

RULES – IMPLEMENTATION

NOVEMBER 6, 2019

COMMERCIAL PROPERTY

LI-CF-2019-095

## ILLINOIS COMMERCIAL PROPERTY ENHANCED WIND RATING PROGRAM CAPPING UPDATE REVISION TO BE IMPLEMENTED

---

### KEY MESSAGE

We are implementing filing CF-2019-REWR5, which removes capping of the composite debit/credit factor used to rate BG II specifically rated risks and implements the full credits and debits for all risks.

---

### BACKGROUND

In filing CF-2012-REWR1, ISO introduced the Enhanced Wind Rating Program (EWR). The filing advised that the composite debit/credit factors developed under EWR for individual properties would be capped and that later filings would phase in the full (indicated) debits/credits.

---

### ISO ACTION

Because few, if any, risks have debit/credit factors outside of the range for the next expansion of caps, we are implementing rules filing CF-2019-REWR5, which completely removes the caps (i.e., to implement the full credits and debits for all risks).

This change is applied in the specific property loss cost quote process, so there is no manual rule change associated with this revision. All other aspects of EWR remain unchanged.

Refer to the attached explanatory material for complete details about the filing.

---

### RATING SUPPLEMENT

On the Specific Property Information (SPI Plus) quote for an individual property, only one cap (designated as the Wind Factor Applied) can be shown and applied at a particular point in time. In SPI Plus, the expanded cap will replace the original cap on the date stated in the Revision Distribution Information block of the implementation circular. There are two scenarios in which the SPI user may need to adjust the cap and apply the adjustment to determine the BG II Enhanced (Specific) Loss Cost. The attached Rating Supplement provides descriptions of those two scenarios along with illustrations for making the adjustment.

NOTE: This Rating Supplement is not part of the filing.

---

### EFFECTIVE DATE

We do not establish an effective date for Commercial Property rules revisions in this state. Each insurer that elects to utilize this revision is responsible for determining its own effective date.

---

## COMPANY ACTION

ISO has not filed this revision.

You must independently determine what revision to make and when to make any revision effective. You are NOT required to file anything with the Illinois Insurance Department and 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 CF-2019-REWR5, 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.

---

## RATING SOFTWARE IMPACT

The Basic Group II rating algorithm is unchanged but may temporarily be impacted by the need for adjustment to the cap. Refer to the Rating Supplement block, which explains the capping issue.

There is impact on rating software, only if you decide to program the adjustment rather than handle it manually.

---

## 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

- **ProMetrix**

The ProMetrix quote screen will reflect the revised caps in the Wind Factor Applied and the BG II Enhanced (Specified) Loss Cost beginning on June 1, 2020.

- **Toll-free Telephone Service**

The revised Wind Factor Applied and BG II Enhanced (Specified) Loss Cost will be available by calling our toll-free number 1-800-444-4554 beginning June 1, 2020.

---

## REFERENCE(S)

[LI-CL-2018-044](#) (11/27/2018) Revised Lead Time Requirements Listing

---

**ATTACHMENT(S)**

- Filing CF-2019-REWR5
  - Rating Supplement
- 

**COPYRIGHT EXPLANATION**

The material distributed by Insurance Services Office, Inc. is copyrighted. All rights reserved. Possession of these pages does not confer the right to print, reprint, publish, copy, sell, file, or use same in any manner without the written permission of the copyright owner. Permission is hereby granted to members, subscribers, and service purchasers to reprint, copy, or otherwise use the enclosed material for purposes of their own business use relating to that territory or line or kind of insurance, or subdivision thereof, for which they participate, provided that:

- (A) Where ISO copyrighted material is reprinted, copied, or otherwise used **as a whole**, it must reflect the copyright notice actually shown on such material.
  - (B) Where ISO copyrighted material is reprinted, copied, or otherwise used **in part**, the following credit legend must appear at the bottom of each page so used:  
Includes copyrighted material of Insurance Services Office, Inc., with its permission.
- 

**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 rules document a Statement of Actuarial Opinion; therefore we are including the following acknowledgment:

I, David Terné, am a Managing Director of Actuarial Operations for ISO and I, Bei Zhou, FCAS, am an Actuarial Director 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.

---

## CONTACT INFORMATION

If you have any questions concerning:

- The actuarial content of this circular, please contact:  
Kentaro Makino  
Commercial Lines Actuarial Products  
201-469-3747  
[Kentaro.Makino@verisk.com](mailto:Kentaro.Makino@verisk.com)  
[propertyactuarial@verisk.com](mailto:propertyactuarial@verisk.com)
- The non-actuarial content of this circular, please contact:  
Alexander Esau  
Production Operations, Compliance and Product Services  
201-469-2717  
[productionoperations@verisk.com](mailto:productionoperations@verisk.com)
- Other issues for this circular, please contact Customer Support:  
E-mail: [info@verisk.com](mailto:info@verisk.com)  
Phone: 800-888-4476

Callers outside the United States, Canada, and the Caribbean may contact us using our global toll-free number (International Access Code + 800 48977489). For information on all ISO products, visit us at [www.verisk.com/iso](http://www.verisk.com/iso). To keep abreast of the latest Insurance Lines Services updates, view [www.verisk.com/ils](http://www.verisk.com/ils).

# Enhanced Wind Rating Program Capping Update

## Background

---

ISO introduced the Enhanced Wind Rating Program (EWR) in filing CF-2012-REWR1. The purpose of EWR is to provide additional risk-by-risk differentiation in wind loss costs that are reflective of a building's underlying exposure to losses due to wind. The program uses the Basic Group II (BG II) manual loss cost -- by state, territory and wind symbol -- as a starting point. The program then applies a composite debit or credit to the loss cost to develop an enhanced loss cost for the specific property.

At the time of the original filing, the debit/credit factor developed under EWR was capped at + 25% / - 20% for the initial year of the program. We advised that later filings would further phase-in the implementation of the full debits/credits for individual properties.

Subsequently, with CF-2013-REWR2, CF-2014-REWR3, and CF-2017-REWR4, the caps were incrementally broadened to +55% / -35%, then to +90% / -45%, and then to +135%/-55%.

## Explanation of Changes

---

Because few, if any, risks have debit/credit factors outside of the range for the next expansion of caps, the purpose of this document is to completely remove the caps, i.e., to implement the full credits and debits for all risks.

The cap is applied in the specific property loss cost quote process, so there is no manual rule change associated with this revision.

All other aspects of the EWR remain unchanged.

## Copyright Explanation

---

The material distributed by Insurance Services Office, Inc. is copyrighted. All rights reserved. Possession of these pages does not confer the right to print, reprint, publish, copy, sell, file or use same in any manner without the written permission of the copyright owner.

## Important Note

---

Insurance Services Office, Inc. (ISO) makes available advisory services to property/casualty insurers. ISO has no adherence requirements. ISO rules and explanatory materials are intended solely for the information and use of ISO's participating insurers and their representatives, and insurance regulators. Neither ISO's general explanations of rules intent nor opinions expressed by members of ISO's staff necessarily reflect every insurer's view or control any insurer's application of manual rules.

## RATING SUPPLEMENT TO FILING CF-2019-REWR5

When the Enhanced Wind Rating Program was introduced, we advised that the composite debit/credit factor used to rate Basic Group II (BG II) specific loss costs would be subject to capping and provided an initial set of caps of +25%/-20%. The caps were incrementally broadened to +55%/-35%, to +90%/-45%, and then to +135%/-55% with CF-2013-REWR2, CF-2014-REWR3, and CF-2017-REWR4 respectively.

Filing CF-2019-REWR5 removes the caps completely. We will commence applying full credit/debit factors on the ProMetrix (previously referred to as SPI Plus) loss cost quote screen as of the effective or distribution date of that filing. For example, full credit/debit factors with an effective/distribution date of 6/1/2020 will be applied in ProMetrix beginning on 6/1/2020. We will use 6/1/2020 as the effective date of the full credit/debit factors, 6/1/2019 as the effective date of the +135%/-55% caps and an assumed company effective date of 6/1/2020 in the following examples to illustrate time periods for which certain adjustments may need to be made. Please note that delayed adoption of the capping update filing would extend the period of making company adjustments to the information in ProMetrix.

In ProMetrix, a cap is applied, if necessary, to the Wind Factor Indicated to determine the Wind Factor Applied. At Program implementation, the Wind Factor Applied falls within the range of .800 to 1.250. With implementation of CF-2013-REWR2, the Wind Factor Applied falls within the range of .650 to 1.550. With implementation of CF-2014-REWR3, the Wind Factor Applied falls within the range of .550 to 1.900. With the implementation of CF-2017-REWR4, the Wind Factor Applied falls within the range of .450 to 2.350. With implementation of CF-2019-REWR5, the Wind Factor Applied is as the indicated without any caps. The BG II Loss Cost - Class is multiplied by the Wind Factor Applied to produce the BG II Enhanced Loss Cost - Specific.

The following examples illustrate the action that would be needed for risks which are subject to capping and either of the following scenarios applies:

**Scenario A:** The policy is effective *on or after* the complete removal of caps become applicable, but the quote is obtained *before* the caps are removed in the quote system (e.g., the policy is *effective* on or after 6/1/2020 and the quote is obtained after 6/1/2019 but *before* 6/1/2020). In this scenario, you must widen the cap.

**OR**

**Scenario B:** The policy is effective *before* the caps are removed, but the quote is obtained *after* the caps are removed in the quote system (e.g., the policy is effective after 6/1/2019, but *before* 6/1/2020 and the quote is obtained 6/1/2020). This situation could arise if an adjustment is needed on a policy currently in effect or if adoption of the capping change has been deferred. In this scenario, you must narrow the cap.

### Case 1 -- Wind Factor Indicated Is Between .450 And 2.350

The Enhanced Wind specific property Loss Cost (.112) applies with no modification for either **Scenario A** or **Scenario B**.

Building / Occupant	Line #	CSP Class	BG I Loss Cost		BG II Loss Cost				
			BG I Specific	ELA Factor	BG II		Wind Factor		BCEGS Factor
					Class	Specific	Indicated	Applied	
BUILDING FOR RENT(1S)	010	0433	0.083	0.811	0.080	0.112	1.400	1.400	0.94

### Case 2 -- Wind Factor Indicated Is Below .450 Or Above 2.350

**Scenario A:** The loss cost to use is the Basic Group II class loss cost (.080) times the Wind Factor Indicated (.400), or  $.080 \times .500 = .032$ .

Building / Occupant	Line #	CSP Class	BG I Loss Cost		BG II Loss Cost				
			BG I Specific	ELA Factor	BG II		Wind Factor		BCEGS Factor
					Class	Specific	Indicated	Applied	
BUILDING FOR RENT(1S)	010	0433	0.083	0.811	0.080	0.036	0.400	0.450	0.94

**Scenario B:** The loss cost to use is the Basic Group II class loss cost (.080) times the Wind Factor Indicated capped at 2.350 (i.e., +135%) or .450 (i.e., -55%). For the quote displayed below, the Wind Factor Indicated (.400) would be capped at .450. The calculation is  $.080 \times .450 = .036$ .

Building / Occupant	Line #	CSP Class	BG I Loss Cost		BG II Loss Cost				
			BG I Specific	ELA Factor	BG II		Wind Factor		BCEGS Factor
					Class	Specific	Indicated	Applied	
BUILDING FOR RENT(1S)	010	0433	0.083	0.811	0.080	0.032	0.400	0.400	0.94

NOTE: These illustrations cover only some examples and are intended solely as a guide to assist you in evaluating potential issues. Each insurer must determine the impact of this revision, if any, depending on its own unique set of circumstances.