9. (3.25 points)

Given the following Premises/Operations General Liability loss experience evaluated as of September 1, 2013:

Policy Effective Date	Policy Type	Total Ground-Up Incurred Loss	Total Ground-Up Incurred ALAE
March 1, 2010 to February 28, 2011	Occurrence	1,500,000	600,000
March 1, 2011 to February 29, 2012	Occurrence	400,000	400,000
March 1, 2012 to February 28, 2013	Occurrence	350,000	2,000,000
March 1, 2013 to February 28, 2014	Occurrence	150,000	20,000

- The insured has experienced the following ground-up large losses:

Accident Date	Incurred Loss	Incurred ALAE
June 30, 2010	700,000	500,000
December 31, 2011	150,000	200,000
April 5, 2012	55,000	60,000

- Annual Basic Limits Premium = $800,000.
- Expected Loss and ALAE Ratio = 80%.

A new policy will become effective March 1, 2014 to February 28, 2015 and will be written on an occurrence basis.

Using the ISO Commercial General Liability Experience and Schedule Rating Plan, calculate the experience modification factor used to price this policy.

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QUESTION 9

Total Point Value: 3.25 **Learning Objective: B3**

Sample Answers

Sample 1

Basic Limits Expected Loss = Basic limits premium x Expected loss & ALAE Ratio
= 800,000 x .8
= 640,000

	(1)	(2)	(3)	(4)	(5) = (1) x (2) x (3) x (4)	(6)	(7)	(8) = (5) x (6) x (7)
Yr	BLEL	PAF_{13B}	PAF_{13C}	Detrend	CSLC	EER	LDF	Exp Dev
2012	640,000	1.0	1.0	.907	580,480	.995	.519	299,763
2011	640,000	1.0	1.0	.864	552,960	.995	.338	185,966
2010	640,000	1.0	1.0	.823	526,720	.995	.198	103,769
					1,660,160			589,498

Look up 1,660,160 to get Z = .85 EER = .995 MSL = 551,800

Large Losses	Basic Limits Loss	Basic Limits Loss & ALAE Limited by MSL	Reduction to Ground Up
June 30, 2010	100,000	551,800	648,200
Dec 31, 2011	100,000	300,000	50,000
April 5, 2012	55,000	115,000	0

Historical Loss & ALAE limited by basic limits and MSL
= 1,500,000 + 400,000 + 350,000 + 600,000 + 400,000 + 2,000,000 - 648,200 - 50,000
= 4,551,800

$$\text{AER} = \frac{\text{historical limited} + \text{expected dev}}{\text{CSLC}} = 3.097$$

$$\text{Mod} = \text{Z} \times \left(\frac{\text{AER} - \text{EER}}{\text{EER}}\right) = .85 \times \left(\frac{3.097 - .995}{.995}\right) = 1.796$$

Sample 2

-assuming no changes to exposure

	Effect date	1 Prem	2 ELR	1 x 2 BLEL	13.b	13.c	detrend	CSLC
premises/ops	3/1/12	800,000	.8	640,000	1.0	1.0	.907	580,480
	3/1/11	800,000	.8	640,000	1.0	1.0	.864	552,960
	3/1/10	800,000	.8	640,000	1.0	1.0	.823	526,720
								1,660,160

CSLC = 1,660,160
→ EER = .995
Z = .85
MSL = 551,800

→ calculate % unreported

	CSLC		EER		Dev factor		% unreported
2012	580,480	x	.995	x	.519	=	299,762.8
2011	552,960	x	.995	x	.338	=	185,965.98
2010	526,720	x	.995	x	.198	=	103,769.11
							589,497.9

$$\text{mod} = \frac{\text{AER} - \text{EER}}{\text{EER}} \times \text{Z} \qquad \text{AER} = \frac{\text{actual} + \%\ \text{unrptd}}{\text{CSLC}}$$

Per 5A assume basic limits = $100,000 per size MSL is 551,800

2010 = ground up = 1,500,000 limited by BL = 1.5M – 600k = 900,000
then MSL limits ALAE to get includable losses of
$1,451,800

2011 same technique limit losses by BL and total by MSL
losses = 750,000

2012 no limits from individual loss so includable = 2.35M

$$\text{AER} = \frac{1{,}451{,}800 + 750{,}000 + 2{,}350{,}000 + 589497.9}{1{,}660{,}160}$$

= 3.097

$$\text{mod} = \frac{3.097 - .995}{.995} \times .85 = 1.796$$

factor = 1 + 1.796 = 2.796

Examiner's Report

This was a straightforward but calculation intensive question which was very similar to the example shown in the ISO manual accompanying the exam. The majority of candidates performed well and demonstrated understanding of most or all of the steps needed to arrive at the final modification.

The most common mistake was to use only the large losses in the calculation of the Actual Experience Ratio, ignoring the total ground-up losses altogether.

Another common error was to omit the $100,000 basic limit when calculating the impact of large losses.

Some candidates lost partial credit when calculating the Company Subject Loss Cost, by not showing the Annual Basic Limits Premium multiplied by the Expected Loss and ALAE Ratio.

We accepted both the experience modification, and its factor form (by adding 1) as a final answer, as long as the labelling was consistent.