GEICO CASUALTY COMPANY (GC)

Voluntary Private Passenger Automobile Insurance and Recreational Vehicle Insurance

Illinois

Filing Memorandum

GEICO Casualty Company

GEICO Casualty Company (GC) proposes a +6.4% overall change in voluntary automobile and recreational vehicle insurance rates. The proposed base rate changes vary by coverage and risk group. Indicated changes by coverage are shown on Exhibit GC-1, Sheet 1. Proposed changes by risk group and coverage are shown on Exhibit GC-1, Sheet 2. Experience indications by coverage are developed on Exhibit GC-1, Sheets 3 and 4 using Illinois accident year data ending June 30, 2021 evaluated as of September 30, 2021. Earned premiums are adjusted to current rate level. In GC, fixed expenses are loaded as additive expense constants to mandatory coverages. The assumptions underlying these indications are based on all GEICO companies' combined data, which can be found in Exhibits G-1 to G-7. For more information, please refer to the "Development of Ratemaking Assumptions" section at the end of this memo.

We propose to implement a monthly trend factor in GEICO Casualty Company as shown on Exhibit G-6. This factor accounts for changes in trend levels monthly, rather than a single average trended value for the effective period of the rates. Please see General Rule G-12 and the Rating Section of the Manual for a description and the applicable factors by coverage. It is important to note that the monthly trend factor does not change a customer's premium over the policy term, as the factor is determined based on the policy term effective date, and only updates when the policy term effective date changes. The indications on Exhibit GC-1, Sheet 1 have been adjusted for the impact of the selected monthly trend factors.

We are proposing to cap the impacts of this change at +/-10% at a policy level. General Rule 11 has been revised to reflect this change.

COVID-19 Adjustments

Beginning in March 2020, losses in Illinois were significantly impacted by actions taken to limit the spread of COVID-19. Expansion of work from home, shelter-in-place orders, and lack of travel led to significant decreases in frequency. With the vaccine rollout and lifting of pandemic restrictions, we are seeing frequencies continue to rise closer to pre-COVID levels. Therefore, the actual loss experience since 2020 is not indicative of what we expect to see in Illinois by the effective date of this filing. Therefore, we are applying a COVID adjustment to our 2020-2021 losses to produce indications that are actuarially sound and representative of our rate need during this future time period. The process to calculate adjustments is shown in Exhibit G-7.

For each coverage, we calculated an adjustment to bring our data to pre-COVID levels ("Experience COVID Adjustment"). We compared actual quarterly frequencies to expected frequencies. Expected frequencies are based on an average of trended quarterly metrics from 2018 and 2019. To account for volatility, this adjustment has been calculated at an all-company level. The quarterly adjustments are then weighted together to obtain an annual factor which is then applied to our 2020-2021 loss experience.

The Experience COVID Adjustment flows into our rate level indications in Column (3), Sheet 4 of Exhibit GC-1, and adjusts the historical experience for temporary COVID distortions that we do not expect to continue going forward.

Earned premiums are adjusted to current rate level and are gross of the GEICO Giveback credit.

Development of Ratemaking Assumptions

Where appropriate, data for all GEICO companies combined is used in developing assumptions in order to provide stability, as indicated by "GEICO Corporation" headings. The indications are developed using 2-3 accident years of data ending June 30, 2021 evaluated as of September 31, 2021. Earned premiums are adjusted to current rate level.

Automobile comprehensive coverage incurred losses are adjusted by excluding all weather losses and loading back in the expected weather losses based on a long-term trended weather pure premium of $41.04 (Exhibit G-1, Sheet 1). Automobile rental reimbursement coverage incurred losses are adjusted by excluding all catastrophe losses and loading back in the expected catastrophe losses based on a long-term trended catastrophe pure premium of $2.68 (Exhibit G-1, Sheet 2). Recreational Vehicle Comprehensive incurred losses are adjusted by excluding all catastrophe losses and reloading based on long-term catastrophe loading factors of 25.9% (Exhibit G-1, Sheet 3). We are using the ratio of catastrophic to non-catastrophic losses method rather than a long-term trended pure premium method for Recreational Vehicle Comprehensive due to data limitations.

Incurred losses are developed to an ultimate settlement basis using factors shown in Exhibit G-2, Sheets 1-15.

Losses are trended from the midpoint of each accident year to the end of the latest accident year using the historical trend factors, and then trended to the average accident date anticipated under the proposed rates using the prospective trend factors shown on Exhibit G-3, Sheets 1-12. These trend factors are based on the underlying frequency, severity, and premium drift data contained in these exhibits. Frequency trends are selected based 2019 and prior expense due to data distortions from the COVID-19 pandemic.

The factors used to adjust the incurred losses and allocated loss adjustment expenses to include unallocated loss adjustment expenses are calculated on Exhibit G-4.

To the extent that the experience data lacks credibility, the experience indication is weighted with the trended permissible loss and loss adjustment expense ratio underlying the current rates. The credibility weighted loss and loss adjustment expense ratio is compared to the permissible loss and loss adjustment expense ratio to calculate the indicated change. Exhibit G-5, Sheet 1 presents the calculation of the permissible loss and loss adjustment expense ratio. The expense ratios used in this calculation are based on an average of 2017-2019 Illinois expense data as shown on Exhibit G-5, Sheet 2.