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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA

In the Matter of the Rate and Rating Plan
Application of

Pacific Specialty Insurance Company,
Applicant.

File No.: PA-2019-00003

**CONSUMER WATCHDOG'S REQUEST
FOR COMPENSATION**

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1 **I. INTRODUCTION**

2 Consumer Watchdog (“CWD”), Intervenor in the above-entitled proceeding, submits this
3 Request for Compensation (“Request”) pursuant to Insurance Code section 1861.10, subdivision
4 (b), and the intervenor regulations, California Code of Regulations, title 10 (“10 CCR”), § 2661.1
5 et seq. This Request seeks compensation in the total amount of \$60,069.00¹ for Consumer
6 Watchdog’s substantial contribution to the Insurance Commissioner’s (“Commissioner”) decision
7 to approve the rate application (File No.: 19-618) [“the Application”] of Pacific Specialty
8 Insurance Company (“Applicant” or “Pacific Specialty”).

9 This Request includes time spent working on this matter, including preparing this Request,
10 through June 4, 2020. This Request is based on the facts and circumstances of this matter as
11 summarized below, supporting exhibits, the record in this matter, and the accompanying
12 Declaration of Pamela Pressley (“Pressley Decl.”).

13 Consumer Watchdog initiated the proceeding when it filed a Petition for Hearing, Petition
14 to Intervene, and Notice of Intent to Seek Compensation (“Petition”) on April 8, 2019,
15 challenging Pacific Specialty’s Application. Consumer Watchdog represented the interests of
16 consumers and policyholders by raising issues with the proposed rates in its Petition, written
17 actuarial analysis, and discussions with Pacific Specialty and the Department of Insurance (the
18 “Department” or “CDI”) that were separate and distinct from those raised by the Department.
19 Consequently, the Commissioner had all of this information available to him when making his
20 decision. As a result, Consumer Watchdog made a substantial contribution to the Commissioner’s
21 decision to approve the Application with a 2% rate increase as opposed to the Applicant’s
22 originally requested 6.9% rate increase, which afforded savings of over \$5.95 million in annual
23 premiums to consumers.

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¹ Consumer Watchdog seeks advocacy fees and expenses in the amount of \$18,372.00 for the
27 work of Consumer Watchdog’s counsel and seeks \$41,697.00 in fees billed by its consulting
28 actuary and expert witness, Allan I. Schwartz. (See Exh. A (attached) for a summary of the fees
and expenses requested.)

1 In light of the substantial contribution Consumer Watchdog made to the Commissioner's
2 decision in this proceeding, as discussed further below, the compensation sought for its attorneys
3 and actuarial expert fees is abundantly reasonable.

4 **II. CONSUMER WATCHDOG IS ELIGIBLE TO SEEK COMPENSATION IN THIS**
5 **PROCEEDING, AND ITS REQUEST IS TIMELY**

6 The intervenor regulations provide, in part:

7 A petitioner, intervenor or participant whose Petition to Intervene or Participate
8 has been granted and who has been found eligible to seek compensation may
9 submit to the Public Advisor, within 30 days after the service of the order,
10 decision, regulation or other action of the Commissioner in the proceeding for
11 which intervention was sought, or at the requesting petitioner's, intervenor's or
12 participant's option, within 30 days after the conclusion of the entire proceeding,
13 a request for an award of compensation.

14 (10 CCR § 2662.3(a).) Consumer Watchdog is a longtime participant and intervenor in
15 Department proceedings and a nationally recognized consumer advocacy organization. The
16 Commissioner issued Consumer Watchdog's latest Finding of Eligibility on July 12, 2018, in
17 which he found Consumer Watchdog eligible for compensation and that Consumer Watchdog
18 "represents the interests of consumers."² The Commissioner granted Consumer Watchdog's
19 Petition to Intervene in the proceeding on the Application on or about April 24, 2019. (Ruling
20 Granting Consumer Watchdog's Petition to Intervene, April 24, 2019, p. 4.) Thus, Consumer
21 Watchdog is eligible to seek compensation in this matter.

22 Pursuant to 10 CCR § 2662.3(a), a request for compensation is due 30 days after service
23 of the Commissioner's decision in the proceeding in which intervention was sought or 30 days
24 after conclusion of the entire proceeding. Additionally, pursuant to the parties' May 5, 2020
25 Settlement Stipulation, Consumer Watchdog agreed that it would submit any request for
26 compensation within 30 days after notice of the Commissioner's approval letter. On May 11,
27 2020, the Department notified Consumer Watchdog that the Commissioner had issued his
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² Consumer Watchdog's current Finding of Eligibility succeeded prior determinations issued on
July 24, 2016; July 24, 2014; July 24, 2012; July 2, 2010; August 25, 2008; July 14, 2006; July 2,
2004; June 20, 2002; October 1, 1997; September 26, 1995; September 27, 1994; and September
13, 1993.

1 Decision approving the Application. (Pressley Decl., ¶ 30.) Accordingly, Consumer Watchdog's
2 Request is timely pursuant to 10 CCR § 2662.3(a).

3 **III. SUMMARY OF THE PROCEEDING**

4 To demonstrate Consumer Watchdog's substantial contribution to the Commissioner's
5 decision in this proceeding and to demonstrate the reasonableness of the advocacy and witness
6 fees requested, set forth below is a summary of Consumer Watchdog's participation in this
7 matter.

8 **A. Consumer Watchdog Petitioned for Hearing, Identifying Several Issues with the** 9 **Application.**

10 On or about February 5, 2019, Applicant filed a Prior Approval Rate Application with the
11 Department, seeking approval of an overall rate increase for its Preferred Homeowners Program
12 of 6.9%. (Pressley Decl., ¶ 23.) The Department notified the public of the Application on or about
13 February 22, 2019. (*Ibid.*)

14 Consumer Watchdog and its actuarial expert, Allan I. Schwartz, reviewed the Application
15 in detail and determined that the proposed rate change was excessive and/or unfairly
16 discriminatory in violation of Insurance Code section 1861.05, subdivision (a), and the prior
17 approval rate regulations, 10 CCR § 2644.1, et seq. (Pressley Decl., ¶ 24.) Mr. Schwartz's
18 analysis of the Application included several specific issues that contributed to Applicant's
19 proposed rate being excessive. (*Ibid.*; see also Exh. B attached hereto.)

20 On April 8, 2019, pursuant to Insurance Code section 1861.10(a), Consumer Watchdog
21 filed its Petition identifying the issues on which it would provide evidence to show why
22 Applicant's proposed rate was excessive and/or unfairly discriminatory, including improper use
23 of the Complex Catastrophe Model, unreasonably high loss trend and severity trend, improper or
24 unsupported excluded expenses, and other unsupported changes. (Petition for Hearing, ¶ 6; see
25 also Pressley Decl., ¶ 24.)

26 The Commissioner granted Consumer Watchdog's Petition to Intervene in the proceeding
27 on the Application on April 24, 2019, finding that "CW has raised and seeks to address issues that
28

are relevant to the ratemaking process.” (Ruling Granting Consumer Watchdog’s Petition to Intervene, April 24, 2019, p. 4, lines 8–9.)

B. Consumer Watchdog Provided Actuarial Analysis of Pacific Specialty’s Application and Participated in Discussions with the Parties Regarding the Issues Identified in the Petition and Additional Submissions.

On March 16, 2020, Consumer Watchdog participated in a teleconference with the parties to discuss the issues raised by its Petition and the analysis of its actuarial expert. Prior to the teleconference, on March 12, 2020, Consumer Watchdog circulated its preliminary written analysis of the Application by its actuary elaborating on issues raised by its Petition of improper/ unsupported loss trend, improper/unsupported modeled catastrophe losses, and improper/unsupported discount for Differences in Condition. (Pressley Decl., ¶¶ 24–27; see Exh. B attached hereto.) On March 18, 2020, Consumer Watchdog circulated its additional analysis of the Application and trend issues raised during the teleconference with the parties. (Exh. C. attached hereto; Pressley Decl., ¶ 27.) Under CWD’s analysis, a premium decrease of -6.7% was actuarially supported. (Exh. B.)

On April 17, 2020, Consumer Watchdog accessed via SERFF the Application, which had been updated to reflect Applicant’s responses to Consumer Watchdog’s and the Department’s objections. (Pressley Decl., ¶ 28.) The updated Application was reviewed by Consumer Watchdog’s consulting actuary.

C. The Parties Stipulated to Rate Changes and the Stipulation Represented the Complete and Final Settlement Resolving All Issues Between the Parties Regarding the Application.

After review of the updated Application, the Parties came to an agreement and executed a settlement stipulation on May 5, 2020 (“Stipulation”). (Pressley Decl., ¶ 29.) Under the Stipulation, the Parties agreed to an overall 2% rate increase to Applicant’s Preferred Homeowners program, as opposed to the originally requested 6.9% rate increase. (*Ibid.*)

IV. CONSUMER WATCHDOG IS ENTITLED TO AN AWARD OF ITS REASONABLE ADVOCACY AND WITNESS FEES

A. Consumer Watchdog Made a Substantial Contribution to the Commissioner’s Final Decision.

1 Proposition 103 requires awards of reasonable advocacy and witness fees and expenses for
2 persons who represent the interests of consumers and who make a “substantial contribution” to
3 decisions or orders by the Commissioner or a court. Insurance Code section 1861.10(b), states:

4 The commissioner or a court ***shall award*** reasonable advocacy and witness fees
5 and expenses to any person who demonstrates that (1) the person represents the
6 interests of consumers, and, (2) that he or she has made a substantial contribution
to the adoption of any order, regulation or decision by the commissioner or a court.

7 (Emphasis added.) As the emphasized language makes clear, when the statutory criteria are met,
8 an award of reasonable advocacy fees and expenses is mandatory. This provision affords
9 insurance consumers the ability to have their interests represented on an equal basis with the
10 interests of insurers and facilitates consumer participation in the enforcement of Proposition 103.
11 (See *Econ. Empowerment Found. v. Quackenbush* (1997) 57 Cal.App.4th 677, 686 [the purpose
12 of intervenor fees is to encourage consumer participation].) Moreover, the courts have held that
13 section 1861.10(b) should be applied in a manner “which best facilitates compensation.” (*Id.* at
14 686.)

15 Under the intervenor regulations,

16 “Substantial Contribution” means that the intervenor substantially contributed,
17 as a whole, to a decision, order, regulation, or other action of the Commissioner
18 by presenting relevant issues, evidence, or arguments which were separate and
19 distinct from those emphasized by the Department of Insurance staff or any
20 other party, such that ***the intervenor’s participation resulted in more credible,
and non-frivolous information being available for the Commissioner to make
his or her decision than would have been available to a Commissioner had
the intervenor not participated.*** A substantial contribution may be
21 demonstrated without regard to whether a petition for hearing is granted or
denied.

22 (10 CCR § 2661.1(k), emphasis added.)

23 The detailed summary of this proceeding presented above, the accompanying Pressley
24 Declaration, and the record in this proceeding make clear that Consumer Watchdog presented
25 relevant issues and arguments that were separate and distinct from those presented by the
26 Department. Among other things, (1) Consumer Watchdog’s Petition and subsequent written
27 analysis raised issues that were separate and distinct from the Department’s; and (2) Consumer
28

1 Watchdog presented arguments and issues during the Parties' teleconference that were separate
2 and distinct from the Department's. (See Pressley Decl., ¶¶ 8, 21, 23–29.)

3 Due to Consumer Watchdog's participation, the Commissioner had more credible and
4 non-frivolous information available to make his decision in this matter than if Consumer
5 Watchdog had not participated. Consumer Watchdog's substantial contribution in this proceeding,
6 as detailed in section III above and in the accompanying Pressley Declaration and further
7 evidenced by the record in this matter, is demonstrated by at least the following:

- 8 ▪ Consumer Watchdog's Petition raised issues with the Application regarding Pacific
9 Specialty's use of the Complex Catastrophe Model, unreasonably high loss trends,
10 improper or unsupported excluded expenses, and other unsupported changes. (See
11 Petition, pp. 4–5.)
- 12 ▪ Consumer Watchdog submitted a detailed written analysis on March 12, 2020 setting forth
13 its actuary's analysis of the Application, including loss trend, modeled catastrophe losses,
14 and improper discount for Difference in Condition.
- 15 ▪ Consumer Watchdog's attorneys and its consulting actuary actively participated in the
16 teleconference scheduled by the Department to discuss the issues in the Petition and
17 March 12 analysis, and reviewed updated data and information provided by Applicant.
- 18 ▪ Consumer Watchdog submitted additional actuarial analysis of the Application and trend
19 issues on March 18, 2020 that addressed issues raised during the teleconference with the
20 parties.
- 21 ▪ The parties' Stipulation and Commissioner's subsequent decision to approve the
22 Application with an overall 2% rate increase, as opposed to the Applicant's originally
23 requested 6.9% rate increase.

24 In sum, Consumer Watchdog's separate and distinct presentation of relevant issues,
25 evidence, and argument provided in its Petition and written analyses and discussions with the
26 Parties, as well as the additional information elicited from Applicant in response to issues raised
27 by Consumer Watchdog, clearly meets the "substantial contribution" requirement of the
28 Insurance Code and the regulations, having resulted in more relevant, credible, and non-frivolous

1 information being available to the Commissioner in making his final decision approving the
2 Application as revised than if Consumer Watchdog had not participated. As a result, Pacific
3 Specialty policyholders saved over \$5.95 million in premiums per year as compared to the rates
4 requested by Applicant.³

5 **B. Consumer Watchdog's Requested Advocacy Fees Are Reasonable.**

6 For its substantial contribution, Consumer Watchdog requests reasonable advocacy fees in
7 the amount of \$18,372.00 for the work of its counsel and paralegal. The requested fees, including
8 the total hours of work performed, and the hourly rates of each Consumer Watchdog attorney are
9 summarized in the attached Exhibit A, "Summary of Fees." Insurance Code section 1861.10,
10 subdivision (b), requires an award of all "reasonable advocacy and witness fees" once the
11 requirements of the statute are met, including making a substantial contribution. The procedural
12 history of this matter set forth above and supported by the Pressley Declaration demonstrates the
13 reasonableness of the compensation requested in light of the amount of work performed. The
14 procedural history and Consumer Watchdog's time records (Pressley Decl., Exh. 1a) also
15 demonstrate the work Consumer Watchdog performed in this proceeding.

16 As required by the regulations, the specific tasks performed by Consumer Watchdog's
17 attorneys are set forth in its detailed time records attached as Exhibit 1a to the Pressley
18 Declaration. (See Pressley Decl., ¶ 3 & Exh. 1a.) These time records were maintained
19 contemporaneously and reflect the actual time spent and actual work performed, billed to the
20 tenth of an hour, by all Consumer Watchdog legal staff who worked on this matter. (Pressley
21 Decl., ¶ 6.) In preparing their respective time records for this request, Consumer Watchdog's legal
22 staff exercised billing judgment and eliminated time entries where appropriate. (Pressley Decl.,
23 ¶ 5.) Consumer Watchdog submits that the time expended and work performed in the proceeding,
24 as reflected in the time records, was reasonable and appropriate, and the minimum required to
25 make a substantial contribution in this proceeding and to achieve the result obtained. (*Ibid.*)
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27

28 ³ \$121.35 million (Adjusted Earned Premium) x (6.9% - 2.0%) = \$5.95 million

1 The 2020 hourly rates set forth in Exhibit A are also reasonable and consistent with
2 prevailing market rates. The intervenor regulations specify, “[t]he compensation awarded **shall**
3 **equal** the market rate of the services provided.” (10 CCR § 2662.6(b), emphasis added.) “Market
4 rate” is defined as the “prevailing rate for comparable services in the private sector in the Los
5 Angeles and San Francisco Bay Areas **at the time of the Commissioner’s decision awarding**
6 **compensation** for attorney advocates, non-attorney advocates, or experts with similar experience,
7 skill and ability.” (10 CCR § 2661.1(c)(1), emphasis added.)

8 The qualifications and experience of Consumer Watchdog’s attorneys and paralegal who
9 performed work in this matter, Pamela Pressley, Daniel Sternberg, and Kaitlyn Gentile, are
10 summarized in the Pressley Declaration. (Pressley Decl., ¶¶ 9–19.) The 2020 hourly rates of
11 Consumer Watchdog’s attorneys and paralegal are consistent with, if not less than, the prevailing
12 market rates for attorneys of comparable skills and experience in the Los Angeles and San
13 Francisco Bay Areas. (Pressley Decl., ¶¶ 7, 11, 15, 19; see also *id.*, Exh. 2.)

14 The Declaration of Richard M. Pearl (“Pearl Decl.”), attached as Exhibit 2 to the Pressley
15 Declaration, also confirms that the requested rates for Consumer Watchdog’s counsel are
16 consistent with prevailing market rates. The Pearl Declaration was filed on October 8, 2019 in
17 connection with a Writ of Administrative Mandamus by Mercury Insurance Company arising out
18 of a CDI noncompliance proceeding and is equally applicable to this proceeding, given that
19 Consumer Watchdog’s 2020 rates are within the range of rates considered reasonable for
20 attorneys with comparable experience at that time. Mr. Pearl is a recognized expert on attorneys’
21 fees issues under California law. (See Pressley Decl., Exh. 2 [Pearl Decl.], ¶¶ 3–10.) The Pearl
22 Declaration shows that Consumer Watchdog counsel’s and paralegal’s 2020 rates are well within,
23 if not below, the range of non-contingent rates charged by California attorneys in the Los Angeles
24 areas of equivalent experience, skill, and expertise for comparable services. (See *id.*, ¶¶ 8–11.)
25 The Commissioner has also approved fee awards for Consumer Watchdog based on the same
26 hourly rates Consumer Watchdog’s legal staff is currently using in 2020 for work done in 2017–
27 2019. (Pressley Decl., ¶ 7.)

1 Finally, this Request also includes the time expended preparing the instant Request for
2 Compensation. This is also reasonable because the regulations permit reimbursement for
3 preparation of a request for an award of compensation. (10 CCR § 2661.1(d).) Preparing such a
4 request requires the intervenor to perform a comprehensive review of the record, review the
5 regulations, cite to the record in this proceeding, review billing and expense records, and prepare
6 the Request and supporting documents.

7 **C. Consumer Watchdog's Expert Fees Are Reasonable.**

8 Consumer Watchdog incurred reasonable expert fees of \$41,697.00 for the actuarial
9 consulting services of Allan I. Schwartz at AIS Risk Consultants, Inc. (See Pressley Decl., Exh.
10 3.) The specific tasks performed by Mr. Schwartz are set forth in the detailed billing records of
11 AIS Risk Consultants, Inc. (*Ibid.*) Consumer Watchdog is informed and believes that these time
12 records were maintained contemporaneously and reflect the actual time spent and actual work
13 performed by Mr. Schwartz. (Pressley Decl., ¶ 22.) Pursuant to 10 CCR sections 2662.6(b) and
14 2661.1(c)(1), the expert fees billed for the actuarial consulting services of Mr. Schwartz and his
15 staff at AIS Risk Consultants, Inc. reflect the current market rates for such services and amount to
16 less than the total expert fees projected in Consumer Watchdog's Petition. (*Ibid.*; see Petition,
17 Exh. A.)

18 Mr. Schwartz's over 30 years of professional actuarial experience include being President
19 of AIS Risk Consultants, Assistant Commissioner of the New Jersey Department of Insurance,
20 and chief actuary of the North Carolina Department of Insurance. His resume is on file in several
21 other Department rate proceedings and can be viewed online at http://www.aisrc.com/allan_i_schwartz.htm. (Pressley Decl., ¶ 22.) Consumer Watchdog submits that the time expended, and
22 work performed by Mr. Schwartz in this proceeding, as reflected in his time records, was
23 reasonable and appropriate and the minimum required to achieve the result obtained. (*Ibid.*)

24 **V. CONCLUSION**


25 In sum, Consumer Watchdog made a substantial contribution to the Commissioner's
26 decision approving Pacific Specialty's Rate Application with an overall 2% rate increase, as
27 opposed to the Applicant's originally requested 6.9% rate increase, by identifying relevant issues
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1 and arguments as set forth in Consumer Watchdog's Petition and expanded upon in Consumer
2 Watchdog's subsequent written analysis and discussions with the Parties. In addition, during the
3 course of the proceeding, Applicant submitted additional relevant information, argument, and
4 analysis in response to the issues raised by Consumer Watchdog that would not have otherwise
5 been available had Consumer Watchdog not participated. Consumers saved approximately \$5.95
6 million in annual premiums as a result. Accordingly, Consumer Watchdog requests compensation
7 in the total amount of \$\$60,069.00 for its substantial contribution to the Commissioner's decision
8 in this matter.

9
10 DATED: June 9, 2020

Respectfully submitted,
Harvey Rosenfield
Pamela Pressley
Daniel L. Sternberg

13 CONSUMER WATCHDOG

14
15 By: 
16 Daniel L. Sternberg
Attorneys for CONSUMER WATCHDOG

VERIFICATION OF DANIEL L. STERNBERG

1. I am a staff attorney for Consumer Watchdog. If called as a witness, I could and would testify competently to the facts stated in this verification.

2. I personally oversaw the preparation of the attached pleading entitled "Consumer Watchdog's Request for Compensation" filed in this matter.

3. All of the factual matters alleged therein are true of my own personal knowledge, or I believe them to be true based upon the information available to me from Consumer Watchdog's files regarding this matter.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on June 9, 2020, at Los Angeles, California.

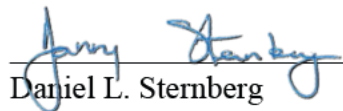

Daniel L. Sternberg

EXHIBIT A

EXHIBIT A
SUMMARY OF FEES AND EXPENSES

File No. PA-2019-00003

<u>ITEMS</u>	<u>COST</u>
1. <u>Consumer Watchdog's Fees</u> (Detailed in Billing Records attached as Exhibit 1a to Pressley Decl.)	
Pamela Pressley @ \$595 per hour, 15.6 hours	\$9,282.00
Daniel Sternberg @ \$350 per hour, 21.8 hours	\$7,630.00
Kaitlyn Gentile @ \$200 per hour, 7.3 hours	\$1,460.00
Subtotal of Consumer Watchdog Fees	\$18,372.00
 2. Expert Witness Fees – AIS Risk Consultants, Inc. (Detailed in Exh. 3 to Pressley Decl.)	
Allan I. Schwartz @ \$805 per hour, 43.8 hours	\$35,259.00
Katherine Tollar @ \$370 per hour, 17.4 hours	\$6,438.00
Subtotal of AIS Risk Consultants, Inc. Fees	\$41,697.00
 TOTAL ADVOCACY FEES AND WITNESS FEES:	 \$60,069.00

EXHIBIT B

AIS RISK CONSULTANTS, INC.

Consulting Actuaries • Insurance Advisors

4400 Route 9 South • Suite 1000 • Freehold, NJ 07728 • (732) 780-0330 • Fax (732) 780-2706

Date: March 12, 2020

To: Consumer Watchdog

From: Allan I. Schwartz

Re: Review of Pacific Specialty Insurance Company
Homeowners Insurance Rate Filing : HO-3
CDI File No. 19-618

As you requested, in connection with a possible settlement, we have reviewed the above captioned filing, as well as the updates and additional information submitted by Pacific Specialty Insurance Company ("PSIC"), along with other information. PSIC is proposing a premium increase of 6.9%.

Our analysis indicates a premium decrease of -6.7%.¹ We made several corrections to the PSIC rate filing in deriving this value.²

The issues discussed in this memo are:

- i) Improper / Unsupported Loss Trend
- ii) Improper / Unsupported Modeled Catastrophe Losses
- iii) Improper Discount for Difference in Conditions

1. Improper / Unsupported Loss Trend

PSIC selected an excessive loss trend factor of 11.7% in the rate filing. PSIC's selected trend is based upon the 8-points of closed frequency / total paid with partial severity data. In the context of this filing, given that the PSIC experience loss trend indications fluctuate widely depending upon the time period used,³ the 8-point trend is unreliable. The excessive selected loss trend of 11.7% results in an inflated indicated rate change.

¹ The indicated change of -6.7% is the indicated maximum rate change. The indicated minimum rate change can be found in Schedule AIS-1.

² Our analysis is based upon the information currently available. We may submit further comments if additional relevant information becomes available. Furthermore, our lack of comment on particular aspects of the filing should not be taken to mean that we agree with those procedures.

³ The closed frequency / total paid with partial severity annual loss cost trends over 8, 12, 16, 20 and 24 points are +11.7%, -4.9%, -3.3%, 0.4% and +2.5%, respectively.

In a situation such as this, the more stable loss trends based upon an analysis of longer-term experience is appropriate. We selected the 20-point trend based upon closed frequency / paid severity data. This gives an annual loss cost trend of +2.5%.^{4,5}

As a way of evaluating whether this is a reasonable annual loss trend for California homeowners insurance, we examined California Homeowners Insurance Fast Track trend indications through the third quarter of 2019. That trend over the latest year ending 8, 12, 16 and 20 points is 3.0%, 1.8%, 3.2% and 3.0%.⁶ The average of those values is 2.8%. This is close to the loss trend we selected based on PSIC long term experience.

We also looked at experience for PSIC beyond the 9/30/2018 data included in the filing. The direct incurred loss ratio for PSIC for homeowners insurance through the first three quarters of 2018 and 2019 were 50.3% and 32.4%, respectively.⁷ That is a decrease of about 35% in the loss ratio.⁸ While the financial statement data is countrywide, the majority of PSIC's homeowners insurance business is in California – about 86% of direct earned premium in 2018. Hence, the improved countrywide experience would be in large part attributable to improved California experience. While some portion of the improved loss ratio could be attributable to the rate increase of 5.9% effective 11/18/2018, it would have just a minimal impact, especially given the rate changes do not impact calendar period earned premium all at once, but instead have an impact over time. Furthermore, California homeowners experience in the first three quarters of 2018 and 2019 were not significantly impacted by catastrophes, so the comparison of the loss ratios in those periods is not distorted from that. Taking this all into account, the HO loss trend based on PSIC after 9/30/2018 would appear to be flat to downward. This provides further support for the 2.5% annual loss trend we used instead of the 11.7% used by PSIC.

⁴ The closed frequency / paid severity annual loss cost trends over 8, 12, 16, 20 and 24 points are +12.0%, +5.5%, +5.8%, +2.6% and +2.0%, respectively.

⁵ A +2.5% annual loss cost trend falls in the middle of the range of the ten trend indications based upon closed frequency with paid or total paid with partial severity experience.

⁶ This is for All Policy Forms Combined -- Excluding Losses Attributed To Catastrophes

⁷ Statement as of September 30, 2019 of the Pacific Specialty Insurance Company, Part 1 – Loss Experience

⁸ $(32.4\% / 50.3\%) - 1 \times 100\% = 35.6\%$

2. Improper / Unsupported Modeled Catastrophe Losses

PSIC has not adequately supported its proposed provision for fire following earthquake (“FFEQ”) losses. PSIC utilized a single model from RMS to estimate the FFEQ losses used in the catastrophe provision. It is a common accepted practice to consider the results from more than one catastrophe model in a rate calculation. In our analysis we have use the average of the RMS and AIR models in calculating the catastrophe provision.⁹ The PSIC catastrophe factor was 1.153 while our factor is 1.136.

3. Improper / Unsupported Discount for Differences in Condition

PSIC proposes reducing the discount for Differences in Condition (DIC) from 30% to 20%. PSIS did not provide adequate support for this reduction in the discount.

Please feel free to contact me if there is anything you would care to discuss.

Enclosures

⁹ Schedule AIS-2

VARIANCE - NONE

RATE CHANGE CALCULATION

Completed by: CWD
Date Completed: 3/12/2019
Prior Effective Date: 11/18/2018
Proposed Effective Date: 6/1/2019
Detailed Line Description: Homeowners Multiple Peril
Coverage: HO-3

Data Provided by Filer	20163	20173	20183	Projected
Prem_Written			100,562,569	100,562,569
Prem_Earned			93,265,865	93,265,865
Prem_Adj			1.058	
Prem_Trend			1.085	3.8%
Misc_Fees			8,665,470	8,665,470
Exposures_Earned			107,126	107,126
Losses			34,603,222	34,603,222
DCCE			1,380,692	1,380,692
Loss_Devt			1.388	
DCCE_Devt			1.875	
Loss_Trend			1.056	2.5%
DCCE_Trend			1.056	2.5%
CAT_Adj			1.136	
Anc_Income			6,875	6,875
Credibility				100.0%
ExpRatio_Excluded				1.2%
FIT_Inv				17.5%
Yield				3.7%

CDI Parameters

FIT_UW				21.0%
EffStd_Final		Data as of:	2017	40.0%
LevFact_Final		Data as of:	2017	1.03
PremTaxRate				2.4%
SurplusRatio				0.97
ResRatio_UPR		Data as of:	2017	0.51
ResRatio_Loss		Data as of:	2017	0.54
ROR_RiskFree		Data as of:	January 2019	2.7%
ROR_Min				-6.0%
ROR_Max				8.7%

Calculations	20163	20173	20183	
Prem_Adjusted			115,738,111	115,738,111
Losses_Adjusted			57,628,215	57,628,215
DCCE_Adjusted			3,106,747	3,106,747
LossDCCERatio_Adjusted			52.5%	52.5%
TCRLP_perExp			1,080.39	1,080.39
LossDCCE_perExp			566.95	566.95
CompLossDCCE_perExp			603.33	603.33
CredLoss_perExp			566.95	566.95
Anc_Inc_perExp			0.06	0.06
InvInc_Fixed				2.1%
InvInc_Variable				5.8%
Net_AnnualTrend				-1.2%
Comp_Trend				-0.7%
Max_Profit				10.7%
Min_Profit				-7.4%
UW_Profit				3.8%
Min_Denom				0.73
Max_Denom				0.55
Min_Premium				\$759.06
Max_Premium				\$1,008.45
CHANGE_AT_MIN				-29.7%
CHANGE_AT_MAX				-6.7%

PRIOR APPROVAL RATE TEMPLATE FOR PROPERTY & LIABILITY LINES SUMMARY

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Minimum Permitted Earned Premium (\$)	Maximum Permitted Earned Premium (\$)	Change at Minimum %	Change at Maximum %
HO-3	115,738,111	81,314,968	108,031,494	-29.7%	-6.7%
Combined	115,738,111	81,314,968	108,031,494	-29.7%	-6.7%

Combined Total Earned Exposures for Latest Year:

107,126

Coverage/Form/Program	Average Earned Premium \$ per Exposure				Latest Year Earned Exposures
	Latest Year Adjusted	Minimum Permitted	Maximum Permitted	Proposed	
HO-3	1,080.39	759.06	1,008.45	1,154.85	107,126
Combined	1,080.39	759.06	1,008.45	1,154.85	107,126

Coverage/Form/Program	Latest Year Adjusted Annual Premium (\$)	Latest Year Projected Ultimate Loss & DCCE (\$)	Latest Year Projected Ultimate Loss & DCCE Ratio
HO-3	115,738,111	60,734,963	52.5%
Combined	115,738,111	60,734,963	52.5%

Pacific Specialty Insurance Company
Homeowners
Form HO-3

Catastrophe Adjustment Factor - Summary

(1) Indicated Cat to Non-Cat Ratio (Wildfire & Storm) - Paid	10.2%
(2) Indicated Cat to Non-Cat Ratio (Wildfire & Storm) - Incurred	9.4%
(3) Selected Cat to Non-Cat Ratio (Wildfire & Storm)	9.4%
(4a) Average Modeled Fire Following Earthquake Losses - RMS Model	2,975,325
(4b) Average Modeled Fire Following Earthquake Losses - AIR Model	1,107,546
(4c) Average Modeled Fire Following Earthquake Losses - Average	2,041,436
(5) 10/1/17-18 Ultimate Non-Cat Losses	48,031,273
(6) Selected Cat to Non-Cat Ratio (Fire Following Earthquake) (4) / (5)	4.3%
(7) Total Cat to Non-Cat Ratio (3) + (6)	13.6%
(8) Selected CAT Load 1 + (7)	1.136

Notes:

- (1) to (3) PSIC Exhibit 9-1
- (4a) Response Letter dated 09/27/2019, Item 7.
- (4b) PSIC Supplementary Exhibit 9, Page 1
- (4c) $[(4a) + (4b)]/2$
- (5) PSIC Exhibit 9-1

Schedule AIS-2

EXHIBIT C

AIS RISK CONSULTANTS, INC.

Consulting Actuaries • Insurance Advisors

4400 Route 9 South • Suite 1000 • Freehold, NJ 07728 • (732) 780-0330 • Fax (732) 780-2706

Date: March 18, 2020

To: Consumer Watchdog

From: Allan I. Schwartz

Re: Review of Pacific Specialty Insurance Company
Homeowners Insurance Rate Filing : HO-3
CDI File No. 19-618
Additional Comments in Response to March 16, 2020 Conference Call

As you requested, in connection with a possible settlement, we are submitting additional comments in response to the March 16, 2020 conference call with Pacific Specialty Insurance Company ("PSIC") and the California Department of Insurance.

One of the issues that was discussed in that call were the changes made in PSIC's prior filing effective 11/21/2016.¹ Comments regarding that prior filing follow.

1. Loss Trend

In the prior filing, PSIC stated the following in an objection response:²

As can be seen in the charts that were provided in the rate filing exhibits, historical trends have varied over the last 27 quarters on a frequency, severity, and pure premium basis. Despite the variability, the pure premiums do have an overall upward trend over the entire 24-point experience period, so we selected a longer timeframe to reflect this. We felt the 20-point trend was the most appropriate as it resulted in a 1.8% annual trend, which was very consistent with the ISO Fast Track trends for this line of business. The premium trend for this same time period was also reasonable as all options were very close to one another.

In that filing, PSIC recognized the variability in the historical trends³ and taking that into account, selected a longer term 20-point trend. That is the same consideration I used in my analysis dated March 12, 2020, where I used a 20 point trend.

¹ SERFF Tracking #: PERR-130375802, State Tracking #: 15-10171, Company Tracking #: PSIC-HO-HO3-CA-1501

² See Attachment 1

³ See Attachment 2 for the indicated historical loss trends from that filing.

PSIC also confirmed the reasonableness of the 20-point trend by comparing that value to ISO Fast Track trend. That again is the same procedure I used in my analysis.

The annual loss trend used by PSIC in that filing was 1.8%.⁴ The loss trend I used in my analysis of 2.5% is similar to that, although somewhat higher. The 11.7% loss trend used by PSIC in the current filing, is much larger, more than 6 times as large as what PSIC used in the prior filing.⁵

In summary, the method I used to select a loss trend was similar to what PSIC did in its prior filing, and the numerical values are similar. By contract, the method PSIC used to select a loss trend for the current filing is inconsistent with what PSIC did in its prior filing, and the numerical values are extremely dissimilar.

2. Coverage Changes

One of the issues discussed was whether the coverage changes included in the prior filing might distort the trend calculations using a longer time period. The filing memorandum from that filing gives a list of the various changes.⁶ However, combined, PSIC did not expect those changes to have a material rate impact, stating, “We have estimated that the proposed changes in this filing are revenue neutral.” That is, in total, PSIC did not expect the changes to have a rate or loss impact. Therefore, those changes should not impact or distort the longer term trends.

There is one coverage change that is worth mentioning. That is the following, “18) Increased inflation guard adjustment from 3% to 4%.” This increase in the inflation guard adjustment is not fully reflected in the historical trend data and may result in the understatement of the premium trend, which will cause an overstatement of the rate level.

⁴ See Attachment 3 for rate template from the prior PSIC filing.

⁵ It could be noted that in its prior filing, where the long term trend was larger than the short term trend, PSIC used the long term trend. Whereas in its current filing, where the long term trend is lower than the short term trend, PSIC used the short term trend.

⁶ See Attachment 4

3. Difference in Conditions

The prior filing, in proposing an increase in the discount for this from 20% to 30%, included a loss ratio analysis.⁷ A loss ratio analysis was not supplied by PSIC in connection with the current filing's proposed reduction in the discount from 30% to 20%. Hence, PSIC did not provide adequate support for this reduction in the discount.

Please feel free to contact me if there is anything you would care to discuss.

Enclosures

⁷ See Attachments 5 and 6

State:	California	Filing Company:	Pacific Specialty Insurance Company
TOI/Sub-TOI:	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
Product Name:	California Homeowners Program		
Project Name/Number:	Forms, Rate and Rule Revision/PSIC-HO-HO3-1501		

Response Letter

Response Letter Status	Submitted to State
Response Letter Date	03/02/2016
Submitted Date	03/02/2016

Dear Kari Davis,

Introduction:

Thank you for your review of this filing.

Response 1

Comments:

As can be seen in the charts that were provided in the rate filing exhibits, historical trends have varied over the last 27 quarters on a frequency, severity, and pure premium basis. Despite the variability, the pure premiums do have an overall upward trend over the entire 24-point experience period, so we selected a longer timeframe to reflect this. We felt the 20-point trend was the most appropriate as it resulted in a 1.8% annual trend, which was very consistent with the ISO Fast Track trends for this line of business. The premium trend for this same time period was also reasonable as all options were very close to one another.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Conclusion:

Please let me know you have any questions or need additional information from us. Thank you.

Sincerely,

Paula Rossman

Pacific Specialty Insurance Company
Homeowners
Preferred and Standard HO-3 Combined

Non-CAT California Loss and DCCE Trend - Based on Total Paid Claims

Rolling Calendar Years Ending	Earned Exposures	Closed Claims	Reported Non-Zero Claims	Paid Loss & DCCE	Pure Premium	Paid Claim Frequency	Paid Claim Severity	Reported Claim Frequency
3Q2009	56,698	2,231	2,075	21,355,926	376.66	3.93%	9,572	3.66%
4Q2009	57,430	2,261	2,225	20,451,687	356.12	3.94%	9,045	3.87%
1Q2010	58,424	2,588	2,254	18,484,034	316.38	4.43%	7,142	3.86%
2Q2010	59,768	2,721	2,330	17,758,255	297.12	4.55%	6,526	3.90%
3Q2010	61,565	2,914	2,471	18,662,583	303.13	4.73%	6,404	4.01%
4Q2010	63,591	2,985	2,790	21,149,105	332.58	4.69%	7,085	4.39%
1Q2011	65,681	3,218	3,065	24,203,732	368.50	4.90%	7,521	4.67%
2Q2011	67,665	3,611	3,293	26,738,910	395.17	5.34%	7,405	4.87%
3Q2011	69,087	3,698	3,430	26,495,237	383.51	5.35%	7,165	4.96%
4Q2011	70,069	4,008	3,180	26,539,184	378.76	5.72%	6,622	4.54%
1Q2012	71,062	3,745	3,133	24,900,158	350.40	5.27%	6,649	4.41%
2Q2012	71,534	3,474	3,128	24,202,164	338.33	4.86%	6,967	4.37%
3Q2012	72,143	3,495	3,098	25,576,733	354.53	4.84%	7,318	4.29%
4Q2012	72,826	3,249	3,158	26,943,676	369.97	4.46%	8,293	4.34%
1Q2013	73,163	3,164	3,109	27,925,919	381.69	4.32%	8,826	4.25%
2Q2013	73,833	3,091	3,088	29,031,743	393.21	4.19%	9,392	4.18%
3Q2013	74,392	3,076	3,174	29,993,978	403.19	4.13%	9,751	4.27%
4Q2013	75,185	3,237	3,239	29,960,506	398.49	4.31%	9,256	4.31%
1Q2014	76,320	3,302	3,225	32,745,143	429.05	4.33%	9,917	4.23%
2Q2014	77,766	3,526	3,348	31,429,501	404.15	4.53%	8,914	4.31%
3Q2014	79,616	3,514	3,406	29,268,265	367.62	4.41%	8,329	4.28%
4Q2014	81,258	3,625	3,484	29,750,601	366.13	4.46%	8,207	4.29%
1Q2015	82,514	3,933	3,656	27,936,834	338.57	4.77%	7,103	4.43%
2Q2015	83,505	3,807	3,581	29,582,042	354.25	4.56%	7,770	4.29%

8 Point Fitted Annual Change:	-10.3%	6.2%	-15.5%	1.0%
12 Point Fitted Annual Change:	-1.9%	1.0%	-2.8%	0.5%
16 Point Fitted Annual Change:	0.2%	-4.7%	5.1%	-1.8%
20 Point Fitted Annual Change:	1.8%	-3.4%	5.4%	-1.2%
24 Point Fitted Annual Change:	2.3%	-0.4%	2.7%	1.2%

8 Point R Squared:	72.2%	81.6%	20.7%
12 Point R Squared:	3.0%	5.7%	10.5%
16 Point R Squared:	38.5%	17.2%	28.4%
20 Point R Squared:	31.7%	30.8%	14.2%
24 Point R Squared:	0.7%	9.9%	7.4%

Company Selected Annual Loss and DCCE Trend	1.8%	-3.4%	5.4%	-1.2%
---	------	-------	------	-------

ISO 20 Point Fitted Trend: Credibility (based on 6,000 claims)	100.0%
---	--------

Credibility Weighted Annual Loss and DCCE Trend	1.8%
---	------

"Fitted" means that it is an exponential curve based on a least squares best fit approach.

RATE TEMPLATE

Edition Date: 1/15/2015

(No input by filer)

CDI FILE NUMBER:
COMPANY/GROUP:
LINE OF INSURANCE:
COVERAGE:
PRIOR EFF DATE:
PROPOSED EFF DATE:

0
Pacific Specialty Insurance Company
HOMEOWNERS MULTIPLE PERIL
HO-3 Preferred and Standard Combined
9/23/2012
4/1/2016

Completed by: Tricia English
Date: 12/18/2015

DATA PROVIDED BY FILER

Year:	2013	2014	2015	PROJECTED/ SUMMARY
	PRIOR2	PRIOR1	RECENT	
WRT_PREM	0	0	72,278,512	72,278,512
ERN_PREM	0	0	69,877,616	69,877,616
PREM_ADJ	1.000	1.000	1.000	
PREM_TREND	1.000	1.000	1.057	0.022
MISCELLANEOUS_FEES (& other flat charges)	0	0	6,648,262	6,648,262
EARNED_EXP	0	0	83,505	83,505
LOSSES	0	0	22,149,964	22,149,964
DCCE	0	0	2,017,728	2,017,728
LOSS_DEV	1.000	1.000	1.392	
DCCE_DEV	1.000	1.000	1.392	
LOSS_TREND	1.000	1.000	1.047	0.018
DCCE_TREND	1.000	1.000	1.047	0.018
CAT_ADJ	1.000	1.000	1.213	
CREDIBILITY				100.00%
EXPENSE EXCLUSION FACTOR				1.42%
ANC_INC	0	0	0	0
FIT_INV				26.25%
YIELD				3.63%

CDI PARAMETERS:

FIT_UW	35.00%
EFF_STANDARD	38.61%
LEVERAGE	1.10
PREMIUM_TAX_RATE	2.35%
SURPLUS_RATIO	0.91
LOSS_RES_RATIO	0.69
RISK FREE RATE OF RETURN	1.20%
MAXIMUM RATE OF RETURN	7.20%
MINIMUM RATE OF RETURN	-6.00%

CDI CALCULATIONS:

ADJ_PREM	0	0	80,491,383	80,491,383
ADJUSTED_LOSSES	0	0	39,142,016	39,142,016
ADJUSTED_DCCE	0	0	3,565,601	3,565,601
ADJUSTED LOSS+DCCE_RATIO	0.00% 	0.00% 	53.06% 	53.06%
TRENDED_CURRENT_RATE_LEVEL_PREMIUM	#DIV/0!	#DIV/0!	963.91	963.91
LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	511.44	511.44
COMP_LOSS+DCCE_PER_EXP	#DIV/0!	#DIV/0!	559.42	559.42
CRED_LOSS_PER_EXP	#DIV/0!	#DIV/0!	511.44	511.44
ANC_INC_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
FIXED_INV_INC_FACTOR				2.86%
VAR_INV_INC_FACTOR				5.86%
ANNUAL_NET_TREND				-0.39%
COMP_TREND				-1.35%
MAX_PROFIT				10.10%
MIN_PROFIT				-8.41%
UW_PROFIT				2.56%
MAX_DENOM				0.572
MIN_DENOM				0.757
MAX_PREMIUM				\$869.29
MIN_PREMIUM				\$656.59
CHANGE_AT_MIN				-31.88%
CHANGE AT MAX				-9.82%

Alternate Calculation with Reinsurance

COMMISSION_RATE				0.00%
RE_PREM	-	-	-	0
RE_RECOV	-	-	-	0
RE_PREM_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
RE_RECOV_PER_EXP	#DIV/0!	#DIV/0!	0.00	0.00
COMP_LOSS_RE	#DIV/0!	#DIV/0!	559.42	559.42
RMAX_PREMIUM				NA
RCHANGE AT MAX				NA

Pacific Specialty Insurance Company
California Homeowners Program

Filing Memorandum

On behalf of Pacific Specialty Insurance Company (the "Company"), we have prepared this filing memorandum for the Company's proposed revisions to its California Homeowners Program.

To better serve its customers, the Company is currently making significant investments into upgrading its core policy administration and claims systems. This will require a conversion of existing policies onto the new platform. As a part of this process, the company has evaluated its HO3 Standard and Preferred programs and has decided to merge the two programs into one Preferred program. The reasons for this are twofold. First, the Company wants to provide its Standard customers with broader coverage as part of their base package rather than offering these options for additional premium. Secondly, PSIC will be building one, rather than two programs on its new platform, which will be a more efficient use of resources. We estimate that the proposed changes in this filing, including the aforementioned expansion of coverage for Standard customers, will result in a rate impact of 0% to the combined portfolio.

We have included an exhibit listing the enhancements to coverage, but some of the more significant enhancements are that Standard customers will now have increased sublimits for personal property, \$5K coverage for computer equipment included, broader theft coverage, Ordinance and Law coverage up to 10% as part of their base coverage, RCV for personal property, and larger discounts will be applied based on the deductible chosen. To accommodate prior Standard customers in the Preferred program, we propose making the following changes which will benefit Preferred customers as well. These changes are also included in the same exhibit referenced above. Some of the key changes include extension of roof age eligibility from 20 to 25 years, introduction of a loss surcharge schedule which will allow insureds with losses to remain in our program with the same levels of coverage.

The Company is proposing the following rate changes:

- 1) Introduce \$10 late fee, \$10 reinstatement fee, \$25 cancellation fee, and \$25 paper documents fees. The rate impact of the additional fee income has been included in Exhibit 15. See Manual Rule 8.
- 2) Add higher optional limit for Limited Sewer or Drain Backup Coverage. See Manual Rules 14.B. and 14.U.
- 3) Lower the rate for the optional extended replacement cost coverage of up to 125% from 6% to 5% and introduce a coverage option of 150% of Coverage A with a charge of 8% of the basic premium. See Manual Rule 14.C.
- 4) Add higher optional limits for Personal Injury Coverage. See Manual Rule 14.N.

- 5) Introduce a 4% discount for policies written by a Qualified Preferred Partner. See Manual Rule 15.E.
- 6) Introduce a 5% surcharge for dwellings without a smoke alarm to be consistent with the old Standard program. See Manual Rule 15.F.
- 7) Introduce Loss Surcharge Schedule to accommodate Standard risks. See Manual Rule 15.G.
- 8) Remove plumbing type from the rating algorithm and replace with plumbing age. See Manual Rule 15.K. and Rule 23.D.
- 9) Remove surcharge for homes with less than a 3-foot setback from property lines. The data indicates that this surcharge was not warranted. See old Manual Rule 15.M.
- 10) Revise territorial definitions and territorial relativities. The Company is expanding from 31 territories to 56 territories. See Manual Rule 20. and 23.B.
- 11) Revise the Coverage A curve underlying the base rates by dwelling value. See Manual Rule 23.A.

The Company is proposing the following rule changes:

- 12) Increase the acceptable dwelling value from \$1,000,000 to \$1,300,000 for new business and from \$1,100,000 to \$1,600,000 for renewal business. See Manual Rule 12.
- 13) Add rule for treatment of dwellings with flat tar and/or gravel roofs. See Manual Rule 13.C.18.
- 14) Increase unacceptable roof age from 20 to 25 years. See Manual Rule 13.C.19.
- 15) Remove rule requiring smoke detectors. See old Manual Rule 13.C.25.
- 16) Add rule that dwellings with less than 750 square feet of living space are unacceptable. See Manual Rule 13.C.30.
- 17) Revise rule for type of unacceptable plumbing. See Manual Rule 13.C.31.
- 18) Increased inflation guard adjustment from 3% to 4%. See Manual Rule 13.C.32.
- 19) Revise rules regarding prior losses to accommodate Standard risks. See Manual Rule 13.D.37.
- 20) Add optional limit for Ordinance or Law Coverage. The policy includes 10% Ordinance or Law Coverage in the base premium. The additional charge for this optional coverage will be 4% of base premium for increasing the coverage from 10% to 25% or 6% of base premium for increasing the coverage from 10% to 50%. Since this is a new coverage option, there will be no rate impact to existing policyholders. See Manual Rule 14.W.
- 21) Add rules associated with new forms discussed later in this memo.

All other changes indicated in the marked program manuals provided are simply edits to provide clarification. Please see the marked version of the proposed manual for all changed to the rules and rates.

The Company is proposing the following minor changes to its HO-3 policy form:

- 22) Exclude coverage for drones, model or hobby aircraft. We estimate this change will have a negligible rate impact, so no revision to the rates was made for this change.
- 23) Modify the policy to include theft by guests/invitees. We estimate this change will have a negligible rate impact, so no revision to the rates was made for this change.

The Company is withdrawing the following endorsements:

- 24) Townhouse or Row House Firewall Limit form PO38 to both increase coverage so that smoke/fire claims are covered for risks with or without a firewall and reflect new building codes, which now require firewalls between units. See Manual Rules 13.C.33. and 14.E.
- 25) Water Damage Exclusion for Plumbing form PM6 and Copper Plumbing Agreement form PM7. These forms were based on plumbing type, which is no longer considered in the rating algorithm. See Manual Rule 15.K.

The Company is revising the following endorsements:

- 26) Identity Theft coverage forms PO42 and PO43. The Company's previous vendor for this coverage went out of business and the form was revised to align with the coverage provided by the new vendor. The rates for this coverage were increased to reflect new flat rates of \$40 and \$70, respectively, to account for the increased costs of the new vendor. Otherwise, the Company would most likely have to discontinue the coverage. See Manual Rule 14.T.
- 27) Loss Settlement for Provisions for California Residential Property Policies form PM17. A minor revision was made to the endorsement to correct a reference to the policy form that this endorsement amends.

The Company is introducing the following new endorsements:

- 28) Extended Replacement Cost Coverage form PO44A to add a coverage option for extended replacement cost of up to 150%. The additional charge for this optional coverage will be 8% of base premium. Since this is a new coverage option, there will be no rate impact to existing policyholders. See Manual Rule 14.C.
- 29) Special Personal Property form HO-5. This endorsement expands for risks of direct physical loss to Personal Property. The additional charge for this optional coverage will be 10% of base premium. Since this is a new coverage option, there will be no rate impact to existing policyholders. See Manual Rule 14.X.
- 30) Equipment Breakdown Coverage form PO55. The additional premium for this optional coverage will be \$32 and was developed based on the charge required by the Company's contract with Mutual Boiler Re who is covering this risk plus

overhead costs. Since this is a new coverage option, there will be no rate impact to existing policyholders. See Manual Rule 14.Y.

- 31) Service Line Coverage form PO56. The additional premium for this optional coverage will be \$23 and was developed based on the charge required by the Company's contract with Mutual Boiler Re who is covering this risk plus overhead costs. Since this is a new coverage option, there will be no rate impact to existing policyholders. See Manual Rule 14.Z.

We have estimated that the proposed changes in this filing are revenue neutral. The effective date will be determined upon approval of the filing.

State:	California	Filing Company:	Pacific Specialty Insurance Company
TOI/Sub-TOI:	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
Product Name:	California Homeowners Program		
Project Name/Number:	Forms, Rate and Rule Revision/PSIC-HO-HO3-1501		

Amendment Letter

Submitted Date: 06/16/2016

Comments:

In response to the Department's request for a rate review of the Company's Difference in Conditions Endorsement, we are providing an exhibit showing the experience for the last four policy years. We also reviewed the market and found that many companies provide a 30% discount for a similar DIC endorsement. Based on the Company's experience and the competitive information, we are proposing to increase the discount from 20% to 30%.

Changed Items:

No Form Schedule Items Changed.

No Rate Schedule Items Changed.

Supporting Document Schedule Item Changes	
Satisfied - Item:	DIC Indication
Comments:	
Attachment(s):	DIC Indication - HO.pdf

Pacific Specialty Insurance Company
California Homeowners Program
Difference In Conditions Endorsement
Policies Effective 2011 through 2015
Evaluated as of 5/31/2016

DIC Endorsement	Earned Premium	Incurred Loss and DCCE	Reported Claims	Loss and DCCE Ratio (3)/(2)	Indicated Change	Credibility	Cred Wtd Indicated Change (6)x(7)	Current Discount	Indicated Discount (9)x[1+(8)]	Proposed Discount	Rate Impact (11)/(9)-1
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Yes	2,091,268	1,088,819	102	52.1%	-11.5%	18.4%	-2.1%	0.80	0.78	0.70	-12.5%
No	68,843,414	40,498,452	4,931	58.8%	0.0%	128.2%	0.0%	1.00	1.00	1.00	0.0%
Total	70,934,682	41,587,272	5,033	58.6%							-0.4%

Notes:

(6) is the indicated change relative to "No DIC Endorsement"

(7) is based on the square root rule with 3,000 reported claims having full credibility

PROOF OF SERVICE
BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION,
EMAIL TRANSMISSION AND/OR PERSONAL SERVICE

State of California, City of Los Angeles, County of Los Angeles

I am employed in the City and County of Los Angeles, State of California. I am over the age of 18 years and not a party to the within action. My business address is 6330 South San Vicente Boulevard, Suite 250, Los Angeles, California 90048, and I am employed in the city and county where this service is occurring.

On June 9, 2020, I caused service of true and correct copies of the documents entitled

- **CONSUMER WATCHDOG'S REQUEST FOR COMPENSATION**
- **DECLARATION OF PAMELA PRESSLEY**
- **CONSUMER WATCHDOG'S NOTICE OF WITHDRAWAL OF PETITION FOR HEARING**

upon the persons named in the attached service list, in the following manner:

1. If marked FAX SERVICE, by facsimile transmission this date to the FAX number stated to the person(s) named.
2. If marked EMAIL, by electronic mail transmission this date to the email address stated.
3. If marked U.S. MAIL or OVERNIGHT or HAND DELIVERED, by placing this date for collection for regular or overnight mailing true copies of the within document in sealed envelopes, addressed to each of the persons so listed. I am readily familiar with the regular practice of collection and processing of correspondence for mailing of U.S. Mail and for sending of Overnight mail. If mailed by U.S. Mail, these envelopes would be deposited this day in the ordinary course of business with the U.S. Postal Service. If mailed Overnight, these envelopes would be deposited this day in a box or other facility regularly maintained by the express service carrier, or delivered this day to an authorized courier or driver authorized by the express service carrier to receive documents, in the ordinary course of business, fully prepaid.

I declare under penalty of perjury that the foregoing is true and correct. Executed on June 9, 2019 at Los Angeles, California.


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