

10. (1 point)

An actuary is evaluating a risk to determine the appropriateness of applying any schedule credits or debits. In order to reduce expenses the insured removed a safety program 2 years ago and in the next month will be reducing its staff.

Range of Modifications:				
Risk Characteristic	Description	Credit		Debit
Cooperation	Safety Program	10%	to	10%
Employees	Selection, training, supervision, experience	5%	to	5%

Recommend and defend an appropriate schedule modification.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 10	
TOTAL POINT VALUE: 1.0	LEARNING OBJECTIVE(S): B3
SAMPLE ANSWERS	
<ul style="list-style-type: none"> Experience used is skip the prior year (the second year of no safety program) and use the 3 years prior to that. So the safety prog was in place for 2 of 3 years in experience but not going forward. So I will apply a debit of $2/3 \times 10\%$ (2/3 of the max) to account for increase in future losses over historical. Will be reducing staff next month so won't be in experience at all. Reduction in staff does not mean remaining staff is any less experienced, needs more training or more supervision. Hence, I don't see a need (or ability) to schedule rate based solely on fewer employees. 0% The experience of the 1st of the 2 yrs the safety program was removed will be reflected/incorporated in experience rating will not have the arguably poorer loss experience from removal of safety program so can give $+10\%(2/3) = +6\%$ debit Assuming insured reduces its staff by most reckless ones, perhaps can give small credit of say -2% credit since this will occur in the next month and is definitely not reflected in 3yr experience window but will impact prospective loss experience. I assume that this risk is also experience rated using the standard 3 years of data w/ a lag. Cooperation – safety program elimination should partially show in claims exp but not fully. I recommend a debit at +5% for the piece not yet in data. Employees – upcoming change so not in data. This could lead to understaffing or improper supervision. Recommend the full 5% debit in this category. Cooperation range should be 2%. As it's removed 2 years ago it will be partially reflected in experience rating. So I recommend 1% debit to reflect the other part that hasn't be reflected. Reducing staff will reduce the payroll so will be reflected in prem credit due to change of exposure. However, staff reducing might lead to overload for other works. Then risk will be higher. So I recommend 1% debit to reflect potential riskier workers. I recommend a 5% debit mod for safety program. They removed it so they'll be less safe and losses will increase in future. Since it was 2 years ago, I assume it is only partially reflected in experience so still need some debit, but not full. I recommend a 5% credit for reduction in staff, assuming they will keep the most experienced and highly trained employees and let the less experienced employees with less training go. This will reduce future losses. 	
EXAMINER'S REPORT	
<p>Candidates were expected to demonstrate knowledge of experience rating and its interaction with schedule rating. To receive full credit, candidates needed to be able to recommend a specific debit/credit based upon the information given.</p> <p>Candidates were expected to understand that the safety program removal was only partially reflected in experience and choose a specific debit for the modification. They were also expected to realize that the mix of employees might change and this was not reflected in past experience, explain how that might occur, and give an appropriate debit or credit amount to go with the explanation.</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Note that some candidates assumed this was an ISO G/L policy. Credit was given accordingly for reasonable responses using this assumption.

Common mistakes included:

- Assuming that the experience period fully held experience of no safety program
- Not specifically mentioning that the experience period was the reason for the debit on the safety program
- Assuming that the employer received a credit in the employees characteristic due to exposure
- Confusing the credit/debit label or not giving a specific credit/debit at all