

9. (3.25 points)

Consider the following claims-made commercial general liability policy:

- The insurance contract was originally written January 1, 2011, and has been renewed annually as a claims-made policy.
- The annual Premises/Operations basic limits manual premium is \$200,000 and there is no products exposure.
- The expected loss ratio is 70%.
- Loss experience is evaluated as of June 30, 2016.

Claim Number	Policy Year	Indemnity	ALAE
1	2011	\$5,000	\$5,000
2	2012	\$15,000	\$25,000
3	2013	\$58,000	\$0
4	2013	\$20,000	\$85,000
5	2014	\$118,000	\$82,000
6	2015	\$8,000	\$5,000

Calculate the experience modified premium for the policy effective January 1, 2017.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 9

TOTAL POINT VALUE: 3.25

LEARNING OBJECTIVE(S): B3b, B3c

SAMPLE ANSWERS

Sample 1

Using ISO CGL Experience Rating Plan

(1)	(2)	(3)	(4)	(5)	(6)	(7) = (1)*(2)*(3)*(4)*(5)*(6)
Year	Prem Ops Prem	ELR	PAF 1	PAF 2	Detrend	Co Subj LC
2015	200K	0.7	1.03	0.94	0.907	122942.04
2014	200K	0.7	1.03	0.91	0.864	113375.81
2013	200K	0.7	1.03	0.88	0.823	104435.41
						340,753.25

Z = 0.54

EER = 0.94

MSL = 173,150

Act. Loss:

Clm	Lim Ind (K)	ALAE	Lim Ind + ALAE (K)
1	Not in exp pd		
2	Not in exp pd		
3	58	0	58
4	20	85	105
5	100	82	173.15
6	8	5	13
			349,150

$AER = (349,150 + 0) / 340,753.25 = 1.0246$

$Mod = Z * (AER - EER) / (EER) = 0.049$

Mod. Prem = 200K * 1.049 = **209,800**

Sample 2

PY	BLEL	PAF1	PAF2	Detrend	CSLC	EER	ILF	Exp. Dev.
2015	140	1.03	0.94	0.907	122,942	0.94	-	-
2014	140	1.03	0.91	0.864	113,376	0.94	-	-
2013	140	1.03	0.88	0.823	104,435	0.94	-	-
					340,753			0

CSLC = 340,753 → Z = 0.54 EER = 0.940 MSL = 173,150

SAMPLE ANSWERS AND EXAMINER'S REPORT

Clm	PY	BL Indemnity	ALAE	MSL
1	2011	-	-	-
2	2012	-	-	-
3	2013	58k	0	58k
4	2013	20k	85k	105k
5	2014	100k	80k	173.15k
6	2015	8k	5k	13k

Ratable losses = 58k + 105k + 173.15k + 13K = 349.15k

AER = 349.150/340.753 = 1.025

Mod = 0.54 x (1.025 – 0.940)/0.940 = 0.049

Hence the Mod Prem = 200,000 x (1+0.049) = **209,725**

Sample 3

Experience Period 1/1/13 – 12/31/15

BLEL = 200,000(0.7) = 140,000

PY	BLEL	x PAF 13B	x PAF 13C	x Detrend	= CSLC
2015	140,000	1.03	0.94	0.907	122,942
2014	140,000	1.03	0.91	0.864	113,376
2013	140,000	1.03	0.88	0.823	104,435

340,753

	2011	2012	2013	2014	2015	2016	2017
CLM YID	1	2	3	4	5	6	7

Lookup: Z=0.54 EER=0.940 MSL=173,150

Basic Limit = 100,000

Clm	BLL	BLL + ALAE	Lim by MSL
3	58,000	58,000	58,000
4	20,000	105,000	105,000
5	100,000	182,000	173,150
6	8,000	13,000	13,000

349,150

No development since claims made polices.

AER = 349,150/340,753 = 1.025

Mod = 0.54((1.025 – 0.94)/0.94) = 0.05

Modified Premium = 200,000 (1+0.05) = **210,000**

SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT

Candidates were expected to follow the ISO rating procedure to calculate the modified premium. Table 13B, 13C, detrend factors, and lookups from the Credibility and Maximum Single Loss (MSL) table can be referenced directly from the ISO rating manual. This was a relatively straightforward question, which candidates performed very well on.

Candidates did not receive full credit if they did not limit to BLL even if they calculated the correct premium due to the BLL+ALAE being limited to the MSL (claim #5).

Common mistakes included:

- Looking up incorrect values in tables PAF 13B and PAF 13C
- Forgetting to calculate the modified premium
- Misidentifying which claims were in the experience period
- Calculating IBNR and adding IBNR into the numerator to calculate AER. Some candidates calculated IBNR but then stated that because we are looking at a claims-made policy, no loss development would be expected. Candidates who did this received credit for stating that no development would take place.
- Forgetting to limit BLL+ALAE at the MSL
- Forgetting to multiply by Z in the Mod factor calculation
- Using the higher detrend factors for later years (flipping the order in which detrend factors should be applied)