

EXAM 8 – FALL 2012

14. (4 points)

The following information applies for a commercial general liability insured:

- All historical policies were effective January 1 to December 31.
- All historical policies were written on an occurrence basis.
- The policy effective January 1, 2013 will be on a claims made basis.
- The risk is products/completed operations only.
- The annual basic limit premium is \$100,000.
- The expected loss ratio is 70%.
- Experience is being evaluated as of June 30, 2012.
- A large loss is defined as \$250,000 or more in combined basic limit indemnity and ALAE.

Assuming all losses that occurred in the experience period meet the requirements to be defined as large losses, calculate the minimum number of large losses that must have occurred to trigger a debit modification for policy year 2013.

Question 14:

Model Solution 1

- 1st year claims made policy effective 1/1/2013
- 3 years of experience used: Occurrence policies effective 1/1/2009 to 12/31/2011 (Rule # 4)

$$\text{Loss cost} = 100,000 * 70 \% = 70,000$$

	(A)	(B)	(C)	(D)	(E) = (A)*(B)*(C)*(D)	(F)	(G)	(H) = (E)*(F)*(G)
Year	Loss cost	PAF 1 (13B)	PAF 2 (13C)	Detrend	Subject loss cost	EER	LDF (1)	ARULL
Latest (2011 Occ)	70,000	1.33	1.00	0.873	81,276	0.908	0.766	56,530
2 nd (2010 Occ)	70,000	1.33	1.00	0.816	75,970	0.908	0.637	43,941
3 rd (2009 Occ)	70,000	1.33	1.00	0.763	71,035	0.908	0.528	34,056
Total					228,281			134,527

(1): Losses being evaluated as of 6/30/2012

- 2011 is @ 18 months
- 2010 is @ 30 months
- 2009 is @ 42 months

Table 16 lookup of 228,281

- Z = 0.44
- EER = 0.908
- MSL = 137,350

$\text{Mod} = Z * (\text{AER} - \text{EER}) / \text{EER} = 0.44 * (\text{AER} - 0.908) / 0.908 > 0$ for debit mod →
 $\text{AER} > 0.908$

$\text{AER} = (\text{Includable losses} + 134,527) / 228,281 \rightarrow \text{Includable losses} > 72,752$

Thus only 1 large loss (limited at MSL of 137,350) is sufficient to result in a debit mod so minimum 1 loss.

Examiner's Comments:

Most candidates were able to complete the appropriate calculations as shown in the table in the model solution. The most common mistakes made by candidates were:

- Selection of PAFs and LDFs based on claims made vs occurrence policies
- Selection of PAFs, Detrend factors and LDFs based on products vs premises/operations
- Selection of LDFs based on the evaluation periods
- Considering that a debit occurs when mod > 1 instead of > 0
- Absence of the demonstration that includable losses are capped by the MSL on 137,350
