MONTANA

COMMERCIAL PROPERTY

LOSS COST LEVEL REVIEW

ACTUARIAL ANALYSIS SUPPLEMENT

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| PURPOSE | This document provides discussion and analysis of changes in the experience and  adjustments used to derive the advisory prospective loss cost level indications. | | | | | | |
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| MONOLINE INDICATIONS | The indicated statewide monoline changes are: | | | | | | |
|  | Subline | Current Review | | | Prior Review | |
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|  | Basic Group I | 4.7% | | | 2.1% | |
|  | Basic Group II | 6.6% | | | 4.2% | |
|  | Special Causes of Loss | 6.1% | | | 5.2% | |
|  | All Coverages Combined | 5.6% | | | 3.4% | |
|  | The prior review indications were filed and implemented. There has not been a change in the Implicit Package Modification Factors since the prior review.  Given below is a brief discussion and comparison of the multistate factors (premium and loss trend, loss adjustment expense, and loss development) used in this year's and last year's reviews. The discussion is followed by a state specific analysis by subline and a list of events occurring during the experience period in this state that have been identified as catastrophes by ISO's Property Claims Services. | | | | | | |
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| DATA QUALITY | Statistical plan data reported to ISO is first processed through a system of rigorous automated data verification processes so that only valid data is used for ratemaking. Subsequent to this initial data submission review, additional analyses 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, corrected or adjusted. Specifically, an on-leveling approach was used to determine aggregate loss costs at current level rather than the extension-of-exposures method for some reported exposures, and various loss cost multipliers have been adjusted prior to their use in the calculations. The ISO staff responsible for this loss cost review also reviewed the data for reasonableness. | | | | | | |
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| LOSS ADJUSTMENT EXPENSE/LOSS DEVELOPMENT FACTORS | Loss adjustment expense factors have changed since the previous review, from 1.095 in the prior review to 1.090 in the current review for BG I and from 1.115 to 1.110 for BG II and SCL. Loss development factors changed slightly but are still relatively close to unity for all sublines and years. | | | | | | |
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| LOSS TREND FACTORS | Given below is a comparison of the external trend factors, loss trend adjustments (LTAs) and total loss trend factors for the current and prior reviews.  External Trend  The prospective annual rates of change based on the external indices (Xactware for Buildings, PPI for Contents, and IMSEP/RSALES for Time Element) for the current and prior year reviews are: | | | | | | |
|  | Coverage | | Current Review | Prior Review | | Change | |
|  | Buildings | | 3.9% | 3.1% | | 0.8% | |
|  | Contents | | 1.7% | 2.0% | | -0.3% | |
|  | Time Element | | -0.2% | 0.7% | | -0.9% | |

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|  | Loss Trend Adjustments (LTAs)  The loss trend adjustment factors underlying the current and prior reviews are: | | | | | | |
|  |  | Current Review | | | Prior Review | | |
|  | Subline | Bldg. | Cnts. | TE | Bldg. | Cnts. | TE |
|  | Basic Group I | 1.2% | 1.5% | 2.4% | 0.0% | 0.6% | 2.6% |
|  | Basic Group II | -0.4% | 0.6% | 2.6% | 0.0% | 0.6% | 2.7% |
|  | Special Causes of Loss | 0.2% | -1.0% | 2.4% | 0.3% | -0.6% | 2.6% |
|  | Total Annual Loss Trend  The prospective total annual loss trend factors are given below and are calculated as the product of the external trend factors and loss trend adjustment factors. | | | | | | |
|  |  | Current Review | | | Prior Review | | |
|  | Subline | Bldg. | Cnts. | TE | Bldg. | Cnts. | TE |
|  | Basic Group I | 5.1% | 3.2% | 2.2% | 3.1% | 2.6% | 3.3% |
|  | Basic Group II | 3.5% | 2.3% | 2.4% | 3.1% | 2.6% | 3.4% |
|  | Special Causes of Loss | 4.1% | 0.7% | 2.2% | 3.4% | 1.4% | 3.3% |

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| CHANGE IN AVERAGE LOSS | The changes in average loss trend from current year to prior year are: | | | | | | | |
| TREND | Subline | | | Change in Average Trend | | | | |
|  | Basic Group I | | | 2.2% | | | | |
|  | Basic Group II | | | 0.3% | | | | |
|  | Special Causes of Loss | | | -0.1% | | | | |
|  | Average loss trend is calculated as a weighted average of the total loss trend from the midpoint of the experience year to one year past the assumed effective date for each year in the experience period based on the statewide loss cost level review year weights (.10, .15, .20, .25, .30 for BG I and SCL, and 0.10 for all years for BG II). Total loss trend includes the effect of Current Cost Factors to bring losses to the latest level of external cost information, Loss Projection Factors to project from the external cost level to one year past the assumed effective date, and Loss Trend Adjustment factors over the entire trend period. | | | | | | | |
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| PREMIUM TREND FACTORS | The prospective annual premium trend factors, based on annual changes in amounts of insurance written, for the current and prior reviews are: | | | | | | | |
|  |  | Current Review | | | | Prior Review | | |
|  | Subline | Bldg. | Cnts. | | TE | Bldg. | Cnts. | TE |
|  | Basic Group I | 1.9% | 1.8% | | 1.0% | 2.5% | 1.8% | 0.9% |
|  | Basic Group II | 1.8% | 1.6% | | 1.0% | 2.3% | 1.7% | 0.9% |
|  | Special Causes of Loss | 1.8% | 1.4% | | 1.0% | 2.4% | 1.4% | 0.9% |
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| NET TREND | The prospective annual net (loss ÷ premium) trend factors for the current and prior year reviews are: | | | | | | | | | |
|  |  | Current Review | | | | | Prior Review | | | |
|  | Subline | Bldg. | | Cnts. | TE | | Bldg. | Cnts. | | TE |
|  | Basic Group I | 3.2% | | 1.4% | 1.2% | | 0.6% | 0.7% | | 2.4% |
|  | Basic Group II | 1.7% | | 0.7% | 1.4% | | 0.8% | 0.8% | | 2.5% |
|  | Special Causes of Loss | 2.3% | | -0.7% | 1.2% | | 1.0% | -0.1% | | 2.4% |
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| BASIC GROUP I | The statewide five year weighted average experience ratio, before credibility weighting, increased by 4.7%, from 0.973 in the prior review to 1.019 in the current review. The increase is primarily due to a higher-than-average experience ratio of 1.248 for 2020 entering the experience period and an increase in net trend factors since the prior review.  Statewide Loss Cost Level Review | | | | | | | | | |
|  |  | | Current Review | | | Prior Review | | | Ratio | |
|  | Weighted Experience Ratio | | 1.019 | | | 0.973 | | | 1.047 | |
|  | Credibility | | 0.250 | | | 0.250 | | | 1.000 | |
|  | Expected Experience Ratio | | 1.025 | | | 1.008 | | | 1.017 | |
|  | Coverage Change | | 1.024 | | | 0.999 | | | 1.025 | |
|  | Monoline Relativity | | 1.022 | | | 1.024 | | | 0.998 | |
|  | Monoline Change | | 1.047 | | | 1.023 | | | 1.023 | |
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| BASIC GROUP II | The statewide ten year weighted average experience ratio, before credibility weighting, increased by 4.3%, from 1.523 in the prior review to 1.588 in the current review. The increase is primarily due to a higher-than-average experience ratio of 2.011 for 2020 entering the experience period and an increase in net trend factors since the prior review.  Statewide Loss Cost Level Review | | | |
|  |  | Current Review | Prior Review | Ratio |
|  | Weighted Experience Ratio | 1.588 | 1.523 | 1.043 |
|  | Credibility | 0.273 | 0.270 | 1.011 |
|  | Expected Experience Ratio | 1.014 | 1.009 | 1.005 |
|  | Coverage Change | 1.171 | 1.148 | 1.020 |
|  | Monoline Relativity | 0.910 | 0.907 | 1.003 |
|  | Monoline Change | 1.066 | 1.042 | 1.023 |
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| SPECIAL CAUSES OF LOSS | The statewide five year weighted average experience ratio, before credibility weighting, increased by 5.1%, from 1.107 in the prior review to 1.163 in the current review. The increase is primarily due to a lower-than-average adjusted experience ratio of 0.879 for 2015 exiting the experience period, a higher-than-average experience ratio of 1.206 for 2020 entering the experience period, and an increase in net trend factors since the prior review.  Statewide Loss Cost Level Review | | | |
|  |  | Current Review | Prior Review | Ratio |
|  | Weighted Experience Ratio | 1.163 | 1.107 | 1.051 |
|  | Credibility | 0.250 | 0.250 | 1.000 |
|  | Expected Experience Ratio | 1.008 | 1.006 | 1.002 |
|  | Coverage Change | 1.047 | 1.031 | 1.016 |
|  | Monoline Relativity | 1.013 | 1.020 | 0.993 |
|  | Monoline Change | 1.061 | 1.052 | 1.009 |
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| PROPERTY CLAIMS SERVICES INFORMATION | The following events have been identified by Property Claims Services as catastrophes occurring in this state from 1/1/1990 through 12/31/2020. | | | |
| Date From | Date To | Perils | |
| 12/18/1990 | 12/25/1990 | Wind, Hail, Tornadoes, Flooding, Snow, Freezing | |
| 6/24/1991 | 6/26/1991 | Wind, Hail | |
| 7/17/1993 | 7/18/1993 | Wind, Hail | |
| 6/17/2010 | 6/20/2010 | Flooding, Hail, Tornadoes, Wind | |
| 6/30/2010 | 7/1/2010 | Hail, Wind | |
| 5/18/2014 | 5/23/2014 | Flooding, Hail, Wind | |
| 5/21/2016 | 5/28/2016 | Flooding, Hail, Tornadoes, Wind | |
| 7/26/2018 | 7/29/2018 | Flooding, Hail, Tornadoes, Wind | |
| 8/10/2019 | 8/11/2019 | Flooding, Hail, Tornadoes, Wind | |
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|  | ISO's Property Claims Services defines a catastrophe as an event that:   reaches a threshold dollar amount of total insured property losses, and   affects a significant number of property and casualty insurance policyholders and property and casualty insurers.  From 1949 to 1981, the threshold was $1 million. From 1982 to 1996, it was $5 million, and since January 1, 1997, the threshold has been $25 million.  All of the events listed above may not have resulted in unexpected loss experience for commercial property coverage in this state since catastrophes are defined based on total insured property losses spreading across state lines and lines of business.  For more information concerning Catastrophe Claims Services, please see "Persons to Contact" in the circular cover letter. | | |
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