

11. (1.25 points)

Given the following information for a construction insured's general liability policy that is subject to the ISO Commercial General Liability Experience and Schedule Rating Plan:

Company Subject Loss Cost	270,500
Actual Experience Ratio	0.85
Policy Effective Date	January 1, 2020
Policy Term	Annual

All major changes in the last five years for this insured:

- Upgraded all equipment in 2015
- Improved employee training in 2018
- Implemented a new safety program in 2018

a. (0.5 point)

Calculate the experience modification for this policy.

b. (0.75 point)

An underwriter has selected a credit of 10% for schedule rating. Assess the reasonability of this selection.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 11	
TOTAL POINT VALUE: 1.25	LEARNING OBJECTIVE(S): B3
SAMPLE ANSWERS	
Part a: 0.5 point	
<p><u>Sample 1</u></p> $\text{Mod} = Z \times (\text{AER} - \text{EER}) / \text{EER}$ <p>CSLC = 270,500 $Z = 0.48$ $\text{EER} = 0.922$</p> $\text{Mod} = 0.48 \times (0.85 - 0.922) / 0.922 = -0.0375$ <p>∴ Mod is a 3.75% credit</p> <p><u>Sample 2</u></p> <p>CSLC = 270,500 $\text{AER} = 0.85$</p> <p>Look up CSLC, we get: $\text{Cred} = 0.48$ $\text{EER} = 0.922$ $\text{MSL} = 150,200$</p> $\text{Mod} = (\text{AER} - \text{EER}) / \text{EER} \times \text{cred}$ $\text{Mod} = (0.85 - 0.922) / 0.922 \times 0.48 = -0.0375$ <p><u>Sample 3</u></p> <p>CSLC = 270,500 $\rightarrow Z = 0.48$ $\text{EER} = 0.922$ $\text{MSL} = 150.2\text{k}$</p> $\begin{aligned} \text{Mod} &= 1 + Z \times (\text{AER} - \text{EER}) / \text{EER} \\ &= 1 + 0.48 \times (0.85 - 0.922) / 0.922 \\ &= 0.9625 \end{aligned}$	
Part b: 0.75 point	
<p><u>Sample 1</u></p> <p>No credit for upgraded equipment because already reflected in experience. Up to 6% for training. Up to 2% for safety program. 10% is too high. The most they should get is $6\% + 2\% = 8\%$.</p> <p><u>Sample 2</u></p> <p>Experience period: 1/1/2016-12/31/2018</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Upgraded equipment should be in the experience period → 0% credit.
Only one year of employee training in the experience period → $6\% \times (2/3) = 4\%$
Only one year is in the experience period for safety program → $2\% \times (2/3) = 1.3\%$
The schedule rating credit should be $0\% + 4\% + 1.3\% = 5.3\%$.
Appears that the underwriter's selection is too much.

Sample 3

10% credit for schedule rating is excessive per ISO rating plan. Maximum credit mod for employee training is 6% and 2% for safety program. Also, the equipment upgrade in 2015 must be fully reflected in experience mod, thus no credit should be given. Therefore, I believe 8% credit schedule rating is more reasonable for this insured.

EXAMINER'S REPORT

Candidates were expected to be able to calculate an experience rating mod and determine a reasonable schedule rating mod given the information provided in the question and the ISO CGL Experience and Schedule Rating Plan.

Part a

Candidates were expected to look up the appropriate credibility and EER in the Credibility and Maximum Single Loss table using the Company Subject Loss Cost provided in the question. Candidates were then expected to calculate the experience modification using the ISO plan formula.

Common mistakes included:

- Neglecting to multiply by Z
- Using the wrong EER or CSLC

Part b

Candidates were expected to recognize that the equipment upgrade occurred prior to the start of the experience period, and therefore warranted no schedule credit. Candidates were also expected to state the maximum credits for employee training and safety programs found in the manual, and to conclude that the 10% credit is unreasonable given the maximum credits allowed.

Many candidates noted that the employee training and safety programs may be partially reflected in the experience (depending on when during 2018 they were implemented) and therefore do not deserve the maximum schedule credit. This was considered in awarding partial credit, but not necessary to receive full credit.

Candidates were expected to conclude that 10% was an unreasonable credit given that it exceeds the maximum credit of 8% allowed by the ISO manual. Credit was awarded to candidates who did not make a direct conclusion citing the 8% from the manual but instead recommended a reasonable smaller credit because the employee training and safety programs were already partially reflected in the experience period.

Candidates were not required to explicitly state that the experience rating period was 2016-2018.

SAMPLE ANSWERS AND EXAMINER'S REPORT

A few candidates stated that they were assuming that the experience rating period was 2015-2017 because the full 2018 year was not yet available. These responses received full credit as long as they addressed all the required items noted above. A few others stated that the period was 2017-2019 (they were presumably ignoring the 6 month lag in the ISO manual). Candidates were able to reach the correct conclusion under this assumption.

The most common mistake was not looking up the allowable credits in the ISO manual and simply assuming either 5% or 10% for each item was reasonable without justification or reference to the ISO manual.