

RULES – IMPLEMENTATION

APRIL 6, 2022

COMMERCIAL PROPERTY

LI-CF-2022-031

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

KEY MESSAGE

We are implementing filing CF-2022-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) debit/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 rule filing CF-2022-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 the 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

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

These changes are applicable to all policies written on or after January 1, 2023.

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 DECEMBER 12, 2022. 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 [CF-2022-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-2022-006](#) 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 INFORMATION

- **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 January 1, 2023.
- **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 January 1, 2023.

REFERENCE(S)

[LI-CL-2022-006](#) (02/22/2022) Revised Lead Time Requirements Listing

ATTACHMENT(S)

- Filing CF-2022-REWR5
 - Rating Supplement
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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.

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, Eliezer Blum, ACAS, MAAA, CPCU, am an Actuarial Consultant of Actuarial Products for ISO. I am responsible for the content of this Statement of Actuarial Opinion. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

CONTACT INFORMATION

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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-2014-REWR2, CF-2015-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.

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RATING SUPPLEMENT TO FILING CF-2022-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-2014-REWR2, CF-2015-REWR3, and CF-2017-REWR4 respectively.

Filing CF-2022-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 1/1/2023 will be applied in ProMetrix beginning on 1/1/2023. We will use 1/1/2023 as the effective date of the full credit/debit factors, 1/1/2022 as the effective date of the +135%/-55% caps and an assumed company effective date of 1/1/2023 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-2014-REWR2, the Wind Factor Applied falls within the range of .650 to 1.550. With implementation of CF-2015-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-2022-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 1/1/2023 and the quote is obtained after 1/1/2022 but *before* 1/1/2023). 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 1/1/2022, but *before* 1/1/2023 and the quote is obtained 1/1/2023). 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				BCEGS Factor
			BG I Specific	ELA Factor	BG II		Wind 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 $.080 \times .400 = .032$.

Building / Occupant	Line #	CSP Class	BG I Loss Cost		BG II Loss Cost				BCEGS Factor
			BG I Specific	ELA Factor	BG II		Wind 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

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				BCEGS Factor
			BG I Specific	ELA Factor	BG II		Wind 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

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.