

RULES – IMPLEMENTATION

JANUARY 29, 2019

GENERAL LIABILITY

LI-GL-2019-023

NEW JERSEY GENERAL LIABILITY PREMISES/OPERATIONS INCREASED LIMIT FACTOR REVISION TO BECOME EFFECTIVE; PRODUCTS/COMPLETED OPERATIONS INCREASED LIMIT FACTOR REVISION FURNISHED FOR USE

KEY MESSAGE

This circular announces the implementation in New Jersey of a revision of Premises/Operations increased limit factors, and furnishes a revision of Products/Completed Operations increased limit factors for use in New Jersey.

BACKGROUND

In circular [LI-GL-2018-021](#), we provided you with information about the General Liability loss cost level experience review.

ISO ACTION

We are implementing GL-2019-IPOP1, in which we are revising the Premises/Operations (Subline Code 334) increased limit factors in CLM Division Six Rule 56. to reflect the 2018 experience review.

We are providing GL-2019-IPRD1, in which we are revising the Products/Completed Operations (Subline Code 336) increased limit factors in CLM Division Six Rule 56. to reflect the 2018 experience review.

Refer to the attachments for complete details.

IMPORTANT NOTE ON RISK LOAD REFLECTION

The increased limit factors incorporate a procedure for reflecting the increased risk or variation in experience associated with higher limit policies in the increased limits ratemaking formula. For General Liability and Commercial Auto liability tables, this procedure generates increased limit factors that are on average (across all state groups) 6.0% higher than the factors would be if calculated without risk load. For this state group, the increased limit factors are on average 6.0% higher for Premises/Operations and 10.4% higher for Products/Completed Operations than such factors would be if calculated without risk load.

The inclusion of risk load in increased limit factors may have implications on basic limit loss cost multipliers. Specifically, assuming industrywide averages and the ISO increased limit factors in this document, the inclusion of risk load may result in additional revenue of 6.0% for Premises/Operations Liability and 10.4% for Products/Completed Operations Liability. All sources of revenue, including the revenue resulting from the risk load in these increased limit factors, should be kept in mind when determining loss cost multipliers.

EFFECTIVE DATE**PREMISES/OPERATIONS (GL-2019-IPOP1)**

The ISO revision is subject to the following rule of application:

These changes are applicable to all policies written on or after **July 1, 2019**.

PRODUCTS/COMPLETED OPERATIONS (GL-2019-IPRD1)

We do not establish an effective date for Products/Completed Operations rule revisions in this state. Each insurer that elects to utilize this revision is responsible for determining its own effective date.

COMPANY ACTION**PREMISES/OPERATIONS (GL-2019-IPOP1)**

If you have authorized us to file on your behalf and decide:

- To use our revision and effective date, you are not required to file anything with the Insurance Department.
- To use our revision with a different effective date, to use our revision with modification, or to not use our revision, you must make an appropriate submission with the Insurance Department.

For guidance on submission requirements, consult the ISO State Filing Handbook.

WE WILL SUBMIT THIS REVISION TO THE INSURANCE DEPARTMENT ON JUNE 1, 2019. IF STATE FILING REQUIREMENTS DICTATE THAT YOU MAKE A SUBMISSION WITH THE INSURANCE DEPARTMENT, DO NOT SUBMIT IT PRIOR TO THIS DATE.

In all correspondence with the Insurance Department on this revision, you should refer to ISO Filing Designation Number GL-2019-IPOP1, NOT this circular number. Communications with the regulator concerning a filing affecting multiple lines of business (i.e., CL, PL, AL filing designation) should specify the line(s) of business that you are addressing.

PRODUCTS/COMPLETED OPERATIONS (GL-2019-IPRD1)

ISO has not filed this revision on behalf of insurers.

You must independently determine what revision to make and when to make any revision effective. If you decide to use all or any part of our revision, you are NOT required to file anything with the Insurance Department.

You must document your files in case the Insurance Department wishes to review the information at a later date. In all internal correspondence on this revision, you should refer to ISO Revision Designation Number GL-2019-IPRD1, NOT this circular number. Communications with the regulator concerning a filing affecting multiple lines of business (i.e., CL, PL, AL filing designation) should specify the line(s) of business that you are addressing.

CAUTION

ISO does NOT file Products/Completed Operations revisions in New Jersey.

RATING SOFTWARE IMPACT

No new attributes are being introduced with this revision.

POLICYHOLDER NOTIFICATION

If you decide to implement this revision, you should check all applicable laws for the state(s) to which this revision applies, to determine whether or not a specific policyholder notice requirement may apply. Please note that circular [LI-CL-2018-044](#) contains the ISO Guide To Renewals With Changed Conditions For Commercial Lines, which is available only as a guide to assist participating companies in complying with various conditional renewal statutes or regulations, for the major commercial lines of insurance serviced by ISO. The information in the Guide does not necessarily reflect all requirements or exceptions that may apply, and it is not intended as a substitute for your review of all applicable statutes and regulations concerning policyholder notification.

REVISION DISTRIBUTION

We will issue a Notice to Manualholders with an edition date of 7-19 (or the earliest possible subsequent date), along with any new and/or revised manual pages.

REFERENCE(S)

- [LI-CL-2018-044](#) (11/27/2018) Revised Lead Time Requirements Listing
- [LI-GL-2018-021](#) (03/16/2018) 2018 General Liability Increased Limits Experience Reviewed By Staff

ATTACHMENT(S)

- GL-2019-IPOP1
- GL-2019-IPRD1

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ACKNOWLEDGMENT OF ACTUARIAL QUALIFICATIONS

The American Academy of Actuaries' "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" requires that an actuary issuing a Statement of Actuarial Opinion should include an acknowledgment with the opinion that he/she has met the qualification standards of the AAA. ISO considers this loss cost review a Statement of Actuarial Opinion; therefore we are including the following acknowledgment:

I, David Terné, am a Managing Director of Strategic Actuarial Operations for ISO and I, Timothy J. McCarthy, am an Actuarial Product Director for Commercial Liability for ISO. We are jointly responsible for the content of this Statement of Actuarial Opinion. We are both members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

DATA QUALITY

Statistical Plan data reported to ISO is first processed through a system of rigorous automated data verification processes so that only data that would be reliable is used. Subsequent to this initial data submission review, additional analyses involving more customized data reviews for this line were performed by staff. The ISO staff responsible for this increased limits review also reviewed the data for reasonableness, and removed or corrected certain data where appropriate.

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NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

PURPOSE

This document:

- revises increased limit factors (ILFs) for all Premises/Operations Liability classes. These increased limit factors represent a -1.5% change on average from the Premises/Operations increased limit factors currently in effect.
 - provides the analyses used to derive these increased limit factors.
-

DEFINITION OF
INCREASED
LIMIT FACTORS

We publish liability loss costs at the basic limit. The basic limit for General Liability is \$100,000/\$200,000 (occurrence/aggregate). The loss cost for a given policy limit is the product of the basic limit loss cost and the increased limit factor for that policy limit.

An increased limit factor is the ratio of two sums. The numerator is the cost to the insurer of writing a policy at the desired limit, including the average prospective indemnity, all loss adjustment expense, and the risk load. The denominator is the sum of the same quantities at the basic limit. The average prospective indemnity in the published ILFs reflects per occurrence and aggregate limits.

INCREASED
LIMITS TABLES

We group classifications with similar increased limits experience into increased limits tables. Premises/Operations has three tables corresponding with low, medium, and high loss severity - the tables are 1, 2, and 3, respectively.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

INCREASED
LIMIT FACTOR
CHANGES

The statewide per occurrence increased limit factor changes are:

	<u>Premises/Operations</u>	
	<u>Indicated</u>	<u>Selected</u>
Table 1	+6.5%	+6.5%
Table 2	-2.7%	-2.7%
Table 3	-6.4%	-6.4%
TOTAL	-1.5%	-1.5%

In this document, the selected per occurrence factors are the indicated per occurrence factors. We judgmentally adjust some occurrence/aggregate factors developed from the per occurrence factors in order to maintain consistency between successive policy limits within each table.

MIXED
NEGATIVE
BINOMIAL
FREQUENCY

To enhance the accuracy of occurrence counts per policy used in simulations (to determine occurrence/aggregate ILFs), we now use a 'mixed negative binomial' frequency model, instead of the single negative binomial model used previously. Please see the explanatory material and supporting exhibits in this document, for details on this updated model and for the specific parameters used.

PRIOR ISO
REVISIONS

The most recent Premises/Operations increased limits revision is:

Designation	GL-2015-IPOP1
Date Implemented	06/01/2015
Indicated Change	+2.7%
Selected Change	+2.7%
Implemented Change	+2.7%

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

RISK LOAD
PROCEDURE

The increased limit factors in this document incorporate a procedure for reflecting the increased risk or variation in experience associated with higher limit policies in the increased limits ratemaking formula. For all General and Commercial Automobile Liability tables, this procedure generates increased limit factors that are on average (across all state groups) 6.0% higher than the factors would be if calculated without risk load. For this state group, the indicated increased limit factors are on average 6.0% higher for Premises/Operations than such factors would be if calculated without risk load.

HISTORICAL
SOURCE DATA

For this filing, we used the following data:

- Experience from occurrence-coverage policies for risks subject to Premises/Operations increased limits tables as reported to ISO by companies that filed detailed statistics. This includes excess and umbrella data reported under the Commercial Statistical Plan, which adds greater credibility to the analysis of higher layers. Experience for risks reported in the ISO Annual Call for Excess and Umbrella Policy Claims supplements primary data for pricing higher policy limits.
- Experience for accident years ending December 31, 2003 to December 31, 2016, which were settled during calendar years 2012 to 2016.

Please note that for Premises/Operations, we review the data by state or state group. Only the largest states have sufficient volume to be reviewed individually. We have grouped all other states based on an analysis of their historical distributions. For certain calculations, we use multistate experience.

We reviewed New Jersey individually (not grouped with other states).

Overall and by-table indicated changes are calculated using state group weights.

EFFECT ON
MANUAL PAGES

Upon implementation of this filing, which revises Premises/Operations increased limit factors, we will publish revised manual pages in Division Six of the Commercial Lines Manual. The revised increased limit factors will appear in Rule 56 as Tables 56.B.1., 56.B.2. and 56.B.3.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

CHANGE IN
FORMAT

In this filing, all explanatory material appears first, followed by all exhibits. Explanatory pages are numbered B-1 through B-23, while exhibits are labeled Exhibit 1 through Exhibit 13 and manual page reproductions are provided in Exhibit MP.

COMPANY
DECISION

We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing increased limit factors are appropriate. We have included within this document the information upon which ISO relied in order to enable companies to make such independent judgments.

The data underlying the enclosed material comes from companies reporting to ISO. Therefore, the ISO statistical database is much larger than any individual company's. A broader database enhances the validity of the ratemaking analysis. At the same time, an individual company may benefit from a comparison of its own experience to the aggregate ISO experience and may reach valid conclusions with respect to the manner in which its own costs can be expected to differ from ISO's projections based on the aggregate data.

Some calculations included in this document involve areas of ISO staff judgment. Each company should carefully review and evaluate its own experience in order to determine whether the increased limit factors developed by ISO are appropriate for its use.

This material has been developed exclusively by the staff of ISO.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

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NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SCOPE OF REVISION

SUMMARY OF
INCREASED
LIMIT FACTOR
CHANGES

Exhibit 1 (*Summary of Increased Limit Factor Changes*) provides a summary of the current, indicated and selected per occurrence increased limit factors for Premises/Operations.

SUMMARY OF
REVISED
INCREASED
LIMIT
FACTORS

Exhibit MP (*Manual Pages*) at the end of this filing displays the revised Premises/Operations increased limit factors as they will appear in Division Six of the Commercial Lines Manual for Tables 1, 2 and 3 (Tables 56.B.1., 56.B.2. and 56.B.3., in the manual rule pages, respectively).

The increased limit factors shown are the ratio of the sum of indemnity, allocated loss adjustment expense, unallocated loss adjustment expense and risk load at each specific limit to the same sum evaluated at the basic limit of \$100,000 per occurrence/\$200,000 aggregate. Therefore, the factor listed for the basic limit is 1.00.

Certain factors have been judgmentally modified to maintain consistency within the tables. This ensures that the relative incremental costs (as measured by the change in ILFs divided by change in policy limits) for progressively higher occurrence and/or aggregate limits do not increase (i.e., the marginal costs are either constant or decreasing).

Exhibit 2 (*Comparison of Current and Revised Occurrence/Aggregate Increased Limit Factors*) compares the current and revised occurrence/aggregate increased limit factors for a sample of policy limits for Premises/Operations.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SCOPE OF REVISION

OCCURRENCE/AGGREGATE SIMULATION To generate the occurrence/aggregate increased limit factors, we begin with the calculation of indicated increased limit factors, displayed in **Exhibits 3-5**. We reflect the aggregate policy limit by combining the indemnity severity distribution (determined from the parameters provided in **Exhibit 8**) to model the loss size, and the updated mixed negative binomial distribution (discussed below) to model the number of occurrences. We use the frequency model to simulate occurrence counts (for a large number of simulated policies), and the severity model to generate the losses for the simulated occurrences. This combined distribution produces limited losses at various combinations of occurrence and aggregate limits.

In past General Liability increased limits reviews, we used a single negative binomial distribution to model the number of occurrences for each simulated policy. In this review, we employ a weighted mixture of negative binomial distributions for this purpose, to enhance accuracy in predicting the frequency of policies having higher numbers of occurrences.

The probability of k claims is equal to

$$p_k = \sum_j w_j p_{kj}$$

where:

w_j is the weight of each component negative binomial distribution j;
and p_{kj} is the probability of k claims for each component distribution, such that:

$$p_{kj} = \frac{\Gamma(k + r_j)}{k! \Gamma(r_j)} \left(\frac{\beta_j}{1 + \beta_j} \right)^{r_j} \left(\frac{1}{(1 + \beta_j)^k} \right)$$

The grand mean of the mixture distribution is equal to:

$$m = \sum_j w_j m_j$$

where m_j is the mean for component distribution j, calculated as:

$$m_j = \frac{r_j}{\beta_j}$$

Exhibit 13 (*Mixed Negative Binomial Frequency Parameters*) shows the frequency parameters for Premises/Operations determined on a multistate basis.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

OVERVIEW
OF INCREASED
LIMIT FACTOR
CALCULATIONS

This overview describes the methods we use to calculate increased limit factors. The factors calculated here are for policies that are subject to occurrence limits, but not annual aggregate limits. Section A describes the aggregate model and provides the resulting occurrence/aggregate increased limit factors. The per-occurrence loss distributions and loss adjustment expense provisions that are described here (and in later sections) are key components of this aggregate model. Also, the calculation of increased limit factors for occurrence-only limits illustrates the principles underlying the calculation for occurrence/aggregate limits.

ISO defines an increased limit factor (ILF) as the ratio of the expected cost (to the insurer) of a higher limit policy divided by the expected cost of a basic limit policy. The cost components of the occurrence-limit increased limit factor calculation are:

- Limited Average Severity (LAS)

The average indemnity per occurrence, limited to a given policy limit, at ultimate settlement value, and reflecting trend to the average accident date in the prospective experience period.

In this document, we use the term “indemnity” to mean the amount paid to the claimant (excluding all loss adjustment expense). Indemnity is subject to policy limits. We construct an occurrence-size distribution that describes the indemnity before the effect of policy limits. By using this distribution, we can calculate expected future indemnity for any given policy limit.

- Allocated Loss Adjustment Expense (ALAE)

The average claim settlement expense per occurrence for those expenses in the settlement process that can be assigned to an individual claim. The largest component of ALAE is legal defense costs.

- Unallocated Loss Adjustment Expense (ULAE)

The average claim settlement expense per occurrence for those expenses in the settlement process that cannot be assigned to an individual claim (e.g., the salaries of claims adjusters).

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

OVERVIEW
OF INCREASED
LIMIT FACTOR
CALCULATIONS
(continued)

- Risk Load (RL)

A loading that varies by policy limit and reflects the greater risk of issuing higher limit policies, with the fundamental purpose of making each policy limit being written equally attractive to insurers. The ISO risk load model accomplishes this by offsetting the greater risk associated with higher limit policies with an appropriate risk load provision that increases as the policy limit increases. The procedure recognizes two kinds of risk:

Process Risk - the inherent variability of the insurance process, reflected in the difference between actual losses and expected losses.

Parameter risk - the inherent variability of the estimation process, reflected in the difference between theoretical (true but unknown) expected losses and the estimated expected losses.

The ISO increased limit factor is the ratio of these costs at a specified limit divided by the corresponding costs at the basic limit. Given a basic limit b , the factor at occurrence policy limit PL is as follows:

$$ILF(PL) = \left[\frac{LAS(PL) + ALAE(PL) + ULAE(PL) + RL(PL)}{LAS(b) + ALAE(b) + ULAE(b) + RL(b)} \right]$$

Exhibits 3 through 5 (*Calculation of Indicated Increased Limit Factors*) show the indicated occurrence-limit increased limit factors for each of the increased limits tables from ISO's 2018 General Liability Premises/Operations increased limits review. Also shown are the underlying components of the calculation by limit. An overview of these four components of the occurrence-limit increased limit factor calculation follows.

STATE GROUPS

For Premises/Operations, we review the data by state or state group. Only the largest states have sufficient volume to review individually. The largest 15 states are reviewed individually. The remaining 37 jurisdictions are grouped into a three-tiered state group structure to accommodate relatively low, medium, and high ILF state groups - State Groups A, B and C. State Group A is comprised of the lowest ILF states; State Group C is comprised of the highest ILF states; and State Group B contains the remainder of the states.

To generate the complements of credibility, we group each of the individually reviewed states with either State Group A, B or C, creating three larger state group complements encompassing all states. State group experience is combined with the corresponding state group complement experience at each layer of loss to enhance the stability of the increased limit factors. This is an application of the standard actuarial practice of credibility weighting. We provide a definition of the state group complements (referred to as A', B' and C'), and discuss credibility weighting in more detail in the Combining State Group Data with State Group Complement Data section later in this document.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

STATE GROUPS
(continued)

For Premises/Operations, this state is reviewed individually (not grouped with other states).

Overall and by-table indicated changes are calculated using state group weights. Additionally, we use multistate (all state groups) experience for the following calculations:

- unallocated loss adjustment expense, and
- severity trend.

DATA FOR
INDEMNITY
ANALYSIS

The limited average severity in this increased limits review is modeled using loss data reported to ISO under the Commercial Statistical Plan. We also include excess and umbrella data reported under the Commercial Statistical Plan, to add greater credibility to higher layer analysis. We include additional data from the ISO Annual Call for Excess and Umbrella Policy Claims. This data enhances the credibility of our ILFs in the highest layers of loss that we evaluate.

The data is comprised of paid (settled) occurrences on occurrence coverage policies with accident dates between January 1, 2003 and December 31, 2016, and average payment dates between January 1, 2012 and December 31, 2016. The data is evaluated as of March 31, 2017.

We consider an occurrence to be settled if it has no outstanding reserve. If there are multiple payments, we consider the average payment date to be the dollar-weighted average of the dates of the individual payments.

We use “payment lag” or “lag” to measure the amount of time between the occurrence and the payments made towards the loss settlement. A lag of 1 indicates that the average payment date is in the same accident year as the occurrence. A lag of 2 indicates that the average payment date falls in the following year, and so on.

For each occurrence we determine the severity table, accident year, payment lag, indemnity amount, policy limit, and any applicable deductible or attachment point.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

COMPOSITE-
RATED RISKS

Insurers report composite-rated risk (CRR) data to ISO without detailed class information. This means we cannot use class to assign CRR data to a specific table. However, a significant portion of our data is composite-rated; for this reason, and to enhance credibility, we include CRR data in our calculation of increased limit factors. Using the accident year, payment lag and indemnity amount of a given CRR occurrence, we can make a Bayesian estimate of the probability it belongs in each table based on its known characteristics.

We include CRR data in the analysis by assigning part of each such occurrence to the various tables using this Bayesian analysis. Thus, we might consider a single \$100,000 occurrence from a composite-rated Premises/Operations Liability risk to be 1/3 of a “Table 1” occurrence, 1/2 of a “Table 2” occurrence, and 1/6 of a “Table 3” occurrence. In each case, the amount of the (fractional) occurrence would remain \$100,000. We describe this process further in the Bayesian-related sections later in this document.

EXCESS AND
UMBRELLA
DATA

As stated, along with the umbrella and excess data reported to ISO under the Commercial Statistical Plan, we include additional data from the ISO Annual Call for Excess and Umbrella Policy Claims. This data enhances the credibility of our increased limit factors, but does not affect the lowest layers.

These excess and umbrella policies have attachment points that exclude smaller losses much the same way as a large deductible would. While we can reconstruct the full size of loss for those occurrences greater than the attachment point of their policy, occurrences below the attachment point are not reported.

When we construct the empirical survival distribution, we exclude occurrences where the attachment points do not meet certain criteria, to avoid bias. We describe this in more detail later in this document. Also, because excess and umbrella data is not reported in class detail, we allocate the data to each table using the same Bayesian procedure that we apply for CRR data.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

MIXED
EXPONENTIAL
MODEL

For each table, we fit a continuous distribution to the lag-weighted occurrence-size distribution from the data. The resulting distribution produces the limited average severity component of the increased limit factor.

Using a continuous distribution (such as the mixed exponential) offers several advantages over using a purely empirical fit, including:

- calculation of limited average severity for all possible limits,
- smoothing of data,
- simplified handling of trend, and
- calculation of higher moments used in risk load.

The fitting procedure uses a mixture of exponential distributions to model indemnity. ISO found that the mixed exponential distribution provides a good fit to empirical data over a wide range of loss sizes, is flexible and is simple to use.

OVERVIEW OF
MIXED
EXPONENTIAL
PROCESS

The major steps in the calculation of the limited average severities of the indemnity are:

1. Trend

Trending the indemnity amount of each occurrence to reflect the expected conditions during the period when the increased limit factors are assumed to be in effect.

2. Construction of the Empirical Survival Distributions

Using the trended data to calculate the empirical survival distributions by payment lag for each table and (for Premises/Operations) state group.

3. Payment Lag Process

Combining the empirical distributions for each payment lag to produce an overall empirical survival distribution for each table and (for Premises/Operations) state group.

4. Tail of the Distribution

Smoothing the tail of the lag-weighted empirical survival distribution for each table separately for each of the larger state group complements for Premises/Operations.

5. Combining State Group data with State Group Complement data

Credibility-weighting the Premises/Operations state group experience with the experience of the corresponding state group complement.

6. Fitting a Mixed Exponential Distribution

Fitting a mixed exponential model to the empirical survival distribution.

7. Final Limited Average Severities

Using the fitted mixed exponential distribution to generate limited average severities.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

INDEMNITY
SEVERITY
TREND

For a given payment lag, we expect severity to increase by the inflation rate from accident year to accident year.

If annual inflation is 4.0%, an injury that results in a \$100,000 paid claim in 2017 should cost 1.04 x \$100,000 in 2018. The probability of that particular accident stays the same - only the nominal value of it changes.

To bring different accident years to the same level, we project each occurrence from the average date of its accident year to December 1, 2019, one year beyond the assumed effective date of December 1, 2018. In this filing, we select an annual trend of +5.5% for Premises/Operations. This compares to a trend of +5.0% in the most recently filed, 2014 increased limits review.

We selected the annual severity trend factor based on the data from the underlying paid loss development triangles from this increased limits review. Trend indications are currently reviewed on a multistate basis. Manually-rated classes and A-rated classes as well as CRR classes are included in the increased limits development triangles for all significant types of loss related to General Liability.

Exhibit 6 (*Indemnity Severity Trend Selection*) provides the annual paid basic limit and total limits severity trend indications. We also provide a measure of the goodness-of-fit statistic for each of the various multi-year trend fits.

CONSTRUCTION
OF THE
EMPIRICAL
SURVIVAL
DISTRIBUTIONS

The construction of the empirical survival distributions is based on the Product-Limit Estimator described in Loss Models: From Data to Decisions¹. First, paid (settled) occurrences are organized by accident year and payment lag and trended to the average accident date for which the loss distribution is desired.

Payment lags seven and beyond generally have similar loss sizes and are combined to increase credibility. Other lags are handled individually. We further define payment lag and explain the reasons for its use later in the explanatory materials.

Next, a survival distribution is constructed for each payment lag using discrete loss size layers. The probability that an occurrence exceeds the upper bound of a discrete layer given that it exceeds the lower bound of the layer is known as the conditional survival probability (CSP). The ground-up survival distribution is generated by multiplying the successive CSPs of the discrete layers.

¹ S. A. Klugman, H.H. Panjer, and G. E. Willmot, *Loss Models: From Data to Decisions*, John Wiley and Sons, New York, 2004

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

CONSTRUCTION
OF THE
EMPIRICAL
SURVIVAL
DISTRIBUTIONS
(continued)

This procedure allows for the easy inclusion of censored losses as well as excess, umbrella and deductible data. Two conditions must be met in order for a particular occurrence to be used in the calculation of the conditional survival probability in a particular layer of loss. These conditions are:

- The policy limit (plus attachment point or deductible) must be greater than or equal to the upper bound of the layer of loss. This avoids a downward severity bias by excluding losses that are precluded by their policy limit from penetrating the upper bound of a layer of loss.
- Only those occurrences with attachment points or deductibles less than or equal to the lower bound of the layer of loss are included. This condition is necessary to avoid an upward severity bias since loss information below the attachment point or deductible is unknown.

ILLUSTRATION

An illustration should aid in the conceptual understanding of this construction.

Assume we have twelve occurrences, all for a single payment lag. We will calculate the empirical survival probabilities for three layers using combinations of conditional survival probabilities. The three layers used are \$10,000, \$20,000, and \$40,000 (in practice we begin with layers as small as \$10, but larger layers better illustrate the handling of deductibles and policy limits). The following two pages display sample calculations for these three layers.

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Illustrative Data (Trended) for One Payment Lag

<u>Occurrence ID Number</u>	<u>Occurrence Size</u>	<u>Attachment Point</u>	<u>Policy Limit</u>	<u>Comment</u>
1	5,000	0	15,000	
2	5,000	0	15,000	
3	15,000	0	15,000	Censored Data
4	5,000	7,500	15,000	Deductible Data
5	5,000	0	30,000	
6	15,000	0	30,000	
7	25,000	0	30,000	
8	10,000	15,000	30,000	Excess Data
9	15,000	0	100,000	
10	25,000	0	100,000	
11	30,000	0	100,000	
12	50,000	15,000	100,000	Excess Data

Where attachment point is non-zero, we define policy limit as the maximum payment.

Conditional Survival Probabilities

	<u>Condition:</u>
$CSP_{e_1}(10,000 0) = P(X \geq 10,000 X > 0)$	PL + AP \geq 10,000 AP = 0
$CSP_{e_1}(20,000 10,000) = P(X \geq 20,000 X \geq 10,000)$	PL + AP \geq 20,000 AP \leq 10,000
$CSP_{e_1}(40,000 20,000) = P(X \geq 40,000 X \geq 20,000)$	PL + AP \geq 40,000 AP \leq 20,000

where AP = attachment point, PL = policy limit, X= loss size, e_1 = empirical lag 1

Calculation of Conditional Survival Probability at \$10,000

$CSP_{e_1}(10,000 0) = P(X \geq 10,000 X > 0) =$ number of occurrences with: occurrence size + AP \geq 10,000, <u>policy limit + AP \geq 10,000, and AP = 0</u> number of occurrences with: occurrence size + AP $>$ 0, policy limit + AP \geq 10,000, and AP = 0 $= \frac{6 \text{ (occurrences 3, 6, 7, 9, 10, 11)}}{9 \text{ (occurrences 1, 2, 3, 5, 6, 7, 9, 10, 11)}}$

Only occurrences with policy limit plus attachment point greater than or equal to 10,000 are used. Only occurrences with attachment point equal to zero are used.

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Calculation of Conditional Survival Probability at \$20,000

$$\begin{aligned} \text{CSP}_{e1}(20,000 | 10,000) &= P(X \geq 20,000 | X \geq 10,000) = \text{number of occurrences with:} \\ &\quad \text{occurrence size} + \text{AP} \geq 20,000, \\ &\quad \text{policy limit} + \text{AP} \geq 20,000, \text{ and } \text{AP} \leq 10,000 \\ &\quad \text{number of occurrences with:} \\ &\quad \text{occurrence size} + \text{AP} \geq 10,000, \\ &\quad \text{policy limit} + \text{AP} \geq 20,000, \text{ and } \text{AP} \leq 10,000 \\ &= \frac{3 \text{ (occurrences 7, 10, 11)}}{6 \text{ (occurrences 4, 6, 7, 9, 10, 11)}} \end{aligned}$$

Only occurrences with policy limit plus attachment point greater than or equal to 20,000 are used. Only occurrences with attachment point less than or equal to 10,000 are used.

Calculation of Conditional Survival Probability at \$40,000

$$\begin{aligned} \text{CSP}_{e1}(40,000 | 20,000) &= P(X \geq 40,000 | X \geq 20,000) = \text{number of occurrences with:} \\ &\quad \text{occurrence size} + \text{AP} \geq 40,000, \\ &\quad \text{policy limit} + \text{AP} \geq 40,000, \text{ and } \text{AP} \leq 20,000 \\ &\quad \text{number of occurrences with:} \\ &\quad \text{occurrence size} + \text{AP} \geq 20,000, \\ &\quad \text{policy limit} + \text{AP} \geq 40,000, \text{ and } \text{AP} \leq 20,000 \\ &= \frac{1 \text{ (occurrence 12)}}{4 \text{ (occurrences 8, 10, 11, 12)}} \end{aligned}$$

Only occurrences with policy limit plus attachment point greater than or equal to 40,000 are used. Only occurrences with attachment point less than or equal to 20,000 are used.

Calculation of Empirical Survival Distribution

The CSPs generate the following empirical survival probabilities:

$$\begin{aligned} S_{e1}(10,000) &= P(X \geq 10,000) = \text{CSP}_{e1}(10,000 | 0) = P(X \geq 10,000 | X > 0) \\ &= 6/9 \end{aligned}$$

$$\begin{aligned} S_{e1}(20,000) &= P(X \geq 20,000) = \text{CSP}_{e1}(10,000 | 0) * \text{CSP}_{e1}(20,000 | 10,000) \\ &= P(X \geq 10,000 | X > 0) * P(X \geq 20,000 | X \geq 10,000) \\ &= 6/9 * 3/6 = 1/3 \end{aligned}$$

$$\begin{aligned} S_{e1}(40,000) &= P(X \geq 40,000) = \text{CSP}_{e1}(10,000 | 0) * \text{CSP}_{e1}(20,000 | 10,000) * \text{CSP}_{e1}(40,000 | 20,000) \\ &= P(X \geq 10,000 | X > 0) * P(X \geq 20,000 | X \geq 10,000) * P(X \geq 40,000 | X \geq 20,000) \\ &= 6/9 * 3/6 * 1/4 = 1/12 \end{aligned}$$

In practice, to generate the trended empirical loss distribution for each lag, we use sixty-eight discrete loss size layers to allow for a refined selection of the tail-smoothing parameters, discussed in the Tail of the Distribution section.

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PAYMENT LAG
PROCESS

Development for paid (settled) data has two aspects. One aspect is that many occurrences are paid within a short period of time after the accident, with a small number taking longer -- sometimes much longer -- to be paid. The second aspect is the tendency of larger occurrences to take longer to be paid.

To properly model an accident year at ultimate, we must include each payment lag with its appropriate weight. We do this by:

- accounting for the rate of payment using the probability-of-payment-lag model, and
- constructing severity distributions by payment lag.

A “lag weighting” procedure then combines the by-lag empirical loss distributions to generate an overall distribution. This procedure implicitly accounts for development as all possible payment lags are represented and given weight at the prospective average accident date. We refer to the distribution of the overall survival probabilities by size of loss as the “empirical survival distribution function (SDF)”.

PAYMENT LAG

Payment lag is the length of time between when an accident occurs and the date when the associated indemnity is paid. In the mixed exponential model, the payment date is the dollar-weighted average of the dates of the indemnity payments. ISO calculates payment lag based on the year in which an accident occurs and the year in which the occurrence is paid:

$$\text{Payment Lag} = (\text{Payment Year} - \text{Accident Year}) + 1$$

Payment lag can vary considerably by line of business and by type of claim. While most property claims are paid quickly, liability claims generally take longer to settle, particularly those involving protracted litigation. Among liability claims, there is considerable variation in payment lag.

DIFFERENCES
IN LOSS SIZES BY
PAYMENT LAG

Generally, occurrences with longer payment lags involve higher loss sizes. For example, the average loss size for occurrences paid in lag 4 will tend to be considerably higher than the average loss size for those paid in lag 1.

The Mixed Exponential Methodology reflects this by fitting (the continuous mixed exponential distribution) to a lag-weighted empirical survival distribution. We do not directly fit to the severity distributions of individual lags.

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PAYMENT LAG
DISTRIBUTION

The payment lag distribution is modeled to avoid distortions that may otherwise result from:

- differing exposure amounts by accident year,
- an asymmetrical experience period with fewer than five accident years for lags eleven through fourteen, and
- a finite number of lags (no data for lags beyond fourteen)

The lag-weighting procedure implicitly accounts for ultimate development, as all possible payment lags are represented and given weight at the prospective average accident date.

The payment lag model uses three parameters (R1, R2, and R3) to generate the weights given to the severity distribution associated with each payment lag. The parameters can be represented as follows:

$$R1 = \frac{\text{expected percentage of occurrences paid in lag 2}}{\text{expected percentage of occurrences paid in lag 1}}$$

$$R2 = \frac{\text{expected percentage of occurrences paid in lag 3}}{\text{expected percentage of occurrences paid in lag 2}}$$

$$R3 = \frac{\text{expected percentage of occurrences paid in lag } (n+1)}{\text{expected percentage of occurrences paid in lag } (n)}, \text{ for all } n \geq 3$$

The weights for each lag are then determined as follows:

$$\text{lag 1 weight} = 1 / k, \text{ where } k = \{1 + R1 + [R1 \cdot R2] / [1 - R3]\}$$

$$\text{lag 2 weight} = R1 / k$$

$$\text{lag 3 weight} = R1 \cdot R2 / k$$

$$\text{lag 4 weight} = R1 \cdot R2 \cdot R3 / k$$

$$\text{lag 5 weight} = R1 \cdot R2 \cdot R3^2 / k$$

$$\text{lag 6 weight} = R1 \cdot R2 \cdot R3^3 / k$$

$$\text{lag 7 weight} = R1 \cdot R2 \cdot [R3^4 / (1 - R3)] / k,$$

Note that the lag 7 weight includes lag 7 and all subsequent lags.

The lag weights represent the percentage of ground-up occurrences in each lag. Therefore, occurrences from deductible, umbrella or excess policies with non-zero attachment points are not included.

METHOD OF
ESTIMATION:
PAYMENT LAG
PARAMETERS

For stability, we calculate the payment lag parameters (R1, R2 and R3) via maximum likelihood. A non-CRR occurrence with accident year *a* and payment lag *l* is reflected in the likelihood function by the probability that the lag equals *l* given that the accident year equals *a*. This conditional probability can be easily expressed in terms of the payment lag parameters.

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METHOD OF ESTIMATION: PAYMENT LAG PARAMETERS (continued)

For a CRR occurrence, the probability that the loss comes from a given table is computed by the procedure described later in the Bayesian-related sections. Each CRR occurrence generates several probabilities, one for each table. These probabilities are treated as fractional occurrences in the likelihood function.

Exhibit 7 (*Payment Lag Parameters and Lag Weights*) shows the resulting values of these parameters.

TAIL OF THE DISTRIBUTION

For the higher limits of liability, experience may be sparse in the tail of the distribution. To account for this, and to limit random fluctuations in the higher limits between consecutive reviews, we implicitly smooth the tails of the empirical state group distributions by smoothing the tails of the larger state group complement distributions (referred to as A', B' and C'). We select truncation points above which the state group complements' empirical survival distribution functions can be relatively less stable. The truncation points in this filing are:

Line/State Group	Table 1	Table 2	Table 3
PremOps B'	1,600,000	3,000,000	900,000

Then we select a parametric curve family that successfully models the behavior of the empirical distributions in the layers around the truncation point. During this process, we examine which curve parameters would minimize the overall severity difference between the empirical and smoothed distributions. The resulting curve is used to extrapolate the empirical distributions above the truncation point. The state group complements' empirical distributions below the truncation point are unaffected by this procedure.

This procedure smooths the tail of the state group complements' empirical distributions by extending relationships from the highest credible limits (those limits around the truncation point) to those limits above the truncation point. For each state group, we use the shape of the appropriate extrapolated larger state group complement distribution to extend the credibility-weighted state group distribution above the truncation point. Essentially, this smooths the tail of the distribution for each state group and table. We then fit a mixed exponential distribution to the resulting SDF for each increased limits table.

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SUPPORTING MATERIAL

COMBINING
STATE GROUP
DATA WITH
STATE GROUP
COMPLEMENT
DATA

For Premises/Operations, we construct the empirical survival distribution by state or state group for each table. State or state group conditional survival probabilities (CSPs) are weighted with the larger, more representative state group complements' CSPs at each layer. Grouping states or state groups with larger state groupings of similar experience produces more consistent and intuitive complements of credibility. To generate the complements of credibility, we grouped each of the individually reviewed states with either State Group A, B or C, creating three larger state group complements. The sum of these larger state group complements by definition includes all multistate data.

The definitions of the state group complements (referred to as A', B', and C') are as follows:

- A': State Group A, NC, OH, VA, WI
- B': State Group B, FL, GA, IN, MA, MI, NJ, PA, TX
- C': State Group C, CA, IL, NY

The weight assigned to each state group's CSP in each layer is an increasing function of the number of occurrences for that state group in that layer. Thus, greater weight is given to state group experience in lower layers where greater volume contributes to stability for experience by state group.

The formula used is:

Weighted $CSP_i = (Z_i) \times \text{State Group } CSP_i + (1 - Z_i) \times \text{State Group Complement } CSP_i$,
where:

- $Z_i = N_i / (N_i + K)$,
- i is the i^{th} loss size layer, and
- N_i is the number of occurrences that can be used to evaluate CSP_i for the state group, and $K=300$ for state group complement A', 200 for state group complement B', and 100 for state group complement C'.

The values of K were selected based on an evaluation of the total variability of CSPs by layer compared to the variability across all state groups within the state group complement. This is an application of Bühlmann-Straub credibility procedures to CSPs. Bühlmann-Straub credibility procedures are described in a number of actuarial texts, including Loss Models: From Data to Decisions³.

As stated in the Tail of the Distribution section, for the highest layers of loss, we first extrapolate the CSPs for the three larger state group complements A', B' and C' through the tail smoothing process.

³ S. A. Klugman, H.H. Panjer, and G. E. Willmot, *Loss Models: From Data to Decisions*, John Wiley and Sons, New York, 2004

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SUPPORTING MATERIAL

FITTING A MIXED
EXPONENTIAL
DISTRIBUTION

ISO models the lag-weighted empirical survival distribution function for each table with the best fitting mixed exponential distribution. The lag-weighted SDFs reflect smoothing and, if applicable, credibility weighting. The resulting mixed exponential distribution produces the limited average severity component of the increased limit factor.

THE SIMPLE
EXPONENTIAL
DISTRIBUTION

To understand the mixed exponential distribution, first consider the simple exponential distribution. The simple exponential is a one-parameter distribution. The formulas for the survival distribution function (SDF(x)) and the limited average severity (LAS) at a given policy limit (PL) for an exponential distribution with mean parameter μ are given by:

$$SDF(x) = e^{-\left(\frac{x}{\mu}\right)} = 1 - CDF(x)$$

$$LAS(PL) = \mu \left[1 - e^{-\left(\frac{PL}{\mu}\right)} \right]$$

THE MIXED
EXPONENTIAL
DISTRIBUTION

The mixed exponential distribution is a weighted average of exponential distributions. Each exponential distribution has two parameters, a mean μ_i and a weight w_i . Note that the SDF at zero is unity, and the weights sum to 1.000000.

The formulas for the survival distribution function and limited average severity for the mixed exponential distribution are the weighted averages of the respective single exponential formulas:

$$SDF(x) = \sum_i \left[w_i e^{-\left(\frac{x}{\mu_i}\right)} \right]$$

$$LAS(PL) = \sum_i w_i \mu_i \left[1 - e^{-\left(\frac{PL}{\mu_i}\right)} \right]$$

ISO found that the mixed exponential distribution is flexible and simple to use and provides a good fit to empirical data over a wide range of loss sizes. In fact, any distribution whose probability density function (pdf) has alternating derivatives:

$$\begin{aligned} pdf(x) &> 0, \\ d \text{ pdf}(x)/dx &< 0, \\ d^2 \text{ pdf}(x)/dx^2 &> 0, \\ d^3 \text{ pdf}(x)/dx^3 &< 0, \text{ etc., for all } x > 0, \end{aligned}$$

can be constructed as a mixture of exponentials with positive means and weights. Such distributions (including the mixed Pareto, if it has a finite mean) can be thought of as special cases of the mixed exponential distribution.

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THE MIXED
EXPONENTIAL
DISTRIBUTION
SEVERITY
PARAMETERS

ISO estimates the mixed exponential distribution parameters using minimum distance estimation. We compare the model SDF to the empirical SDF at each of the discrete loss size layers resulting from the construction.

We seek a mixed exponential distribution that minimizes the weighted sum of the square of the differences of these survival probabilities (model minus empirical) taken at each loss size layer. This procedure is known as the “minimum distance” method.

The number of exponential distributions needed to produce an optimal fit to the empirical SDF may vary by table and is allowed to be as large as necessary.

For General Liability, we allow means up to \$100 million, to follow the smoothed empirical distribution in layers above \$10 million more closely. Allowing means up to \$100 million tends to increase the number of means (and weights) for the fitted distribution in a given table, while having minimal effect on limits up to \$10 million, the highest limit for which we publish increased limit factor information.

Exhibit 8 (*Parameters for Mixed Exponential Distributions*) displays the mixed exponential parameters (means and weights) for each increased limits table.

MAY NOT BE
APPLICABLE FOR
ALL POLICY
LIMITS

ISO’s standard increased limits tables (shown in **Exhibits 3 through 5**) provide increased limit factors up to the \$10,000,000 per occurrence policy limit. **We encourage the use of supplemental sources of information for analysis of layers above \$10,000,000.**

FINAL LIMITED
AVERAGE
SEVERITIES

ISO calculates the limited average severities using the fitted mixed exponential distributions for each table. The *Mixed Exponential Distribution* section gives the formula for the limited average severity of a mixed exponential distribution. **Exhibit 8** (*Parameters for Mixed Exponential Distributions*) shows the individual by-table severity parameters used in this formula for each increased limits table.

Exhibit 9 (*Comparison of Limited Average Severities*) compares the fitted limited average severities to the empirical limited average severities. The empirical limited average severities are constructed in a manner analogous to the empirical survival distributions. The same conditions and assumptions are used in combination with actual trended loss amounts in each layer.

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BAYESIAN
ANALYSIS

As stated, we utilize a Bayesian approach to allocate CRR, excess and umbrella occurrences to each increased limits table. For each payment lag, the Bayesian analysis is as follows:

$$P(\text{Table} | \text{Indemnity}) = \frac{P(\text{Indemnity} | \text{Table}) \times P(\text{Table})}{\sum P(\text{Indemnity} | \text{Table}) \times P(\text{Table})}$$

The sum in the denominator is over all tables.

Here $P(\text{Table} | \text{Indemnity})$ is the conditional probability (within the payment lag) that an occurrence comes from the specified table, given the indemnity amount.

$P(\text{Table})$ is the marginal probability (within the payment lag) that an occurrence comes from the specified table.

Clearly, the table probabilities sum to one:

$$\sum P(\text{Table} | \text{Indemnity}) = 1;$$

that is, 100% of each occurrence is allocated.

We estimate $P(\text{Table})$ as the ratio of two sums:

$$P(\text{Table}) = \frac{\# \text{ of occurrences with known table in this table}}{\# \text{ of occurrences with known table in all tables}}$$

Here we restrict both the numerator and denominator to the payment lag under consideration.

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BAYESIAN
ALLOCATION
AND EMPIRICAL
SURVIVAL
DISTRIBUTIONS

For an occurrence with unknown table not censored by policy limits, we use:

$$P(\text{Indemnity} \mid \text{Table}) = f(\text{Indemnity Layer}),$$

where $f(\text{Indemnity Layer})$ is the empirical probability of an occurrence being in the indemnity layer. This empirical probability is the difference of the empirical SDF (for the table-payment lag combination) between the top and the bottom of the layer.

For an occurrence with unknown table censored by policy limits, we use:

$$P(\text{Indemnity} \mid \text{Table}) = \text{SDF}(\text{Indemnity Layer}),$$

where $\text{SDF}(\text{Indemnity Layer})$ is the empirical SDF evaluated at the bottom of a layer, for the table-payment lag combination.

ALLOCATED
DATA IN
PROBABILITY-
OF-PAYMENT-
LAG MODEL

We allocate CRR data to tables within an accident year and payment lag using the Bayesian analysis described in previous section. We then have revised occurrence counts by accident year, payment lag, and table. These counts include fractional occurrences from the CRR data. These counts are the raw data for our probability-of-payment-lag model.

We do not include excess and umbrella data, or deductible data, in the probability-of-payment-lag model. This avoids bias from not including unreported occurrences smaller than the policy attachment points or deductibles.

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ALLOCATED
LOSS
ADJUSTMENT
EXPENSE

The standard liability policy contains a policy limit which represents the maximum amount an insurer will pay for any loss for which the insured is liable. However, the limit does not apply to the loss adjustment expenses. For this reason, we estimate ALAE per occurrence as a single amount that does not vary by policy limit.

For each table, we estimate allocated loss adjustment expense (ALAE) per occurrence as the product of two numbers. The first number is the ratio of paid ALAE to paid total limits (all limits combined) indemnity. The second number is the average (across all policy limits) limited average severity calculated from the mixed exponential model.

In order to calculate the ALAE per occurrence, we first calculate the ratio of dollars of ALAE to dollars of total limits indemnity for the seven next-to-latest available accident years (the latest accident year is excluded from the average because its development tends to be less stable). We develop these ratios to ultimate maturity.

To further enhance stability, we use a best 5-of-7 criterion and eliminate the lowest and highest paid ratios. We then average the best 5-of-7 paid ratios to determine the overall ALAE to total limits indemnity ratio for each table.

The fitted total limits average severity for each table is a weighted average of the limited average severities at the different policy limits. The weights used are occurrences from the second, third and fourth latest accident years.

For each table, the multi-year average ALAE to total limits indemnity ratio is then multiplied by the final fitted total limits average severity in order to calculate the ALAE per occurrence provision for use in computing increased limit factors. The total limits average severity reflects trend to the average prospective accident date. This effectively contemplates trend in ALAE in a more stable manner than relying on a separate trend analysis of ALAE.

Exhibit 10 (*Calculation of Allocated Loss Adjustment Expense per Occurrence*) shows the calculation of the allocated loss adjustment expense component for Premises/Operations Liability.

UNALLOCATED
LOSS
ADJUSTMENT
EXPENSE

We calculate the unallocated loss adjustment expense at each limit of liability as a percentage of the sum of the limited average severity and the ALAE at that liability limit. For this filing, we select the ULAE load of 8.5% based on a five-year average of multistate financial data reported to ISO.

Exhibit 11 (*Development of Unallocated Loss Adjustment Expense Factor*) shows the derivation of this factor.

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GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

RISK LOAD

Our increased limits methodology incorporates a procedure to reflect the relatively higher risk or variation in experience associated with higher limit policies. The model that we use, the Competitive Market Equilibrium Risk Load Model¹, assumes that the insurance marketplace is competitive and efficient. In a competitive marketplace, individual insurers cannot influence the marketplace price. While individual insurers cannot influence the risk associated with a given policy limit, they will attempt to maximize their expected net revenue by choosing which lines and policy limits to write. This assumption is consistent with rational economic behavior and is reinforced by solvency regulation.

In an efficient marketplace, the supply of insurance matches the demand. ISO uses the distribution of basic limit losses by policy limit to represent the market demand for insurance at each limit. The model determines a set of risk loads that match supply and demand at each policy limit.

The variability of losses is caused by process risk and parameter risk:

- Process risk reflects the inherent uncertainty of the insurance process. Even if one could estimate expected losses exactly, actual losses will almost certainly differ from the expected. We derive the process risk component from the parameters of the indemnity severity distribution.
- Parameter risk reflects the risk of not estimating expected losses accurately. The derivation of the parameter risk component is based on the historical variation of losses.

These two risk elements combined comprise the total risk load at each policy limit.

ISO's risk load formulas use a parameter, lambda (λ), which governs the total amount of risk load over all policy limits for (non-professional) commercial liability tables. We determine lambda so that the ratio of the average indicated increased limit factor with risk load to the average indicated increased limit factor without risk load is equal to 1.06 for all General and Commercial Automobile Liability tables combined. For this state group, this ratio is 1.060 for Premises/Operations Liability.

Exhibit 12 (*Risk Load Parameters*) shows parameters used in the calculation of risk load.

¹ G. G. Meyers, *Competitive Market Equilibrium Risk Load Model for Increased Limits Ratemaking*, Proceedings of the Casualty Actuarial Society, Volume LXXVIII, 1991

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RISK LOAD FORMULAS AND PARAMETERS

The following are the formulas underlying ISO's risk load model.

The risk load formulas incorporate parameter risk using a parameter transformation. In the following formulas, we use the notation AVSEV(PL,α) and SECM(PL,α) to represent the limited moments of a transformed loss size distribution. The distribution is transformed by multiplying all occurrences by the constant "α". AVSEV represents the limited average severity and SECM represents the limited second moment of the transformed distribution. The following formulas represent an approximation of the effect of parameter risk on the severity distribution:

$$\text{AVSEV}(\text{PL}, \alpha) = \alpha \times \text{LAS}(\text{PL}/\alpha)$$

$$\text{SECM}(\text{PL}, \alpha) = \alpha^2 \times \text{SECM}(\text{PL}/\alpha)$$

The formula for the LAS(PL) and SECM(PL) of a mixed exponential are as follows:

$$\text{LAS}(\text{PL}) = \sum_i w_i \mu_i [1 - \exp(-\text{PL} / \mu_i)]$$
$$\text{SECM}(\text{PL}) = \sum_i 2 w_i \mu_i^2 \left[1 - \left(1 + \frac{\text{PL}}{\mu_i} \right) \exp\left(-\frac{\text{PL}}{\mu_i} \right) \right]$$

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RISK LOAD FORMULAS AND PARAMETERS

(1) *Total Risk Load*

The vector of risk load amounts for a particular increased limits table, \mathbf{R} , is:

$$\mathbf{R} = \lambda[\mathbf{U} + 2(\mathbf{V}^a \cdot \bar{\mathbf{n}}^a + \mathbf{V}^c \cdot \bar{\mathbf{n}}^c)]$$

where

λ = the factor which reflects the overall impact of risk load over General and Commercial Automobile Liability. ISO selected this parameter so that the average increased limit factor with risk load divided by the average increased limit factor without risk load equals 1.06.

\mathbf{U} = the vector of risk elements corresponding to process risk. Its j^{th} component is u_j , corresponding to the j^{th} policy limit.

\mathbf{V}^a = the matrix describing severity parameter risk.

\mathbf{V}^c = the matrix describing frequency parameter risk.

Premises/Operations Liability (state group):

$\bar{\mathbf{n}}^a$ = the vector of the expected number of occurrences per insurer in the particular increased limits table (within its state group). The j^{th} component of $\bar{\mathbf{n}}^a$ is computed as follows: the basic limit loss weight for that policy limit in the increased limits table (as a percentage) is multiplied by n_{bara} , the expected number of occurrences per insurer per state group, in the particular increased limits table, for all limits combined.

Premises/Operations Liability (state group):

$\bar{\mathbf{n}}^c$ = the vector of the expected average number of occurrences per insurer per state for all tables combined. The j^{th} component of $\bar{\mathbf{n}}^c$ is computed as follows: the basic limit loss weight for that policy limit in the increased limits table (as a percentage) is multiplied by the Premises/Operations n_{barc} , which is the expected average number of occurrences per insurer per state for all tables and limits combined.

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RISK LOAD FORMULAS AND PARAMETERS

(2) *Process Risk Load*

The process risk component of the risk load is given by $\lambda \times U$. The component u_j , associated with the j^{th} limit, is:

$$u_j = E_{\alpha}[\text{SECM}(PL_j, \alpha)] + d \cdot E_{\alpha}[\text{AVSEV}(PL_j, \alpha)^2]$$

where:

- α = random variable with mean 1 and variance a. α represents severity parameter risk.
- a = .001 (based on a special ISO study).
- 1 + d = variance-to-mean ratio for occurrence count distribution, contingent on parameters being known. (In other words, if there were no frequency parameter risk, the variance-to-mean ratio would be 1+d.)
- E_{α} = expected value across all values of the parameter α .

Let: $\alpha_1 = 1 - \sqrt{3a}$; $\alpha_2 = 1$; $\alpha_3 = 1 + \sqrt{3a}$;

The Gauss-Hermite approximation² provides a discrete approximation for the expected value of a function $G(\alpha)$ across all values of the normally distributed random variable α :

$$E_{\alpha}[G(\alpha)] = (1/6)G(\alpha_1) + (2/3)G(\alpha_2) + (1/6)G(\alpha_3)$$

for any function $G(\alpha)$.

(3) *Parameter Risk Load*

The parameter risk component of the risk load is given by $\lambda \times 2 \times (\mathbf{V}^c \cdot \bar{\mathbf{n}}^c + \mathbf{V}^a \cdot \bar{\mathbf{n}}^a)$.

Evaluation of \mathbf{V}^c

$$\begin{aligned} v_{ij}^c &= \text{element of } \mathbf{V}^c \text{ corresponding to } i^{\text{th}} \text{ limit, } j^{\text{th}} \text{ limit} \\ &= c \times E_{\alpha}[\text{AVSEV}(PL_i, \alpha) \cdot \text{AVSEV}(PL_j, \alpha)] \end{aligned}$$

c = parameter quantifying frequency parameter risk (“c” does for frequency what “a” does for severity). Values vary by line based on a special ISO study.

Evaluation of \mathbf{V}^a

$$\begin{aligned} v_{ij}^a &= \text{element of } \mathbf{V}^a \text{ corresponding to } i^{\text{th}} \text{ limit, } j^{\text{th}} \text{ limit} \\ &= E_{\alpha}[\text{AVSEV}(PL_i, \alpha) \cdot \text{AVSEV}(PL_j, \alpha)] - E_{\alpha}[\text{AVSEV}(PL_i, \alpha)] \cdot E_{\alpha}[\text{AVSEV}(PL_j, \alpha)] \end{aligned}$$

²A. Ralston, *A First Course in Numerical Analysis*, McGraw-Hill, 1965

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

SUMMARY

In summary, we calculate limited average severities from a continuous model of occurrence size. In this model, we fit mixed exponential distributions to trended lag-weighted occurrence-size distributions.

We calculate allocated loss adjustment expense per occurrence that does not vary by policy limit. We calculate unallocated loss adjustment expense by limit as a percentage of the sum of the limited average severity and allocated loss adjustment expense. We calculate risk load amounts reflecting process and parameter risk.

Finally, we calculate the sum of the limited average severity, allocated loss adjustment expense, unallocated loss adjustment expense, and risk load. The ratio of this sum at the limit desired to this sum at the basic limit is the per occurrence increased limit factor.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

MANUAL PAGES

REVISED INCREASED LIMIT FACTORS

(Limits are in thousands)

**RULE 56.
INCREASED LIMITS TABLES**

1. Premises/Operations (Subline Code 334) Table 1 - \$100/200 Basic Limit

Aggregate	Per Occurrence						
	\$ 25	50	100	200	300	500	1,000
\$ 50	<u>0.630-65</u>	<u>0.740-75</u>					
100	<u>0.640-66</u>	<u>0.790-81</u>	<u>0.940-95</u>				
200	<u>0.650-67</u>	<u>0.810-82</u>	1.00	<u>1.174-15</u>			
300	<u>0.660-68</u>	<u>0.820-83</u>	1.01	<u>1.214-16</u>	<u>1.314-26</u>		
500		<u>0.840-85</u>	1.03	<u>1.234-18</u>	<u>1.354-28</u>	<u>1.474-38</u>	
600		<u>0.850-86</u>	1.04	<u>1.244-19</u>	<u>1.364-29</u>	<u>1.494-39</u>	
1,000			1.05	<u>1.254-20</u>	<u>1.374-30</u>	<u>1.504-40</u>	<u>1.644-51</u>
1,500				<u>1.264-21</u>	<u>1.384-31</u>	<u>1.514-41</u>	<u>1.654-52</u>
2,000				<u>1.274-22</u>	<u>1.394-32</u>	<u>1.524-42</u>	<u>1.664-53</u>
2,500					<u>1.404-33</u>	<u>1.534-43</u>	<u>1.674-54</u>
3,000					<u>1.414-34</u>	<u>1.544-44</u>	<u>1.684-55</u>

The following factors MUST be referred to company before using.

Aggregate	Per Occurrence							
	\$ 500	1,000	1,500	2,000	3,000	4,000	5,000	10,000
\$ 1,500			<u>1.734-58</u>					
2,000			<u>1.744-59</u>	<u>1.794-64</u>				
2,500			<u>1.754-60</u>	<u>1.804-65</u>				
3,000			<u>1.764-61</u>	<u>1.814-66</u>	<u>1.894-72</u>			
4,000	<u>1.554-45</u>	<u>1.694-56</u>	<u>1.774-62</u>	<u>1.824-67</u>	<u>1.904-73</u>	<u>1.964-78</u>		
5,000	<u>1.564-46</u>	<u>1.704-57</u>	<u>1.784-63</u>	<u>1.834-68</u>	<u>1.914-74</u>	<u>1.974-79</u>	<u>2.034-84</u>	
10,000		<u>1.714-58</u>	<u>1.794-64</u>	<u>1.844-69</u>	<u>1.924-75</u>	<u>1.984-80</u>	<u>2.044-85</u>	<u>2.204-99</u>
20,000								<u>2.212-00</u>

Table 56.B.1 Premises/Operations (Subline Code 334) Table 1 - \$100/200 Basic Limit

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

MANUAL PAGES

REVISED INCREASED LIMIT FACTORS

(Limits are in thousands)

**RULE 56.
INCREASED LIMITS TABLES**

2. Premises/Operations (Subline Code 334) Table 2 - \$100/200 Basic Limit

Aggregate	Per Occurrence						
	\$ 25	50	100	200	300	500	1,000
\$ 50	0.65	<u>0.760-74</u>					
100	<u>0.670-66</u>	0.80	<u>0.940-93</u>				
200	<u>0.680-67</u>	<u>0.820-81</u>	1.00	1.17			
300	<u>0.690-68</u>	<u>0.830-82</u>	1.01	1.21	1.32		
500		<u>0.850-84</u>	1.03	<u>1.244-23</u>	1.36	<u>1.504-51</u>	
600		<u>0.860-85</u>	1.04	<u>1.254-24</u>	1.37	<u>1.534-54</u>	
1,000			1.05	<u>1.264-25</u>	<u>1.394-38</u>	1.55	<u>1.764-79</u>
1,500				<u>1.274-26</u>	<u>1.404-39</u>	1.56	<u>1.774-80</u>
2,000				<u>1.284-27</u>	<u>1.414-40</u>	1.57	<u>1.784-81</u>
2,500					<u>1.424-41</u>	1.58	<u>1.794-82</u>
3,000					<u>1.434-42</u>	1.59	<u>1.804-83</u>

The following factors MUST be referred to company before using.

Aggregate	Per Occurrence							
	\$ 500	1,000	1,500	2,000	3,000	4,000	5,000	10,000
\$ 1,500			<u>1.914-94</u>					
2,000			<u>1.924-95</u>	<u>2.022-05</u>				
2,500			<u>1.934-96</u>	<u>2.032-06</u>				
3,000			<u>1.944-97</u>	<u>2.042-07</u>	<u>2.202-21</u>			
4,000	1.60	<u>1.814-84</u>	<u>1.954-98</u>	<u>2.052-08</u>	<u>2.212-22</u>	<u>2.352-33</u>		
5,000	1.61	<u>1.824-85</u>	<u>1.964-99</u>	<u>2.062-09</u>	<u>2.222-23</u>	<u>2.362-34</u>	<u>2.482-43</u>	
10,000		<u>1.834-86</u>	<u>1.972-00</u>	<u>2.072-10</u>	<u>2.232-24</u>	<u>2.372-35</u>	<u>2.492-44</u>	<u>2.902-74</u>
20,000								<u>2.912-75</u>

Table 56.B.2 Premises/Operations (Subline Code 334) Table 2 - \$100/200 Basic Limit

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

MANUAL PAGES

REVISED INCREASED LIMIT FACTORS

(Limits are in thousands)

**RULE 56.
INCREASED LIMITS TABLES**

3. Premises/Operations (Subline Code 334) Table 3 - \$100/200 Basic Limit

Aggregate	Per Occurrence						
	\$ 25	50	100	200	300	500	1,000
\$ 50	<u>0.700-68</u>	<u>0.780-75</u>					
100	<u>0.710-69</u>	<u>0.830-84</u>	<u>0.950-93</u>				
200	<u>0.720-70</u>	<u>0.840-82</u>	1.00	<u>1.174-19</u>			
300	<u>0.730-74</u>	<u>0.850-83</u>	1.01	<u>1.214-24</u>	<u>1.334-37</u>		
500		<u>0.870-85</u>	1.03	<u>1.244-26</u>	<u>1.384-43</u>	<u>1.564-63</u>	
600		<u>0.880-86</u>	1.04	<u>1.254-27</u>	<u>1.394-44</u>	<u>1.584-66</u>	
1,000			1.05	<u>1.264-28</u>	<u>1.414-45</u>	<u>1.624-70</u>	<u>1.932-03</u>
1,500				<u>1.274-29</u>	<u>1.424-46</u>	<u>1.634-71</u>	<u>1.962-06</u>
2,000				<u>1.284-30</u>	<u>1.434-47</u>	<u>1.644-72</u>	<u>1.972-07</u>
2,500					<u>1.444-48</u>	<u>1.654-73</u>	<u>1.982-08</u>
3,000					<u>1.454-49</u>	<u>1.664-74</u>	<u>1.992-09</u>

The following factors MUST be referred to company before using.

Aggregate	Per Occurrence							
	\$ 500	1,000	1,500	2,000	3,000	4,000	5,000	10,000
\$ 1,500			<u>2.162-28</u>					
2,000			<u>2.192-30</u>	<u>2.322-45</u>				
2,500			<u>2.202-34</u>	<u>2.342-46</u>				
3,000			<u>2.212-32</u>	<u>2.352-47</u>	<u>2.552-70</u>			
4,000	<u>1.674-75</u>	<u>2.002-40</u>	<u>2.222-33</u>	<u>2.362-48</u>	<u>2.572-74</u>	<u>2.722-88</u>		
5,000	<u>1.684-76</u>	<u>2.012-44</u>	<u>2.232-34</u>	<u>2.372-49</u>	<u>2.582-72</u>	<u>2.742-90</u>	<u>2.863-04</u>	
10,000		<u>2.022-42</u>	<u>2.242-35</u>	<u>2.382-50</u>	<u>2.592-73</u>	<u>2.752-94</u>	<u>2.883-06</u>	<u>3.353-57</u>
20,000								<u>3.363-58</u>

Table 56.B.3 Premises/Operations (Subline Code 334) Table 3 - \$100/200 Basic Limit

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUMMARY OF INCREASED LIMIT FACTOR CHANGES

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

TABLE 1

Policy Limit (\$,000)	State Group Basic Limit Loss Weight	Current Increased Limit Factor	Indicated Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
100	0.0001	1.00	1.00	0.0%	1.00	0.0%
200	0.0000	1.19	1.22	2.5%	1.22	2.5%
250	0.0001	1.24	1.28	3.2%	1.28	3.2%
300	0.0001	1.29	1.34	3.9%	1.34	3.9%
500	0.0037	1.40	1.48	5.7%	1.48	5.7%
750	0.0000	1.48	1.57	6.1%	1.57	6.1%
1,000	0.9455	1.54	1.64	6.5%	1.64	6.5%
1,500	0.0067	1.61	1.72	6.8%	1.72	6.8%
2,000	0.0404	1.67	1.78	6.6%	1.78	6.6%
3,000	0.0003	1.74	1.87	7.5%	1.87	7.5%
5,000	0.0029	1.84	1.98	7.6%	1.98	7.6%
<u>10,000</u>	<u>0.0002</u>	<u>1.99</u>	<u>2.15</u>	<u>8.0%</u>	<u>2.15</u>	<u>8.0%</u>
TOTAL	1.0000	1.546	1.647	6.5%	1.647	6.5%

TABLE 2

Policy Limit (\$,000)	State Group Basic Limit Loss Weight	Current Increased Limit Factor	Indicated Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
100	0.0000	1.00	1.00	0.0%	1.00	0.0%
200	0.0000	1.22	1.22	0.0%	1.22	0.0%
250	0.0001	1.30	1.29	-0.8%	1.29	-0.8%
300	0.0015	1.36	1.35	-0.7%	1.35	-0.7%
500	0.0072	1.54	1.52	-1.3%	1.52	-1.3%
750	0.0003	1.69	1.66	-1.8%	1.66	-1.8%
1,000	0.9257	1.80	1.75	-2.8%	1.75	-2.8%
1,500	0.0076	1.96	1.89	-3.6%	1.89	-3.6%
2,000	0.0445	2.06	2.00	-2.9%	2.00	-2.9%
3,000	0.0012	2.22	2.16	-2.7%	2.16	-2.7%
5,000	0.0064	2.42	2.42	0.0%	2.42	0.0%
<u>10,000</u>	<u>0.0055</u>	<u>2.72</u>	<u>2.83</u>	<u>4.0%</u>	<u>2.83</u>	<u>4.0%</u>
TOTAL	1.0000	1.820	1.771	-2.7%	1.771	-2.7%

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS
SUMMARY OF INCREASED LIMIT FACTOR CHANGES

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

TABLE 3

Policy Limit (\$,000)	State Group Basic Limit Loss Weight	Current Increased Limit Factor	Indicated Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
100	0.0000	1.00	1.00	0.0%	1.00	0.0%
200	0.0000	1.26	1.22	-3.2%	1.22	-3.2%
250	0.0003	1.35	1.31	-3.0%	1.31	-3.0%
300	0.0000	1.44	1.38	-4.2%	1.38	-4.2%
500	0.0149	1.69	1.60	-5.3%	1.60	-5.3%
750	0.0000	1.90	1.79	-5.8%	1.79	-5.8%
1,000	0.8750	2.07	1.94	-6.3%	1.94	-6.3%
1,500	0.0071	2.30	2.15	-6.5%	2.15	-6.5%
2,000	0.0634	2.46	2.30	-6.5%	2.30	-6.5%
3,000	0.0003	2.70	2.51	-7.0%	2.51	-7.0%
5,000	0.0251	3.02	2.80	-7.3%	2.80	-7.3%
<u>10,000</u>	<u>0.0139</u>	<u>3.54</u>	<u>3.27</u>	<u>-7.6%</u>	<u>3.27</u>	<u>-7.6%</u>
TOTAL	1.0000	2.135	1.999	-6.4%	1.999	-6.4%

SUMMARY

Table	Basic Limit Loss Weight	Current Average Increased Limit Factor	Indicated Average Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
Table 1	0.2404	1.546	1.647	6.5%	1.647	6.5%
Table 2	0.6028	1.820	1.771	-2.7%	1.771	-2.7%
<u>Table 3</u>	<u>0.1568</u>	<u>2.135</u>	<u>1.999</u>	<u>-6.4%</u>	<u>1.999</u>	<u>-6.4%</u>
TOTAL	1.0000	1.804	1.777	-1.5%	1.777	-1.5%

Explanation for this exhibit is provided on page A-1.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

COMPARISON OF CURRENT AND REVISED
OCCURRENCE/AGGREGATE INCREASED LIMIT FACTORS

Premises/Operations Liability

		(1)	(2)	(3)
	Policy Limit (\$,000) (Occurrence/ <u>Aggregate</u>)	Current Factor (100/200 <u>Basic Limit</u>)	Revised Factor (100/200 <u>Basic Limit</u>)	$[(2)-(1)]/(1)$ <u>Percent Change</u>
<u>Table</u> 1	300/600	1.29	1.36	5.4%
	500/1,000	1.40	1.50	7.1%
	1,000/2,000	1.53	1.66	8.5%
	2,000/4,000	1.67	1.82	9.0%
2	300/600	1.37	1.37	0.0%
	500/1,000	1.55	1.55	0.0%
	1,000/2,000	1.81	1.78	-1.7%
	2,000/4,000	2.08	2.05	-1.4%
3	300/600	1.44	1.39	-3.5%
	500/1,000	1.70	1.62	-4.7%
	1,000/2,000	2.07	1.97	-4.8%
	2,000/4,000	2.48	2.36	-4.8%

Explanation for this exhibit is provided on page A-1.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF INDICATED INCREASED LIMIT FACTORS

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

TABLE 1

(1)	(2) ^a	(3)	(4)	(5)	(6)	(7) ^b	(8)
Policy Limit (\$,000)	Limited Average Severity	ALAE per Occurrence	ULAE per Occurrence	Process Risk Load	Parameter Risk Load	Indicated Increased Limit Factor	Selected Increased Limit Factor
100	23,689	12,123	3,044	387	646	1.00	1.00
200	31,055	12,123	3,670	826	849	1.22	1.22
250	33,299	12,123	3,861	1,025	912	1.28	1.28
300	35,040	12,123	4,009	1,212	960	1.34	1.34
500	39,401	12,123	4,380	1,858	1,081	1.48	1.48
750	42,331	12,123	4,629	2,524	1,163	1.57	1.57
1,000	44,128	12,123	4,781	3,092	1,213	1.64	1.64
1,500	46,301	12,123	4,966	4,053	1,273	1.72	1.72
2,000	47,655	12,123	5,081	4,891	1,311	1.78	1.78
2,500	48,626	12,123	5,164	5,663	1,338	1.83	1.83
3,000	49,369	12,123	5,227	6,383	1,358	1.87	1.87
4,000	50,440	12,123	5,318	7,694	1,388	1.93	1.93
5,000	51,186	12,123	5,381	8,866	1,409	1.98	1.98
10,000	53,089	12,123	5,543	13,593	1,462	2.15	2.15

^a Reflects trend to prospective average accident date of December 1, 2019 and development to ultimate maturity.

^b Reflects only per-occurrence limitation. Derived by taking the ratio of columns [(2) + (3) + (4) + (5) + (6)] at the policy limit to columns [(2) + (3) + (4) + (5) + (6)] at the basic limit (\$100,000).

Explanation for this exhibit is provided on pages B-1 and B-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF INDICATED INCREASED LIMIT FACTORS

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

TABLE 2

(1)	(2) ^a	(3)	(4)	(5)	(6)	(7) ^b	(8)
Policy Limit (\$,000)	Limited Average Severity	ALAE per Occurrence	ULAE per Occurrence	Process Risk Load	Parameter Risk Load	Indicated Increased Limit Factor	Selected Increased Limit Factor
100	26,243	16,693	3,650	444	901	1.00	1.00
200	35,226	16,693	4,413	992	1,214	1.22	1.22
250	38,119	16,693	4,659	1,254	1,316	1.29	1.29
300	40,449	16,693	4,857	1,508	1,397	1.35	1.35
500	46,779	16,693	5,395	2,463	1,620	1.52	1.52
750	51,557	16,693	5,801	3,567	1,788	1.66	1.66
1,000	54,758	16,693	6,073	4,592	1,901	1.75	1.75
1,500	58,981	16,693	6,432	6,482	2,049	1.89	1.89
2,000	61,859	16,693	6,677	8,281	2,150	2.00	2.00
2,500	64,085	16,693	6,866	10,064	2,228	2.08	2.08
3,000	65,904	16,693	7,021	11,839	2,292	2.16	2.16
4,000	68,722	16,693	7,260	15,305	2,391	2.30	2.30
5,000	70,795	16,693	7,436	18,580	2,464	2.42	2.42
10,000	76,182	16,693	7,894	31,989	2,656	2.83	2.83

^a Reflects trend to prospective average accident date of December 1, 2019 and development to ultimate maturity.

^b Reflects only per-occurrence limitation. Derived by taking the ratio of columns [(2) + (3) + (4) + (5) + (6)] at the policy limit to columns [(2) + (3) + (4) + (5) + (6)] at the basic limit (\$100,000).

Explanation for this exhibit is provided on pages B-1 and B-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF INDICATED INCREASED LIMIT FACTORS

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

TABLE 3

(1)	(2) ^a	(3)	(4)	(5)	(6)	(7) ^b	(8)
Policy Limit (\$,000)	Limited Average Severity	ALAE per Occurrence	ULAE per Occurrence	Process Risk Load	Parameter Risk Load	Indicated Increased Limit Factor	Selected Increased Limit Factor
100	27,178	24,288	4,375	468	1,176	1.00	1.00
200	38,009	24,288	5,295	1,140	1,645	1.22	1.22
250	41,886	24,288	5,625	1,496	1,813	1.31	1.31
300	45,167	24,288	5,904	1,858	1,955	1.38	1.38
500	54,930	24,288	6,734	3,362	2,379	1.60	1.60
750	63,222	24,288	7,438	5,311	2,739	1.79	1.79
1,000	69,121	24,288	7,940	7,227	2,995	1.94	1.94
1,500	76,856	24,288	8,597	10,725	3,332	2.15	2.15
2,000	81,702	24,288	9,009	13,779	3,544	2.30	2.30
2,500	85,105	24,288	9,298	16,525	3,692	2.42	2.42
3,000	87,700	24,288	9,519	19,076	3,805	2.51	2.51
4,000	91,526	24,288	9,844	23,811	3,972	2.67	2.67
5,000	94,284	24,288	10,079	28,190	4,092	2.80	2.80
10,000	101,643	24,288	10,704	46,643	4,412	3.27	3.27

^a Reflects trend to prospective average accident date of December 1, 2019 and development to ultimate maturity.

^b Reflects only per-occurrence limitation. Derived by taking the ratio of columns [(2) + (3) + (4) + (5) + (6)] at the policy limit to columns [(2) + (3) + (4) + (5) + (6)] at the basic limit (\$100,000).

Explanation for this exhibit is provided on pages B-1 and B-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

INDEMNITY SEVERITY TREND SELECTION

Multistate Paid Average Annual Occurrence Severities

Accident Year	Premises/Operations	
	Basic Limit	Total Limits
2007	11,838	21,415
2008	12,139	22,367
2009	12,491	22,839
2010	12,366	22,275
2011	13,279	24,599
2012	13,191	24,676
2013	14,278	27,035
2014	15,315	29,841
2015	15,963	30,458
2016	15,941	31,140

Trend Indications

Trend Period	Basic Limit		Total Limits	
	Trend Fit	R ²	Trend Fit	R ²
10 years	3.7%	0.9420	4.6%	0.9348
8 years	4.2%	0.9394	5.4%	0.9415
6 years	4.5%	0.9159	5.6%	0.9270
4 years	3.8%	0.8431	4.5%	0.8469
Selection			5.5%	

Explanation for this exhibit is provided on page B-6.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

PAYMENT LAG PARAMETERS AND LAG WEIGHTS

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

Payment Lag Parameters

	<u>TABLE 1</u>	<u>TABLE 2</u>	<u>TABLE 3</u>
R1 =	0.61928619	0.72296801	0.78821581
R2 =	0.77514854	0.77148216	0.63796240
R3 =	0.59702518	0.58450089	0.64113410
$k = 1+R1+((R1 \cdot R2)/(1-R3)) =$	2.81052386	3.06534615	3.18944131

Generation of Lag Weights

	<u>TABLE 1</u>	<u>TABLE 2</u>	<u>TABLE 3</u>
Lag 1 =	$1 / k =$ 0.35580554	0.32622743	0.31353453
Lag 2 =	$R1 / k =$ 0.22034547	0.23585200	0.24713288
Lag 3 =	$R1 \cdot R2 / k =$ 0.17080047	0.18195561	0.15766148
Lag 4 =	$R1 \cdot R2 \cdot R3 / k =$ 0.10197218	0.10635321	0.10108215
Lag 5 =	$R1 \cdot R2 \cdot R3^2 / k =$ 0.06087996	0.06216355	0.06480722
Lag 6 =	$R1 \cdot R2 \cdot R3^3 / k =$ 0.03634687	0.03633465	0.04155012
Lag 7 =	$R1 \cdot R2 \cdot (R3^4 / (1-R3)) / k =$ 0.05384951	0.05111355	0.07423162

The lag weight distribution includes allocated CRR data, but excludes data with a non-zero deductible or attachment point.

Explanation for this exhibit is provided on pages B-11 and B-12.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

PARAMETERS FOR MIXED EXPONENTIAL DISTRIBUTIONS^a

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

TABLE 1		TABLE 2		TABLE 3	
<u>Mean</u>	<u>Weight</u>	<u>Mean</u>	<u>Weight</u>	<u>Mean</u>	<u>Weight</u>
1,152	0.246706	2,117	0.220042	3,827	0.361980
4,395	0.201401	3,372	0.111309	17,323	0.367304
11,528	0.129483	13,145	0.259739	98,132	0.187438
32,234	0.211646	18,999	0.076961	537,659	0.068562
98,551	0.159005	55,916	0.149092	1,801,702	0.011126
315,316	0.043590	112,821	0.120252	5,109,279	0.002702
1,110,878	0.006222	386,087	0.052264	13,982,150	0.000604
3,031,536	0.001484	2,020,487	0.008086	27,655,027	0.000180
7,853,676	0.000338	5,685,021	0.001776	100,000,000	0.000104
21,580,107	0.000102	17,768,641	0.000401		
98,635,562	0.000023	85,192,892	0.000078		

^a Model parameters are based on an average accident date of December 1, 2019.

Explanation for this exhibit is provided on page B-15.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

COMPARISON OF LIMITED AVERAGE SEVERITIES

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

Policy Limit (\$,000)	TABLE 1			TABLE 2		
	Empirical LAS ^a	Fitted LAS	Percent Difference	Empirical LAS ^a	Fitted LAS	Percent Difference
100	23,727	23,689	-0.16%	26,267	26,243	-0.09%
200	31,107	31,055	-0.17%	35,285	35,226	-0.17%
250	33,372	33,299	-0.22%	38,192	38,119	-0.19%
300	35,121	35,040	-0.23%	40,509	40,449	-0.15%
500	39,506	39,401	-0.27%	46,862	46,779	-0.18%
1,000	44,271	44,128	-0.32%	54,803	54,758	-0.08%
1,500	46,442	46,301	-0.30%	59,136	58,981	-0.26%
2,000	47,803	47,655	-0.31%	61,946	61,859	-0.14%
2,500	48,774	48,626	-0.30%	64,188	64,085	-0.16%
3,000	49,517	49,369	-0.30%	66,095	65,904	-0.29%
4,000	50,592	50,440	-0.30%	68,954	68,722	-0.34%
5,000	51,334	51,186	-0.29%	70,991	70,795	-0.28%
10,000	53,238	53,089	-0.28%	76,362	76,182	-0.24%

Policy Limit (\$,000)	TABLE 3		
	Empirical LAS ^a	Fitted LAS	Percent Difference
100	27,198	27,178	-0.07%
200	38,046	38,009	-0.10%
250	42,009	41,886	-0.29%
300	45,342	45,167	-0.39%
500	55,014	54,930	-0.15%
1,000	69,334	69,121	-0.31%
1,500	77,047	76,856	-0.25%
2,000	81,870	81,702	-0.21%
2,500	85,257	85,105	-0.18%
3,000	87,881	87,700	-0.21%
4,000	91,730	91,526	-0.22%
5,000	94,469	94,284	-0.20%
10,000	101,817	101,643	-0.17%

^a For Premises/Operations, empirical limited average severities reflect credibility-weighting with state group complement data.

Explanation for this exhibit is provided on page B-15.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF ALLOCATED LOSS ADJUSTMENT EXPENSE PER OCCURRENCE

PREMISES/OPERATIONS LIABILITY
NEW JERSEY

Ratios of ALAE to Total Limits (TL) Indemnity - Paid Data^a

Accident <u>Year</u>	<u>Table 1</u>	<u>Table 2</u>	<u>Table 3</u>
2009	0.25006	0.28134	0.29517
2010	0.27409	0.27233	0.39557
2011	0.27671	0.33723	0.31972
2012	0.27834	0.33903	0.31316
2013	0.28328	0.31112	0.41815
2014	0.27369	0.29048	0.36124
2015	0.26629	0.29159	0.33876
Best 5-of-7 Average	0.27382	0.30235	0.34569

Indicated ALAE per Occurrence

<u>Table</u>	(1) ALAE per Total Limits <u>Indemnity</u>	(2) Mixed Exponential Total Limits <u>Average Severity^b</u>	(1) x (2) ALAE per <u>Occurrence</u>
1	0.27382	44,274	12,123
2	0.30235	55,210	16,693
3	0.34569	70,260	24,288

^a Derived from paid aggregate state group data developed to ultimate.

^b Occurrence-weighted average of limited average severities from Exhibits 3-5.

Explanation for this exhibit is provided on page B-18.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

DEVELOPMENT OF UNALLOCATED LOSS ADJUSTMENT EXPENSE FACTOR

General Liability Excluding Medical Professional Liability
Multistate Expense Experience
Loss Adjustment Expense Special Call

<u>ITEM</u> ^a	<u>CALENDAR YEAR</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
(1) Direct Losses Incurred	18,480,140	18,521,277	19,140,390	24,110,646	25,085,478
(2) Allocated Loss Adjustment Expenses Incurred (ALAE)	5,270,137	5,080,420	4,727,492	5,601,664	4,581,304
(3) Unallocated Loss Adjustment Expenses Incurred (ULAE)	1,892,698	2,061,866	2,159,178	2,371,173	2,496,550
(4) Incurred Losses + ALAE [(1) + (2)]	23,750,277	23,601,697	23,867,882	29,712,310	29,666,781
	<u>Incurred Percentage</u> ^b				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
(5) ULAE as Ratio to (Losses + ALAE) [(3) / (4)]	7.97%	8.74%	9.05%	7.98%	8.42%
Selected ULAE Factor:	8.5%				

^a Items (1) - (3) are from an ISO special call submission for available writers. All dollar amounts are displayed in thousands.

^b Incurred percentages are calculated on a direct basis.

Explanation for this exhibit is provided on page B-18.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

RISK LOAD PARAMETERS

GENERAL AND COMMERCIAL AUTO LIABILITY

$$\text{Lambda}(\lambda)^a = 1.7380\text{E-}07$$

MULTISTATE PARAMETERS

Premises/Operations

d	=	1
c	=	0.005
a	=	0.001
nbarc	=	350

VALUES OF nbara - NEW JERSEY

Premises/Operations

Table 1	45.24
Table 2	86.96
Table 3	18.45

^a ISO determines lambda so that the ratio of the average increased limit factor with risk load to the average increased limit factor without risk load is equal to 1.06 for all states for all (non-professional) commercial liability lines combined.

Explanation for this exhibit is provided on pages B-19 through B-22.

NEW JERSEY
 GENERAL LIABILITY INCREASED LIMIT FACTORS
MIXED NEGATIVE BINOMIAL FREQUENCY PARAMETERS
 MULTISTATE

Premises/Operations Liability

j	w _j	r _j	β _i	m _i
1	0.92211524	1.00000000	9.98580849E+12	1.001E-13
2	0.05564394	9.84512420	3.08916580E+01	0.319
3	0.00231264	2.81736112	1.51157272E+00	1.864
4	0.01992818	0.02292149	1.30039375E-01	0.176
Weighted:				0.026

Explanation for this exhibit is provided on page A-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

PURPOSE

This document:

- revises increased limit factors (ILFs) for all Products/Completed Operations Liability classes. These increased limit factors represent a -1.2% change on average from the Products/Completed Operations increased limit factors currently in effect.
 - provides the analyses used to derive these increased limit factors.
-

DEFINITION OF
INCREASED
LIMIT FACTORS

We publish liability loss costs at the basic limit. The basic limit for General Liability is \$100,000/\$200,000 (occurrence/aggregate). The loss cost for a given policy limit is the product of the basic limit loss cost and the increased limit factor for that policy limit.

An increased limit factor is the ratio of two sums. The numerator is the cost to the insurer of writing a policy at the desired limit, including the average prospective indemnity, all loss adjustment expense, and the risk load. The denominator is the sum of the same quantities at the basic limit. The average prospective indemnity in the published ILFs reflects per occurrence and aggregate limits.

INCREASED
LIMITS TABLES

We group classifications with similar increased limits experience into increased limits tables. Products/Completed Operations have three tables corresponding with low, medium, and high loss severity - the tables are A, B, and C, respectively.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

INCREASED
LIMIT FACTOR
CHANGES

The statewide per occurrence increased limit factor changes are:

	<u>Indicated</u>	<u>Selected</u>
Table A	+0.7%	+0.7%
Table B	-1.8%	-1.8%
Table C	<u>-0.9%</u>	<u>-0.9%</u>
TOTAL	-1.2%	-1.2%

In this document, the selected per occurrence factors are the indicated per occurrence factors. We judgmentally adjust some occurrence/aggregate factors developed from the per occurrence factors in order to maintain consistency between successive policy limits within each table.

MIXED
NEGATIVE
BINOMIAL
FREQUENCY

To enhance the accuracy of occurrence counts per policy used in simulations (to determine occurrence/aggregate ILFs), we now use a 'mixed negative binomial' frequency model, instead of the single negative binomial model used previously. Please see the explanatory material and supporting exhibits in this document, for details on this updated model and for the specific parameters used.

PRIOR ISO
REVISIONS

The most recent Products/Completed Operations increased limits revision is:

Designation	GL-2015-IPRD1
Date Implemented	06/01/2015
Indicated Change	0.0%
Selected Change	0.0%
Implemented Change	0.0%

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

RISK LOAD
PROCEDURE

The increased limit factors in this document incorporate a procedure for reflecting the increased risk or variation in experience associated with higher limit policies in the increased limits ratemaking formula. For all General and Commercial Automobile Liability tables, this procedure generates increased limit factors that are on average (across all state groups) 6.0% higher than the factors would be if calculated without risk load. The indicated increased limit factors are on average 10.4% higher for Products/Completed Operations than such factors would be if calculated without risk load.

HISTORICAL
SOURCE DATA

For this filing, we used the following data:

- Experience from occurrence-coverage policies for risks subject to Products/Completed Operations increased limits tables as reported to ISO by companies that filed detailed statistics. This includes excess and umbrella data reported under the Commercial Statistical Plan, which adds greater credibility to the analysis of higher layers. Experience for risks reported in the ISO Annual Call for Excess and Umbrella Policy Claims supplements primary data for pricing higher policy limits.
- Experience for accident years ending December 31, 2003 to December 31, 2016, which were settled during calendar years 2012 to 2016.

For Products/Completed Operations, we continue to review the data on a multistate basis. This is because the data is sparser and the loss exposure is more likely to encompass multiple states.

Overall and by-table indicated changes are calculated using state-specific weights.

EFFECT ON
MANUAL PAGES

Upon implementation of this filing, which revises Products/Completed Operations increased limit factors, we will publish revised manual pages in Division Six of the Commercial Lines Manual. The revised increased limit factors will appear in Rule 56 as Tables 56.B.4., 56.B.5. and 56.B.6.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

EXECUTIVE SUMMARY

CHANGE IN
FORMAT

In this filing, all explanatory material appears first, followed by all exhibits. Explanatory pages are numbered B-1 through B-22, while exhibits are labeled Exhibit 1 through Exhibit 13 and manual page reproductions are provided in Exhibit MP.

COMPANY
DECISION

We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing increased limit factors are appropriate. We have included within this document the information upon which ISO relied in order to enable companies to make such independent judgments.

The data underlying the enclosed material comes from companies reporting to ISO. Therefore, the ISO statistical database is much larger than any individual company's. A broader database enhances the validity of the ratemaking analysis. At the same time, an individual company may benefit from a comparison of its own experience to the aggregate ISO experience and may reach valid conclusions with respect to the manner in which its own costs can be expected to differ from ISO's projections based on the aggregate data.

Some calculations included in this document involve areas of ISO staff judgment. Each company should carefully review and evaluate its own experience in order to determine whether the increased limit factors developed by ISO are appropriate for its use.

This material has been developed exclusively by the staff of ISO.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

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NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SCOPE OF REVISION

SUMMARY OF
INCREASED
LIMIT FACTOR
CHANGES

Exhibit 1 (*Summary of Increased Limit Factor Changes*) provides a summary of the current, indicated and selected per occurrence increased limit factors for Products/Completed Operations.

SUMMARY OF
REVISED
INCREASED
LIMIT
FACTORS

Exhibit MP (*Manual Pages*) at the end of this filing displays the revised Products/Completed Operations increased limit factors as they will appear in the Commercial Lines Manual for Tables A, B and C (Tables 56.B.4., 56.B.5. and 56.B.6., in the manual rule pages, respectively).

The increased limit factors shown are the ratio of the sum of indemnity, allocated loss adjustment expense, unallocated loss adjustment expense and risk load at each specific limit to the same sum evaluated at the basic limit of \$100,000 per occurrence/\$200,000 aggregate. Therefore, the factor listed for the basic limit is 1.00.

Certain factors have been judgmentally modified to maintain consistency within the tables. This ensures that the relative incremental costs (as measured by the change in ILFs divided by change in policy limits) for progressively higher occurrence and/or aggregate limits do not increase (i.e., the marginal costs are either constant or decreasing).

Exhibit 2 (*Comparison of Current and Revised Occurrence/Aggregate Increased Limit Factors*) compares the current and revised occurrence/aggregate increased limit factors for a sample of policy limits for Products/Completed Operations.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SCOPE OF REVISION

OCCURRENCE/AGGREGATE SIMULATION To generate the occurrence/aggregate increased limit factors, we begin with the calculation of indicated increased limit factors, displayed in **Exhibits 3-5**. We reflect the aggregate policy limit by combining the indemnity severity distribution (determined from the parameters provided in **Exhibit 8**) to model the loss size, and the updated mixed negative binomial distribution (discussed below) to model the number of occurrences. We use the frequency model to simulate occurrence counts (for a large number of simulated policies), and the severity model to generate the losses for the simulated occurrences. This combined distribution produces limited losses at various combinations of occurrence and aggregate limits.

In past General Liability increased limits reviews, we used a single negative binomial distribution to model the number of occurrences for each simulated policy. In this review, we employ a weighted mixture of negative binomial distributions for this purpose, to enhance accuracy in predicting the frequency of policies having higher numbers of occurrences.

The probability of k claims is equal to

$$p_k = \sum_j w_j p_{kj}$$

where:

w_j is the weight of each component negative binomial distribution j;
and p_{kj} is the probability of k claims for each component distribution, such that:

$$p_{kj} = \frac{\Gamma(k + r_j)}{k! \Gamma(r_j)} \left(\frac{\beta_j}{1 + \beta_j} \right)^{r_j} \left(\frac{1}{(1 + \beta_j)^k} \right)$$

The grand mean of the mixture distribution is equal to:

$$m = \sum_j w_j m_j$$

where m_j is the mean for component distribution j, calculated as:

$$m_j = \frac{r_j}{\beta_j}$$

Exhibit 13 (*Mixed Negative Binomial Frequency Parameters*) shows the frequency parameters for Products/Completed Operations, determined on a multistate basis.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

OVERVIEW
OF INCREASED
LIMIT FACTOR
CALCULATIONS

This overview describes the methods we use to calculate increased limit factors. The factors calculated here are for policies that are subject to occurrence limits, but not annual aggregate limits. Section A describes the aggregate model and provides the resulting occurrence/aggregate increased limit factors. The per-occurrence loss distributions and loss adjustment expense provisions that are described here (and in later sections) are key components of this aggregate model. Also, the calculation of increased limit factors for occurrence-only limits illustrates the principles underlying the calculation for occurrence/aggregate limits.

ISO defines an increased limit factor (ILF) as the ratio of the expected cost (to the insurer) of a higher limit policy divided by the expected cost of a basic limit policy. The cost components of the occurrence-limit increased limit factor calculation are:

- Limited Average Severity (LAS)

The average indemnity per occurrence, limited to a given policy limit, at ultimate settlement value, and reflecting trend to the average accident date in the prospective experience period.

In this document, we use the term “indemnity” to mean the amount paid to the claimant (excluding all loss adjustment expense). Indemnity is subject to policy limits. We construct an occurrence-size distribution that describes the indemnity before the effect of policy limits. By using this distribution, we can calculate expected future indemnity for any given policy limit.

- Allocated Loss Adjustment Expense (ALAE)

The average claim settlement expense per occurrence for those expenses in the settlement process that can be assigned to an individual claim. The largest component of ALAE is legal defense costs.

- Unallocated Loss Adjustment Expense (ULAE)

The average claim settlement expense per occurrence for those expenses in the settlement process that cannot be assigned to an individual claim (e.g., the salaries of claims adjusters).

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

OVERVIEW
OF INCREASED
LIMIT FACTOR
CALCULATIONS
(continued)

- Risk Load (RL)

A loading that varies by policy limit and reflects the greater risk of issuing higher limit policies, with the fundamental purpose of making each policy limit being written equally attractive to insurers. The ISO risk load model accomplishes this by offsetting the greater risk associated with higher limit policies with an appropriate risk load provision that increases as the policy limit increases. The procedure recognizes two kinds of risk:

Process Risk - the inherent variability of the insurance process, reflected in the difference between actual losses and expected losses.

Parameter risk - the inherent variability of the estimation process, reflected in the difference between theoretical (true but unknown) expected losses and the estimated expected losses.

The ISO increased limit factor is the ratio of these costs at a specified limit divided by the corresponding costs at the basic limit. Given a basic limit b , the factor at occurrence policy limit PL is as follows:

$$ILF(PL) = \left[\frac{LAS(PL) + ALAE(PL) + ULAE(PL) + RL(PL)}{LAS(b) + ALAE(b) + ULAE(b) + RL(b)} \right]$$

Exhibits 3 through 5 (*Calculation of Indicated Increased Limit Factors*) show the indicated occurrence-limit increased limit factors for each of the increased limits tables from ISO's 2018 General Liability Products/Completed Operations increased limits review. Also shown are the underlying components of the calculation by limit. An overview of these four components of the occurrence-limit increased limit factor calculation follows.

MULTISTATE
DATA

For Products/Completed Operations, we continue to review the data on a multistate basis. This is because the data is sparser and the loss exposure is more likely to encompass multiple states. Overall and by-table indicated changes for Products/Completed Operations are calculated using state-specific weights.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

DATA FOR
INDEMNITY
ANALYSIS

The limited average severity in this increased limits review is modeled using loss data reported to ISO under the Commercial Statistical Plan. We also include excess and umbrella data reported under the Commercial Statistical Plan, to add greater credibility to higher layer analysis. We include additional data from the ISO Annual Call for Excess and Umbrella Policy Claims. This data enhances the credibility of our ILFs in the highest layers of loss that we evaluate.

The data is comprised of paid (settled) occurrences on occurrence coverage policies with accident dates between January 1, 2003 and December 31, 2016, and average payment dates between January 1, 2012 and December 31, 2016. The data is evaluated as of March 31, 2017.

We consider an occurrence to be settled if it has no outstanding reserve. If there are multiple payments, we consider the average payment date to be the dollar-weighted average of the dates of the individual payments.

We use “payment lag” or “lag” to measure the amount of time between the occurrence and the payments made towards the loss settlement. A lag of 1 indicates that the average payment date is in the same accident year as the occurrence. A lag of 2 indicates that the average payment date falls in the following year, and so on.

For each occurrence we determine the severity table, accident year, payment lag, indemnity amount, policy limit, and any applicable deductible or attachment point.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

COMPOSITE-
RATED RISKS

Insurers report composite-rated risk (CRR) data to ISO without detailed class information. This means we cannot use class to assign CRR data to a specific table. However, a significant portion of our data is composite-rated; for this reason, and to enhance credibility, we include CRR data in our calculation of increased limit factors. Using the accident year, payment lag and indemnity amount of a given CRR occurrence, we can make a Bayesian estimate of the probability it belongs in each table based on its known characteristics.

We include CRR data in the analysis by assigning part of each such occurrence to the various tables using this Bayesian analysis. Thus, we might consider a single \$100,000 occurrence from a composite-rated Products/Completed Operations Liability risk to be 1/3 of a "Table A" occurrence, 1/2 of a "Table B" occurrence, and 1/6 of a "Table C" occurrence. In each case, the amount of the (fractional) occurrence would remain \$100,000. We describe this process further in the Bayesian-related sections later in this document.

EXCESS AND
UMBRELLA
DATA

As stated, along with the umbrella and excess data reported to ISO under the Commercial Statistical Plan, we include additional data from the ISO Annual Call for Excess and Umbrella Policy Claims. This data enhances the credibility of our increased limit factors, but does not affect the lowest layers.

These excess and umbrella policies have attachment points that exclude smaller losses much the same way as a large deductible would. While we can reconstruct the full size of loss for those occurrences greater than the attachment point of their policy, occurrences below the attachment point are not reported.

When we construct the empirical survival distribution, we exclude occurrences where the attachment points do not meet certain criteria, to avoid bias. We describe this in more detail later in this document. Also, because excess and umbrella data is not reported in class detail, we allocate the data to each table using the same Bayesian procedure that we apply for CRR data.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

MIXED
EXPONENTIAL
MODEL

For each table, we fit a continuous distribution to the lag-weighted occurrence-size distribution from the data. The resulting distribution produces the limited average severity component of the increased limit factor.

Using a continuous distribution (such as the mixed exponential) offers several advantages over using a purely empirical fit, including:

- calculation of limited average severity for all possible limits,
- smoothing of data,
- simplified handling of trend, and
- calculation of higher moments used in risk load.

The fitting procedure uses a mixture of exponential distributions to model indemnity. ISO found that the mixed exponential distribution provides a good fit to empirical data over a wide range of loss sizes, is flexible and is simple to use.

OVERVIEW OF
MIXED
EXPONENTIAL
PROCESS

The major steps in the calculation of the limited average severities of the indemnity are:

1. Trend

Trending the indemnity amount of each occurrence to reflect the expected conditions during the period when the increased limit factors are assumed to be in effect.

2. Construction of the Empirical Survival Distributions

Using the trended data to calculate the empirical survival distributions by payment lag for each table.

3. Payment Lag Process

Combining the empirical distributions for each payment lag to produce an overall empirical survival distribution for each table.

4. Tail of the Distribution

Smoothing the tail of the lag-weighted empirical survival distribution for each table.

5. Fitting a Mixed Exponential Distribution

Fitting a mixed exponential model to the empirical survival distribution.

6. Final Limited Average Severities

Using the fitted mixed exponential distribution to generate limited average severities.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

INDEMNITY
SEVERITY
TREND

For a given payment lag, we expect severity to increase by the inflation rate from accident year to accident year.

If annual inflation is 4.0%, an injury that results in a \$100,000 paid claim in 2017 should cost 1.04 x \$100,000 in 2018. The probability of that particular accident stays the same - only the nominal value of it changes.

To bring different accident years to the same level, we project each occurrence from the average date of its accident year to December 1, 2019, one year beyond the assumed effective date of December 1, 2018. In this filing, we select an annual trend of +5.5% for Products/Completed Operations. This compares to a trend of +6.5% in the most recently filed, 2014 increased limits review.

We selected the annual severity trend factor based on the data from the underlying paid loss development triangles from this increased limits review. Trend indications are currently reviewed on a multistate basis. Manually-rated classes and A-rated classes as well as CRR classes are included in the increased limits development triangles for all significant types of loss related to General Liability.

Exhibit 6 (*Indemnity Severity Trend Selection*) provides the annual paid basic limit and total limits severity trend indications, separately for Products/Completed Operations. We also provide a measure of the goodness-of-fit statistic for each of the various multi-year trend fits.

CONSTRUCTION
OF THE
EMPIRICAL
SURVIVAL
DISTRIBUTIONS

The construction of the empirical survival distributions is based on the Product-Limit Estimator described in Loss Models: From Data to Decisions¹. First, paid (settled) occurrences are organized by accident year and payment lag and trended to the average accident date for which the loss distribution is desired.

Payment lags seven and beyond generally have similar loss sizes and are combined to increase credibility. Other lags are handled individually. We further define payment lag and explain the reasons for its use later in the explanatory materials.

Next, a survival distribution is constructed for each payment lag using discrete loss size layers. The probability that an occurrence exceeds the upper bound of a discrete layer given that it exceeds the lower bound of the layer is known as the conditional survival probability (CSP). The ground-up survival distribution is generated by multiplying the successive CSPs of the discrete layers.

¹ S. A. Klugman, H.H. Panjer, and G. E. Willmot, *Loss Models: From Data to Decisions*, John Wiley and Sons, New York, 2004

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

CONSTRUCTION
OF THE
EMPIRICAL
SURVIVAL
DISTRIBUTIONS
(continued)

This procedure allows for the easy inclusion of censored losses as well as excess, umbrella and deductible data. Two conditions must be met in order for a particular occurrence to be used in the calculation of the conditional survival probability in a particular layer of loss. These conditions are:

- The policy limit (plus attachment point or deductible) must be greater than or equal to the upper bound of the layer of loss. This avoids a downward severity bias by excluding losses that are precluded by their policy limit from penetrating the upper bound of a layer of loss.
- Only those occurrences with attachment points or deductibles less than or equal to the lower bound of the layer of loss are included. This condition is necessary to avoid an upward severity bias since loss information below the attachment point or deductible is unknown.

ILLUSTRATION

An illustration should aid in the conceptual understanding of this construction.

Assume we have twelve occurrences, all for a single payment lag. We will calculate the empirical survival probabilities for three layers using combinations of conditional survival probabilities. The three layers used are \$10,000, \$20,000, and \$40,000 (in practice we begin with layers as small as \$10, but larger layers better illustrate the handling of deductibles and policy limits). The following two pages display sample calculations for these three layers.

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GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

Illustrative Data (Trended) for One Payment Lag

<u>Occurrence ID Number</u>	<u>Occurrence Size</u>	<u>Attachment Point</u>	<u>Policy Limit</u>	<u>Comment</u>
1	5,000	0	15,000	
2	5,000	0	15,000	
3	15,000	0	15,000	Censored Data
4	5,000	7,500	15,000	Deductible Data
5	5,000	0	30,000	
6	15,000	0	30,000	
7	25,000	0	30,000	
8	10,000	15,000	30,000	Excess Data
9	15,000	0	100,000	
10	25,000	0	100,000	
11	30,000	0	100,000	
12	50,000	15,000	100,000	Excess Data

Where attachment point is non-zero, we define policy limit as the maximum payment.

Conditional Survival Probabilities

	<u>Condition:</u>
$CSP_{e_1}(10,000 0) = P(X \geq 10,000 X > 0)$	PL + AP \geq 10,000 AP = 0
$CSP_{e_1}(20,000 10,000) = P(X \geq 20,000 X \geq 10,000)$	PL + AP \geq 20,000 AP \leq 10,000
$CSP_{e_1}(40,000 20,000) = P(X \geq 40,000 X \geq 20,000)$	PL + AP \geq 40,000 AP \leq 20,000

where AP = attachment point, PL = policy limit, X= loss size, e_1 = empirical lag 1

Calculation of Conditional Survival Probability at \$10,000

$CSP_{e_1}(10,000 0) = P(X \geq 10,000 X > 0) =$ number of occurrences with: occurrence size + AP \geq 10,000, <u>policy limit + AP \geq 10,000, and AP = 0</u> number of occurrences with: occurrence size + AP $>$ 0, policy limit + AP \geq 10,000, and AP = 0 $= \frac{6 \text{ (occurrences 3, 6, 7, 9, 10, 11)}}{9 \text{ (occurrences 1, 2, 3, 5, 6, 7, 9, 10, 11)}}$

Only occurrences with policy limit plus attachment point greater than or equal to 10,000 are used. Only occurrences with attachment point equal to zero are used.

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GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

Calculation of Conditional Survival Probability at \$20,000

$\text{CSP}_{e1}(20,000 10,000) = P(X \geq 20,000 X \geq 10,000) =$	number of occurrences with: occurrence size + AP \geq 20,000, <u>policy limit + AP \geq 20,000, and AP \leq 10,000</u> number of occurrences with: occurrence size + AP \geq 10,000, policy limit + AP \geq 20,000, and AP \leq 10,000 $= \frac{3 \text{ (occurrences 7, 10, 11)}}{6 \text{ (occurrences 4, 6, 7, 9, 10, 11)}}$
---	---

Only occurrences with policy limit plus attachment point greater than or equal to 20,000 are used. Only occurrences with attachment point less than or equal to 10,000 are used.

Calculation of Conditional Survival Probability at \$40,000

$\text{CSP}_{e1}(40,000 20,000) = P(X \geq 40,000 X \geq 20,000) =$	number of occurrences with: occurrence size + AP \geq 40,000, <u>policy limit + AP \geq 40,000, and AP \leq 20,000</u> number of occurrences with: occurrence size + AP \geq 20,000, policy limit + AP \geq 40,000, and AP \leq 20,000 $= \frac{1 \text{ (occurrence 12)}}{4 \text{ (occurrences 8, 10, 11, 12)}}$
---	--

Only occurrences with policy limit plus attachment point greater than or equal to 40,000 are used. Only occurrences with attachment point less than or equal to 20,000 are used.

Calculation of Empirical Survival Distribution

The CSPs generate the following empirical survival probabilities:

$$\begin{aligned} S_{e1}(10,000) &= P(X \geq 10,000) = \text{CSP}_{e1}(10,000 | 0) = P(X \geq 10,000 | X > 0) \\ &= 6/9 \end{aligned}$$

$$\begin{aligned} S_{e1}(20,000) &= P(X \geq 20,000) = \text{CSP}_{e1}(10,000 | 0) * \text{CSP}_{e1}(20,000 | 10,000) \\ &= P(X \geq 10,000 | X > 0) * P(X \geq 20,000 | X \geq 10,000) \\ &= 6/9 * 3/6 = 1/3 \end{aligned}$$

$$\begin{aligned} S_{e1}(40,000) &= P(X \geq 40,000) = \text{CSP}_{e1}(10,000 | 0) * \text{CSP}_{e1}(20,000 | 10,000) * \text{CSP}_{e1}(40,000 | 20,000) \\ &= P(X \geq 10,000 | X > 0) * P(X \geq 20,000 | X \geq 10,000) * P(X \geq 40,000 | X \geq 20,000) \\ &= 6/9 * 3/6 * 1/4 = 1/12 \end{aligned}$$

In practice, to generate the trended empirical loss distribution for each lag, we use sixty-eight discrete loss size layers to allow for a refined selection of the tail-smoothing parameters, discussed in the Tail of the Distribution section.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

PAYMENT LAG
PROCESS

Development for paid (settled) data has two aspects. One aspect is that many occurrences are paid within a short period of time after the accident, with a small number taking longer -- sometimes much longer -- to be paid. The second aspect is the tendency of larger occurrences to take longer to be paid.

To properly model an accident year at ultimate, we must include each payment lag with its appropriate weight. We do this by:

- accounting for the rate of payment using the probability-of-payment-lag model, and
- constructing severity distributions by payment lag.

A “lag weighting” procedure then combines the by-lag empirical loss distributions to generate an overall distribution. This procedure implicitly accounts for development as all possible payment lags are represented and given weight at the prospective average accident date. We refer to the distribution of the overall survival probabilities by size of loss as the “empirical survival distribution function (SDF)”.

PAYMENT LAG

Payment lag is the length of time between when an accident occurs and the date when the associated indemnity is paid. In the mixed exponential model, the payment date is the dollar-weighted average of the dates of the indemnity payments. ISO calculates payment lag based on the year in which an accident occurs and the year in which the occurrence is paid:

$$\text{Payment Lag} = (\text{Payment Year} - \text{Accident Year}) + 1$$

Payment lag can vary considerably by line of business and by type of claim. While most property claims are paid quickly, liability claims generally take longer to settle, particularly those involving protracted litigation. Among liability claims, there is considerable variation in payment lag.

DIFFERENCES
IN LOSS SIZES BY
PAYMENT LAG

Generally, occurrences with longer payment lags involve higher loss sizes. For example, the average loss size for occurrences paid in lag 4 will tend to be considerably higher than the average loss size for those paid in lag 1.

The Mixed Exponential Methodology reflects this by fitting (the continuous mixed exponential distribution) to a lag-weighted empirical survival distribution. We do not directly fit to the severity distributions of individual lags.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

PAYMENT LAG
DISTRIBUTION

The payment lag distribution is modeled to avoid distortions that may otherwise result from:

- differing exposure amounts by accident year,
- an asymmetrical experience period with fewer than five accident years for lags eleven through fourteen, and
- a finite number of lags (no data for lags beyond fourteen)

The lag-weighting procedure implicitly accounts for ultimate development, as all possible payment lags are represented and given weight at the prospective average accident date.

The payment lag model uses three parameters (R1, R2, and R3) to generate the weights given to the severity distribution associated with each payment lag. The parameters can be represented as follows:

$$R1 = \frac{\text{expected percentage of occurrences paid in lag 2}}{\text{expected percentage of occurrences paid in lag 1}}$$

$$R2 = \frac{\text{expected percentage of occurrences paid in lag 3}}{\text{expected percentage of occurrences paid in lag 2}}$$

$$R3 = \frac{\text{expected percentage of occurrences paid in lag } (n+1)}{\text{expected percentage of occurrences paid in lag } (n)}, \text{ for all } n \geq 3$$

The weights for each lag are then determined as follows:

$$\text{lag 1 weight} = 1 / k, \text{ where } k = \{1 + R1 + [R1 \cdot R2] / [1 - R3]\}$$

$$\text{lag 2 weight} = R1 / k$$

$$\text{lag 3 weight} = R1 \cdot R2 / k$$

$$\text{lag 4 weight} = R1 \cdot R2 \cdot R3 / k$$

$$\text{lag 5 weight} = R1 \cdot R2 \cdot R3^2 / k$$

$$\text{lag 6 weight} = R1 \cdot R2 \cdot R3^3 / k$$

$$\text{lag 7 weight} = R1 \cdot R2 \cdot [R3^4 / (1 - R3)] / k,$$

Note that the lag 7 weight includes lag 7 and all subsequent lags.

The lag weights represent the percentage of ground-up occurrences in each lag. Therefore, occurrences from deductible, umbrella or excess policies with non-zero attachment points are not included.

METHOD OF
ESTIMATION:
PAYMENT LAG
PARAMETERS

For stability, we calculate the payment lag parameters (R1, R2 and R3) via maximum likelihood. A non-CRR occurrence with accident year *a* and payment lag *l* is reflected in the likelihood function by the probability that the lag equals *l* given that the accident year equals *a*. This conditional probability can be easily expressed in terms of the payment lag parameters.

NEW JERSEY
 GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

METHOD OF
 ESTIMATION:
 PAYMENT LAG
 PARAMETERS
 (continued)

For a CRR occurrence, the probability that the loss comes from a given table is computed by the procedure described later in the Bayesian-related sections. Each CRR occurrence generates several probabilities, one for each table. These probabilities are treated as fractional occurrences in the likelihood function.

Exhibit 7 (*Payment Lag Parameters and Lag Weights*) shows the resulting values of these parameters.

TAIL OF THE
 DISTRIBUTION

For the higher limits of liability, experience may be sparse in the tail of the distribution. To account for this, and to limit random fluctuations in the higher limits between consecutive reviews, we implicitly smooth the tails of the empirical multistate distributions. We select truncation points above which empirical survival distribution functions can be relatively less stable. The truncation points in this filing are:

Line/State Group	Table A	Table B	Table C
Products CW	3,000,000	2,250,000	1,200,000

Then we select a parametric curve family that successfully models the behavior of the empirical distributions in the layers around the truncation point. During this process, we examine which curve parameters would minimize the overall severity difference between the empirical and smoothed distributions. The resulting curve is used to extrapolate the empirical distributions above the truncation point. The empirical distributions below the truncation point are unaffected by this procedure.

This procedure smooths the tail of the empirical distributions by extending relationships from the highest credible limits (those limits around the truncation point) to those limits above the truncation point. We then fit a mixed exponential distribution to the resulting SDF for each increased limits table.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

FITTING A MIXED EXPONENTIAL DISTRIBUTION ISO models the lag-weighted empirical survival distribution function for each table with the best fitting mixed exponential distribution. The lag-weighted SDFs reflect smoothing and, if applicable, credibility weighting. The resulting mixed exponential distribution produces the limited average severity component of the increased limit factor.

THE SIMPLE EXPONENTIAL DISTRIBUTION To understand the mixed exponential distribution, first consider the simple exponential distribution. The simple exponential is a one-parameter distribution. The formulas for the survival distribution function (SDF(x)) and the limited average severity (LAS) at a given policy limit (PL) for an exponential distribution with mean parameter μ are given by:

$$\text{SDF}(x) = e^{-\left(\frac{x}{\mu}\right)} = 1 - \text{CDF}(x)$$

$$\text{LAS}(\text{PL}) = \mu \left[1 - e^{-\left(\frac{\text{PL}}{\mu}\right)} \right]$$

THE MIXED EXPONENTIAL DISTRIBUTION The mixed exponential distribution is a weighted average of exponential distributions. Each exponential distribution has two parameters, a mean μ_i and a weight w_i . Note that the SDF at zero is unity, and the weights sum to 1.000000.

The formulas for the survival distribution function and limited average severity for the mixed exponential distribution are the weighted averages of the respective single exponential formulas:

$$\text{SDF}(x) = \sum_i \left[w_i e^{-\left(\frac{x}{\mu_i}\right)} \right]$$

$$\text{LAS}(\text{PL}) = \sum_i w_i \mu_i \left[1 - e^{-\left(\frac{\text{PL}}{\mu_i}\right)} \right]$$

ISO found that the mixed exponential distribution is flexible and simple to use and provides a good fit to empirical data over a wide range of loss sizes. In fact, any distribution whose probability density function (pdf) has alternating derivatives:

$$\begin{aligned} \text{pdf}(x) &> 0, \\ d \text{ pdf}(x)/dx &< 0, \\ d^2 \text{ pdf}(x)/dx^2 &> 0, \\ d^3 \text{ pdf}(x)/dx^3 &< 0, \text{ etc., for all } x > 0, \end{aligned}$$

can be constructed as a mixture of exponentials with positive means and weights. Such distributions (including the mixed Pareto, if it has a finite mean) can be thought of as special cases of the mixed exponential distribution.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

THE MIXED
EXPONENTIAL
DISTRIBUTION
SEVERITY
PARAMETERS

ISO estimates the mixed exponential distribution parameters using minimum distance estimation. We compare the model SDF to the empirical SDF at each of the discrete loss size layers resulting from the construction.

We seek a mixed exponential distribution that minimizes the weighted sum of the square of the differences of these survival probabilities (model minus empirical) taken at each loss size layer. This procedure is known as the “minimum distance” method.

The number of exponential distributions needed to produce an optimal fit to the empirical SDF may vary by table and is allowed to be as large as necessary.

For General Liability, we allow means up to \$100 million, to follow the smoothed empirical distribution in layers above \$10 million more closely. Allowing means up to \$100 million tends to increase the number of means (and weights) for the fitted distribution in a given table, while having minimal effect on limits up to \$10 million, the highest limit for which we publish increased limit factor information.

Exhibit 8 (*Parameters for Mixed Exponential Distributions*) displays the mixed exponential parameters (means and weights) for each increased limits table.

MAY NOT BE
APPLICABLE FOR
ALL POLICY
LIMITS

ISO’s standard increased limits tables (shown in **Exhibits 3 through 5**) provide increased limit factors up to the \$10,000,000 per occurrence policy limit. **We encourage the use of supplemental sources of information for analysis of layers above \$10,000,000.**

FINAL LIMITED
AVERAGE
SEVERITIES

ISO calculates the limited average severities using the fitted mixed exponential distributions for each table. The *Mixed Exponential Distribution* section gives the formula for the limited average severity of a mixed exponential distribution. **Exhibit 8** (*Parameters for Mixed Exponential Distributions*) shows the individual by-table severity parameters used in this formula for each increased limits table.

Exhibit 9 (*Comparison of Limited Average Severities*) compares the fitted limited average severities to the empirical limited average severities. The empirical limited average severities are constructed in a manner analogous to the empirical survival distributions. The same conditions and assumptions are used in combination with actual trended loss amounts in each layer.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

BAYESIAN
ANALYSIS

As stated, we utilize a Bayesian approach to allocate CRR, excess and umbrella occurrences to each increased limits table. For each payment lag, the Bayesian analysis is as follows:

$$P(\text{Table} | \text{Indemnity}) = \frac{P(\text{Indemnity} | \text{Table}) \times P(\text{Table})}{\sum P(\text{Indemnity} | \text{Table}) \times P(\text{Table})}$$

The sum in the denominator is over all tables.

Here $P(\text{Table} | \text{Indemnity})$ is the conditional probability (within the payment lag) that an occurrence comes from the specified table, given the indemnity amount.

$P(\text{Table})$ is the marginal probability (within the payment lag) that an occurrence comes from the specified table.

Clearly, the table probabilities sum to one:

$$\sum P(\text{Table} | \text{Indemnity}) = 1;$$

that is, 100% of each occurrence is allocated.

We estimate $P(\text{Table})$ as the ratio of two sums:

$$P(\text{Table}) = \frac{\# \text{ of occurrences with known table in this table}}{\# \text{ of occurrences with known table in all tables}}$$

Here we restrict both the numerator and denominator to the payment lag under consideration.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

BAYESIAN
ALLOCATION
AND EMPIRICAL
SURVIVAL
DISTRIBUTIONS

For an occurrence with unknown table not censored by policy limits, we use:

$$P(\text{Indemnity} \mid \text{Table}) = f(\text{Indemnity Layer}),$$

where $f(\text{Indemnity Layer})$ is the empirical probability of an occurrence being in the indemnity layer. This empirical probability is the difference of the empirical SDF (for the table-payment lag combination) between the top and the bottom of the layer.

For an occurrence with unknown table censored by policy limits, we use:

$$P(\text{Indemnity} \mid \text{Table}) = \text{SDF}(\text{Indemnity Layer}),$$

where $\text{SDF}(\text{Indemnity Layer})$ is the empirical SDF evaluated at the bottom of a layer, for the table-payment lag combination.

ALLOCATED
DATA IN
PROBABILITY-
OF-PAYMENT-
LAG MODEL

We allocate CRR data to tables within an accident year and payment lag using the Bayesian analysis described in previous section. We then have revised occurrence counts by accident year, payment lag, and table. These counts include fractional occurrences from the CRR data. These counts are the raw data for our probability-of-payment-lag model.

We do not include excess and umbrella data, or deductible data, in the probability-of-payment-lag model. This avoids bias from not including unreported occurrences smaller than the policy attachment points or deductibles.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

ALLOCATED
LOSS
ADJUSTMENT
EXPENSE

The standard liability policy contains a policy limit which represents the maximum amount an insurer will pay for any loss for which the insured is liable. However, the limit does not apply to the loss adjustment expenses. For this reason, we estimate ALAE per occurrence as a single amount that does not vary by policy limit.

For each table, we estimate allocated loss adjustment expense (ALAE) per occurrence as the product of two numbers. The first number is the ratio of paid ALAE to paid total limits (all limits combined) indemnity. The second number is the average (across all policy limits) limited average severity calculated from the mixed exponential model.

In order to calculate the ALAE per occurrence, we first calculate the ratio of dollars of ALAE to dollars of total limits indemnity for the seven next-to-latest available accident years (the latest accident year is excluded from the average because its development tends to be less stable). We develop these ratios to ultimate maturity.

To further enhance stability, we use a best 5-of-7 criterion and eliminate the lowest and highest paid ratios. We then average the best 5-of-7 paid ratios to determine the overall ALAE to total limits indemnity ratio for each table.

The fitted total limits average severity for each table is a weighted average of the limited average severities at the different policy limits. The weights used are occurrences from the second, third and fourth latest accident years.

For each table, the multi-year average ALAE to total limits indemnity ratio is then multiplied by the final fitted total limits average severity in order to calculate the ALAE per occurrence provision for use in computing increased limit factors. The total limits average severity reflects trend to the average prospective accident date. This effectively contemplates trend in ALAE in a more stable manner than relying on a separate trend analysis of ALAE.

Exhibit 10 (*Calculation of Allocated Loss Adjustment Expense per Occurrence*) shows the calculation of the allocated loss adjustment expense component for Products/Completed Operations Liability.

UNALLOCATED
LOSS
ADJUSTMENT
EXPENSE

We calculate the unallocated loss adjustment expense at each limit of liability as a percentage of the sum of the limited average severity and the ALAE at that liability limit. For this filing, we select the ULAE load of 8.5% based on a five-year average of multistate financial data reported to ISO.

Exhibit 11 (*Development of Unallocated Loss Adjustment Expense Factor*) shows the derivation of this factor.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

RISK LOAD

Our increased limits methodology incorporates a procedure to reflect the relatively higher risk or variation in experience associated with higher limit policies. The model that we use, the Competitive Market Equilibrium Risk Load Model¹, assumes that the insurance marketplace is competitive and efficient. In a competitive marketplace, individual insurers cannot influence the marketplace price. While individual insurers cannot influence the risk associated with a given policy limit, they will attempt to maximize their expected net revenue by choosing which lines and policy limits to write. This assumption is consistent with rational economic behavior and is reinforced by solvency regulation.

In an efficient marketplace, the supply of insurance matches the demand. ISO uses the distribution of basic limit losses by policy limit to represent the market demand for insurance at each limit. The model determines a set of risk loads that match supply and demand at each policy limit.

The variability of losses is caused by process risk and parameter risk:

- Process risk reflects the inherent uncertainty of the insurance process. Even if one could estimate expected losses exactly, actual losses will almost certainly differ from the expected. We derive the process risk component from the parameters of the indemnity severity distribution.
- Parameter risk reflects the risk of not estimating expected losses accurately. The derivation of the parameter risk component is based on the historical variation of losses.

These two risk elements combined comprise the total risk load at each policy limit.

ISO's risk load formulas use a parameter, lambda (λ), which governs the total amount of risk load over all policy limits for (non-professional) commercial liability tables. We determine lambda so that the ratio of the average indicated increased limit factor with risk load to the average indicated increased limit factor without risk load is equal to 1.06 for all General and Commercial Automobile Liability tables combined. For this state group, this ratio is 1.104 for Products/Completed Operations Liability.

Exhibit 12 (*Risk Load Parameters*) shows parameters used in the calculation of risk load.

¹ G. G. Meyers, *Competitive Market Equilibrium Risk Load Model for Increased Limits Ratemaking*, Proceedings of the Casualty Actuarial Society, Volume LXXVIII, 1991

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

RISK LOAD FORMULAS AND PARAMETERS

The following are the formulas underlying ISO's risk load model.

The risk load formulas incorporate parameter risk using a parameter transformation. In the following formulas, we use the notation $AVSEV(PL, \alpha)$ and $SECM(PL, \alpha)$ to represent the limited moments of a transformed loss size distribution. The distribution is transformed by multiplying all occurrences by the constant " α ". $AVSEV$ represents the limited average severity and $SECM$ represents the limited second moment of the transformed distribution. The following formulas represent an approximation of the effect of parameter risk on the severity distribution:

$$AVSEV(PL, \alpha) = \alpha \times LAS(PL/\alpha)$$

$$SECM(PL, \alpha) = \alpha^2 \times SECM(PL/\alpha)$$

The formula for the $LAS(PL)$ and $SECM(PL)$ of a mixed exponential are as follows:

$$LAS(PL) = \sum_i w_i \mu_i [1 - \exp(-PL / \mu_i)]$$
$$SECM(PL) = \sum_i 2 w_i \mu_i^2 \left[1 - \left(1 + \frac{PL}{\mu_i} \right) \exp\left(-\frac{PL}{\mu_i} \right) \right]$$

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

RISK LOAD FORMULAS AND PARAMETERS

(1) *Total Risk Load*

The vector of risk load amounts for a particular increased limits table, \mathbf{R} , is:

$$\mathbf{R} = \lambda[\mathbf{U} + 2(\mathbf{V}^a \cdot \bar{\mathbf{n}}^a + \mathbf{V}^c \cdot \bar{\mathbf{n}}^c)]$$

where

λ = the factor which reflects the overall impact of risk load over General and Commercial Automobile Liability. ISO selected this parameter so that the average increased limit factor with risk load divided by the average increased limit factor without risk load equals 1.06.

\mathbf{U} = the vector of risk elements corresponding to process risk. Its j^{th} component is u_j , corresponding to the j^{th} policy limit.

\mathbf{V}^a = the matrix describing severity parameter risk.

Products/Completed Operations Liability (multistate):

$\bar{\mathbf{n}}^a$ = the vector of the multistate expected number of occurrences per insurer in the particular increased limits table. The j^{th} component of $\bar{\mathbf{n}}^a$ is computed as follows: the basic limit loss weight for that policy limit in the increased limits table (as a percentage) is multiplied by n_{bara} , the multistate expected number of occurrences per insurer, in the particular increased limits table, for all limits combined.

\mathbf{V}^c = the matrix describing frequency parameter risk.

Products/Completed Operations Liability (multistate):

$\bar{\mathbf{n}}^c$ = the vector of the multistate expected average number of occurrences per insurer for all tables combined. The j^{th} component of $\bar{\mathbf{n}}^c$ is computed as follows: the basic limit loss weight for that policy limit in the increased limits table (as a percentage) is multiplied by the Products/Completed Operations n_{barc} , which is the expected average number of occurrences per insurer for all tables and limits combined.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

RISK LOAD FORMULAS AND PARAMETERS

(2) *Process Risk Load*

The process risk component of the risk load is given by $\lambda \times U$. The component u_j , associated with the j^{th} limit, is:

$$u_j = E_{\alpha}[\text{SECM}(PL_j, \alpha)] + d \cdot E_{\alpha}[\text{AVSEV}(PL_j, \alpha)^2]$$

where:

- α = random variable with mean 1 and variance a. α represents severity parameter risk.
- a = .001 (based on a special ISO study).
- 1 + d = variance-to-mean ratio for occurrence count distribution, contingent on parameters being known. (In other words, if there were no frequency parameter risk, the variance-to-mean ratio would be 1+d.)
- E_{α} = expected value across all values of the parameter α .

Let: $\alpha_1 = 1 - \sqrt{3a}$; $\alpha_2 = 1$; $\alpha_3 = 1 + \sqrt{3a}$;

The Gauss-Hermite approximation² provides a discrete approximation for the expected value of a function $G(\alpha)$ across all values of the normally distributed random variable α :

$$E_{\alpha}[G(\alpha)] = (1/6)G(\alpha_1) + (2/3)G(\alpha_2) + (1/6)G(\alpha_3)$$

for any function $G(\alpha)$.

(3) *Parameter Risk Load*

The parameter risk component of the risk load is given by $\lambda \times 2 \times (\mathbf{V}^c \cdot \bar{\mathbf{n}}^c + \mathbf{V}^a \cdot \bar{\mathbf{n}}^a)$.

Evaluation of \mathbf{V}^c

$$\begin{aligned} v_{ij}^c &= \text{element of } \mathbf{V}^c \text{ corresponding to } i^{\text{th}} \text{ limit, } j^{\text{th}} \text{ limit} \\ &= c \times E_{\alpha}[\text{AVSEV}(PL_i, \alpha) \cdot \text{AVSEV}(PL_j, \alpha)] \end{aligned}$$

c = parameter quantifying frequency parameter risk (“c” does for frequency what “a” does for severity). Values vary by line based on a special ISO study.

Evaluation of \mathbf{V}^a

$$\begin{aligned} v_{ij}^a &= \text{element of } \mathbf{V}^a \text{ corresponding to } i^{\text{th}} \text{ limit, } j^{\text{th}} \text{ limit} \\ &= E_{\alpha}[\text{AVSEV}(PL_i, \alpha) \cdot \text{AVSEV}(PL_j, \alpha)] - E_{\alpha}[\text{AVSEV}(PL_i, \alpha)] \cdot E_{\alpha}[\text{AVSEV}(PL_j, \alpha)] \end{aligned}$$

²A. Ralston, *A First Course in Numerical Analysis*, McGraw-Hill, 1965

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GENERAL LIABILITY INCREASED LIMIT FACTORS

SUPPORTING MATERIAL

SUMMARY

In summary, we calculate limited average severities from a continuous model of occurrence size. In this model, we fit mixed exponential distributions to trended lag-weighted occurrence-size distributions.

We calculate allocated loss adjustment expense per occurrence that does not vary by policy limit. We calculate unallocated loss adjustment expense by limit as a percentage of the sum of the limited average severity and allocated loss adjustment expense. We calculate risk load amounts reflecting process and parameter risk.

Finally, we calculate the sum of the limited average severity, allocated loss adjustment expense, unallocated loss adjustment expense, and risk load. The ratio of this sum at the limit desired to this sum at the basic limit is the per occurrence increased limit factor.

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GENERAL LIABILITY INCREASED LIMIT FACTORS

MANUAL PAGES

REVISED INCREASED LIMIT FACTORS

(Limits are in thousands)

**RULE 56.
INCREASED LIMITS TABLES**

4. Products/Completed Operations (Subline Code 336) Table A - \$100/200 Basic Limit

Aggregate	Per Occurrence						
	\$ 25	50	100	200	300	500	1,000
\$ 50	<u>0.740-75</u>	<u>0.840-82</u>					
100	<u>0.750-76</u>	0.87	<u>0.980-96</u>				
200	<u>0.760-77</u>	0.88	1.00	1.10			
300	<u>0.770-78</u>	0.89	1.01	1.11	1.18		
500		0.91	1.03	1.13	1.20	<u>1.304-29</u>	
600		0.92	1.04	1.14	1.21	<u>1.314-30</u>	
1,000			1.05	1.15	1.22	<u>1.324-34</u>	1.44
1,500				1.16	1.23	<u>1.334-32</u>	1.45
2,000				1.17	1.24	<u>1.344-33</u>	1.46
2,500					1.25	<u>1.354-34</u>	1.47
3,000					1.26	<u>1.364-35</u>	1.48

The following factors MUST be referred to company before using.

Aggregate	Per Occurrence							
	\$ 500	1,000	1,500	2,000	3,000	4,000	5,000	10,000
\$ 1,500			<u>1.544-53</u>					
2,000			<u>1.554-54</u>	1.60				
2,500			<u>1.564-55</u>	1.61				
3,000			<u>1.574-56</u>	1.62	1.71			
4,000	<u>1.374-36</u>	1.49	<u>1.584-57</u>	1.63	1.72	<u>1.804-78</u>		
5,000	<u>1.384-37</u>	1.50	<u>1.594-58</u>	1.64	1.73	<u>1.814-79</u>	<u>1.874-85</u>	
10,000		1.51	<u>1.604-59</u>	1.65	1.74	<u>1.824-80</u>	<u>1.884-86</u>	<u>2.102-04</u>
20,000								<u>2.112-05</u>

Table 56.B.4 Products/Completed Operations (Subline Code 336) Table A - \$100/200 Basic Limit

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

MANUAL PAGES

REVISED INCREASED LIMIT FACTORS

(Limits are in thousands)

**RULE 56.
INCREASED LIMITS TABLES**

5. Products/Completed Operations (Subline Code 336) Table B - \$100/200 Basic Limit

Aggregate	Per Occurrence						
	\$ 25	50	100	200	300	500	1,000
\$ 50	0.73	<u>0.810-79</u>					
100	<u>0.740-75</u>	0.85	<u>0.960-93</u>				
200	<u>0.750-76</u>	<u>0.860-87</u>	1.00	<u>1.134-44</u>			
300	<u>0.760-77</u>	<u>0.870-88</u>	1.01	<u>1.144-46</u>	<u>1.244-23</u>		
500		<u>0.890-90</u>	1.03	<u>1.164-48</u>	<u>1.264-28</u>	<u>1.394-40</u>	
600		<u>0.900-94</u>	1.04	<u>1.174-49</u>	<u>1.274-29</u>	<u>1.404-42</u>	
1,000			1.05	<u>1.184-20</u>	<u>1.284-30</u>	<u>1.414-44</u>	<u>1.584-62</u>
1,500				<u>1.194-24</u>	<u>1.294-34</u>	<u>1.424-45</u>	<u>1.594-63</u>
2,000				<u>1.204-22</u>	<u>1.304-32</u>	<u>1.434-46</u>	<u>1.604-64</u>
2,500					<u>1.314-33</u>	<u>1.444-47</u>	<u>1.614-65</u>
3,000					<u>1.324-34</u>	<u>1.454-48</u>	<u>1.624-66</u>

The following factors MUST be referred to company before using.

Aggregate	Per Occurrence							
	\$ 500	1,000	1,500	2,000	3,000	4,000	5,000	10,000
\$ 1,500			<u>1.704-76</u>					
2,000			<u>1.714-77</u>	<u>1.794-86</u>				
2,500			<u>1.724-78</u>	<u>1.804-87</u>				
3,000			<u>1.734-79</u>	<u>1.814-88</u>	<u>1.942-00</u>			
4,000	<u>1.464-49</u>	<u>1.634-67</u>	<u>1.744-80</u>	<u>1.824-89</u>	<u>1.952-04</u>	<u>2.052-44</u>		
5,000	<u>1.474-50</u>	<u>1.644-68</u>	<u>1.754-84</u>	<u>1.834-90</u>	<u>1.962-02</u>	<u>2.062-42</u>	<u>2.142-19</u>	
10,000		<u>1.654-69</u>	<u>1.764-82</u>	<u>1.844-94</u>	<u>1.972-03</u>	<u>2.072-43</u>	<u>2.152-20</u>	<u>2.422-46</u>
20,000								<u>2.432-47</u>

Table 56.B.5 Products/Completed Operations (Subline Code 336) Table B - \$100/200 Basic Limit

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

MANUAL PAGES

REVISED INCREASED LIMIT FACTORS

(Limits are in thousands)

**RULE 56.
INCREASED LIMITS TABLES**

6. Products/Completed Operations (Subline Code 336) Table C - \$100/200 Basic Limit

Aggregate	Per Occurrence						
	\$ 25	50	100	200	300	500	1,000
\$ 50	<u>0.720-73</u>	0.78					
100	<u>0.730-75</u>	0.84	<u>0.930-92</u>				
200	<u>0.740-76</u>	<u>0.850-87</u>	1.00	<u>1.144-12</u>			
300	<u>0.750-77</u>	<u>0.860-88</u>	<u>1.014-02</u>	1.18	<u>1.294-26</u>		
500		<u>0.880-90</u>	<u>1.034-04</u>	<u>1.204-22</u>	<u>1.344-35</u>	<u>1.504-48</u>	
600		<u>0.890-94</u>	<u>1.044-05</u>	<u>1.214-23</u>	<u>1.354-36</u>	1.52	
1,000			<u>1.054-06</u>	<u>1.224-24</u>	<u>1.364-38</u>	<u>1.554-58</u>	<u>1.824-84</u>
1,500				<u>1.234-25</u>	<u>1.374-39</u>	<u>1.564-60</u>	<u>1.834-90</u>
2,000				<u>1.244-26</u>	<u>1.384-40</u>	<u>1.574-64</u>	<u>1.844-94</u>
2,500					<u>1.394-44</u>	<u>1.584-62</u>	<u>1.854-92</u>
3,000					<u>1.404-42</u>	<u>1.594-63</u>	<u>1.864-93</u>

The following factors MUST be referred to company before using.

Aggregate	Per Occurrence							
	\$ 500	1,000	1,500	2,000	3,000	4,000	5,000	10,000
\$ 1,500			<u>2.022-05</u>					
2,000			<u>2.032-10</u>	<u>2.162-24</u>				
2,500			<u>2.042-11</u>	<u>2.172-24</u>				
3,000			<u>2.052-12</u>	<u>2.182-25</u>	<u>2.352-42</u>			
4,000	<u>1.604-64</u>	<u>1.874-94</u>	<u>2.062-13</u>	<u>2.192-26</u>	<u>2.362-44</u>	<u>2.502-56</u>		
5,000	<u>1.614-65</u>	<u>1.884-95</u>	<u>2.072-14</u>	<u>2.202-27</u>	<u>2.372-45</u>	<u>2.512-59</u>	<u>2.612-68</u>	
10,000		<u>1.894-96</u>	<u>2.082-15</u>	<u>2.212-28</u>	<u>2.382-46</u>	<u>2.522-60</u>	<u>2.632-74</u>	<u>2.993-06</u>
20,000								<u>3.003-08</u>

Table 56.B.6 Products/Completed Operations (Subline Code 336) Table C - \$100/200 Basic Limit

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

SUMMARY OF INCREASED LIMIT FACTOR CHANGES

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

TABLE A

Policy Limit (\$,000)	State Group Basic Limit Loss Weight	Current Increased Limit Factor	Indicated Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
100	0.0000	1.00	1.00	0.0%	1.00	0.0%
200	0.0000	1.13	1.14	0.9%	1.14	0.9%
250	0.0000	1.18	1.18	0.0%	1.18	0.0%
300	0.0000	1.21	1.22	0.8%	1.22	0.8%
500	0.0028	1.32	1.33	0.8%	1.33	0.8%
750	0.0000	1.41	1.42	0.7%	1.42	0.7%
1,000	0.9834	1.47	1.48	0.7%	1.48	0.7%
1,500	0.0000	1.57	1.58	0.6%	1.58	0.6%
2,000	0.0105	1.64	1.64	0.0%	1.64	0.0%
3,000	0.0000	1.73	1.74	0.6%	1.74	0.6%
5,000	0.0033	1.85	1.88	1.6%	1.88	1.6%
<u>10,000</u>	<u>0.0000</u>	<u>2.05</u>	<u>2.11</u>	<u>2.9%</u>	<u>2.11</u>	<u>2.9%</u>
TOTAL	1.0000	1.473	1.483	0.7%	1.483	0.7%

TABLE B

Policy Limit (\$,000)	State Group Basic Limit Loss Weight	Current Increased Limit Factor	Indicated Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
100	0.0001	1.00	1.00	0.0%	1.00	0.0%
200	0.0000	1.17	1.17	0.0%	1.17	0.0%
250	0.0000	1.23	1.23	0.0%	1.23	0.0%
300	0.0000	1.28	1.28	0.0%	1.28	0.0%
500	0.0165	1.43	1.41	-1.4%	1.41	-1.4%
750	0.0000	1.55	1.53	-1.3%	1.53	-1.3%
1,000	0.9649	1.64	1.61	-1.8%	1.61	-1.8%
1,500	0.0000	1.77	1.74	-1.7%	1.74	-1.7%
2,000	0.0145	1.87	1.83	-2.1%	1.83	-2.1%
3,000	0.0000	2.00	1.97	-1.5%	1.97	-1.5%
5,000	0.0040	2.17	2.15	-0.9%	2.15	-0.9%
<u>10,000</u>	<u>0.0000</u>	<u>2.43</u>	<u>2.42</u>	<u>-0.4%</u>	<u>2.42</u>	<u>-0.4%</u>
TOTAL	1.0000	1.642	1.612	-1.8%	1.612	-1.8%

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS
SUMMARY OF INCREASED LIMIT FACTOR CHANGES
PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

TABLE C

Policy Limit (\$,000)	State Group Basic Limit Loss Weight	Current Increased Limit Factor	Indicated Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
100	0.0019	1.00	1.00	0.0%	1.00	0.0%
200	0.0000	1.20	1.20	0.0%	1.20	0.0%
250	0.0000	1.28	1.28	0.0%	1.28	0.0%
300	0.0000	1.34	1.35	0.7%	1.35	0.7%
500	0.0040	1.55	1.54	-0.6%	1.54	-0.6%
750	0.0000	1.73	1.72	-0.6%	1.72	-0.6%
1,000	0.8580	1.87	1.85	-1.1%	1.85	-1.1%
1,500	0.0000	2.07	2.04	-1.4%	2.04	-1.4%
2,000	0.0095	2.20	2.18	-0.9%	2.18	-0.9%
3,000	0.0000	2.39	2.37	-0.8%	2.37	-0.8%
5,000	0.0274	2.63	2.61	-0.8%	2.61	-0.8%
<u>10,000</u>	<u>0.0992</u>	<u>2.99</u>	<u>2.98</u>	<u>-0.3%</u>	<u>2.98</u>	<u>-0.3%</u>
TOTAL	1.0000	2.002	1.983	-0.9%	1.983	-0.9%

SUMMARY

Table	Basic Limit Loss Weight	Current Average Increased Limit Factor	Indicated Average Increased Limit Factor	Indicated Percent Change	Selected Increased Limit Factor	Selected Percent Change
Table A	0.1654	1.473	1.483	0.7%	1.483	0.7%
Table B	0.5841	1.642	1.612	-1.8%	1.612	-1.8%
<u>Table C</u>	<u>0.2505</u>	<u>2.002</u>	<u>1.983</u>	<u>-0.9%</u>	<u>1.983</u>	<u>-0.9%</u>
TOTAL	1.0000	1.704	1.684	-1.2%	1.684	-1.2%

Explanation for this exhibit is provided on page A-1.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

COMPARISON OF CURRENT AND REVISED
OCCURRENCE/AGGREGATE INCREASED LIMIT FACTORS

Products/Completed Operations Liability

		(1)	(2)	(3)
	Policy Limit (\$,000) (Occurrence/ <u>Aggregate</u>)	Current Factor (100/200 <u>Basic Limit</u>)	Revised Factor (100/200 <u>Basic Limit</u>)	$[(2)-(1)]/(1)$ <u>Percent Change</u>
<u>Table</u> A	300/600	1.21	1.21	0.0%
	500/1,000	1.31	1.32	0.8%
	1,000/2,000	1.46	1.46	0.0%
	2,000/4,000	1.63	1.63	0.0%
B	300/600	1.29	1.27	-1.6%
	500/1,000	1.44	1.41	-2.1%
	1,000/2,000	1.64	1.60	-2.4%
	2,000/4,000	1.89	1.82	-3.7%
C	300/600	1.36	1.35	-0.7%
	500/1,000	1.58	1.55	-1.9%
	1,000/2,000	1.91	1.84	-3.7%
	2,000/4,000	2.26	2.19	-3.1%

Explanation for this exhibit is provided on page A-1.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF INDICATED INCREASED LIMIT FACTORS

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

TABLE A

(1)	(2) ^a	(3)	(4)	(5)	(6)	(7) ^b	(8)
Policy Limit (\$,000)	Limited Average Severity	ALAE per Occurrence	ULAE per Occurrence	Process Risk Load	Parameter Risk Load	Indicated Increased Limit Factor	Selected Increased Limit Factor
100	12,350	7,722	1,706	167	1,432	1.00	1.00
200	14,917	7,722	1,924	320	1,732	1.14	1.14
250	15,731	7,722	1,994	392	1,827	1.18	1.18
300	16,385	7,722	2,049	462	1,903	1.22	1.22
500	18,212	7,722	2,204	733	2,117	1.33	1.33
750	19,687	7,722	2,330	1,068	2,289	1.42	1.42
1,000	20,714	7,722	2,417	1,392	2,409	1.48	1.48
1,500	22,052	7,722	2,531	1,984	2,566	1.58	1.58
2,000	22,910	7,722	2,604	2,515	2,666	1.64	1.64
2,500	23,534	7,722	2,657	3,011	2,739	1.70	1.70
3,000	24,024	7,722	2,698	3,486	2,797	1.74	1.74
4,000	24,763	7,722	2,761	4,390	2,883	1.82	1.82
5,000	25,301	7,722	2,807	5,236	2,946	1.88	1.88
10,000	26,738	7,722	2,929	8,817	3,115	2.11	2.11

^a Reflects trend to prospective average accident date of December 1, 2019 and development to ultimate maturity.

^b Reflects only per-occurrence limitation. Derived by taking the ratio of columns [(2) + (3) + (4) + (5) + (6)] at the policy limit to columns [(2) + (3) + (4) + (5) + (6)] at the basic limit (\$100,000).

Explanation for this exhibit is provided on pages B-1 and B-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF INDICATED INCREASED LIMIT FACTORS

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

TABLE B

(1)	(2) ^a	(3)	(4)	(5)	(6)	(7) ^b	(8)
Policy Limit (\$,000)	Limited Average Severity	ALAE per Occurrence	ULAE per Occurrence	Process Risk Load	Parameter Risk Load	Indicated Increased Limit Factor	Selected Increased Limit Factor
100	23,460	27,952	4,370	465	6,416	1.00	1.00
200	30,956	27,952	5,007	985	8,483	1.17	1.17
250	33,454	27,952	5,220	1,235	9,174	1.23	1.23
300	35,483	27,952	5,392	1,477	9,736	1.28	1.28
500	41,095	27,952	5,869	2,390	11,290	1.41	1.41
750	45,556	27,952	6,248	3,481	12,523	1.53	1.53
1,000	48,706	27,952	6,516	4,535	13,396	1.61	1.61
1,500	52,999	27,952	6,881	6,524	14,588	1.74	1.74
2,000	55,881	27,952	7,126	8,372	15,390	1.83	1.83
2,500	58,003	27,952	7,306	10,107	15,980	1.90	1.90
3,000	59,648	27,952	7,446	11,742	16,439	1.97	1.97
4,000	62,056	27,952	7,651	14,746	17,111	2.07	2.07
5,000	63,754	27,952	7,795	17,462	17,586	2.15	2.15
10,000	68,209	27,952	8,174	28,681	18,831	2.42	2.42

^a Reflects trend to prospective average accident date of December 1, 2019 and development to ultimate maturity.

^b Reflects only per-occurrence limitation. Derived by taking the ratio of columns [(2) + (3) + (4) + (5) + (6)] at the policy limit to columns [(2) + (3) + (4) + (5) + (6)] at the basic limit (\$100,000).

Explanation for this exhibit is provided on pages B-1 and B-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF INDICATED INCREASED LIMIT FACTORS

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

TABLE C

(1)	(2) ^a	(3)	(4)	(5)	(6)	(7) ^b	(8)
Policy Limit (\$,000)	Limited Average Severity	ALAE per Occurrence	ULAE per Occurrence	Process Risk Load	Parameter Risk Load	Indicated Increased Limit Factor	Selected Increased Limit Factor
100	34,965	59,047	7,991	885	18,037	1.00	1.00
200	49,623	59,047	9,237	2,060	25,614	1.20	1.20
250	54,979	59,047	9,692	2,672	28,384	1.28	1.28
300	59,548	59,047	10,081	3,290	30,748	1.35	1.35
500	73,043	59,047	11,228	5,754	37,734	1.54	1.54
750	84,304	59,047	12,185	8,786	43,565	1.72	1.72
1,000	92,440	59,047	12,876	11,743	47,781	1.85	1.85
1,500	103,566	59,047	13,822	17,258	53,555	2.04	2.04
2,000	110,800	59,047	14,437	22,158	57,315	2.18	2.18
2,500	115,917	59,047	14,872	26,542	59,976	2.29	2.29
3,000	119,791	59,047	15,201	30,551	61,991	2.37	2.37
4,000	125,428	59,047	15,680	37,829	64,921	2.50	2.50
5,000	129,451	59,047	16,022	44,446	67,012	2.61	2.61
10,000	140,156	59,047	16,932	71,924	72,578	2.98	2.98

Reflects trend to prospective average accident date of December 1, 2019 and development to ultimate maturity.

Reflects only per-occurrence limitation. Derived by taking the ratio of columns [(2) + (3) + (4) + (5) + (6)] at the policy limit to columns [(2) + (3) + (4) + (5) + (6)] at the basic limit (\$100,000).

Explanation for this exhibit is provided on pages B-1 and B-2.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

INDEMNITY SEVERITY TREND SELECTION

Multistate Paid Average Annual Occurrence Severities

Accident Year	Products/Completed Operations	
	<u>Basic Limit</u>	<u>Total Limits</u>
2007	15,871	31,493
2008	16,029	31,608
2009	15,520	30,946
2010	15,609	32,044
2011	16,067	32,053
2012	16,426	32,663
2013	17,793	35,070
2014	18,882	38,758
2015	20,182	41,290
2016	20,872	43,471

Trend Indications

Trend Period	<u>Basic Limit</u>		<u>Total Limits</u>	
	<u>Trend Fit</u>	<u>R²</u>	<u>Trend Fit</u>	<u>R²</u>
10 years	3.4%	0.8177	3.8%	0.8232
8 years	4.8%	0.9529	5.2%	0.9239
6 years	5.8%	0.9836	6.9%	0.9767
4 years	5.6%	0.9837	7.3%	0.9758
Selection			5.5%	

Explanation for this exhibit is provided on page B-6.

NEW JERSEY
 GENERAL LIABILITY INCREASED LIMIT FACTORS
PAYMENT LAG PARAMETERS AND LAG WEIGHTS
 PRODUCTS/COMPLETED OPERATIONS LIABILITY
 MULTISTATE

Payment Lag Parameters

	<u>TABLE A</u>	<u>TABLE B</u>	<u>TABLE C</u>
R1 =	0.47829503	0.65791309	0.00000000
R2 =	0.24299596	0.41516436	0.00000000
R3 =	0.59617233	0.73969160	0.00000000
$k = 1+R1+((R1 \cdot R2)/(1-R3)) =$	1.76610037	2.70721487	1.00000000

Generation of Lag Weights

	<u>TABLE A</u>	<u>TABLE B</u>	<u>TABLE C</u>
Lag 1 =	1 / k =	0.56621923	0.36938332
Lag 2 =	R1 / k =	0.27081985	0.24302212
Lag 3 =	R1•R2/k =	0.06580813	0.10089412
Lag 4 =	R1•R2•R3/k =	0.03923299	0.07463053
Lag 5 =	R1•R2•R3 ² /k =	0.02338962	0.05520358
Lag 6 =	R1•R2•R3 ³ /k =	0.01394424	0.04083362
Lag 7 =	R1•R2•(R3 ⁴ /(1-R3))/k =	0.02058594	0.11603271

The lag weight distribution includes allocated CRR data, but excludes data with a non-zero deductible or attachment point.

Explanation for this exhibit is provided on pages B-11 and B-12.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

PARAMETERS FOR MIXED EXPONENTIAL DISTRIBUTIONS^a

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

TABLE A		TABLE B		TABLE C	
<u>Mean</u>	<u>Weight</u>	<u>Mean</u>	<u>Weight</u>	<u>Mean</u>	<u>Weight</u>
1,057	0.197866	4,177	0.464007	1,074	0.045510
5,031	0.522696	22,128	0.335648	7,345	0.361681
20,662	0.196318	103,358	0.150420	35,547	0.322987
87,826	0.066569	390,705	0.034428	145,527	0.178687
465,869	0.013575	1,239,504	0.011820	645,098	0.071891
1,774,907	0.002273	3,345,570	0.002621	1,936,091	0.014355
4,978,173	0.000506	8,164,642	0.000748	5,157,671	0.003456
11,805,051	0.000117	21,822,460	0.000249	11,671,601	0.000831
23,866,318	0.000059	100,000,000	0.000059	23,645,743	0.000452
100,000,000	0.000021			100,000,000	0.000150

^a Model parameters are based on an average accident date of December 1, 2019.

Explanation for this exhibit is provided on page B-14.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

COMPARISON OF LIMITED AVERAGE SEVERITIES

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

Policy Limit (\$,000)	TABLE A			TABLE B		
	Empirical LAS ^a	Fitted LAS	Percent Difference	Empirical LAS ^a	Fitted LAS	Percent Difference
100	12,364	12,350	-0.11%	23,520	23,460	-0.26%
200	14,935	14,917	-0.12%	30,938	30,956	0.06%
250	15,746	15,731	-0.10%	33,418	33,454	0.11%
300	16,395	16,385	-0.06%	35,479	35,483	0.01%
500	18,274	18,212	-0.34%	41,142	41,095	-0.11%
1,000	20,766	20,714	-0.25%	48,723	48,706	-0.03%
1,500	22,112	22,052	-0.27%	53,061	52,999	-0.12%
2,000	22,969	22,910	-0.26%	55,911	55,881	-0.05%
2,500	23,597	23,534	-0.27%	58,066	58,003	-0.11%
3,000	24,086	24,024	-0.26%	59,722	59,648	-0.12%
4,000	24,838	24,763	-0.30%	62,120	62,056	-0.10%
5,000	25,374	25,301	-0.29%	63,815	63,754	-0.10%
10,000	26,807	26,738	-0.26%	68,279	68,209	-0.10%

Policy Limit (\$,000)	TABLE C		
	Empirical LAS ^a	Fitted LAS	Percent Difference
100	35,002	34,965	-0.11%
200	49,691	49,623	-0.14%
250	55,026	54,979	-0.09%
300	59,616	59,548	-0.11%
500	73,299	73,043	-0.35%
1,000	92,545	92,440	-0.11%
1,500	103,805	103,566	-0.23%
2,000	110,989	110,800	-0.17%
2,500	116,092	115,917	-0.15%
3,000	119,980	119,791	-0.16%
4,000	125,640	125,428	-0.17%
5,000	129,659	129,451	-0.16%
10,000	140,347	140,156	-0.14%

^a For Products/Completed Operations, empirical limited average severities reflect tail smoothing.

Explanation for this exhibit is provided on page B-14.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

CALCULATION OF ALLOCATED LOSS ADJUSTMENT EXPENSE PER OCCURRENCE

PRODUCTS/COMPLETED OPERATIONS LIABILITY
MULTISTATE

Ratios of ALAE to Total Limits (TL) Indemnity - Paid Data^a

Accident <u>Year</u>	<u>Table A</u>	<u>Table B</u>	<u>Table C</u>
2009	0.36827	0.54422	0.60248
2010	0.37811	0.55627	0.65037
2011	0.35885	0.58048	0.61130
2012	0.39383	0.59884	0.63357
2013	0.38414	0.56056	0.66069
2014	0.36484	0.57816	0.63362
2015	0.35398	0.57395	0.64233
Best 5-of-7 Average	0.37084	0.56988	0.63424

Indicated ALAE per Occurrence

<u>Table</u>	(1) ALAE per Total Limits <u>Indemnity</u>	(2) Mixed Exponential Total Limits <u>Average Severity^b</u>	(1) x (2) ALAE per <u>Occurrence</u>
A	0.37084	20,823	7,722
B	0.56988	49,049	27,952
C	0.63424	93,099	59,047

^a Derived from paid aggregate multistate data developed to ultimate.

^b Occurrence-weighted average of limited average severities from Exhibits 3-5.

Explanation for this exhibit is provided on page B-17.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

DEVELOPMENT OF UNALLOCATED LOSS ADJUSTMENT EXPENSE FACTOR

General Liability Excluding Medical Professional Liability
Multistate Expense Experience
Loss Adjustment Expense Special Call

<u>ITEM</u> ^a	<u>CALENDAR YEAR</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
(1) Direct Losses Incurred	18,480,140	18,521,277	19,140,390	24,110,646	25,085,478
(2) Allocated Loss Adjustment Expenses Incurred (ALAE)	5,270,137	5,080,420	4,727,492	5,601,664	4,581,304
(3) Unallocated Loss Adjustment Expenses Incurred (ULAE)	1,892,698	2,061,866	2,159,178	2,371,173	2,496,550
(4) Incurred Losses + ALAE [(1) + (2)]	23,750,277	23,601,697	23,867,882	29,712,310	29,666,781
	<u>Incurred Percentage</u> ^b				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
(5) ULAE as Ratio to (Losses + ALAE) [(3) / (4)]	7.97%	8.74%	9.05%	7.98%	8.42%
Selected ULAE Factor:	8.5%				

^a Items (1) - (3) are from an ISO special call submission for available writers. All dollar amounts are displayed in thousands.

^b Incurred percentages are calculated on a direct basis.

Explanation for this exhibit is provided on page B-17.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS

RISK LOAD PARAMETERS

GENERAL AND COMMERCIAL AUTO LIABILITY

$$\text{Lambda}(\lambda)^a = 1.7380\text{E-}07$$

MULTISTATE PARAMETERS

Products/Completed Operations

d	=	2
c	=	0.015
a	=	0.001
nbarc	=	1,050

VALUES OF nbara - MULTISTATE

Products/Completed Operations

Table A	352.17
Table B	525.73
Table C	172.10

^a ISO determines lambda so that the ratio of the average increased limit factor with risk load to the average increased limit factor without risk load is equal to 1.06 for all states for all (non-professional) commercial liability lines combined.

Explanation for this exhibit is provided on pages B-18 through B-21.

NEW JERSEY
GENERAL LIABILITY INCREASED LIMIT FACTORS
MIXED NEGATIVE BINOMIAL FREQUENCY PARAMETERS
MULTISTATE

Products/Completed Operations Liability

j	w _j	r _j	β _i	m _i
1	0.92702622	0.05408610	7.35519231	0.007
2	0.00572834	0.01000000	0.07486523	0.134
3	0.06724544	0.02415934	0.71039635	0.034
			Weighted:	0.010

Explanation for this exhibit is provided on page A-2.