Given   The following policy is being rated using the ISO CGL rating plan.

12/1/2014	Effective Date
Claims-Made (CM)	Policy Type
65%	Expected Loss Ratio (ELR)

	Annual Basic Limit Premium[1]
$75,000	Premises/Operations
$25,000	Products

Effective Date	Policy Type
12/1/2012	1st-year Claims-Made
12/1/2011	Occurrence
12/1/2010	Occurrence

Find   Calculate the Company Subject Loss Cost using the standard approach using the information provided below.

[1] At $100,000 per-occurrence and actual aggregate limits.

Table 13B

Sub-line	Occurrence	3rd-yr CM	2nd-yr CM	1st-yr CM
Prem/Ops	1.00	1.20	1.32	1.62
Products	1.00	1.59	2.03	2.39

Table 13C

Sub-line	Occurrence	3rd-yr CM	2nd-yr CM	1st-yr CM
Prem/Ops	1.00	0.78	0.67	0.47
Products	1.00	0.43	0.35	0.22

Table 14

Year of Experience Period	Sub-line	Rule 5B	Rule 5C
Latest Year	Prem/Ops	0.907	0.926
	Products	0.882	0.901
2nd Latest Year	Prem/Ops	0.864	0.892
	Products	0.828	0.854
3rd Latest Year	Prem/Ops	0.823	0.858
	Products	0.777	0.810

Solution

First it's important to figure out the type of policy we're going to price. Since it's not stated in the question we need to apply our knowledge about the experience period. The experience period covers up to the latest three full policy years of experience and must end at least six months prior to the effective date. This means we can't use the policy effective 12/1/2013 because it's not complete, so we use the policies effective in 2010 – 2012.

Further, it's implicit that unless told otherwise, once you switch to a Claims-Made policy you remain on a Claims-Made policy. This means the policy effective 12/1/2013 would be a 2nd-year Claims-Made and so the policy being priced will be a **3rd year Claims-Made**.

Next, we need the Basic Limits Expected Loss for each sub-line.
This is the ELR multiplied by the annual basic limit premium where the per-occurrence limit is at the basic limit and the aggregate limit is the actual policy aggregate. We're given this information but watch out in the exam in case you need to apply an increased limit factor.

Prem/Ops BLEL = 65% * $75,000 = $48,750
Products BLEL = 65% * $25,000 = $16,250

We can now form the table used in the standard approach

(1) Policy Year	(2) Sub-line	(3) Policy Type	(4) BLEL	(5) PAF 13B	(6) PAF 13C	(7) De-trend	(8) Annual Basic Limits Company Loss Cost
2012	Prem/Ops	1st-yr CM	$48,750	1.20	0.47	0.907	$24,938
2012	Products	1st-yr CM	$16,250	1.59	0.22	0.882	$5,014
2011	Prem/Ops	Occurrence	$48,750	1.20	1.00	0.864	$50,544
2011	Products	Occurrence	$16,250	1.59	1.00	0.828	$21,393
2010	Prem/Ops	Occurrence	$48,750	1.20	1.00	0.823	$48,146
2010	Products	Occurrence	$16,250	1.59	1.00	0.777	$20,076
							170,111 <= CSLC

Notes:

(5) We're pricing a **3rd-year Claims-Made** policy. PAF 13B always goes from the prospective policy to an occurrence policy so doesn't vary by year.

(6) PAF 13C translates from an occurrence policy to the historical policy so varies by policy year.

(7) We have no information to suggest there has been a dramatic change in exposures so apply Rule 5B from Table 14.

(8) = (4) * (5) * (6) * (7), Each row is rounded to nearest dollar.