases and we get very bad inequities, and it is astounding the amount of these inequities at a time when you start making a rate change in regard to these territories.

Mr. Moncure: We are in accord with that view that this is not the proper time to adjust them.

Mr. Cahill: It may be forgotten that this is the first revision in Virginia of a plus development on rate revision since January 1953, more than five years ago. For bodily injury and property damage combined the basic page 78 } structure is actually four-tenths of one per cent lower than that in effect in 1953. In consequence of the introduction of refinement of the classification plan at the 1956 and 1957 rate revisions approved by the Commission, the statistics show that for today they have approximately 79 per cent of the insured cars, namely those that are classed 1-A, 1-B and 1-AF, the base rates in virtually all territories are lower than, or the same as, on January 1st, 1953. I believe the only exception is Class 1-B in the Remainder of State Territory where the rate is $2.00 higher than it was five years ago.

This astounding situation is despite the increases in costs which are known to have occurred during the past five years. Mr. Moncure commented on the increase in hospital charges, physicians and surgeons fees, therapy and other medical expenses for treating and rehabilitating victims of auto accidents, which are translated into costs.

Further, there is a major compensation for loss of earnings while accident victims are laid up during the time. And then there are larger jury verdicts, which page 79 } in turn influence the amount at which companies must settle claims.

For property damage there is the rise in repair and re-

placement costs which affects work on both old and new cars, and the situation is made worse by the continual climb resulting from innovations in car design such as wraparound windshields and elaborate fender sections with multiple light units. Front and rear bumpers, originally conceived to prevent or reduce damage from collision, are now more ornamental than functional; in a collision a bumper usually is just one more smashed part to be repaired or replaced at today's high charges. There is increasing use of power operated equipment such as windows, seats, brakes and steering apparatus and when this is damaged it means additional repair work and higher repair bills.

In summary, I would like to request that our filing, as amended, be approved because we believe it is fully supported, and we ask that the changes become effective September 1st, 1958, in accordance with the Rule of Application proposed in our filing letter, dated May 23rd, 1958.

page 80 } We believe the increases proposed, although substantial, have been conservatively calculated and are very badly needed.

The market situation can become a difficult one. It is not in the public interest to have rates in effect that are known to be inadequate because it inevitably leads to a tightening up of the market, and if assureds are forced into an assigned Risk plan in Virginia, they become subject to 25 per cent increase, and usually an assigned risk is not usually granted the privilege of electing optional coverages such as high excess coverage which a doctor or lawyer might want on medical payments coverages. Competition will control against excessive rates. In this State individual companies affiliated with the two Bureaus have a right to apply to the Commission for permission to use uniform percentage deviations and in the case of the independent companies, they likewise have the right to apply to the Commission for the credit departures to be approved by the Commission.

Again, I call attention to the plight of the National Bureau companies as compared to all companies. Be-

page 81 } cause of our method of doing business, we don't seem to be able to meet the average of all companies. They, undoubtedly, will prove to be inadequate for our type of companies and the end result will be that, literally, the rate structure will contain no provision for underwriting profit and contingencies for our companies, even though the approved rate structure contains a margin of 5 per cent based on the experience of all companies.

James H. Cahill.

Thank you.

Commissioner Dillon: 1:00 P. M. The Commission will recess until 2:00 P. M. for lunch.

2:00 P. M. The Commission resumes its session.

Mr. Moncure: I believe that concludes our direct examination, if it can be called that, of this witness.

Commissioner Dillon: Anyone wish to cross examine this witness?

Mr. Elliott: I have a little cross examination.

page 82 } Senator Wicker: I may have a question or two to ask, but it may be covered by Mr. Elliott's examination so I will wait and see.

CROSS EXAMINATION.

By Mr. Elliott:

Q. You introduced in evidence as your Exhibit No. 2 the letter of July 9th, 1957 to the Commissioner of Insurance with respect to the method of changing the method of compiling statistics. Briefly can you tell the Commission why the change was made?

A. The change in method was made to improve the rate-making method. We have been convinced for a long period of time that better statistics and more up-to-date statistics would be available if the data could be compiled on the accident year basis, however, it was physically impossible to cope with the volume of work involved until high speed electronic machines became available. That was why in 1953 we were able to, with the aid of our advisory authorities, to compile the annual statistics. I can remember twenty-five or thirty years ago consideration was given to using that type but it had to be postponed until recent years when high speed tabulating machines became available.

page 83 } Q. Then one of the outstanding reasons for the change was to bring the statistics more up-to-date and for better statistics?

A. Yes, sir, that is correct.

Q. You have stated in your direct examination that, in arriving at the indicated pure premium, you have weighted 1956 experience 70 per cent, that is experience from companies reporting to your Bureau and Mr. Jones' Bureau, 70 per cent for 1956 and for 1955 30 per cent. That is a departure from what we have done heretofore?

James H. Cahill.

A. Heretofore we used only policy year experience in that that was all that had been practical to use for rate-making, and in using that experience as far back as I can remember, it meant the using of the mean of the two latest years, which meant that a weighting of 50 per cent was given to each of the two years.

Q. Now, 1956 was a worse year than 1955, the experience shows that?

A. That is correct.

Q. And the effect of the 70 per cent weighting is to project, to an extent, the increased expense into the

page 84 } rate-making procedure?

A. It gives a higher rating because of the use of the 70 per cent weight. That is the way it worked in other states and in some of them it worked the other way. We still use the 70 per cent and 30 per cent weighted method.

Q. Have you sat down and determined just what difference it makes in the indicated rate level under this 70 per cent?

A. Yes.

Q. Approximately what is the figure?

A. We filed a proposed increase, Statewide increase of 24.9 per cent on bodily injury and property damage combined and we figure that if 50 per cent weight had been used for the accident year experience, as well as the policy year experience, the increase derived would have been 23.1 per cent.

Q. That is combined?

A. That is bodily injury and property damage combined. Separately, bodily injury plus 19.3 per cent and property damage plus 28.9 per cent.

Q. You haven't figured it without the trend

page 85 } factor, have you?

A. No, I would have to figure that.

Q. That is all right. I have figures to show what that is.

A. The trend factor averaged 1.093 so it would be a question of dividing the 1.829 by 1.093.

Q. The trend factor you have indicated in this case has had the effect of increasing the proposals by 9-½ percentage points?

A. 9.3 per cent.

Q. Let's look at that a minute. Your overall increase is 24.9 per cent?

A. 24.9; divided by 9.3 per cent. If my arithmetic is right, it comes out 10.6 percentage points.

James H. Cahill.

Q. So it has the effect of increasing the rates about 45 per cent or 24 per cent more than you requested?

A. In that neighborhood.

Q. You don't have any completed statistics for 1957, they are not available as yet, on which this Commission can act, so they can determine how the rate level is affected by the 1957 experience?

page 86 } A. The only data available at this date in sufficient detail to be used is the six months of 1957 which I put in the record as Exhibit 10. The data for the full year 1957 will not be available until October, this year, at the earliest.

Q. The 1957 data would have to be considerably developed before it could be relied upon; is that not correct?

A. To use it in the rate-making process, we would want the figures for the full year, but I think the six months data can be used as indicative of the trend because every study that has ever been made, for bodily injury at least, shows that the second part of the year will work to a higher percentage.

Q. So the present 1957 figures are not reliable either from your standpoint or our standpoint?

A. I would not care to say and point out that in many states where rate revisions will be filed shortly, the accident experience for 1955 will be given a weight of 30 and the combined accident experience for 1956 and the first six months of 1957 will be given a weight of 70 per cent. We are starting to use the accident year figures for the first six months of 1957 but in combination with the full year 1956.

page 87 } I think, if anything, the picture is understated when six months' figures are used, that the picture for the full year will be considerably higher when the twelve months' figures are compiled later this Fall.

Q. Now, looking at your development factors in trend factor which are shown on Sheet No. 3 of your Exhibit 4, you show bodily injury losses paid in Virginia for the year ending September 30th, 1955 of $3,722,539.00. Is that all the losses in Virginia—bodily injury for that year?

A. This is private passenger cars only. It is basic limits only, exclusive of all loss adjustment expenses and the data for the companies that report to the National Bureau and Mutual Bureaus. We were not able to obtain corresponding data from the companies that report to the National Association of Independent Insurers.

Q. What was the premium volume of those companies for that same period?

A. Which companies?

Q. The companies whose paid losses were $3,722,539?

A. I would not have that available right here.

page 88 } Q. So we don't know what the loss ratio is for those companies; is that correct?

A. Corresponding to that particular figure, but we have policy year accident data as compiled on total limits basis.

Q. You are showing it for September 30th, 1955—losses paid and number of claims and I want to know the premium volume and loss ratio of the companies paying out $3,722,000 on average claims that were Bodily Injury?

A. That is on a basic limits basis. It would have to be a special job to work out the total premiums back to a basic premiums basis.

Q. And that is true of the next figure of $5,597,347?

A. That is correct.

Q. And also on property damage?

A. On that it would be much simpler to get the property damage trends because the losses have been exhibited on a total limits basis for property damage because excess limits property damage claims are rare.

page 89 } Q. And, as I understand it, it is the purpose of the trend factor to project for eighteen months the pure premiums developed from 1955 and 1956 experience?

A. To take it eighteen months beyond the period reported by that experience, yes.

Q. Do I understand, Mr. Cahill, that the rates proposed in this proceeding are based on an acquisition cost as far as Class 1 and 3 are concerned of 25 per cent?

A. That is correct. That is the same provision now in effect, that is correct.

Q. Are you familiar with a release dated Thursday, June 25th, 1958 from the National Bureau of Casualty Underwriters which I show you?

A. Yes, I am.

Q. Will you please read that to the Commission?

A. This is a Press Release from the National Bureau of Casualty Underwriters dated Thursday, June 26th, 1958, which was mailed in advance to reach all Insur-

page 90 } ance Departments several days before it was to appear in the Insurance Trade Press. It is dated June 26th but it was mailed a few days before that and reads as follows:

James H. Cahill.

"From: National Bureau of Casualty Underwriters
"60 John Street
"New York 38, New York

"NEW YORK, June 25—The automobile rating committee of the National Bureau of Casualty Underwriters has been empowered to revise the rating formula for automobile liability insurance by the introduction of a 20 per cent total production cost allowance, except on public automobiles and long-haul trucks, the Bureau announced today.

However, before taking formal action to change the formula in the individual states the automobiles rating committee will undertake to discuss the situation with the individual state agents' associations, the Bureau stated.

The membership of the Bureau has voted to proceed on this basis in accordance with recommendations by its executive committee and also by its automobile service subscribers, the Bureau said.

page 91 } The proposed change is intended to put Bureau members and subscribers and their producers in a more sound competitive position with respect to insurers having lower expense factors in their rates, the Bureau explained.

The Bureau pointed out that company expenses, as reported by them, are reviewed annually and as a result since 1952 there has been a 26 per cent reduction, from 7.4 per cent to 5.5 per cent, in the provision in the rates for general administration expense."

I might add that when this Release was mailed in advance to all Insurance Departments, it was also sent to all State Associations Headquarters.

Mr. Elliott: May I ask that this be received as Exhibit 12?

Commissioner Dillon: It will be received as Exhibit No. 12.

Mr. King: I would like to ask what significance this has with this case?

Mr. Elliott: If the Commission is of the opinion that the rate formula should be revised to include 25 per cent on one or more classes it has effect of reducing rates by

page 92 } one and a half per cent for those classes, and the Commission must approve the expense formula for each class of business.

Mr. King: This is the first time I have seen it. It may have reached the office of my client, but I have heard nothing

about it, and someone suggested to me this morning that someone might bring a case of this kind. The matter is not one to be replied to by discussion. Mr. Eliott said the matter of what compensation the agent is to receive is something that the Commission has never exercised jurisdiction over, and it has not any jurisdiction in my opinion. He said that there might be some evidence taken into consideration as to production costs which involve commissions, and stated that, instead of being twenty five per cent on Class 1, fifteen per cent on Class 2 and twenty-five per cent on Class 3, it might be well to make it twenty per cent on Class 1, fifteen per cent on Class 2 and twenty per cent on Class 3.

page 93 } I say that, if that were undertaken, which I submit in all generosity, the Commission has no authority to do, it would mean that the Commission would be undertaking to tell the insurance companies what to pay those agents. I think Mr. Cahill mentioned this that the 25 per cent would apply to general agents. There are not many general agents and he said the local agents get 17 per cent, so if you cut the 25 per cent across the board, that means a few general agents would get 20 per cent but many of the local agents would be cut from 17½ to 12½ per cent and we are speaking of something of a very private nature between the companies and the agents, and I did not come here today considering that anything of that kind would be put into the record.

The only thing that has been suggested was that they will reduce the 25 per cent on Class 2 and reduce this 15 per cent, and if we are going to talk about reducing the 25 per cent across the board, I don't see how we can present our case. As I stated, we will file a memorandum as to what

page 94 } has been presented but if we are going to speak about this change across the board of 25-15 and 20—if that is what we are getting into, I think that is something with which the Commission has nothing to do.

Mr. Elliott: I want to say to the Commission that this case came to my attention on Thursday, June 26th. I immediately called Mr. King's office to advise him that the Release had been made and I was advised that he was out of town and I took the precaution of calling the Executive Secretary of the Association and telling him about the Release, and I can tell you in the presence of Mr. Parker that I said to him "Mr. Smith, this is a serious matter and a matter which I feel should be brought to the attention of the Commission," so I feel that I have given everybody notice but, if no notice had

been given to fix the formula for making rates, while the Commission hasn't anything to do with the commission paid the agent by the company; they can pay them anything they want to but it is a question for the Commission to
page 95 } fix the acquisition cost and production cost and it has to do it every time they make a rate and that is a matter that we have had in every filing and I know the Commission back in 1933 of its own motion cut the production cost from 25 per cent to 20 per cent and it stayed that way until the gas rationing case Judge Shewmake referred to this morning when, on account of the gas rationing and the low rates, the companies changed it and it came before the Commission in 1948 that it be made permanent and in the last case the Commission made the 25 per cent permanent and it has remained that way since the War and there are many requirements that require this Commission to determine what the production cost will be and I am ready to go into that.

Mr. King: I am not.

Commissioner Dillon: The Commission will admit the exhibit as Exhibit 12.

Mr. King: May I note my exception, please, Sir.

page 96 } By Mr. Elliott:

Q. This message, I believe, came out after the filing was made in this case?

A. Yes. The meeting by the Bureau did not take place until June 19th and the Release came out shortly thereafter, and our filing was made on May 23rd and amended June 5th, so that the Bureau filing in Virginia had been made long before this action was taken by the National Bureau.

Q. Now, will you look at your Exhibit 1, I believe 1A, part of your Exhibit No. 1, if I am not mistaken. It is Exhibit 4 with the filing.

A. Yes.

Q. Do you have that?

A. Yes.

Q. Is that the exhibit that sets up the formula?

A. Yes, it shows the breakdown of the present expense refinements.

Q. Yes. I wish you would tell the Commission what production costs are stated in that exhibit.

Senator Wicker: Exhibit 4.

page 97 } Mr. Cahill: It is Exhibit 4 with the filing and Exhibit 5 with this record. In this exhibit the total

production allowance applicable to Classes 1 and 3 is the present 25 per cent provision, and with respect to Class 2 rates, it is proposed that the total production cost allowance be changed from 25 per cent to 15 per cent.

Q. If the 20 per cent total production cost allowance then applies as to Classes 1 and 3 the Loss Ratios, instead of 69.2 per cent becomes 64.6 per cent?

A. That would be correct.

Q. And that would represent a reduction in proposed Classes 1 and 3 of approximately 8.4 per cent?

A. 8.4 per cent?

Q. It would be 59.6 per cent into 5, which would be approximately 8.4 per cent?

A. I figure that it would be a reduction effect of 7.7 per cent. In other words, I divide 59.6 the present permissible by 64.6 the new permissible, which means the effect on rate level would be the same as multiplying by a factor of .923 or minus 7.7 per cent.

Q. I did it another way but I am not enough of a mathematician to argue with you.

page 98 } A. I think this is the effect. In other words, that change would call for reducing the otherwise indicated rate level by 7.7 per cent.

Q. Now, as I understood your testimony, it was your estimate, that if the proposed rates go into effect the increased premium volume from Bodily Injury and Property Damage alone will amount in excess of 7 million dollars?

A. On basic limits coverage it would be $6,602,000 basic limits.

Q. And what is it on total limits, can you give us an approximation or let me ask you this preliminary question? Wherever you change the Bodily Injury and Property Damage rates, you also affect rates for excess limits and for Medical Payments?

A. Yes, that is correct. I made the point this morning that there were collateral effects in the Medical portion.

Q. Can you give us your best estimates in the nearest hundreds of thousands dollars what effect your proposed increase has in toto on Bodily Injury and Property Damage annually, including this excess limits and Medical Payments?

page 99 } A. Bringing in the increased limits and Medical Payments, I think the total increase would run $7,975,000.

James H. Cahill.

Q. And that would mean that one-fourth of that would go into production cost if the 25 per cent allowance is made in the formula?

A. One-fourth of it would be for total production cost allowance, but I don't think all of it would go that way because the mutual companies and the specialty companies don't operate that way.

Q. But ,at least, the public would pay $2,000,000 more if not more?

A. I don't think it would be much more because some of these write at credit departures because they don't need that and they would continue to do that with the Commission's approval and the mutual companies would pay a dividend.

Commissioner Catterall: If you had that $8,000,000 in the rate structure, it would mean that you would have $2,000,000 wherever the companies wish to put it as they please?

A. Yes.

page 100 } Q. And it could be put wherever they wanted to put it?

A. Yes.

Senator Wicker: Or make up some of their losses?

A. Yes, sir.

By Mr. Elliott:

Q. The Commission has approved the uninsured motorist law?

A. Yes.

Q. How much money will that bring in according to your estimate?

A. Somewhere between five and six million.

Q. And that would be in addition to the eight million?

A. Yes, they shall be—

Q. They are on the same policy?

A. Yes.

CROSS EXAMINATION.

By Senator Wicker:

page 101 } Q. Coming back to this trend factor and the eighteen months proposition, I believe I understand it correctly, but want to be sure that the eighteen months that you talk about and refer to in the cross-examination I don't think that is projecting a rate on losses

in the eighteen months from now to the future, but modifying the 1955 and 1956 loss record by the trend shown by the losses for the eighteen months period following that period?

A. Roughly so except the trend started back in the period. We took an eighteen months span of the increased cost and applied that to the increases in 1955 and 1956 experience, so obviously, from the time standpoint it did not bring us into the future. It does not bring us into today.

Q. Does your 1955 and 1956 Loss Experience, if that remained constant during the eighteen months thereafter if there were no increases in losses or decreases in losses, would there be no trend factor?

A. That is right.

Q. And it works for the eighteen months period following the period on which you are presenting experience, 1955 and 1956, if they had shown a trend downward, then instead of asking that the new rates be based upon 1955 and

page 102 } 1956, you would pay the 1955 and 1956 experience decreased by that trend?

A. Yes.

Mr. Elliott: I object to that. We have always relied on the experience before that.

Senator Wicker: We would propose that the new rates be based upon the loss experience on the basic years modified by the trend whichever way it went for the eighteen months thereafter, whether it showed an upward or downward trend?

A. Yes.

Mr. Elliott: It has never been done.

Commissioner Catterall: Did the question say that you had done that?

A. I said we would recommend it. I said we would recommend, if we are lucky that the trend would go the other way we want to recommend that.

Mr. Elliott:

Q. Have you ever filed a decrease on trend factor in all the years?

A. I can't recall before this Commission on that line, but some of our liability lines negative factors have been used.

James H. Cahill.

page 103 } My mind doesn't tell me what has been used but there have been times when negative factors have been used.

By Senator Wicker:

Q. And when they did come in, we came in here with them?

A. Yes.

Mr. Elliott: When was that?

Senator Wicker: In the General Liability some years ago. Mr. Muir testified and I imagine your recollection is the same as mine in regard to that.

Mr. Elliott: No.

Commissioner Dillon: Let's stick to the witness.

By Senator Wicker:

Q. Do I understand from this exhibit that the loss experience in Virginia for 1955 and 1956 that those figures include, not only the loss experience of the companies belonging to the National Bureau and the Mutual Bureau, but actually include every Virginia insured automobile?

A. The basic experience used in rate-making is inclusive with all automobile writing automobile liability.

page 104 } Q. Regardless of what Bureau they belong to?

A. Yes, sir.

Q. You testified that the actual experience for various years had shown the actual losses were considerably greater than they were expected to be under the rating formula in force. You will recall you testified to that?

A. I don't think I phrased it that way.

Q. You perhaps phrased it in more detail. This shows it on that testimony 78 per cent.

A. That 78.4 per cent loss figure is the incurred losses and loss adjustment ratio in 1957 in Virginia for all companies that report to the National Bureau as compiled from Page 14 of the Virginia Annual Statement. In other words, our companies in the aggregate suffered a very adverse loss ratio in the calendar year 1957 on their total automobile business in Virginia. That is not just private automobiles but commercial institutional and all limits also.

Q. On that basis, in order to have broken even or received as much in premium, so that 59.6 per cent of the

page 105 } premium would be available for losses, the premiums would have had to have been considerably higher.

Mr. Elliott: I object to that question.
Senator Wicker: Let me finish the question.
Mr. Elliott: All right.

By Senator Wicker:
Q. The premiums would have had to have been higher?

Mr. Eliott: I object to that. 1957 is not before the Commission and he testified he could not put it in because he did not have all the factors.
Senator Wicker: It does not affect the principle.
Mr. Elliott: It does affect the principle too.
Senator Wicker: Were the losses in 1955 and in 1956 greater or less than the 59.6 per cent of the formula according to the exhibit?
Mr. Elliott: That is what the whole case is about.
Senator Wicker: The question is not how
page 106 } much, but what I have asked were the losses greater or less?

A. I am sure the comparable figures for 1955 and 1956 for all companies were higher than the permissible and the compilation of the term "Private Passenger Experience" by territory would likewise show loss ratios above the permissible.
Q. If the Commission grants the approval of the proposed rates, is there anything in there for the repaying of the companies or recouping those excess losses for those years is planned?
A. No, Sir, there is never any attempt to recoup or even to try to recoup the excess losses for those previous years, and likewise if the rates were excessive, there would not be any attempt to repay.
Q. In this procedure, there is nothing in the rate formula that has been presented or in the figures presented of the proposals presented by which the companies would undertake to recoup the excess losses for those previous years; is that correct?
A. That is correct.

page 107 } RE-DIRECT EXAMINATION.

By Mr. Moncure:
Q. So far as 1957 data is used by you anywhere in your testimony, it is only used as a yardstick to determine what the trend is in support of your other figures?

Kenneth J. Jones.

A. I brought it out on trend just to support the other figures.

Q. And on the uninsured motorists to determine what the rate structure will be in Virginia—

Mr. Elliott: Just a minute. I'm afraid I misled you by showing that additional acquisition costs will accrue.

By Mr. Moncure:

Q. You don't know what the experience will be; it may be that we will make money or maybe lose our shirts?

A. That is correct.

Witness stood aside.

2:55—Commissioner Dillon: The Commission will recess for five minutes.

page 108 } 3 P. M. The Commission resumes its session.

KENNETH J. JONES,

a witness introduced on behalf of Petitioners, being first duly sworn, testified as follows:

DIRECT EXAMINATION.

Q. State your name and residence please.

A. Kenneth J. Jones, Brookline, N. Y.

Mr. Elliott: We likewise accept Mr. Jones' qualifications.

Senator Wicker: Thank you, Mr. Elliott.

By Senator Wicker:

Q. What is your position with the Mutual Casualty Insurance Rating Bureau?

A. I am Secretary of the Mutual Insurance Rating Bureau.

Q. You have testified before this Commission before?

A. I have.

Q. You collaborated with Mr. Cahill and others in your Bureau and the National Bureau in the preparation of the exhibits filed here?

A. Yes.

page 109 } Q. And the filings made?

A. Yes. There are certain minor differences that I would like to place in the record so there can be no misunderstanding.

Kenneth J. Jones.

Q. And, as I understand, the filing made by the National Bureau is largely composed of stock companies and the filing by the Mutual Bureau, composed of mutual companies, and that they are identical with one or two differences or exceptions?

A. Yes, that is correct.

Q. State what they will be.

A. The original filing by the Mutual Bureau under date of May 23rd was the same as the National Bureau. In amending that filing our letter was dated June 6th, and did not include Exhibit 6, which was included with the National Bureau's letter.

With one other exception the filing is the same, and that is with reference to Exhibit 4, which are the pages of the original filing.

Q. You mean the exhibit marked "Exhibit 4?"

A. Yes. Of the filing itself. Our reference differs slightly from that of the National Bureau when reference
page 110 } is made to the filing Memorandum itself.

Q. You have noted changes thereon. You don't regard them as material but just stated them in the record?

A. Yes.

Q. In both filings is the mimeographed sheet marked "Exhibit 3a" and headed "Development of Rates for Miscellaneous Classes?"

A. Yes.

Senator Wicker: I would like to have that received in the record as Exhibit No. 13.

Commissioner Dillon: It will be received as Exhibit No. 13.

Senator Wicker: Each Commissioner has that marked "3a" in the original filing and that will be Exhibit No. 13.

Commissioner Dillon: Yes.

By Senator Wicker:

Q. What is the significance of Exhibit 13?

A. There are several so called "Miscellaneous Classes" of automobiles that are rated by the private pas-
page 111 } senger rates, consequently, the rating of those categories in rates will be affected by the Private Passenger revision.

Hired Cars are rated at two per cent of the Private Passenger Class 3 rates, rounded to the nearest five cents.

Q. What kind of insurance is that?

Kenneth J. Jones.

A. Hired cars less the coverage of the liability of the owner for the hire of an automobile.

The next category is "Non-Ownership Class 1." That is just briefly the liability of a firm for the use of non-owned automobiles by executive officers and other officers outside of salesmen. Those that would use an automobile in the business of the firm very frequently.

The rates for this class are seven per cent of the private passenger Class 3 rates, rounded to the nearest fifty cents, and subject to minimum rates of $2.00 for bodily injury and $1.00 for property damage.

The next category is "Funeral Cars." The rates for these vehicles are 110 per cent of private passenger Class 3 rates for bodily injury and 100 per cent for property damage, rounded to the nearest dollar.

Q. That includes funeral cars owned or oper-
page 112 } ated by funeral directors?

A. Yes. The next category is "School Buses." These rates are determined by applying the following ratios to the private passenger Class 3 rates, and rounding to the nearest dollar.

For the private passenger type school bus the rate is the same as private passenger Class 3 rate.

For Commercial, or bus type, there are three categories, depending on the seating capacity.

From 0 to 30 passengers it is 90 per cent.

From 31 to 60 passengers it is 110 per cent.

Over sixty passengers it is 130 per cent.

I might add that this is the formula that has been adopted or used in Virginia since August 1st, 1956 when approved by the Commission in Administrative Order No. 5458, dated July 28th.

Q. All of those miscellaneous classes are based on Nationwide relativity, are they not?

A. It is a rating procedure used Countrywide, including Virginia, approved in the past by the Virginia Commission.

For the record we have prepared the latest
page 113 } school bus experience in Virginia. The last year in this compilation is 1955. I believe at this step I should offer it as an exhibit.

Senator Wicker: We would like to offer that as the next exhibit.

Commissioner Dillon: It will be received as Exhibit No. 14.

Kenneth J. Jones.

By Senator Wicker:

Q. Mr. Jones, just briefly, first of all I notice this is 1951 to 1955. State why it does not run later than that.

A. This is the latest available experience. It will be noted in the first place that the experience in this exhibit is on a policy year basis. It is complete and for all classes of school buses combined, and does not reflect any trend factors and does not reflect the discount of thirty per cent introduced August 1st, 1956 on school buses owned by municipalities or school districts other than private passenger cars. We only submit the latest experience we have available. We rely on the Countrywide formula and Virginia formula in determining the school bus rates.

Commissioner Dillon: Any questions, Mr. King?

page 114 }

Mr. King: I have no questions.

Commissioner Dillon: Mr. Elliott, any questions?

CROSS EXAMINATION.

By Mr. Elliott:

Q. Can't you give us the figures on Exhibit 14 which reflect the discount for municipally owned school buses so we can determine what is needed?

A. In the first place, of course, the discount of thirty per cent did not apply to any of that experience. It is reported on a complete basis. It is only after 1956 when the current discount applies. That 1956 experience will not be available until later where valued at 1957.

Q. When you computed them directly on the experience, on what did you rely?

A. The latest year submitted in the exhibit was 1953.

Q. That is the first three figures shown in this exhibit?

A. I believe so. I am only relying on memory on this. At that time we attempted to introduce a higher discount for these school buses in Virginia than had previously applied, and it followed the Countrywide pattern.

page 115 }

Q. In other words, you used the private passenger rate as a basis?

A. Class 3 rate.

Q. Class 3, and you applied the various differentials shown on Exhibit 13, and applied as applicable the thirty per cent discount?

A. Yes, sir.

Commissioner Dillon: Mr. Moncure, do you wish to ask him any questions?

Mr. Moncure: I have no questions.

Witness stood aside.

Mr. Moncure: We rest, Sirs.

Senator Wicker: We rest.

Commissioner Dillon: Mr. King, do you want to put on any evidence?

Mr. King: No, except for the possibility I mentioned a while ago of filing a brief.

Commissioner Dillon: Mr. Elliott, do you wish to put on any evidence?

Mr. Elliott: Yes.

page 116 } GARNETT R. BURRUSS,

a witness introduced on behalf of the Commonwealth, being first duly sworn, testified as follows:

DIRECT EXAMINATION.

By Mr. Elliott:

Q. State your name please.

A. Garnett R. Burruss.

Q. What position do you hold with the Insurance Department of the State Corporation Commission?

A. Rate Analyst, in the Bureau of Insurance.

Q. Have you been continuously engaged in working on this filing since it came in?

A. Yes.

Q. Have you worked with me in preparation for this hearing?

A. Yes.

Q. I will ask you if you obtained from the Division of Motor Vehicles the number of private passenger licenses for each of the years 1948 to 1957 in Virginia?

A. I did.

Q. I ask you to state if that is shown on the exhibit, the original of which I hand you.

page 117 } A. It is shown on this exhibit.

Mr. Elliott: I ask that that be received as Exhibit No. 15.

Commissioner Dillon: It will be received as Exhibit No. 15.

Garnett R. Burruss.

By Mr. Elliott:

Q. What has been the increase in private passenger automobiles from 1948 to 1957?

A. From 603,907 to 1,129,682.

Q. In other words, it has almost doubled?

A. Yes.

Q. Now, Mr. Burruss, are you familiar with the Rating Formula now in effect in Virginia for the rating of liability insurance on private passenger automobiles?

A. I am.

Q. I ask you if you have prepared an exhibit showing what that formula presently is?

A. Yes, Sir, it is shown on this exhibit.

Mr. Elliott: May this be received as Exhibit No. 16?

Commissioner Dillon: It will be received in evidence as Exhibit No. 16.

page 118 } By Mr. Elliott:

Q. That exhibit, I believe, shows the expected Losses and Loss Adjustment Ratio of 59.6 per cent; is that correct?

A. Yes.

Q. And includes Service and Overhead of 44 per cent?

A. Yes.

Q. And what is the 25 per cent for?

A. Total Production Cost Allowance.

Q. Now, have you at my request prepared an exhibit showing the Rate Formula as modified in this case, and as further modified in event the Commission should make a total allowance on Classes 1 and 3 of Production Cost of twenty per cent?

A. I have.

Q. Does that also show the formula with respect to Class 2?

A. Yes, Sir, it does.

Mr. Elliott: May this be received in evidence as Exhibit No. 17?

Commissioner Dillon: It will be received in evidence as Exhibit 17.

page 119 } Mr. King: I would like the record to show that I object to this exhibit for the reasons I have stated before.

Thomas B. Redd, Jr.

By Mr. Elliott:

Q. What would be the expected Loss and Loss Adjustment Ratio for Classes 1 and 3 if twenty per cent Production Cost was allowed?

A. 64.6 per cent.

Q. And what is that recommended by the applicants in this case for Class 2 where fifteen per cent is proposed for Class 2?

A. 69.6 per cent.

Mr. Elliott: That is all I have from Mr. Burruss.

Commissioner Dillon: Do you have any questions, Mr. Moncure?

CROSS EXAMINATION.

By Mr. Moncure:

Q. On your Exhibit 17 where the fifteen per cent is worked out, you stated that you examined this rate filing of the Bureau; did not that give effect to the proposal?

A. This is the same formula asked for, Sir.

page 120 } Q. Did not their proposal take credit which gave to them the 24.9 per cent asked for?

A. According to their proposal.

Mr. Moncure: That is all I have.

Commissioner Dillon: Mr. King, do you have any questions?

Mr. King: I have no questions.

Witness stood aside.

page 121 } THOMAS B. REDD, JR.,

a witness introduced on behalf of the Commonwealth, being first duly sworn, testified as follows:

DIRECT EXAMINATION.

By Mr. Elliott:

Q. State your name please.

A. Thomas B. Redd.

Q. By whom employed?

A. Bureau of Insurance.

Q. In what capacity?

A. Statistician.

Thomas B. Redd, Jr.

Q. Have you been working on this filing ever since filed by the two Bureaus?

A. Yes.

Q. Have you been working with me in preparation for this case?

A. Yes.

Q. Have you prepared certain exhibits which I requested you to prepare?

A. Yes.

Q. I show you an exhibit headed "Earned Cars and Earned Premiums Bodily Injury and Property Damage Liability Insurance Combined 1947-1956," and ask if you prepared that exhibit?

page 122 } A. Yes.

Q. What is the source of the material shown on this exhibit?

A. The source is the compilation made by the National Bureau of Casualty Underwriters.

Mr. Elliott: May this exhibit be received in evidence as Exhibit No. 18?

Commissioner Dillon: It will be received in evidence as Exhibit No. 18.

By Mr. Elliott:

Q. Look at that exhibit and state what were the earned cars and premiums for the year 1947.

A. 367,480 earned cars and the earned premium Bodily Injury and Property Damage was $9,787,425.

Q. Now will you give the same figures for 1956.

A. 1956 the earned cars were 621,022.

Q. And what were the earned premiums?

A. The earned premiums on bodily injury and property damage were $26,811,138.

Q. In other words, according to this exhibit earned premiums for bodily injury and property damage have increased approximately eighteen million dollars since

page 123 } 1947; is that correct?

A. Seventeen million would be more close, would it not?

Q. Seventeen million dollars?

A. Yes, sir.

Q. I notice that earned cars and earned premium seem to be less in 1956 than in 1955. Have you any explanation for that?

Thomas B. Redd, Jr.

A. Yes, Sir. From the statistics we have the 1956 earned cars and earned premiums are not yet fully developed.

Q. The statistics are not complete as reported to you?

A. That is correct.

Q. Would you state that the 621,022 earned cars and $26,-811,138 earned premiums were under-statements of what the actualities are?

A. I believe when fully developed the actualities will be more.

Q. As a matter of fact, registrations show a considerable jump 1956 over 1955; do they not?

A. Yes.

Q. Did you, Mr. Redd, prepare an exhibit
page 124 } which shows the Effect on Indicated Rate Level
Change of Weighting 1956 National and Mutual Rating Bureaus Experience 70 per cent, and 1955 Experience 30 per cent, rather than 50 per cent for each year?

A. Yes.

Q. Is that the exhibit I now show you?

A. It is.

Mr. Elliott: May this be received in evidence as Exhibit No. 19.

Commissioner Dillon: It may be received as Exhibit No. 19.

By Mr. Elliott:

Q. Now, tell the Commission what the effect of the weighting is, as shown by this exhibit?

A. The Indicated Rate Level Change, using 70 per cent weighting for 1956 and thirty per cent for 1955 on National and Mutual Insurance Bureau experience, and after giving effect to trend factor, but before adjustment for proposed decrease in Acquisition Costs for Class 2, the Bodily Injury shows an increase of 24.8 per cent, and 34.8 per cent Property Damage, or a total of 28.7 per cent.

(2) The Indicated Rate Level Change, using
page 125 } fifty per cent weighting for all 1956 and 1955 experience, and after giving effect to trend factor, but before adjustment for proposed decrease in Acquisition Costs for Class 2, the Indicated Rate Level shows that there should be an increase of 22.17 per cent for Bodily Injury and 31.8 per cent for Property Damage, or a total of 26 per cent.

(3) The effect on Indicated Rate Level Change of 70 per cent weighting of 1956 and 30 per cent weighting of 1955 Na-

tional and Mutual Bureaus' experience, shows for Bodily Injury Plus 2.63 percentage points and for Property Damage plus 3 percentage points, and the total plus 2.7 percentage points.

Q. In other words, the effect of weighting the 1956 experience of the two Bureaus, as that is done in the filing, has the effect on the overall Rate Level in Bodily Injury of increasing the rates by 2.63 per cent and Property Damage three per cent, or an overall increase of 2.7 percentage points; is that correct?

A. Yes, Sir.

Q. Have you, at my request, prepared an exhibit which demonstrates to the Commission the effect of in-
page 126 } cluding the trend factor in these rates?

A. Including a trend factor, yes, Sir.

Q. Is that the exhibit I hand you?

A. Yes, Sir.

Q. Did you prepare that exhibit?

A. This exhibit omits the trend factor.

Q. It shows the effect of the trend factor, but omitted the trend factor?

A. That is correct.

Mr. Elliott: I offer this as Exhibit No. 20.

Commissioner Dillon: That will be received in evidence as Exhibit No. 20.

By Mr. Elliott:

Q. If you omit the trend factor from the rates, in other words, what is the effect of taking out the trend factor?

A. By taking out the trend factor the indicated change would be an increase of 16.2 per cent for Bodily Injury and indicated change of 20.2 per cent for Property Damage, and 17.8 per cent overall.

Q. And that corresponds to the proposed 24.9
page 127 } per cent over all, the 17.8 per cent?

A. Yes, Sir, that is correct.

Q. Now, have you also prepared an exhibit which I hand you which shows the "Indicated Rate Level If Trend Factor Omitted from Proposal and Rate Formula Modified to Provide for 20 per cent Acquisition Costs for all Classes?"

A. Yes, Sir.

Q. Is that the exhibit I show you?

A. Yes.

Mr. King: I object to that.

Commissioner Dillon: Objection noted.

Mr. Elliott: May that be received in evidence as Exhibit No. 21.

Commissioner Dillon: It will be received in evidence as Exhibit No. 21.

By Mr. Elliott:

Q. What would be the indicated change, as shown by this exhibit, if the trend factor is omitted, and if the total Production Cost is modified to be twenty per cent?

A. The indicated Rate Level change would be plus 7.3 per cent for Bodily Injury; plus 11.0 per cent for Property Damage, or a total overall increase of 8.7 per

page 128 } cent.

Q. Now, Mr. Redd, have you, at my request, prepared an exhibit in which you attempt to estimate the increase in annual Acquisition Costs on 1956 writings resulting from proposed rates?

A. Yes, Sir.

Q. Is that the exhibit I now show you?

A. It is.

Mr. Elliott: May this be received in evidence as Exhibit No. 22.

Commissioner Dillon: It will be received in evidence as Exhibit No. 22.

By Mr. Elliott:

Q. State what the effect as to Acquisition Costs would be, according to your estimate, if the rates go into effect?

A. Using the present formula for Acquisition Costs, and if the proposed rates go into effect, the Acquisition Costs would be increased $7,949,922.

Q. On present rates?

A. Yes.

Q. And what would it be if the proposed rates go into effect?

page 129 } A. $8,968,424.

Q. How much would that increase in Acquisition Costs be, based on 1956 writings?

A. It would be an increase in Acquisition Costs of $1,018,502.

Q. I believe you stated that 1956 writings were not complete, that is, under-stated; is that correct?

A. Yes.

Q. Now, have you made up an exhibit showing "Estimated Increase in Annual Acquisition Costs on 1956 Writings Resulting from (1) Proposed Rates, and (2) Uninsured Motorist Endorsement," which the Commission approved?

A. I have.

Q. As I understand, your exhibit is based on 1956 writings; is that right?

A. Yes.

Q. Is this the exhibit I hand you?

A. Yes.

Mr. Elliott: May this be received in evidence as the next exhibit?

Commissioner Dillon: It will be received as page 130 } Exhibit No. 23.

By Mr. Elliott:

Q. What is the effect of the proposed increases and the Uninsured Motorist endorsement Costs based on 1956 writings, according to this exhibit, what would the increase be?

A. $2,084,836.

Q. Using the estimated cars which the Company used when they filed the Uninsured Motorist's endorsement, did you prepare an exhibit of what the total additional annual acquisition costs would be?

A. I did.

Mr. King: I object to all of this clouding the issue by the evidence on uninsured motorists.

Commissioner Dillon: We understand that you object.

Mr. King: This is another matter on which there is objection.

Mr. Elliott: May that be received as Exhibit 24 in evidence.

Commissioner King: That will be received in page 131 } evidence as Exhibit No. 24.

By Mr. Elliott:

Q. What effect does that have on the total additional annual acquisition costs?

A. The total additional annual acquisition costs amount to $2,396,801.

Q. Have you prepared an exhibit which I show you en-

Thomas B. Redd, Jr.

titled "Effect of Various Factors on Indicated Rate Level Change?"

A. I have.

Q. Was that exhibit taken from other exhibits filed in this case and from calculations made by you?

A. It was.

Mr .Elliott: May this be received in evidence as the next exhibit.

Commissioner Dillon: It will be received as Exhibit No. 25.

By Mr. Elliott:

Q. Now, Mr. Redd, referring to this exhibit, I will ask you to state what is the indicated rate level change based on the filing when 1955 and 1956 experience are weighted

page 132 } equally and no trend factor is used and 25 per cent is allowed for all Acquisition Costs?

A. An increase of 13.8 per cent on Bodily Injury and 17.5 per cent on Property Damage, or a total 15.2 per cent.

Q. What is the Indicated Rate Level Change when 1956 National and Mutual Bureau's experience weighted seventy per cent and 1955 experience weighted 30 per cent, and no trend factor used and twenty five per cent allowed for all Acquisition Costs?

A. Indicated 16.2 per cent for Bodily Injury, an increase of 20.2 per cent for Property Damage, or a total of 17.8 per cent.

Q. What is the Indicated Rate Level Change when 1956 National and Mutual Bureau's experience weighted seventy per cent and 1955 experience thirty per cent, and formula modified so as to provide for 25 per cent Acquisition Costs on Classes one and three and fifteen per cent on Class 2 and no trend factor used?

A. Indicated 12.7 per cent for Bodily Injury and for Property Damage 16.7 per cent, or a total of 14.3 per cent.

Q. Can you tell us what the Indicated Rate

page 133 } Level Change when 1956 National and Mutual Bureau's experience weighted seventy per cent and 1955 experience thirty per cent, and formula modified so as to provide twenty per cent Acquisition Costs for all classes and no trend factor used?

A. Indicated increase on Bodily Injury of 7.3 per cent, Property Damage 11.0 per cent and Total of 8.7 per cent.

Thomas B. Redd, Jr.

Q. What is the Indicated Rate Level Change when 1956 National and Mutual Bureau's experience weighted seventy per cent and 1955 experience thirty per cent, and formula modified so as to provide twenty per cent Acquisition Costs for Classes 1 and 3 and fifteen per cent for Class 2 and no trend factor used?

A. Indicated increase for Bodily Injury 5.8 per cent; Property Damage 9.4 per cent and a total overall of 7.2 per cent.

Q. What is the Indicated Rate Level Change when 1956 National and Mutual Bureaus' experience weighted seventy per cent and 1955 thirty per cent and formula modified so as to provide twenty per cent Acquisition Costs for Classes 1 and 3 and fifteen per cent for Class 2 and trend factor used?

page 134 } A. It shows an Indicated increase on Bodily Injury of 13.6 per cent and Property Damage of 22.7 per cent, with an overall of 17.2 per cent.

Q. What is the Indicated Rate Level Change when 1956 National and Mutual Bureaus' experience weighted seventy per cent and 1955 experience thirty per cent and formula modified so as provide twenty per cent Acquisition Costs for all classes and trend factor used?

A. Indicated increase in Bodily Injury of 15.2 per cent, Property Damage 24.5 per cent and 18.8 per cent overall.

Q. What are the proposals of the Applicants in this case?

A. The proposals are increase of 21.1 per cent for Bodily Injury, and an increase of 30.8 per cent for Property Damage, or a total of 24.9 per cent.

CROSS EXAMINATION.

By Mr. Moncure:

Q. In other words, what you have done here is taken every possible *equasion* and worked it out in every way?

A. Yes.

page 135 } Q. And I assume your figures are sound?

A. Yes.

Witness stood aside.

Commissioner Dillon: Any further evidence.

Mr. Flory: I represent the Farm Mutual, and I would like to request a different revision on this 15 per cent revision,

because if such a revision is granted, it would affect the ability of our Company to prove our deviation.

Mr. Elliott: On the question of deviations, I would like to state to the Commission that every company when we put in the new rates, will have a right to review the rate before filing their deviation.

Mr. King: If the Commission feels that it has the authority, it should give serious consideration to the proposal, not in the filing at all, but which Mr. Elliott put in as an exhibit,—Mr. Elliott put it in—as to the 20 per cent for Classes 1 and 3 and 15 per cent for Class 2, I would like for it to be thoroughly understood that we be page 136 } given an opportunity to get evidence together and present our case to the Commission; otherwise we would like to file a Memorandum.

Mr. Moncure: How long would it take?

Mr. King: Ten days.

Commissioner Dillon: We will take that under advisement; and if there is nothing further, we will take this case under advisement.

page 137 }

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Murray M. McGuire
1872-1945
John S. Eggleston
1880-1947

July 9, 1958.

State Corporation Commission
Blanton Building
Ridhmond, Virginia

Re: Application for Revision of Automobile Liability Rates for Private Passenger Cars—Case No. 13936.

Gentlemen:

It is to be recalled that, during the course of the hearing in this matter on last July 2nd, the Virginia Association of Insurance Agents was given permission to express in writing its views concerning the application made for this rate revision. That is the purpose of this letter. It may be added that the only portion of the proposed "rating formula" the Association questions is that entitled "Production Cost Allowance," which allowance, in large part, involves commissions paid by insurers to their agents.

It is most important that it be borne in mind that the amount of commissions payable is a matter of private contract between the insurer and the agent, and is not subject to regulation. This fact has been repeatedly observed by the Commission and was conceded by its counsel on July 2nd.

It is also to be observed that the commissions now and customarily paid by insurers issuing automobile bodily injury and property damage insurace are 25% to general agents and 17 1/2% to local agents. It is further important to recognize that but a small percentage of the agents placing such insurance are "general agents," the large majority falling within the classification of "local agents."

It has been our understanding that, *in order to justify a change in an established rating formula, it has always been necessary that an applicant support its request by factual proof, mere conjecture or surmise being insufficient. As will* be pointed out, *not the slightest bit of factual data was proven at the hearing to justify a departure from the existing "Production Cost Allowance" of* 25%.

page 138 } The distinction between the existing "Production Cost Allowance," that proposed by the applicant N. B. C. U. (and concurred in by M. I. R. B.), and that recommended by counsel for the Commission may be summarized, as follows:

Production Cost Allowance	Classes 1 and 3	Class 2
As presently observed (Ex. No. 16)	25%	25%
As proposed by N. B. C. U. (Ex. No. 5)	25%	15%
As proposed by Commission counsel (Ex. No. 17)	20%	15%

We take it to be conceded that the existing allowance of 25% "across the board" (particularly insofar as it involves 25% commissions to "general agents" and 17 1/2% to "local agents") is generally observed by the stock companies writing such insurance in Virginia.

The propriety of an overall 25% Production Cost Allowance is clearly shown by a survey issued by the New York State Insurance Department which survey was published by the "Journal of Commerce" in its issue of June 12, 1958. A copy of that survey is hereto attached and marked "Exhibit A." It is to be noted from the survey that the country-wide experience of stock companies during the year 1957 for commission and other acquisition expenses in this type of insurance, rounds out to 24.9%—virtually the same as the existing Virginia allowance. We are advised by Mr. Thomas B. Redd, Jr. of our own Bureau of Insurance that the Bureau has not since about the year 1950 obtained from insurers information which will show the amount of comparable expenses incurred in Virginia. This being true, the best available evidence is that the existing Production Cost Allowance of 25% for all classes is factually sound.

As concerns the proposal by the N. B. C. U. of "25%-15%-25,%" its Exhibit No. 5 clearly shows that its request for a reduction to 15% in class 2 business is based solely on what its member *companies hope to arrange with their agents in the future, and not on any existing percentage.* Hence, such proposal has no foundation in present fact.

With respect to the proposal made by counsel for the Commission that the Production Cost Allowance be established at "20%-15%-20%", Mr. Elliott has gone entirely into the realm of conjecture. He first relies on Exhibit No. 12 which is a copy of a news release issued by the N. B. C. U. on last June 26th and which stated that the member companies

page 139 } hoped to introduce a nation-wide Production Cost Allowance of "20%-20%-20%," but which added that, before taking formal action in that regard, the N.. .B. C. U. "will discuss the situation with the individual state agents' associations." *To this time, no such discussion has been either proposed or held with the Virginia*

Association of Insurance Agents. To obtain his 15% for class 2 business, Mr. Elliott has cast Exhibit No. 12 to one side, and has turned to N. B. C. U.'s Exhibit No. 5.

Thus, counsel for the Commission has proposed a "20%-15%-20%" arrangement by resorting to the lowest speculative percentages to be found. Quite obviously such a proposal has no basis whatever in fact, but is entirely conjectural.

We point out that this Commission has no authority to establish rating formulas in the absence of factual support. Thus in *Allstate Insurance Company* v. *Commonwealth,* 199 Va. 434, 443, the Supreme Court of Appeals stated:

"In *Aetna Insurance Co.* v. *Commonwealth,* 160 Va. 698, 719, 169 S. E. 859, we pointed out that in reviewing the action of the Commission in framing insurance rates, 'this court will not disturb the action of the Commission unless it appears that the Commission has exceeded its constitutional or statutory powers; or that its action has resulted from an unreasonable exercise of its authority; or that it is based upon a mistake of law, *or is contrary to the evidence or without evidence to support it.*' " (Italics ours)

As we have shown, not one fact was proven at the hearing on July 2nd to justify an alteration of the existing Production Cost Allowance of "25%-25%-25%."

Though hardly material, we might add that the duties and functions of an insurance agent in placing business of this character are no minor undertaking, and involve far more than the mere solicitation of such business. Among other things, the policyholder expects and is entitled to receive service, particularly at the time of an accident. The agent is then called upon at any hour of the day or night to assist the policyholder at the scene of the accident. He also files SR300 and SR21 forms, claims statements and gives other assistance. All this is done without additional compensation to the agent.

We finally say that should this Commission approve the "25%-15%-25%" proposed by N. B. C. U. and by M. I. R. B., and most certainly should it approve the extreme proposal by counsel for the Commission of "20%-15%-20%," the Commission will accomplish indirectly what everyone concedes it cannot directly do; i. e. it will of necessity strongly influence, and go far toward regulating, the commissions to be paid by insurrers to their agents.

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Accordingly, we request that the Commission authorize a continuation of 25% for all production cost allowances in this class of insurance.

Respectfully,

WILLIAM H. KING
Counsel for Virginia Association
of Insurance Agents.

WHK/ss
Encl.

cc: Hon. T. Nelson Parker
Mr. Norman S. Elliott
Mr. M. Wallace Moncure, Jr.
Mr. John J. Wicker, Jr.

NOTE: Exhibit A to this letter has been transmitted to the Supreme Court of Appeals of Virginia as an exhibit filed with the evidence.

page 141 } COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JULY 11, 1958.

APPLICATION OF

NATIONAL BUREAU OF CASUALTY UNDERWRITERS
and MUTUAL INSURANCE RATING BUREAU

For revision of automobile liability
insurance rates.

CASE NO. 13936.

THIS PROCEEDING was heard by the Commission on July 2, 1958 and taken under advisement. The National Bureau of Casualty Underwriters, one of the applicants, was represented by M. Wallace Moncure, its counsel, the other applicant, Mutual Insurance Rating Bureau, by John J. Wicker, Jr., its counsel, the Virginia Association of Insurance Agents by William H. King, its counsel, the Virginia Mutual Insurance Company by O. L. Shewmake, its counsel, the State Farm Mutual Auto Insurance Company by Russell

H. Mathias, its counsel, the Virginia Farm Bureau Mutual Insurance Company by Alden E. Flory, its counsel, the Virginia Automobile Rate Administrative Bureau by E. W. Fries, its Manager, and the Commission by its counsel.

NOW ON THIS DAY the Commission, after having fully considered the application herein as originally filed and as amended at the hearing and all of the evidence with respect thereto, is of the opinion and finds: (1) That notice to the public had been given as required by the order of June 11, 1958; (2) That the amendments to the manual of classifications, rules and rates, rating plans, and modifications thereof for writing automobile bodily injury and property damage liability insurance filed by the order of June 11, 1958 and as amended by the applicants at the hearing on July 2, 1958 provide rates for writing automobile bodily injury and property damage liability insurance which are excessive and should be disapproved for use in this State; (3) That the applicants should file in this proceeding within ten days from the date of this order new amendments to the manual of classifications, rules and rates, rating plans and modifications thereof for writing automobile bodily injury and property damage liability insurance which should provide for an increase of 8.3% in the present indicated rate
page 142 } level for basic limits for automobile bodily injury liability insurance and an increase of 12.6% in the present indicated rate level for basic limits for automobile property damage liability insurance or an overall increase of 10% in the present indicated rate level for basic limits for both of such types of insurance and that such rates when filed and submitted should be based upon the following rate formula:

Total Production Cost Allowance	20.0%
Administration	5.5%
Inspection and Bureau	1.2%
Taxes, Licenses and Fees	3.7%
Underwriting Profit and Contingencies	5.0%
Total Service and Overhead	35.4%
Expected Loss and Loss Adjustment Ratio	64.6%
Grand Total	100.0%

and (4) That, when filed, the rates produced by such amendments for writing automobile bodily injury and property damage liability insurance will not be execessive, inadequate

or unfairly discriminatory and should be approved for use in this State on all new and renewal policies written to become effective on and after October 1, 1958, but no policy effective prior to October 1, 1958 shall be endorsed or cancelled and rewritten to take advantage of, or to avoid the application of, such new rules and rates except at the request of the insured and at the customary short rate charge as of the date of such request. Said new rules and rates as to experienced rated policies shall be applicable as of the experience rating date to all policies to which an experience rating modification which becomes effective on and after November 1, 1958 is to apply and shall not be applied to such policies prior to the experience rating date. As respects any policy which becomes effective prior to November 1, 1958 to which an experience rating modification applies said new rules and rates shall not be applicable until the first experience rating date after November 1, 1958.

IT IS, THEREFORE, ORDERED:

(1) That the amendments to the manual of classifications, rules and rates, rating plans, and modifications thereof for writing automobile bodily injury and property
page 143 } damage liability insurance filed by the National Bureau of Casualty Underwriters and Mutual Insurance Rating Bureau by the order of June 11, 1958 and as amended at the hearing herein on July 2, 1958 be disapproved for use in this State for the reason that the rates provided thereby are excessive;

(2) That the applicants within ten days from this date file in this proceeding amendments to the manual of classifications, rules and rates, rating plans and modifications thereof for writing automobile bodily injury and property damage liability insurance which will produce an increase in the present rate indicated level for bodily injury insurance basic limits of 8.3% and an increase in the present indicated rate level for property damage insurance basic limits of 12.6%, or a total for basic limits for the two types of insurance of 10%, and that when so filed such rates be approved for use by all companies licensed to write automobile liability insurance in this State on all new and renewal policies written to become effective on and after October 1, 1958, but no policy effective prior to October 1, 1958 shall be endorsed or cancelled and rewritten to take advantage of, or to avoid the application of, such new rules and rates except at the request of the insured and at the customary short rate charge as of the date of such request. Said new rules and rates

as to experienced rated policies shall be applicable as of the experience rating date to all policies to which an experience rating modification which becomes effective on and after November 1, 1958 is to apply and shall not be applied to such policies prior to the experience rating date. As respects any policy which becomes effective prior to November 1, 1958 to which an experience rating modification applies said new rules and rates shall not be applicable until the first experience rating date after November 1, 1958;

(3) That the rates directed to be filed by paragraph 2 hereof be based upon the following rate formula:

Total Production Cost Allowance	20.0%
Administration	5.5%
Inspection and Bureau	1.2%
Taxes, Licenses and Fees	3.7%
Underwriting Profit and Contingencies	5.0%
Total Service and Overhead	35.4%
page 144 } Expected Loss and Loss Adjustment Ratio	64.6%
Grand Total	100.0%

(4) That all deviations based on the rates now in effect be cancelled as of October 1, 1958, and all companies desiring to deviate from the rates herein approved shall file such deviations as quickly as reasonably possible after the entry of this order and have such deviations approved by the Commission before the same may be used in this State;

(5) There appearing nothing further to be done herein this proceeding be dropped from the docket and the file placed in the file for ended causes; and

(6) That an attested copy hereof be sent to each of the parties noted in the first paragraph of this order, to all companies licensed to write automobile liability insurance in this State as determined by the files of the Bureau of Insurance and to the Bureau of Insurance.

A True Copy.

Teste:

N. W. ATKINSON
Clerk of the State Corporation Commission.

page 145 } Mutual Insurance Rating Bureau
111 Fourth Avenue, New York 3, N. Y.

JOSEPH M. MUIR
General Manager

KENNETH J. JONES
Secretary

Telephone
GRamercy 7-9232

July 18, 1958.

Hon. T. Nelson Parker, Commissioner of Insurance
Bureau of Insurance
State Corporation Commission
Box 1157
Richmond 9, Virginia

CASE NO. 13936—

Dear Commissioner Parker:

Re: For Revision of Automobile Liability Insurance Rates.

As directed in the State Corporation Commission's opinion issued on Case No. 13936, dated July 11, 1958, we are filing on behalf of our member and subscriber companies the attached revised schedule of private passenger automobile liability insurance rates. The derivation of the revised rates for private passenger cars is set forth in detail in Exhibit 2 and 2a, also attached hereto.

We feel constrained in submitting this revised rate schedule to record our opinion that these rates are inadequate for those companies which we represent. Moreover, we wish to alert you to our intention to prepare another rate revision filing as soon as the private passenger experience through accident year 1957 becomes available which, it is anticipated, will be late this fall. Such filing will also include proposed rate revisions for commercial cars and for garages, the re-submission of the proposed revision of territorial definitions which were

withdrawn at the hearing on July 2, 1958, and collateral changes in rating plans.

Very truly yours,

K. J. JONES
Secretary.

KJJ:am
Attach.

cc: Mr. Norman Elliott, Counsel
State Corporation Commission

Mr. J. J. Wicker
Wicker, Baker and Goddin

Mr. E. E. Cadmus, Manager
Virginia Automobile Rate Administrative Bureau

page 146 } NATIONAL BUREAU OF CASUALTY UNDERWRITERS
60 JOHN STREET, NEW YORK 38, N. Y.

William Leslie, Jr., General Manager
Thomas O. Carlson, Actuary

James M. Cahill, Secretary

James B. Donovan, General Counsel

July 18, 1958.

Honorable T. Nelson Parker, Commissioner of Insurance
State Corporation Commission
Richmond 9, Virginia

Dear Commissioner Parker:

CASE NO. 13936.

For Revision of Automobile Liability Insurance Rates.

As directed in the State Corporation Commission's Order dated July 11, 1958 on Case No. 13936, we are filing the attached revised schedule of rates.

The derivation of the revised rates for private passenger cars is set forth in detail in the first two exhibits attached hereto.

In filing this revised rate schedule, we must make the comment that, in our opinion, these are inadequate rates for the companies that we represent. In order to be in a position to propose further change in the rate structure as soon as practicable, we intend to make another rate revision filing just as soon as the private passenger experience through accident year 1957 becomes available late this Fall. Coupled with that filing will be proposed general rate revisions for commercial cars and for garages, the proposed revision of territorial definitions which was withdrawn at the hearing on July 2, 1958, and collateral changes in rating plans.

Yours very truly,

J. M. CAHILL
Secretary.

JMC:c
Enclosure

NOTE: The attachments to the two letters next above were alike and are Exhibits 2, 2a and 3, sheets 1 and 2, Revised 7/17/58, as follows:

Exhibit 2
Revised
July 17, 1958

VIRGINIA
AUTOMOBILE LIABILITY INSURANCE—PRIVATE PASSENGER RATE REVISION
Development of *Proposed Rate Level Changes by Territory

(1) Territory	(2) 1956 No. of Insured Cars	(3) Present Average Rate	Basic Limits Pure Premium Including All Loss Adjustment: Actual (4) 1954-56	Actual (5) Underlying	On *Proposed Rate Level & on 1956 Distribution (6) 1954-56	(7) *Proposed Rate Level Change for All Classes Combined [(6)÷(5)]—1.0	(8) *Proposed Average Rate	(9) Average of Proposed Differentials to Rate Class 3	(10) *Proposed Class 3 Rate (8)÷(9)
			BODILY INJURY						
03—Richmond	78,956	$23.10	$16.91	$14.92	$18.15	+21.6%	$28.09	.861	$33.
02—Norfolk	96,814	24.37	17.26	15.74	18.53	+17.7	28.68	.861	33.
06—Martinsville	3,855	21.39	15.17	13.82	16.28	+17.8	25.20	.876	29.
05—Nansemond Co.	5,970	20.73	14.79	13.39	15.88	+18.6	24.59	.841	29.
01—Arlington—Fairfax Co.	108,850	20.79	13.10	13.43	14.06	+ 4.7	21.77	.850	26.
04,08—Lynchburg, Petersburg, Newport News, Roanoke	92,320	21.91	12.30	14.15	13.20	— 6.7	20.44	.867	24.
07—Remainder of State	356,492	20.93	13.46	13.52	14.45	+ 6.9	22.37	.852	26.
Entire State	743,257	21.71		14.02	15.18	+ 8.3	23.51		
			PROPERTY DAMAGE						
03—Richmond	78,870	15.02	11.38	9.70	12.22	+26.0	18.93	.861	22.
02—Norfolk	96,783	16.03	11.00	10.36	11.81	+14.0	18.27	.861	21.
06—Martinsville	3,848	14.59	12.26	9.43	13.16	+39.6	20.37	.876	23.
05—Nansemond Co.	5,952	14.19	10.35	9.17	11.11	+21.2	17.20	.841	20.
01—Arlington—Fairfax Co.	108,773	14.82	9.35	9.57	10.04	+ 4.9	15.55	.850	18.
04,08—Lynchburg, Petersburg, Newport News, Roanoke	92,308	14.69	10.07	9.49	10.81	+13.9	16.73	.867	19.
07—Remainder of State	356,455	12.72	8.45	8.22	9.07	+10.3	14.03	.852	17. †
Entire State	742,989	13.97		9.02	10.16	+12.6	15.73		

See Exhibit 2a for explanatory notes pertaining to this exhibit.

LAB—58—214

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Exhibit 2a Revised 7/17/58.

AUTOMOBILE LIABILITY INSURANCE—PRIVATE PASSENGER RATE REVISION

Notes Pertaining to Development of Proposed Rate Level Changes by Territory

Column (3): Average of present rates based on 1956 distribution by class in each territory.

Column (5): Present average rate in column (3) multiplied by the expected loss and loss adjustment ratio of .646.

Column (6): Pure premiums in column (4) adjusted to reproduce the proposed statewide rate level based on the 1956 distribution by territory. The factors applied to column (4) are determined from the following formula:

Statewide Col. (2) x *Statewide Col.* (5) x [1.0 + *Proposed Statewide percent change*]
Sum of Col. (2) x Col. (4) for each territory

and are as follows:

Bodily Injury = 1.0735
Property Damage = 1.0735

Column (7): Based on a comparison of column (6) with column (5).

Column (8): Present average rate in column (3) times unity plus the proposed rate level change.

Column (9): Based on the 1956 distribution by class in each territory and the proposed differentials to Rate Class 3.

Column (10): Proposed average rate in column (8) divided by the proposed average differential to rate class 3 shown in col. (9) with the result rounded to the nearest dollar.

† The proposed class 3 rate on Property Damage for Remainder of State was rounded up to reproduce the proposed statewide rate level change.

* Reflects rate level changes and revised expense provisions ordered by the State Corporation Commission in its opinion issued July 11, 1958 in Case No. 13936.

LAB 58-213

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Exhibit 3 Sheet 1 Revised 7/17/58.

AUTOMOBILE LIABILITY INSURANCE—PRIVATE PASSENGER RATE REVISION

Rates Developed in Compliance with the Order of the Virginia State Corporation Commission dated July 11, 1958.

Type and Class	Arlington and Fairfax Cos. Terr. 01		Norfolk Terr. 02		Richmond Terr. 03		Newport News, Lynchburg, Roanoke Terr. 04	
	B.I.	P.D.	B.I.	P.D.	B.I	P.D.	B.I.	P.D.
Private Passenger								
Class 1A	$19.	$13.	$24.	$15.	$24.	$16.	$18.	$14.
Class 1B	21.	14.	26.	17.	26.	18.	19.	15.
Class 2A	33.	23.	42.	27.	42.	28.	30.	24.
Class 2C	58.	40.	74.	47.	74.	49.	54.	42.
Class 3	26.	18.	33.	21.	33.	22.	24.	19.
Farmers								
Class 1AF	13.	9.	17.	11.	17.	11.	12.	10
Class 2AF	23.	16.	29.	19.	29.	20.	21.	17.
Class 2CF	41.	28.	51.	33.	51.	34.	37.	30.
Hired Car	.50	.35	.65	.40	.65	.45.	.50	.40
Employers' Non-Ownership								
Class 1	2.00	1.50	2.50	1.50	2.50	1.50	2.00	1.50
Funeral Car	29.	18.	36.	21.	36.	22.	26.	19.
School Buses:								
Priv. Pass	26.	18.	33.	21.	33.	22.	24.	19.
Comm. or Bus:								
0-30 Pass. ..	23.	16.	30.	19.	30.	20.	22.	17.
31-60 Pass. ..	29.	20.	36.	23.	36.	24.	26.	21.
Over 60 Pass.	34.	23.	43.	27.	43.	29.	31.	25.

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Exhibit 3 Sheet 2 Revised 7/17/58.

AUTOMOBILE LIABILITY INSURANCE—PRIVATE PASSENGER RATE REVISION

Rates Developed in Compliance with the Order of the Virginia State Corporation Commission dated July 11, 1958.

Type and Class	Nansemond County Terr. 05		Martinsville Terr. 06		Reminder of State Terr. 07		Petersburg Terr. 08	
	B.I.	P.D.	B.I	P.D.	B.I	P.D.	B.I.	P.D.
Private Passenger								
Class 1A	$21.	$15.	$21.	$17.	$19.	$12.	$18.	$14.
Class 1B	23.	16.	23.	18.	21.	14.	19.	15.
Class 2A	37.	25.	37.	29.	33.	22.	30.	24.
Class 2C	65.	45.	65.	51.	58.	38.	54.	42
Class 3	29.	20.	29.	23.	26.	17.	24.	19.
Farmers								
Class 1AF	15.	10.	15.	12.	13.	9.	12.	10.
Class 2AF	26.	18.	26.	20.	23.	15.	21.	17.
Class 2CF	45.	31.	45.	36.	41.	27.	37.	30.
Hired Car	.60	.40	.60	.45	.50	.35	.50	.40
Employers' Non-Ownership								
Class 1	2.00	1.50	2.00	1.50	2.00	1.00	2.00	1.50
Funeral Car	32.	20.	32.	23.	29.	17.	26.	19.
School Buses:								
Priv. Pass.	29.	20.	29.	23.	26.	17.	24.	19.
Comm. or Bus:								
0-30 Pass. ..	26.	18.	26.	21.	23.	15.	22.	17.
31-60 Pass. ..	32.	22.	32.	25.	29.	19.	26.	21.
Over 60 Pass.	38.	26.	38.	30.	34.	22.	31.	25.

page 151 } COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

September 16, 1958.

Application of

NATIONAL BUREAU OF CASUALTY UNDERWRITERS and MUTUAL INSURANCE RATING BUREAU

For revision of automobile liability insurance rates.

CASE NO. 13936.

Opinion, DILLON, *Commissioner*:

This proceeding under Chapter 6 of Title 38.1 of the Code was instituted by the National Bureau of Casualty Underwriters and the Mutual Insurance Rating Bureau (sometimes hereinafter referred to as the "Bureaus"), licensed rating organizations, for approval by the Commission of revised rules and rates for writing automobile bodily injury and property damage liability insurance. The application was filed by the Commission's order of June 11, 1958 and set for public hearing before the Commission on July 2, 1958. The applicants were required by that order to give notice to the public of their proposals and the time and place of the public hearing thereon by publishing notice thereof in various newspapers throughout the State. This requirement of notice was in accordance with the Commission's discretionary power as set forth in §38.1-254 of the Code and was required in order to give the public full opportunity to be heard.

page 152 } The applicants proposed in their filings that the rates for automobile bodily injury liability insurance be increased 21.1% and for property damage liability insurance 30.8%, or an overall average increase of 24.9% over existing rates. These percentages were state-wide averages. The increases proposed for some of the individual territories in the State were considerably more. For instance, in Richmond, it was proposed to increase the bodily injury rates by 40.2% and the property damage rates by 50.9%; in Norfolk, to increase bodily injury rates 35.7% and property damage rates 36.8%; in Martinsville, to increase bodily injury rates 35.8% and property damage rates

67.2%; and, in Nansemond County, to increase bodily injury rates 36.7% and property damage rates 45.3%.

The proposed revisions were based upon the following:

(a) Using the 1955 and 1956 experience of all companies writing automobile bodily injury and property damage liability insurance in this State;

(b) Weighting at 70% the 1956 experience of all companies reporting their experience to the Bureaus and at 30% the 1955 experience of such companies;

(c) Weighting at 50% for each of the years 1956 and 1957 the experience of all companies reporting their experience to the National Association of Independent Insurers;

(d) Using in the rate formula for Classes 1 page 153 } and 3 a production cost allowance of 25%, and for Class 2 a production cost allowance of 15% (Production cost means the cost incurred by the companies in obtaining and placing the business on their books, and includes such items as agents' commissions); and,

(e) Using a trend factor based on an 18-months' projection, which, if allowed, would have increased the rates as determined by the rate formula in excess of ten percentage points.

As set forth in the Commission's order of June 11, 1958, the purpose of the public hearing which was held on July 2, 1958 on the application of the Bureaus was "to investigate and determine (a) whether the rates proposed to be charged in said filing for automobile liability insurance are excessive, inadequate or unfairly discriminatory." By that same order the Bureaus were required to submit to the Commission at the hearing on July 2, 1958 "*all available facts, information, data and statistics with respect to the proposals contained in the filing concerning (a) Past and prospective loss experience within and outside this State;* (b) Catastrophe hazards, if any; (c) Reasonable margins for underwriting profits and contingencies; (d) Dividends, savings or unabsorbed premium deposits allowed or returned by the insurers represented by the applicants to their policyholders, members or subscribers; (e) *Past and prospective expenses, both countrywise and those especially applicable to this State; and, (f) All other relevant factors within and outside this State;* page 154 } * * *" (Italics supplied)

Section 38.1-252 of the Code requires that rates for automobile liability insurance shall not be "excessive, inadequate or unfairly discriminatory." It further provides that in making rates "Due consideration shall be given to

past and prospective loss experience within and outside this State, to conflagration or catastrophe hazards, to a reasonable margin for underwriting profit and contingencies, to dividends, savings or unabsorbed premium deposits allowed or returned by insurers to their policyholders or members or subscribers, *to past and prospective expenses both countrywide and those specially applicable to this State, and to all relevant factors within and outside this State.*" (Italics supplied)

All automobile liability insurance rates must be filed with and approved by the State Corporation Commission before they may become effective or used in this State (Code 38.1-253). For this type of insurance, filings may be made by an individual insurer (Code 38.1-241), or an insurer may satisfy the statutory filing requirements by (1) becoming a member of, or a subscriber to, a licensed rating organization (such as the applicant Bureaus) which makes such filings and (2) by authorizing the Commission to accept such filings on its behalf (Code 38.1-242). This was the procedure followed in this case. The filings made by the Bureaus were made on behalf of all their members and subscribers.

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Subsequent to the institution of this proceeding, but before the hearing on July 2, 1958, the Automobile Rating Committee of the National Bureau of Casualty Underwriters was authorized by that Bureau to revise the rating formula for automobile liability insurance by the introduction of a 20% production cost allowance instead of the 25% production cost allowance which had been used in former filings. The filings in this proceeding had been made prior to this action and were based upon an expense allowance of 25% for production costs for Classes 1 and 3 and 15% for Class 2. The purpose of this revision was to place the Bureau companies in a better competitive position with respect to those companies which did not use the agency system, commonly known as direct writers, and those companies which paid lower commissions than those paid by Bureau companies. Examples of these two types of companies are: (1) Government Employees Insurance Company, and (2) Allstate Insurance Company. At the hearing on July 2, this action of the National Bureau was brought to the attention of the Commission (Exhibit 12) because it constituted one of the relevant factors bearing upon the expenses to be considered in establishing the rates.

At the hearing, the Bureaus submitted testimony and exhibits to support the proposals which they had made in the

filings. The Bureau of Insurance of the Com-
page 156 } mission also submitted considerable testimony
and numerous exhibits which explained and analyzed the filings. The Virginia Association of Insurance Agents, which has now served notice of appeal, appeared by counsel at the hearing, but submitted no evidence.

The Commission, on July 11, 1958, decided this case after full consideration of the filings and the evidence submitted by the parties. By its order of July 11, 1958, the Commission: (a) Disapproved as excessive the rates filed by the Bureaus on June 11, 1958; and, (b) Directed the Bureaus to file new rates which would provide for an increase of 8.3% in the existing rate level for basic limits automobile bodily injury liability insurance and an increase of 12.6% in the existing rate level for basic limits automobile property damage insurance, or an overall average increase of 10%. The order of the Commission was predicated on the following expense allowances in accordance with §38.1-252:

Total Production Cost Allowance	20.0%
Administration	5.5%
Inspection and Bureau	1.2%
Taxes, Licenses and Fees	3.7%
Underwriting Profit and Contingencies	5.0%
Total Service and Overhead	35.4%
Expected Loss and Loss Adjustment Ratio	64.6%
Grand Total	100.0%

page 157 } The effect of the Commission's decision was to
substitute in the rate making formula a production cost allowance of 20% for the 25% for Classes 1 and 3 and the 15% for Class 2 proposed by the applicants, and to disallow in part the trend factor proposed by the applicants.

Counsel for the Virginia Association of Insurance Agents in a memorandum filed July 9, 1958 took the position that the Commission was without authority to change the formula with respect to the production cost allowance, because there was no evidence to justify a departure from the 25% allowance theretofore provided for.

Section 38.1-252(3) of the Code, in defining what the Commission shall consider in making rates, requires the Commission to give consideration *"to past and prospective expenses both countrywide and those specifically applicable to this State and to all relevant factors within and outside this*

State.'' (Italics supplied) Since insurance rate making was first placed under the jurisdiction of the Commission in 1928, it has been the practice of the Commission, in approving or disapproving insurance rates, to consider the reasonableness of the expenses incurred by the companies; in fact, such a determination is necessary in order to fix permissible loss ratios. As early as 1933 the Commission, in Case No. 5041, fixed 20% as the proper expense

page 158 } loading for production costs in automobile liability insurance rates and rejected as unreasonable and excessive a proposal that such production costs be fixed at 25%. After that the production cost allowance remained at 20% from 1933 until 1943 when, because of the conditions brought on by World War II and gas rationing, it temporarily raised the production cost allowance to 25%. With the end of gas rationing in 1945, the temporary increase from 20% to 25% in the allowance for production cost expired, and the Commission, in Case No. 8271, refused to increase it from 20% to 25%. Thereafter, in 1948 the Commission, after reviewing the effects of World War II upon the writing of automobile liability insurance, increased the allowance for production costs from 20% to 25%. It remained at that figure until the Commission's order of July 11, 1958 in this case when the allowance was reduced from 25% to 20%. Thus, it can be seen that for a period of 25 years the Commission has exercised control over the production cost allowance in making automobile liability insurance rates and has changed the allowance for production costs from time to time as conditions warranted. In addition, the Bureaus representing the companies proposed in this proceeding that the production cost allowance be changed from 25% to 15% for Class 2 rates; and those Bureaus took no exception to the proposal of the Bureau of Insurance that the production cost allowance be fixed at 20%.

page 159 } There has been many changes in the automobile liability insurance business since 1948 when the Commission last fixed 25% as a reasonable allowance for production costs. Some of the more significant developments are:

(1) In 1948 private passenger automobiles were rated either as business or nonbusiness cars. Since that time there has been created, among other additional classes, a new Class 2 which consists of male drivers below 25 years of age. In 1948 this class was written at 80% of Class 3 rate. Today Class 2 as a whole is written at approximately 175% of the

Class 3 rate, thus increasing substantially the premium income from this type of insured.

(2) Private passenger cars licensed in Virginia have increased from 604,000 in 1948 to 1,130,000 in 1957, an increase of 87% (Exhibit 15). This was accompanied by an increase in the amount of automobile liability premium from $10,500,000 in 1948 to $26,800,000 in 1956, an increase of over 150% (Exhibit 18).

(3) The estimated production costs on 1956 automobile liability insurance writings amounted to approximately $7,950,000. Had the rates proposed in this proceeding been approved, and the production cost allowance permitted to remain at 25%, production costs would have increased by over $1,000,000 (Exhibit 22), without any additional
page 160 } work on the part of the company writing the business or the agent producing it.

(4) In order to comply with the amendments to §38.1-381 enacted by the General Assembly of 1958, the Commission approved an uninsured motorist endorsement which must be attached to every automobile liability insurance policy delivered in this State after July 1, 1958. A separate premium in addition to the premium for the regular automobile liability coverage must be paid for the endorsement. The attachment of this endorsement alone will result in an increased annual production cost of over $1,000,000 (Exhibit 23). This additional annual $1,000,000 in production costs will accrue to the companies and to their soliciting agents without any solicitation or work on the part of either.

To summarize, production cost expenses and, consequently, agents' commissions have increased enormously since 1948 by reason of: (1) the increase in premiums resulting from rate changes and changes in rating procedures, (2) the number of automobiles insured, and (3) the requirement that the uninsured motorist endorsement, for which there is a separate premium, be attached to every automobile liability insurance policy. In addition, every increase in rates, including those proposed and those approved in this proceeding has the effect of increasing production costs if such costs remain at a constant figure because such costs are figured as a percentage of the premium dollar.

page 161 } As the Commission looks to the future and as it contemplates what has happened in the past, no crystal ball is needed for it to arrive at the conclusion that the trend in automobile liability insurance rates definitely is up. In 1956 the companies represented by the National Bureau alone had an underwriting loss countrywide on this type of insurance of $64,000,000. In 1957 this loss amounted

to $147,000,000. These increasing losses can be prevented from recurring in the future only by adequate increases in rates.

In order to have sound insurance companies in which the public can insure, the Commission must provide adequate rates to pay these ever increasing losses. The mere fact, however, that the Commission must from time to time increase rates to take care of losses does not mean that the Commission cannot scrutinize the expenses of the companies and disapprove an increase in expense allowances when such are not justified. It has done exactly that in this case in order to be fair both to the public and the insurers. The Commission can see no justification for continuing the 25% expense allowance for production costs. Had it done so, it would have been necessary to increase the rates approved by the Commission another eight percentage points and saddle that increase on the public.

The agents who are appealing the decision of the Commission take the position that in allowing production costs at 20% rather than 25% the Commission has exceeded its authority because it has regulated the amount of commissions an agent may receive by reducing the production cost allowance to the companies from 25% to 20%. This contention is without support in law or in fact. The Commission has never regulated the rate of commissions paid by an insurance company to its agents. The Commission regards the commissions paid by an insurance company to its agents as a matter of private contract. What the Commission does fix and what the Commission is required by law to fix is the reasonable percentage of the premium dollar to be allocated to expenses.

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Nowhere is this principle of regulation better illustrated than in actual practice. Some insurance companies do not operate through the agency system, but write on a direct basis. Such companies, therefore, have small production costs and by reason of their savings in such costs write insurance at lower rates than many other companies on the basis of deviations filed with and approved by the Commission. They are not required, however, to write on a deviated basis. They may use the full approved rate if they desire. Other companies, known in the business as low commission companies, have lower production costs because they pay lower commissions to their agents. These companies also, as a rule, write at approved deviated rates.

Still other companies, known as high commission companies, pay more production costs than are allowed by the Commission in the rate formula.

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In none of these instances does the Commission interfere in any way or fix what amount of commissions shall be paid by a company to its agents. It is, therefore, apparent that any company writing automobile liability insurance in Virginia has always been, and is now, at liberty to agree to pay its agents any commission the company and the agent may agree upon. The only thing the Commission does is give due consideration to the percentage of the premium dollar it will consider as production costs in rate making.

In conclusion, we point out that the agents have no standing to take this appeal, because the order appealed from does not adjudicate any of their rights. The Commission, in deciding on the rates to be fixed, considered that 5.5% of the premium dollar was a reasonable allowance for admistration expenses. Could an Association of Insurance Company employees appeal from the order of the Commission on the theory that if the order had allowed 6% for administration expenses the companies could afford to pay them higher salaries? If an Association of Insurance Agents is entitled to appeal an order fixing insurance premiums, it follows that any employee of a public utility is entitled to appeal an order fixing public utility rate schedules. If the appellants should succeed on the present appeal, it would mean that the public would have to pay higher insurance premiums; page 164} but the final judgment would not and could not require the insurance companies to pay higher commissions to the agents.

HOOKER, *Chairman,* and CATTERALL, *Commissioner,* concur.

page 165 } COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, SEPTEMBER 17, 1958.

APPLICATION OF

NATIONAL BUREAU OF CASUALTY UNDERWRITERS and MUTUAL INSURANCE RATING BUREAU

For revision of automobile liability insurance rates.

CASE NO. 13936.

The Virginia Association of Insurance Agents having filed due notice of appeal in this case,

IT IS ORDERED that the enclosures to the original filing, dated May 23, 1958, revised as indicated in the amended filing, dated June 5, 1958, and the exhibits filed with the evidence, numbered and described as follows, be certified and transmitted to the Clerk of the Supreme Court of Appeals of Virginia, to be returned by him to this Commission with the mandate of that Court:

Enclosures to the original filing, dated May 23, 1958, *revised as indicated in the amended filing, dated June* 5, 1958:

Enclosure	*DESCRIPTION*
Exhibit A	Comparison, Loss Costs per Insured Car with those Underlying the Proposed Private Passenger Rate Structure.
Memorandum	Proposed Revision, Bodily Injury and Property Damage Liability Insurance Rates, Private Passenger Cars, with exhibits as follows:
Exhibit 1.	Development of Proposed Statewide Rate Level Changes. 3 sheets.
Exhibit 2.	Revised. Development of Indicated Rate Level Changes by Territory.
Exhibit 2a.	Revised. Notes pertaining to exhibit 2.
Exhibit 2b.	1956 Non-Farmer Classification Experience under Refined Class Plan.
Exhibit 2c.	Comparison, Farmers and Non-Farmers Experience.
Exhibit 3.	Revised. Proposed Rates. 2 sheets.
Exhibit 3a.	Development of Rates for Miscellaneous Classes.
Exhibit 4.	Expense Provisions in Manual Rates.
Exhibit 5.	Automobile Casualty Manual.
Exhibit 5a.	Virginia Territory Sheets. 4 sheets.
Exhibit 6.	Proposed Rates for Commercial and Other Types of Automobiles. 2 sheets.

page 166 } *Exhibits presented with the evidence*:

Exhibit No.	*DESCRIPTION*
A.	Proof of notices in accordance with the order of the Commission.
1.	Amendments to filing of May 23 and June 5, 1958. Revised June 23, 1958.
2.	Letter from National Bureau of Casualty Underwriters, July 9, 1957.

3. Accident-Year Basis.
4. Pages 1, 2 and 3 of the filing of May 23, 1958.
5. Expense Provisions in Manual Rates.
6. Ratios of Expenses to Earned Premiums.
7. Comparison, Basic Limits Loss Costs per Insured Car with those Underlying the Proposed Private Passenger Rate Structure.
8. Comparison, Loss Costs per Insured Car with those underlying the Proposed Private Passenger Rate Structure.
9. Comparison, Calendar Year Average Paid Claim Cost Indices, Year Ended Dec. 31, 1955, and Subsequent Years.
10. Calendar-Accident Year Data.
11. Comparison, Present and Proposed Rates.
12. News Release. National Bureau of Casualty Underwriters.
13. Development of rates, Miscellaneous Classes.
14. Automobile Liability-School Bus Experience, Policy Years 1951-1955.
15. Private Passenger Cars Licensed in Virginia Each Year, 1948-1957.
16. Private Passenger Cars, Expense Provisions in Manual Rates.
17. Private Passenger Cars, Proposed Expense Provisions in Manual Rates.
18. Earned Cars and Earned Premiums, Bodily Injury and Property Damage Liability Insurance Combined 1947-1956.
19. Effect on Indicated Rate Level Change of Weighting.
20. Indicated Rate Level if Only Trend Factor Omitted from Proposal.
21. Indicated Rate Level if Trend Factor Omitted from Proposal and Rate Formula Modified to Provide for 20% Acquisition Costs, All Classes.
22. Estimated Increase in Annual Acquisition Costs on 1956 Writings Resulting from Proposed Rates.
23. Estimated Increase in Annual Acquisition Costs in 1956 Writings Resulting from (1) Proposed Rates, (2) Uninsured Motorist Endorsement.
24. Estimated Increase in Annual Acquisition Costs Resulting from Proposed Rates on 1956

Writings and Uninsured Motorists Endorsement.

page 167 } 25. Effect of Various Factors on Indicated Rate Level Change.

Exhibit A to letter of July 9, 1958, from William H. King, Counsel for Virginia Association of Insurance Agents, to the State Corporation Commission.

END.

A True Copy.

Teste:

N. W. ATKINSON
Clerk of the State Corporation Commission.

page 168 } COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

CERTIFICATE.

Pursuant to an order entered herein on September 17, 1958, the enclosures and exhibits listed therein are hereby certified to the Supreme Court of Appeals of Virginia, to be returned by the Clerk thereof to this Commission with the mandate of that court.

It is further certified to the Supreme Court of Appeals of Virginia that the foregoing transcript of the record in this proceeding, with the enclosures and exhibits, contains all the facts upon which the action appealed from was based, together with all the evidence introduced before or considered by this Commission.

Witness the signature of H. Lester Hooker, Chairman of the State Corporation Commission, under its seal and attested by its Clerk this 19th day of September, 1958, at Richmond, Virginia.

H. LESTER HOOKER
Chairman.

Attest:

N. W. ATKINSON
Clerk.

Seal

CERTIFICATE.

I, N. W. Atkinson, Clerk of the State Corporation Commission, certify that within sixty days after the final order in this case the Virginia Association of Insurance Agents, by William H. King, 915 Mutual Building, Richmond 19, Virginia, its Counsel, filed with me a notice of appeal therein which had been delivered to John J. Wicker, Jr., and E. Ballard Baker, 501 Mutual Building, Richmond 19, Virginia, M. Wallace Moncure, Jr., 402 Mutual Building, Richmond 19, Virginia, Oscar L. Shumake, State-Planters Bank Building, Richmond 19, Virginia, Russell H. Matthias, 1 North La Salle Street, Chicago, Illinois, Alden E. Flory, 212 West Grace Street, Richmond, Virginia, all other counsel of record, to Counsel for the State Corporation Commission and to the Attorney General of Virginia, pursuant to the provisions of Section 13 of Rule 5:1 of the Rules of Supreme Court of Appeals of Virginia.

Subscribed at Richmond, Virginia, September 19, 1958.

N. W. ATKINSON
Clerk.

A Copy—Teste:

H. G. TURNER, Clerk.

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RULE 5:12—BRIEFS

§1. Form and Contents of Appellant's Brief. The opening brief of appellant shall contain:

(a) A subject index and table of citations with cases alphabetically arranged. The citation of Virginia cases shall be to the official Virginia Reports and, in addition, may refer to other reports containing such cases.

(b) A brief statement of the material proceedings in the lower court, the errors assigned and the questions involved in the appeal.

(c) A clear and concise statement of the facts, with references to the pages of the printed record when there is any possibility that the other side may question the statement. When the facts are in dispute the brief shall so state.

(d) With respect to each assignment of error relied on, the principles of law, the argument and the authorities shall be stated in one place and not scattered through the brief.

(e) The signature of at least one attorney practicing in this Court, and his address.

§2. Form and Contents of Appellee's Brief. The brief for the appellee shall contain:

(a) A subject index and table of citations with cases alphabetically arranged. Citations of Virginia cases must refer to the Virginia Reports and, in addition, may refer to other reports containing such cases.

(b) A statement of the case and of the points involved, if the appellee disagrees with the statement of appellant.

(c) A statement of the facts which are necessary to correct or amplify the statement in appellant's brief in so far as it is deemed erroneous or inadequate, with appropriate references to the pages of the record.

(d) Argument in support of the position of appellee.

The brief shall be signed by at least one attorney practicing in this Court, giving his address.

§3. Reply Brief. The reply brief (if any) of the appellant shall contain all the authorities relied on by him not referred to in his opening brief. In other respects it shall conform to the requirements for appellee's brief.

§4. Time of Filing. As soon as the estimated cost of printing the record is paid by the appellant, the clerk shall forthwith proceed to have printed a sufficient number of copies of record or the designated parts. Upon receipt of the printed copies or of the substituted copies allowed in lieu of printed copies under Rule 5:2, the clerk shall forthwith mark the filing date on each copy and transmit three copies of the printed record to each counsel of record, or notify each counsel of record of the filing date of the substituted copies.

(a) If the petition for appeal is adopted as the opening brief, the brief of the appellee shall be filed in the clerk's office within thirty-five days after the date the printed copies of the record, or the substituted copies allowed under Rule 5:2, are filed in the clerk's office. If the petition for appeal is not so adopted, the opening brief of the appellant shall be filed in the clerk's office within thirty-five days after the date printed copies of the record, or the substituted copies allowed under Rule 5:2, are filed in the clerk's office, and the brief of the appellee shall be filed in the clerk's office within thirty-five days after the opening brief of the appellant is filed in the clerk's office.

(b) Within fourteen days after the brief of the appellee is filed in the clerk's office, the appellant may file a reply brief in the clerk's office. The case will be called at a session of the Court commencing after the expiration of the fourteen days unless counsel agree that it be called at a session of the Court commencing at an earlier time; provided, however, that a criminal case may be called at the next session if the Commonwealth's brief is filed at least fourteen days prior to the calling of the case, in which event the reply brief for the appellant shall be filed not later than the day before the case is called. This paragraph does not extend the time allowed by paragraph (a) above for the filing of the appellant's brief.

(c) With the consent of the Chief Justice or the Court, counsel for opposing parties may file with the clerk a written stipulation changing the time for filing briefs in any case; provided, however, that all briefs must be filed not later than the day before such case is to be heard.

§5. Number of Copies. Twenty-five copies of each brief shall be filed with the clerk of the Court, and at least three copies mailed or delivered to opposing counsel on or before the day on which the brief is filed.

§6. Size and Type. Briefs shall be nine inches in length and six inches in width, so as to conform in dimensions to the printed record, and shall be printed in type not less in size, as to height and width, than the type in which the record is printed. The record number of the case and the names and addresses of counsel submitting the brief shall be printed on the front cover.

§7. Effect of Noncompliance. If neither party has filed a brief in compliance with the requirements of this rule, the Court will not hear oral argument. If one party has but the other has not filed such a brief, the party in default will not be heard orally.

CLERK
SUPREME COURT OF APPEALS
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MAR 18 1959
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RICHMOND, VIRGINIA