

Reading: Fisher.RiskSharing
Model: Source Text
Problem Type: Calculate the expenses as a percentage of the guaranteed cost premium

Fisher_RS5 (Problem 1)

Given	Loss Conversion Factor	1.1
	Expected Loss Ratio	0.7
	Expense Ratio	0.2

Find Calculate the expense portion of the basic premium as a percentage of the guaranteed-cost premium.

Solution

The formula for the expense portion of the basic premium as a percentage of the guaranteed cost premium is: $e - (c - 1)E$

We're given

c = Loss Conversion Factor 1.1

E = Expected Loss Ratio 0.7

e = Expense Ratio 0.2

Plugging these into the formula yields:

$$13.0\% = 0.2 - (1.1 - 1) * 0.7$$