

RULES – IMPLEMENTATION

OCTOBER 30, 2020

BUSINESSOWNERS

LI-BP-2020-134

## ARIZONA BUSINESSOWNERS RULE 23. REVISION TO BE IMPLEMENTED

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### KEY MESSAGE

Businessowners revised annual individual payroll amounts specific to Arizona have been acknowledged.

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### CONSIDERATION OF COVID-19

While there will almost certainly be long-term behavioral, social and economic changes as a result of COVID-19, we expect, based on the information currently available, that those changes will have negligible and/or offsetting effects on prospective loss costs for Businessowners. Therefore, ISO is not making any explicit adjustment to the prospective loss costs referenced in this filing due to COVID-19. Additionally, the loss costs referenced in this filing do not contemplate the possibility of widespread viral resurgence or the renewal of stay-at-home orders during the period in which the newly filed loss costs will be in effect. We have assumed that any recurrence of such extreme and unpredictable circumstances would generally be addressed, as appropriate, by individual carriers.

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### ISO ACTION

Filing BP-2020-RPAY revises the annual individual payroll for executive officers and individual insured and copartners in Rule 23.B.8.a.(2)(c) to \$33,000.

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

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### EFFECTIVE DATE

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

These changes are applicable to all policies written on or after May 1, 2021.

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### COMPANY ACTION

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 APRIL 20, 2021. 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 Number [BP-2020-RPAY](#) and SERFF Tracking Number [ISOF-132568595](#), 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.

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### **RATING SOFTWARE IMPACT**

No new attributes are being introduced with this revision.

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### **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-2019-057](#) 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.

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### **REVISION DISTRIBUTION**

We will issue a Notice to Manualholders with an edition date of 5-21 (or the earliest possible subsequent date), along with any new and/or revised manual pages.

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### **RELATED LOSS COSTS REVISION**

We are announcing in a separate circular the implementation of a corresponding loss costs revision. Please refer to the Reference(s) block for identification of that circular.

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### **REFERENCE(S)**

- [LI-BP-2020-133](#) (10/30/2020) Arizona Businessowners Advisory Prospective Loss Cost Revision To Be Implemented; Exhibits Presented In Excel
  - [LI-CL-2019-057](#) (12/10/2019) Revised Lead Time Requirements Listing
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### **ATTACHMENT(S)**

Filing [BP-2020-RPAY](#)

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### **FILES AVAILABLE FOR DOWNLOAD**

To download all files associated with this circular, including attachments in the full circular PDF and/or any additional files not included in the PDF, search for the circular number on [ISOnet Circulars](#). Then click the Word/Excel link under the Full Circular column on the Search Results screen.

Please note that in some instances, not all files listed in the Attachment(s) block (if applicable) are included in the PDF.

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## DATA QUALITY

Statistical plan data reported to ISO is first processed through a system of rigorous automated data verification procedures so that only valid data would be used for ratemaking. Subsequent to this initial data submission review, additional analyses on the statistical plan data involving an even more customized data review for this line were performed by staff. During these processes, various data records were excluded from the review. The ISO staff responsible for this circular also reviewed the data for reasonableness.

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## ACKNOWLEDGMENT OF ACTUARIAL QUALIFICATIONS

The American Academy of Actuaries' "Qualifications 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 document a Statement of Actuarial Opinion; therefore, we are including the following acknowledgment:

I, Nancy A. Narisi, am a Senior Actuarial Associate of Strategic Actuarial Operations for ISO and I, Michael Doyle, am an Actuarial Product Director for Specialty Lines 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.

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## CONTACT INFORMATION

If you have any questions concerning:

- The actuarial content of this circular, please contact:

Tiffany Fan  
Actuarial Operations  
(201) 469-3288  
[Tiffany.Fan@verisk.com](mailto:Tiffany.Fan@verisk.com)  
[casualtyactuarial@verisk.com](mailto:casualtyactuarial@verisk.com)

- The non-actuarial content of this circular, please contact:  
William Jones  
Production Operations, Compliance and Product Services  
(201) 469-2815  
[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

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# Revision of Executive Officers, Individual Insureds and Co-Partners Payroll Amounts (Rule 23)

## About This Filing

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This filing revises the annual individual payroll for executive officers and individual insured and co-partners in Rule 23.B.8.a.(2)(c) (Premium Development – Mandatory Coverages) in Division Ten – Businessowners of the Commercial Lines Manual (CLM) to \$33,000. The revised payroll amount in this filing is specific to the state of Arizona and is with respect to premium computation purposes.

## Revised Rules

We are revising Rule 23. Premium Development – Mandatory Coverages in the state of Arizona.

- ◆ Rule 23.B.8.a.(2)(c) (Premium Development – Mandatory Coverages)

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

## Related Filing(s)

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The following companion filing is being filed with a concurrent effective date:

- ◆ BP-2020-RLA1 (Loss Costs)

## Background

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The premium computation applicable to Contracting classes of business is based on payroll as outlined in Rule 23.B.8. For executive officers, individual insureds and co-partners however, the payroll amount used in premium determination as described in Rule 23.B.8.a.(2)(c) is a fixed (flat) amount that varies by state. These payroll amounts have not been recently revised. This filing provides an update to the payroll amounts in Rule 23.B.8.a.(2)(c) for executive officers, individual insureds and co-partners to reflect current wages.

## Actuarial Support

The Arizona individual state payroll amounts for executive officers, individual insureds and co-partners have not been revised in over 20 years. Given that the increases in payroll since the last revision are significant, payroll amounts will be revised in annual increments in coordination with the state basic limit loss cost experience review until an appropriate level is achieved. Average annual wage data for Construction Occupations as of May 2018 from the Bureau of Labor Statistics was used. For executive officers, individual insureds and co-partners, the revised payroll amount in this filing is determined as follows:

	Current Individual Annual Payroll Rule	BLS Average Annual Wage	% Change	Selected % Change	Revised Individual Annual Payroll Rule
<u>State</u>	<u>23.B.8.a.(2)(c)</u>	<u>Wage</u>	<u>Change</u>	<u>Change</u>	<u>23.B.8.a.(2)(c)</u>
Arizona	\$26,400	\$45,100	71%	25%	\$33,000

Since the intention is to introduce this change on a revenue neutral basis, an adjustment of 0.939 has been applied to the related proposed loss costs in companion filing BP-2020-RLA1 to offset the increase in the payroll amount in Rule 23.B.8.a.(2)(c). The ISO statistical plan data does not separately identify payroll for executive officers, individual insureds, and co-partners from other employees. As a result, data from the Census Bureau was analyzed to estimate the impact of the revision in payroll amount (2016 Statistics of US Business Annual Data Tables by Establishment Industry). Specifically, since the classes currently affected are construction classes, data for Construction (NAIC Code 23) was used to estimate the impact. Given the limited detail available, assumptions were made to develop the offset. Estimates for the average number of executive officers, individual insureds and co-partners per firm in each firm size range were made. Additional assumptions were made regarding individuals doing clerical work, percent of contractors who are insured, and how the firm size distribution compares to the Businessowners insured distribution.

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## **Important Note**

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**23. PREMIUM DEVELOPMENT – MANDATORY COVERAGES**

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Paragraph **B.8.a.(2)(c)** is replaced by the following:

**B. Special Rules**

**8. Contractors**

**a. Payroll**

**(2) Executive Officers**

**(c) Rule**

For premium computation purposes, use ~~\$26,400~~\$33,000 as the annual individual payroll for executive officers.

For premium computation purposes, use ~~\$26,400~~\$33,000 as the annual individual payroll for individual insureds or co-partners.

Use the following table to determine the Building Limit of Insurance Relativity Group for the applicable territory:

<b>Territory</b>	<b>Building Limit Of Insurance Relativity Group</b>
703	C
704	C
705	A
706	A

**Table 23.C.6.a.(2)(b) Building Limit Of Insurance Relativity Group**