

LOSS COSTS – APPROVED

JANUARY 23, 2024

COMMERCIAL PROPERTY

LI-CF-2024-005

MAINE COMMERCIAL FIRE AND ALLIED LINES ADVISORY PROSPECTIVE LOSS COST REVISION APPROVED; REVISED EXPLANATORY MEMORANDUM PROVIDED

KEY MESSAGE

Revised advisory prospective loss costs reflecting a statewide loss cost level change of **+8.3%** have been approved.

BACKGROUND

In circular [LI-CF-2023-138](#), we advised you that we submitted filing [CF-2023-RLA1](#) to the Insurance Department.

Subsequently, it has come to our attention that the Explanatory Notes section in the Explanatory Memorandum provided in circular [LI-CF-2023-138](#) for filing CF-2023-RLA1 were not as intended. We are taking this opportunity to provide you with updated exhibits. Note that these changes have no impact on the review indications or revised loss costs.

ISO ACTION

We have revised the Explanatory Notes section of the Explanatory Memorandum as follows: 1) deleted reference to “Basic Group I Prospective Loss Cost Changes by Rating Group” in the Table of Contents on page 7, since BG I changes no longer vary by rating group; and 2) for the Explanatory Notes to Exhibit C10 on page 41, replaced a) “PARTS B, C, and D” with “PART B” and b) “PART E” with “PART C” in the column headings to be consistent with the filing exhibit.

Apart from the update outlined above, the information in circular [LI-CF-2023-138](#) remains unchanged.

For more information on the status of filings in a particular state, including filed and approved documents, associated circulars and links to Print Ready Manuals and Commercial Lines Manual, please feel free to access our [Filings](#) feature within the ISONet Circulars product.

INSURANCE DEPARTMENT ACTION

The Insurance Department has approved this revision as filed.

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, 2024.

This effective date applies only to those insurers who have filed their Commercial Fire and Allied Lines loss cost adjustments to be automatically applicable to future ISO loss cost revisions.

IMPACT ON THE STATISTICAL REPORTING OF LOSS COST MULTIPLIER

For the purpose of reporting your company Loss Cost Multiplier under the CSP, as of May 1, 2024, the multiplier must be based on the relationship between your gross rates and the ISO advisory prospective loss costs contained in referenced circular [LI-CF-2023-138](#).

COMPANY ACTION

You must independently determine the final rates you will use. The action, if any, you must take in response to this filing is dependent upon how you filed to have your loss cost adjustments apply to subsequent revisions of ISO loss costs. Any submission you make with respect to this revision must comply with applicable regulatory filing requirements.

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

In all correspondence with the Insurance Department on this revision, you should refer to ISO Filing Number [CF-2023-RLA1](#) and SERFF Tracking Number [ISOF-133867288](#), NOT this circular number.

CAUTION: This reference filing revises only certain advisory prospective loss costs for Commercial Fire and Allied Lines in this state. In determining whether or not to revise your rates, you should consider the application of your loss cost adjustments to any loss costs not included in this revision.

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-2023-005](#) 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

- **Manual And ISO Suite**

We will issue a Notice to Manualholders with an edition date of 5-24 (or the earliest possible subsequent date), along with any new and/or revised manual pages.

- **ProMetrix**

Revised loss costs for specifically rated and class-rated properties contained in ProMetrix will be displayed as "Pending" beginning on February 19, 2024. On May 1, 2024, these loss costs will move to "Current" status. The previous "Current" becomes the most recent "Prior" and joins all previously displayed "Priors". With each subsequent loss cost revision, we will make an additional "Prior" available. Information in ProMetrix will distinguish between loss costs which reflect the effect of limit of insurance (LOI) relativities and pre-LOI loss costs.

- **Toll-free Telephone Service**

Revised loss costs for specifically rated and class-rated properties will be available by calling toll-free 1-800-444-4554 and requesting "Pending" from February 19, 2024 to May 1, 2024. On May 1, 2024, these loss costs will move to "Current" status. The previous "Current" becomes the most recent "Prior" and joins all previously displayed "Priors".

REFERENCE(S)

- [LI-CF-2023-138](#) (11/01/2023) Maine Commercial Fire And Allied Lines Advisory Prospective Loss Cost Revision Filed
- [LI-CL-2023-005](#) (02/21/2023) Commercial Lines Revised Lead Time Requirements Listing

ATTACHMENT(S)

Revised Explanatory Memorandum

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MAINE

COMMERCIAL FIRE AND ALLIED LINES INSURANCE PROSPECTIVE LOSS COST LEVEL REVISION
EXECUTIVE SUMMARY

PURPOSE

This document:

- revises advisory prospective loss costs. These loss costs represent a +8.3% statewide change from the current ISO loss costs.
- provides the analyses used to derive the prospective loss costs based on experience through calendar/accident year ending 3/31/2022, evaluated as of 6/30/2022.
- incorporates hurricane modeled loss costs based on Touchstone Version 9.0 of AIR Worldwide Corporation's (AIR) tropical cyclone model.
- introduces Basic Group I loss costs for the cannabis classes (0535, 0574, 0575, 0585, and 2205). See filing CF-2021-RCCLC.

CONSIDERATION
OF COVID-19

ISO has considered whether any adjustments need to be made to prospective loss costs, which are based partially on historical experience (pre-COVID-19), to reflect the conditions in which these loss costs will be effective (post-COVID-19). While there will almost certainly be long-term behavioral, social and economic changes as a result of COVID-19, we expect, that those changes will have negligible and/or offsetting effects on prospective loss costs. Considering the nature of the perils coverage by Basic Group I (fire) and the weather driven perils covered by Basic Group II and Special Causes of Loss, ISO is not making any explicit adjustments to our Commercial Property prospective loss costs due to COVID-19.

DEFINITION
OF THE ISO
PROSPECTIVE
LOSS COST

Advisory prospective loss costs in this document are the expected value of that portion of a rate that does not include provisions for expenses (other than loss adjustment expenses) or profit, and are based on historical aggregate losses and loss adjustment expenses adjusted and projected through trending to a future point in time.

CHANGES TO
METHODOLOGY

Calculation of Aggregate Loss Costs at Current Level (ALCCL)

With the implementation of a new ratemaking system, we are now able to reflect risk count in the calculation of PPR (extension of exposure approach) used to calculate Aggregate Loss Costs at Current Level (ALCCL). When there are multiple risks having the same features and are reported as such, they are now counted separately, which more accurately reflects current statistical reporting instructions.

Premiums are both on-leveled and, where possible, PPR'd for the calculation of ALCCL. It should be noted that PPR cannot be calculated for some risks, e.g., Basic Group I specifically-rated risks for which there are no manual (class-rated) loss costs to be used for PPR'ing.

In both the old system and the new, ISO's ratemaking procedures include coding which compares the ALCCL results of using the PPR approach versus the on-level approach, then selects the appropriate result. In the old system, if multiple base records were being inadvertently calculated as if they were one base record, then often the PPR approach would result in too little ALCCL, but the on-level results would have accurately reflected the higher ALCCL of the multiple exposures. In the new system, if there are extra records being reported as if they are base records, which could result in the PPR method calculating them to have too much ALCCL, then the on-level approach would accurately reflect the lower ALCCL from fewer exposures. Because not all reporting errors can be caught, this system acts to ensure that a valid ALCCL amount is selected in both the old methodology and the new.

In addition, the PPR or on-level selection criteria has also been updated with our new programs. Because we now have the ability to make the system more granular, the decision of whether to use the PPR'd or on-leveled ALCCL is being made on a record basis rather than based on an aggregation over similar fields as was done in the old system, which we believe is more accurate.

The combination of reflecting risk count for PPR and selecting on-leveled vs. PPR'd ALCCL on a unit record basis results in more accurate ALCCL for ratemaking. Note that these changes only apply for those records that can be PPR'd and have no impact on those records that are on-leveled only.

LOSS COST
LEVEL
CHANGES

The statewide monoline prospective loss cost level changes are:

<u>Coverage</u>	<u>Indicated</u>
Basic Group I	+10.9%
Basic Group II	+10.0%
Special Causes of Loss	+2.7%
Total	+8.3%

Indicated loss cost level changes are changes from the current loss cost level.

PRIOR ISO
REVISIONS

The latest revisions in this state are:

<u>Reference Document or Filing</u>	CF-2021-RLA1	CF-2020-RLA1
<u>Rates/ Loss Costs</u>	Loss Costs	Loss Costs
<u>Dates Implemented</u>	07/01/22	12/01/20
<u>Changes</u>		
Basic Group I	-5.8%	-6.6%
Basic Group II	0.9%	-2.8%
Special Causes of Loss	-3.2%	-2.4%
Total	-3.7%	-4.6%

HISTORICAL
SOURCE DATA

The data used in this revision is:

- . Voluntary experience for ISO reporting companies.
 - . Five calendar/accident years ending 3/31/2022 for Basic Group I and Special Causes of Loss.
 - . Ten calendar/accident years ending 3/31/2022 for Basic Group II.
-

DISTRIBUTION
OF STATEWIDE
MONOLINE
LOSS COST
CHANGES

ISO has distributed the statewide monoline prospective loss cost changes as follows:

- by territory (where applicable) for Basic Group I.
- by territory, coverage and symbol (where applicable) for Basic Group II.
- by category (building coverage and occupancy type) for Special Causes of Loss.

This has been done based on the experience of each territory (where applicable) for Basic Group I or category for Special Causes of Loss. Therefore, the resulting changes will vary by territory (where applicable) for Basic Group I and by category for Special Causes of Loss.

TREND AND
OTHER
ADJUSTMENTS

Loss Trend

For trend purposes, the period of use for this revision is assumed to begin on 3/01/2024. To adjust the loss experience to the levels expected to prevail while the revised loss costs are in effect, trend factors have been applied to the historical incurred losses. These trend factors are based on:

- external cost indices published by the U.S. Government and information provided by Xactware Solutions, Inc.
- changes in multistate average claim costs through fourth quarter 2021.

The "historic" trend factors based on the external indices, i.e. the factors based on historic changes in the indices, vary by year. The latest annual rates of change based on these indices are:

<u>Coverage</u>	<u>Annual Rate of Change</u>
Buildings	+7.5%
Contents	+7.6%
Time Element	+7.8%

Incurred losses are also multiplied by loss trend adjustment factors (LTA's) to reflect trends in claim frequency and claim costs that are different from those exhibited by the external indices. The annual loss trend adjustments are:

<u>Line of Business</u>	<u>Buildings</u>	<u>Contents</u>	<u>Time Element</u>
Basic Group I	-0.3%	0.3%	1.8%
Basic Group II	0.5%	3.1%	2.4%
Special Causes of Loss	0.2%	-0.2%	1.8%

This produces a total annual loss trend of:

<u>Line of Business</u>	<u>Buildings</u>	<u>Contents</u>	<u>Time Element</u>
Basic Group I	7.2%	7.9%	9.8%
Basic Group II	8.0%	10.9%	10.4%
Special Causes of Loss	7.7%	7.4%	9.7%

Premium Trend

Over time, insureds tend to purchase increased amounts of insurance in order to compensate for inflation, which results in increased premium revenue.

In order to reflect this increase in revenue, ISO uses a premium trend procedure. The premium trend factors are based on observed changes in the annual amount of insurance written for BG I renewal policies for a group of selected companies. For property damage coverages, these amount of insurance, or exposure, trend factors are adjusted for the decrease in limit of insurance factors associated with the increase in amount of insurance to calculate premium trend factors. The selected annual trends in the amount of insurance are:

<u>Line of Business</u>	<u>Buildings</u>	<u>Contents</u>	<u>Time Element</u>
Basic Group I	3.9%	2.3%	1.6%
Basic Group II	3.5%	2.1%	1.6%
Special Causes of Loss	3.7%	1.8%	1.6%

Standard actuarial procedures have been used in calculating the loss costs including loss development and the reflection of all loss adjustment expense. In addition, smoothing procedures have been applied to stabilize the effects of large or excess losses.

TEN LARGEST
COMPANY
GROUPS IN
ISO DATA BASE

COMMERCIAL MULTIPERIL - NON-LIABILITY (ASLOB 51)

1. Liberty Mutual Insurance Company
2. Frankenmuth Mutual Insurance Company
3. Vermont Mutual Insurance Company
4. Tokio Marine Companies
5. Quincy Mutual Fire Insurance Company
6. Travelers Indemnity Company
7. Concord General Mutual Insurance Company
8. Merrimack Mutual Fire Insurance Company
9. NGM Insurance Company
10. Zurich American Insurance Company

Insurers are listed in descending order based on the percent of statewide written premium volume from Annual Statement Page 15 for year ending 12/31/2021 for Annual Statement Line of Business (ASLOB) 51, Commercial Multiperil - Non-liability.

Although ASLOB 51 includes coverages in addition to commercial fire and allied lines, e.g., crime, inland marine, fidelity, the largest percentage of premium volume is due to fire and allied lines (Basic Group I, Basic Group II, and Special Causes of Loss coverages). ASLOB 51 does not include data reported under monoline fire and allied lines (ASLOBs 10 and 21), which includes both commercial and personal property experience.

SIZE OF ISO
DATA BASE

The market share of all insurers reporting to ISO in this state and included in the ratemaking experience underlying this review as measured by Annual Statement Page 15 written premium for year ending 12/31/2021 is:

Commercial Multi-peril - Non-liability (ASLOB 51) - 40.2%

COMPANY
DECISION

We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing the loss costs contained herein are appropriate for its use. 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 Insurance Services Office, Inc. Therefore, the ISO experience permits the establishment of a much broader statistical ratemaking base than could be employed by using any individual company's data. A broader data base enhances the validity of ratemaking analysis derived therefrom. At the same time, however, an individual company may benefit from 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 ISO selected loss costs are appropriate for its use.

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COMMERCIAL PROPERTY

TABLE OF CONTENTS

	<u>Explanatory Pages</u>	<u>Corresponding Exhibits</u>
<u>SECTION A – SCOPE OF REVISION</u>		
Summary of Monoline Prospective Loss Cost Changes	---	Exhibit A1
Basic Group II Prospective Loss Cost Changes by Territory, Coverage and Symbol	---	Exhibit A2
Special Causes of Loss Prospective Loss Cost Changes by Category	---	Exhibit A3
Potential Impact of BG I, BG II and SCL Monoline Revisions on Commercial Package Policy	---	Exhibit A4
<u>SECTION B – CALCULATION OF PROPOSED CHANGES</u>		
Overview of Actuarial Procedures - Commercial Property	Page 8	---
Calculation of Statewide Prospective Loss Cost Level Changes	Pages 9-15	Exhibits B1-B3
Distribution of Prospective Loss Cost Level Changes	Pages 16-28	Exhibits B4-B8
<u>SECTION C- SUPPORTING MATERIAL</u>		
Overview	Pages 29-30	---
Loss Cost/Rate Level Histories	Pages 31-35	Exhibits C1-C6
Commercial Package Policy Implicit Package Modification Factors (IPMF's) and IPMF Caps	Pages 36-37	Exhibits C7-C9
Trend Procedure	Pages 38-47	Exhibits C10-C16
Loss Development Procedure	Pages 48-49	Exhibit C17
Excess Loss Procedure	Pages 50-55	Exhibits C18-C21
Credibility	Pages 56-58	Exhibits C22-C24
Hurricane Procedures	Pages 59-62	---
Calculation of BG II Loss Cost Changes	Pages 63-66	Exhibit C25
<u>SECTION D- ADDITIONAL SUPPORTING MATERIAL</u>		
Basic Group I Rating Group Definitions	---	Exhibit D1
Special Causes of Loss Category Definitions	---	Exhibit D2
Unadjusted Loss Costs, Incurred Losses, Experience Ratios	---	Exhibits D3-D5
Loss Adjustment Expense Factors	Page 67	Exhibit D6
<u>SECTION E- REVISED LOSS COST PAGES</u>		
Basic Group II Loss Costs	E2	---
Special Causes of Loss Loss Costs	E3	---
Basic Group I Loss Costs	E4-E15	---

OVERVIEW OF ISO ACTUARIAL PROCEDURES - COMMERCIAL PROPERTY

INTRODUCTION Commercial Property prospective loss costs are determined by evaluating the adequacy of the current ISO loss costs to pay for our best estimate of losses and all loss adjustment expenses that will be incurred in the prospective (or future) period. This evaluation is done separately for Basic Group I, Basic Group II, and Special Causes of Loss.

**STEP 1:
DETERMINATION
OF INDICATED
STATEWIDE LOSS
COST LEVEL
CHANGE** The first step in this process is the determination of the indicated statewide loss cost level change. This indicated statewide loss cost level change is the average percentage change which must be made to the current ISO loss costs in order to achieve adequacy for the prospective conditions. The percentage changes are presented on the exhibits labeled "Statewide Coverage Loss Cost Level Evaluation".

**STEP 2:
DISTRIBUTION OF
CHANGES** Based on the experience, ISO then distributes the indicated statewide loss cost level change by territory (where applicable) and type of policy for Basic Group I; by type of policy for Basic Group II; and by type of policy and category for Special Causes of Loss.

**STEP 3:
CALCULATION
OF REVISED
LOSS COSTS** The last step is the calculation of the prospective ISO loss costs. This is achieved by applying the indicated monoline changes to the current ISO loss costs. For Basic Group I, for those states without BG I rating territories, the statewide loss cost changes are applied to the current manual loss costs. For those states with rating territories, the Balance of State loss cost changes are applied to the current manual loss costs. The revised territory multipliers are calculated by multiplying the current territory multipliers by the indicated territory changes. For specifically-rated properties, the appropriate changes are applied to the current experience level adjustment factors and territory multipliers. For Basic Group II, revised loss costs are calculated by applying the indicated statewide monoline change to the current ISO loss costs, and where applicable, adding the hurricane modeled loss costs. For Special Causes of Loss, revised loss costs are calculated by applying the indicated monoline changes by category to the current ISO loss costs.

COMMERCIAL PROPERTY INSURANCE
CALCULATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES IN EXHIBITS B1-B3

OBJECTIVE	The objective of this procedure is to determine the indicated statewide advisory loss cost level change. This procedure answers the question: What average percentage change must be made to the current ISO loss costs in order for them to be adequate to cover indemnity losses and all loss adjustment expenses incurred in the prospective period in which the revised loss costs are assumed to be in effect?
DESCRIPTION	<p>This procedure compares the trended and developed incurred losses and loss adjustment expenses with the trended aggregate loss costs at current ISO level. The aggregate loss costs at current level are the amounts that would have been collected for losses and all loss adjustment expenses if the current ISO loss costs had been in effect during the experience period.</p> <p>Experience ratios (losses and all loss adjustment expenses divided by aggregate loss costs, both trended to the prospective experience period) are calculated by year, and a weighted average of the yearly experience ratios is calculated. For Basic Group I (BG I) and Special Causes of Loss (SCL), the five year weights vary by year, giving greater weight to the more recent experience. For Basic Group II (BG II), because of the more volatile nature of the data, the ten individual years are given equal weight.</p> <p>The average experience ratio is then credibility-weighted with the expected experience ratio in order to minimize the impact of random variation in the observed losses. The resulting credibility-weighted experience ratio is the indicated statewide advisory loss cost level change in decimal form.</p>
EXPERIENCE BASE	The experience used in this review is the latest available data reported under the ISO Commercial Statistical Plan for BG I, BG II and SCL. The data are aggregated on an accident year basis.

EXPLANATORY NOTES TO EXHIBITS B1-B3

STATEWIDE BASIC GROUP I, BASIC GROUP II AND
SPECIAL CAUSES OF LOSS COVERAGE LOSS COST LEVEL EVALUATION

COLUMN (1)

EXPERIENCE PERIOD

Experience for the five most recent accident years is used for BG I and SCL.
Experience for the ten most recent accident years is used for BG II.

COLUMN (2)

AGGREGATE LOSS COSTS

Since the objective of the ratemaking procedure is to test the adequacy of the current ISO loss costs, premium data for each year in the experience period are adjusted to the loss cost level which would have been earned had the current loss costs been in effect. This is accomplished by using either an extension-of-exposures (PPR or premium at present rates/loss costs) approach or an on-level approach. Where appropriate, certain reported data elements have been adjusted prior to being used in the calculations.

Extension of Exposures Approach

Where feasible, aggregate loss costs at current level (ALCCL) are developed using an extension-of-exposures approach. That is, the exposure (amount of insurance per \$100) for each policy is multiplied by the current manual loss cost for that state, territory, subline, coverage, construction, occupancy and by any other applicable rating factors, such as limit of insurance factors and deductible relativities.

On-level Approach

The on-level approach is applied on an individual policy basis. The first step in the process is to multiply the reported premiums by the product of all loss cost level changes that have become effective subsequent to the inception date of the policy. The premiums are divided by the reported Rating Modification Factors and Loss Cost Multipliers to bring them to current ISO monoline manual loss cost level.

For premium records with inception dates prior to the effective date of the implementation of Limit of Insurance (LOI) curves, premiums are multiplied by off-balance factors and limit of insurance factors to bring them to a post-LOI loss cost level.

The on-level approach is used to adjust those premium records which cannot be adjusted using the extension-of-exposures techniques, for example, premium records for Basic Group I specifically-rated properties, for which manual loss costs do not exist. In addition, records failing an exposure edit which checks for a reasonable relationship between reported premium and exposure amount have also been on-leveled.

STATEWIDE BASIC GROUP I, BASIC GROUP II AND
SPECIAL CAUSES OF LOSS COVERAGE LOSS COST LEVEL EVALUATION (cont'd)

COLUMN (2)
(cont'd)

Current IPMF and Prospective Amount of Insurance Levels

Premiums are also adjusted to prospective amount of insurance levels by exposure trend factors to reflect the impact of inflation on the average amount of insurance written (Exhibit C13). After multiline premiums are brought to current ISO monoline manual level, they are further adjusted to implicit package modification factor (IPMF) level by the application of Commercial Package Policy (CPP) IPMF's which vary by the eight CPP types of policy. (Both the adjustments to prospective amount of insurance level and to current IPMF level are done on an aggregate basis.) For a more complete description of the IPMF's and the other premium adjustments, refer to Exhibits C7 through C9 in the supporting material.

COLUMN (3) - BG II

NON-HURRICANE AGGREGATE LOSS COSTS - BASIC GROUP II ONLY

The non-hurricane aggregate loss costs reflect that portion of the BG II loss cost volume due to perils other than hurricane. These loss costs are calculated by multiplying the total aggregate loss costs for each rating territory, coverage, and symbol by the ratio of the current non-hurricane to current total loss costs found on Exhibit C25.

COLUMN (3) -
BG I, SCL
COLUMN (4) - BG II

ADJUSTED INCURRED LOSSES

In order to assure the adequacy of the proposed loss cost level, incurred losses are adjusted to reflect the effect of inflation and other trends on loss costs. The adjustment of past losses to prospective levels is accomplished on an individual loss basis by application of current cost factors, loss projection factors and loss trend adjustments (Exhibits C10 through C12). In addition to adjusting losses to prospective cost level, the effect of inflation on the deductible portion of the loss incurred is reflected. For Basic Group II, losses due to hurricanes reflected in the modeled hurricane loss costs have been removed from the experience and replaced with average non-hurricane losses for each rating territory and loss month.

For each subline, incurred losses are further adjusted by an excess loss procedure which smoothes fluctuations due to large loss occurrences. The procedure removes any losses determined to be excess from the total incurred losses, resulting in normal incurred losses. These normal incurred losses (total - excess) are then multiplied by excess loss factors to calculate adjusted incurred losses (Exhibits C18 through C21). The resulting adjusted incurred losses are then developed to their ultimate settlement value and loaded by a factor to include all loss adjustment expenses. Loss development factors can be found on Exhibit C17, and loss adjustment expense factors on Exhibit D6. Where appropriate, certain reported data elements have been adjusted prior to being used in the calculations.

STATEWIDE BASIC GROUP I, BASIC GROUP II AND
SPECIAL CAUSES OF LOSS COVERAGE LOSS COST LEVEL EVALUATION (cont'd)

COLUMN (4) - BG I, SCL EXPERIENCE RATIO
COLUMN (5) - BG II

The experience ratio is the ratio of adjusted incurred losses to aggregate loss costs for each year. For BG II, the experience ratio is a measure of non-hurricane experience only. It is the ratio of the adjusted non-hurricane incurred losses to the non-hurricane aggregate loss costs.

COLUMN (5) - BG I, SCL WEIGHTS

For Basic Group I and Special Causes of Loss, the yearly experience ratios are weighted using weights of 10%, 15%, 20%, 25%, and 30% with the greatest weight assigned to the most recent year. These weights recognize the need to balance stability and responsiveness. The ten Basic Group II experience ratios are equally weighted, each given 10% weight.

LINE (6) WEIGHTED EXPERIENCE RATIO

For Basic Group I and Special Causes of Loss, the weights are applied to the experience ratios to yield the weighted experience ratio. For Basic Group II, the experience ratios are equally weighted. These weighted experience ratios represent a projection of the experience which would result if future policies were written without a loss cost level revision.

LINE (7) CREDIBILITY

The standards for 100% credibility are discussed in detail in Exhibits C22, C23, and C24 for Basic Group I, Basic Group II, and Special Causes of Loss, respectively.

LINE (8) EXPECTED EXPERIENCE RATIO

The expected experience ratio is ISO's best prediction of the experience ratio if the actual incurred experience were not available. For this review, we have assumed that the current loss costs were adequate when implemented and will be inadequate for the prospective period only to the extent of the net trend. The expected experience ratio is represented by the net (loss / amount of insurance) trend factor.

COMPOSITION OF THE RATEMAKING DATA BASE

DATA INCLUDED

BASIC GROUP I

- . CSP Subline 010 (Commercial Fire)
- . CSP Subline 015 (Basic Group I, i.e., Fire, Lightning, Explosion, Vandalism, Sprinkler Leakage)
- . CSP Subline 016 (BG I excluding Vandalism)
- . CSP Subline 017 (BG I excluding Sprinkler Leakage)
- . CSP Subline 018 (BG I excluding Vandalism and Sprinkler Leakage)

BASIC GROUP II

- . CSP Subline 020 (Extended Coverage)
- . CSP Subline 025 (Basic Group II, i.e., Windstorm or Hail, Smoke, Aircraft or Vehicles, Riot or Civil Commotion, Sinkhole Collapse and Volcanic Action)
- . CSP Subline 027 (Basic Group II Causes of Loss, i.e., Windstorm or Hail, Smoke, Aircraft or Vehicles, Riot or Civil Commotion, Sinkhole Collapse and Volcanic Action)
- . CSP Subline 029 (Basic Group II Causes of Loss excluding Windstorm or Hail)

SPECIAL CAUSES OF LOSS

- . CSP Subline 028 (All Other Perils Special Coverage Forms & Endorsements)
- . CSP Subline 035 (Causes of Loss Special Form Including Theft)
- . CSP Subline 045 (Causes of Loss Special Form Excluding Theft)

NOTES ON DATA INCLUDED

All CSP data are reviewed for CSP Types of Policy 10 (monoline), 3X, 70, and 7X (multiline).

For BG I, BG II and SCL, the reviewed experience is for property damage and time element coverages (coverage codes 1-7, as well as coverage code 9 reported under pre-simplification sublines 010, 020, and 028).

COMPOSITION OF THE RATEMAKING DATA BASE (cont'd)

<u>DATA EXCLUDED</u>	<u>TYPE OF DATA</u>	<u>BG I</u>	<u>BG II</u>	<u>SCL</u>
	• Non-voluntary experience (e.g. FAIR Plans)	X	X	NA
	• Dwelling experience	X	X	X
	• Farm experience	X	X	NA
	• Countrywide rated risks	X	X	X
	• Highly protected risks	X	X	X
	• Experience for policies with large deductibles	X	X	X

X indicates that experience is excluded.

For BG II, losses due to hurricanes with wind speeds of 40 miles per hour or greater have been excluded and replaced with average non-hurricane losses for each BG II rating territory and loss month.

Separately identifiable terrorism premium and loss records have been excluded from the ratemaking experience.

OVERVIEW OF ISO ACTUARIAL PROCEDURES - COMMERCIAL PROPERTY

STEP 2 - DISTRIBUTION OF LOSS COST LEVEL CHANGES

OBJECTIVE	<p>The objective of this procedure is to distribute the indicated statewide loss cost level change for Basic Group I, Basic Group II, and Special Causes of Loss among the various rating variables used in each subline. These procedures are used to answer the question: What percentage change for each rating variable must be made to the current ISO loss costs in order to achieve adequacy for the prospective conditions?</p> <hr/>
BASIC GROUP I	<p>For Basic Group I, a consolidated simultaneous iterative procedure is used to calculate the type of policy and territory relativities. More detail on this procedure is given in Exhibit B4. The type of policy relativities serve to price Commercial Package policies relative to monoline policies, via the Package Modification Factors (PMF), while the territory relativities serve to price the various territories relative to one another.</p> <p>The overall loss cost level change is distributed across type of policy and territory. The indicated monoline change is the product of the monoline type of policy relativity, the territory relativity and the statewide loss cost level change.</p> <hr/>
BASIC GROUP II	<p>The purpose of the Basic Group II relativity analysis is to determine monoline loss cost level needs, to obtain marginal relativities displayed on Exhibit B8 and to price CPP policies relative to monoline policies via the PMFs. Unlike the BG I and SCL relativity analyses, the BG II relativity analysis does not employ a simultaneous review procedure because the overall loss cost change is distributed across type of policy only.</p> <p>The statewide monoline non-hurricane loss cost change is the product of the monoline normalized formula relativity, shown on Exhibit B8 and the indicated statewide loss cost level change. This change is applied to the non-hurricane portion of the BG II loss costs to produce indicated non-hurricane loss costs. The indicated loss costs by territory, coverage, and symbol are equal to the sum of the indicated non-hurricane loss costs plus the hurricane modeled loss costs.</p> <hr/>

OVERVIEW OF ISO ACTUARIAL PROCEDURES - COMMERCIAL PROPERTY

STEP 2 - DISTRIBUTION OF LOSS COST LEVEL CHANGES (cont'd)

BASIC GROUP II
(cont'd)

The overall monoline loss cost level change is the weighted average of the loss cost changes by territory, coverage and symbol. In calculating this weighted average, the latest year aggregate monoline and multiline combined loss costs at current level are used as weights.

SPECIAL CAUSES
OF LOSS

For Special Causes of Loss, a simultaneous iterative procedure is used as for BG I to arrive at a set of type of policy and category relativities (as displayed on Exhibit B5) that best represent the experience within each state. The type of policy relativities serve to price CPP policies relative to monoline policies via the PMFs, while the category relativities serve to price the various categories relative to one another.

The indicated monoline loss cost level changes are calculated for each category by taking the product of the monoline type of policy relativity, the category relativity and the statewide loss cost change. See Exhibit B5 for the monoline loss cost indications.

The overall monoline loss cost level change is a weighted average of the 14 monoline category changes. In calculating this weighted average, the latest year monoline and multiline combined loss costs at current level are used as weights.

EXPLANATORY NOTES TO EXHIBITS B4 AND B5

BASIC GROUP I AND SPECIAL CAUSES OF LOSS RELATIVITY ANALYSIS

INTRODUCTION

The explanations which follow clarify Exhibits B4 and B5, the Basic Group I relativity analysis and the Special Causes of Loss relativity analysis, respectively. The purpose of these analyses is to:

- (1) determine monoline territorial loss cost level needs for Basic Group I;
- (2) determine monoline category loss cost level needs for Special Causes of Loss;
- (3) determine indicated changes to the eight CPP package modification factors (PMFs) based on Basic Group I/Special Causes of Loss experience.

COLUMN (1)

LEAST SQUARES FORMULA RELATIVITIES

The least squares formula relativities are the marginal relativities which result from the application of the simultaneous review procedure to the raw experience (where marginal refers to the relativities for a given rating variable, e.g. type of policy, across all subsets of any other rating variables, i.e. territory for Basic Group I, and category for Special Causes of Loss).

The purpose of such a simultaneous review procedure is to arrive at a set of type of policy relativities (which will serve to price CPP policies relative to monoline policies via the PMFs); a set of territory relativities for Basic Group I; and a set of category relativities for Special Causes of Loss that best represent the experience. This procedure is in contrast to a review of each rating variable's experience separately. Such one-way types of review do not take into account differing percentages of monoline and multiline experience in each rating variable, nor differing percentages of a particular rating variable's experience in the monoline and multiline types of policy. The simultaneous relativity procedure accounts for these different distributions in generating relativities for the various rating variables.

EXPLANATORY NOTES TO EXHIBITS B4 AND B5 (cont'd)

COLUMN (1)
(Cont'd)

The procedure follows an iterative technique to determine a set of marginal relativities by rating variable that is a best fit to the individual cell relativities, with each cell being defined as the cross-section of specific values of each rating variable. The process uses the relativity of the five year experience ratios by rating cell to the overall statewide experience ratio and the latest year aggregate loss costs for each rating cell. (This experience is shown in Exhibits B6 for Basic Group I and Exhibits B7 for Special Causes of Loss.) Specifically, the iteration procedure uses the following formulas:

BASIC GROUP I:

$$TOP_i = \frac{\sum_{k=1}^t W_{ik}^2 R_{ik} TER_k}{\sum_{k=1}^t W_{ik}^2 TER_k^2}, \text{ where } 1 \leq i \leq m;$$

$$TER_k = \frac{\sum_{i=1}^m W_{ik}^2 R_{ik} TOP_i}{\sum_{i=1}^m W_{ik}^2 TOP_i^2}, \text{ where } 1 \leq k \leq t;$$

SPECIAL CAUSES OF LOSS:

$$TOP_i = \frac{\sum_{j=1}^n W_{ij}^2 R_{ij} CAT_j}{\sum_{j=1}^n W_{ij}^2 CAT_j^2} \text{ where } 1 \leq i \leq m;$$

$$CAT_j = \frac{\sum_{i=1}^m W_{ij}^2 R_{ij} TOP_i}{\sum_{i=1}^m W_{ij}^2 TOP_i^2}, \text{ where } 1 \leq j \leq n;$$

EXPLANATORY NOTES TO EXHIBITS B4 AND B5 (cont'd)

COLUMN (1)
(cont'd)

- TOP_i is the relativity for the i th type of policy;
- CAT_j is the relativity for the j th category;
- TER_k is the relativity for the k th territory;
- W_{ik} is the loss cost volume at current level for the i th type of policy and k th territory;
- R_{ij} is the experience ratio relativity for the i th type of policy and j th category (Special Causes of Loss);
- R_{ik} is the experience ratio relativity for the i th type of policy and k th territory (Basic Group I);
- m is the number of types of policy in the analysis;
- n is the number of categories in the analysis;
- t is the number of territories in the analysis.

The procedure determines m type of policy relativities using the above formulas. Then, using those results, a set of t territory relativities (BG1) or a set of n category relativities (SCL) are determined. These steps form an iterative process which continues until there is no appreciable difference in results from one iteration to the next.

COLUMN (2)

CREDIBILITY

The credibility of the experience for each rating variable is determined from the formula:

$$Z = \frac{P}{P + K},$$

where P represents the five-year aggregate adjusted loss costs for a given rating variable, and K is a constant value. For Basic Group I, K equals an aggregate loss cost volume of \$55,000,000 for territory and \$100,000,000 for type of policy. For Special Causes of Loss, K equals an aggregate loss cost volume of \$15,000,000 for category and \$40,000,000 for type of policy.

EXPLANATORY NOTES TO EXHIBITS B4 AND B5 (cont'd)

COLUMN (3) CREDIBILITY-WEIGHTED RELATIVITIES

Credibility-weighted relativities are calculated based on the formula

$$W = R^Z,$$

where Z is the credibility, R is the least squares formula relativity and W is the credibility weighted relativity for a given rating variable.

This formula implicitly assigns the complement of credibility to a relativity of unity.

COLUMN (4) BALANCED RELATIVITIES

The credibility-weighted relativities are balanced to assure that the average relativity across all rating variables remains at unity.

COLUMN (5) INDICATED MONOLINE LOSS COST LEVEL CHANGE

For Basic Group I, the indicated monoline loss cost changes are calculated for each territory by taking the product of the monoline type of policy (TOP 10) relativity, the territory relativity and the statewide loss cost level change. (An example of such a calculation appears on Exhibit B4.)

EXPLANATORY NOTES TO EXHIBITS B4 AND B5 (cont'd)

COLUMN (5)
(cont'd)

The indicated overall statewide monoline loss cost level change shown at the bottom of the first page of Exhibit B4 is the aggregate loss cost-weighted average of the individual territory changes.

For Special Causes of Loss, the indicated monoline loss cost changes are calculated for each category by taking the product of the monoline type of policy (TOP 10) relativity, the category relativity, and the statewide loss cost level change. (An example of such a calculation is included in Exhibits B5.) The indicated overall statewide loss cost level change shown at the bottom of Exhibits B5 is the aggregate loss cost-weighted average of the individual category changes.

In all cases, the loss costs used in these calculations are the latest year's monoline and multiline combined adjusted loss costs.

MULTILINE
CONSIDERATIONS

The type of policy (TOP) relativities are used to generate multiline indications which apply to the current implicit package modification factors (IPMF's). The indicated IPMF's are calculated as follows:

$$\frac{\text{TOP y indicated IPMF}}{\text{IPMF}} = \frac{(\text{TOP y current IPMF})(\text{TOP y relativity})}{\text{monoline relativity}}$$

For each CPP type of policy, the indicated IPMF is subject to a minimum value of 0.50 and a maximum value of 1.50. If an indicated IPMF falls outside one of those limits, it is capped at that amount, the loss costs for that type of policy are adjusted to the capped IPMF level, and the entire relativity review as described above is re-performed to take this into account. If an IPMF has been capped, it is so noted at the bottom of Exhibits B4 and Exhibits B5.

It should be noted that although this procedure generates multiline indications, this filing only addresses monoline loss cost levels. That is, upon implementation of this filing only the monoline loss costs will be revised. The multiline indications developed here will be combined with those of the other component coverages, e.g. GL Premises and Operations in the CPP review for the purpose of revising the package modification factors.

EXPLANATORY NOTES TO EXHIBITS B6

BASIC GROUP I RELATIVITY ANALYSIS
SUMMARY OF EXPERIENCE USED IN SIMULTANEOUS REVIEW

INTRODUCTION	<p>The experience used in the relativity analysis and displayed on Exhibit B6 is the latest five accident years of data reported under the Commercial Statistical Plan. As in the overall review, loss costs have been adjusted to current ISO loss cost and prospective amount of insurance levels (with multiline aggregate loss costs adjusted additionally by the current implicit package modification factors). Incurred losses are adjusted to prospective cost levels and are further adjusted by the Basic Group I large loss procedure and the Special Causes of Loss excess procedure. Losses have also been developed to their ultimate settlement value by application of loss development factors.</p>
COLUMN (1)	<p><u>2022 AGGREGATE LOSS COSTS</u></p> <p>The latest accident year aggregate loss costs (adjusted as described above) are used as weights both in the calculation of any totals shown in this table and in the iterative formulas used in the simultaneous review procedure.</p>
COLUMN (2)	<p><u>2018 - 2022 AGGREGATE LOSS COSTS</u></p> <p>The combined five-year adjusted aggregate loss costs (adjusted as described above) are used to calculate the experience ratios in column (3).</p>
COLUMN (3)	<p><u>FIVE-YEAR EXPERIENCE RATIOS</u></p> <p>These are the ratios of the combined five-year adjusted incurred losses (adjusted as described above) to the combined five-year adjusted aggregate loss costs as shown in column (2). Any totals which are shown are weighted averages using the adjusted aggregate loss costs in column (1).</p>
COLUMN (4)	<p><u>RELATIVITIES</u></p> <p>The relativities are the ratios of the five-year experience ratios shown in column (3) to the average five-year experience ratio for all TOP's and territories (where applicable) combined. These relativities represent how much better or worse than average the experience for a given cell is. They are used along with the aggregate loss costs in column (1) as input for the simultaneous review procedure.</p>

EXPLANATORY NOTES TO EXHIBITS B7

SPECIAL CAUSES OF LOSS RELATIVITY ANALYSIS
SUMMARY OF EXPERIENCE USED IN SIMULTANEOUS REVIEW

INTRODUCTION	<p>The experience used in the relativity analysis and displayed on Exhibit B7 is the latest five accident years of data reported under the Commercial Statistical Plan. As in the overall review, loss costs have been adjusted to current ISO loss cost and prospective amount of insurance levels (with multiline aggregate loss costs adjusted additionally by the current implicit package modification factors). Incurred losses are adjusted to prospective cost levels and are further adjusted by the Basic Group I large loss procedure and the Special Causes of Loss excess procedure. Losses have also been developed to their ultimate settlement value by application of loss development factors.</p>
COLUMN (1)	<p><u>2022 AGGREGATE LOSS COSTS</u></p> <p>The latest accident year aggregate loss costs (adjusted as described above) are used as weights both in the calculation of any totals shown in this table and in the iterative formulas used in the simultaneous review procedure.</p>
COLUMN (2)	<p><u>2018 - 2022 AGGREGATE LOSS COSTS</u></p> <p>The combined five-year adjusted aggregate loss costs (adjusted as described above) are used to calculate the experience ratios in column (3).</p>
COLUMN (3)	<p><u>FIVE-YEAR EXPERIENCE RATIOS</u></p> <p>These are the ratios of the combined five-year adjusted incurred losses (adjusted as described above) to the combined five-year adjusted aggregate loss costs as shown in column (2). Any totals which are shown are weighted averages using the adjusted aggregate loss costs in column (1).</p>
COLUMN (4)	<p><u>CREDIBILITY (Z) WEIGHTED EXPERIENCE RATIO</u></p> <p>A credibility procedure is applied to the initial experience ratios in column (3) on a cell-by-cell basis prior to the simultaneous review procedure. The credibility values are calculated using an empirical Bayesian credibility procedure. In the following discussion, cell refers to an individual combination of TOP and category.</p>

EXPLANATORY NOTES TO EXHIBITS B7 (cont'd)

COLUMN (4)
(cont'd)

The important concept underlying empirical Bayesian credibility is that credibility should depend both on the overall variation of the group of which the cell is a member and the variation of the yearly experience ratios for the cell. Therefore, if a cell's data is very stable then a relatively high credibility value is assigned, and vice versa.

The empirical Bayesian credibility formula for individual cell credibility is $Z = ((C-3)/C) (P/(P+K)) + (3/C)$. P equals the cell's five-year adjusted aggregate loss costs and C equals the number of unique combinations of rating variables (TOP and Category) within a class group. The K value is estimated from the underlying data using the empirical Bayes method and varies by TOP group. The three TOP groups used in this analysis are: Monoline (TOP 10), Premises (TOP's 31-35), and Operations (TOP's 36-38). The 3/C term corrects for the statistical bias associated with the credibility process. The minimum credibility that is possible is 3/C.

COLUMN (5)

Z-WEIGHTED RELATIVITIES

The relativities are the ratios of the five-year credibility-weighted experience ratios shown in column (4) to the average five-year credibility-weighted experience ratio for all TOP's and categories combined. These relativities represent how much better or worse than average the experience for a given cell is. They are used along with the aggregate loss costs in column (1) as input for the simultaneous review procedure.

EXPLANATORY NOTES TO EXHIBIT B8

BASIC GROUP II RELATIVITY ANALYSIS

INTRODUCTION

The explanations which follow clarify Exhibit B8, the Basic Group II (BG II) relativity analysis. The purpose of this analysis is to:

- (1) determine the monoline loss cost level need;
- (2) determine indicated changes to the eight CPP package modification factors (PMFs) based on Basic Group II experience.

The BG II relativity analysis is based on non-hurricane loss experience only, as it is assumed that type of policy relativities are the same for both non-hurricane and hurricane perils. The resulting relativities apply to the total (hurricane plus non-hurricane) BG II loss costs.

COLUMN (1)

2022 AGGREGATE LOSS COSTS

The latest accident year adjusted aggregate loss costs (adjusted in the same manner as in the overall review, i.e. to current manual loss cost and prospective amount of insurance levels, with multiline aggregate loss costs further adjusted to current IPMF level) are used as weights in the calculation of any totals shown in this table.

COLUMN (2)

2013 - 2022 EXPERIENCE RATIO

These experience ratios are the ratios of the combined ten-year CSP adjusted incurred non-hurricane losses (adjusted to current deductible and prospective cost levels including loss development and smoothed by the BG II excess loss procedure) to the combined ten year CSP adjusted aggregate loss costs. Any totals which are shown are weighted averages using the aggregate loss costs in column (1). When a dash is displayed in the column, it indicates that the indicated IPMF which resulted from this procedure was capped. The procedure which follows when capping occurs is described below.

COLUMN (3)

FORMULA RELATIVITY

The formula relativities are the ratios of the ten year non-hurricane experience ratios for the type of policy (either monoline vs. multiline or individual multiline programs) to the average ten year experience ratio for monoline and multiline combined. These relativities represent how much better or worse than average the experience for a given type of policy is. Again, any totals which are shown are weighted averages and the display of a dash indicates that the resulting IPMF was capped. Unlike the BG I and SCL relativity analyses, the BG II analysis does not employ a simultaneous review procedure since a one way review is involved. That is, the overall loss cost change is only distributed across type of policy; no other rating variables are considered.

EXPLANATORY NOTES TO EXHIBIT B8 (cont'd)

COLUMN (4)

CREDIBILITY

The credibility of the experience for each type of policy is determined from the formula:

$$Z = \frac{P}{P + K}$$

where P is the ten year aggregate adjusted loss costs for a given type of policy, and K is a constant loss cost volume of \$45,000,000.

COLUMN (5)

Z - WEIGHTED RELATIVITY

The weighted relativity is a weighted average of the individual TOP formula relativity and the overall (coverage) formula relativity using credibility and its complement as the respective weights. Therefore, to the extent that the indication for a type of policy is not fully credible, the complement of credibility is assigned to the statewide coverage level change.

COLUMN (6)

BALANCED FORMULA RELATIVITY

The individual multiline weighted relativities are balanced to the multiline weighted relativity level by applying a factor equal to the overall multiline relativity (i.e. the weighted relativity for all multiline combined which is shown on the top of the exhibit directly under the corresponding monoline relativity) divided by the average multiline relativity (i.e. the weighted average of the individual multiline weighted relativities which is shown on the bottom of the exhibit). When the indicated IPMF for a type of policy is capped, the balanced relativity is set equal to the product of the capped IPMF in column (9) and the monoline balanced formula relativity in column (6), divided by the current IPMF in column (8).

COLUMN (7)

NORMALIZED FORMULA RELATIVITY

The normalized relativity is equal to the balanced formula relativity divided by the average monoline/multiline combined relativity. This balances the average monoline/multiline relativity to unity.

COLUMN (8)

CURRENT IMPLICIT PMF

This is the current IPMF for each multiline type of policy.

EXPLANATORY NOTES TO EXHIBIT B8 (cont'd)

COLUMN (9)

INDICATED IMPLICIT PMF

The indicated IPMF is calculated from the normalized relativities as follows:

$$\text{TOP y indicated IPMF} = \frac{(\text{TOP y current IPMF}) \times (\text{TOP y relativity})}{(\text{monoline relativity})}$$

For each CPP type of policy the indicated IPMF is subject to a minimum value of 0.50 and a maximum value of 1.50. If an indicated IPMF falls outside one of those limits, it is capped at that amount, the aggregate loss costs for that type of policy are adjusted to the capped IPMF level, and the entire relativity review as described above is redone to take this into account. If an IPMF has been capped it is so noted in footnote A.

COLUMN (10)

INDICATED LOSS COST CHANGES

The indicated monoline change is the statewide BG II total (hurricane and non-hurricane combined) monoline loss cost change found on Exhibit C25. The multiline change for each TOP is the product of the statewide monoline loss cost change times the ratio of the TOP y relativity divided by the monoline relativity found in column (7).

The overall multiline loss cost level change is a weighted average of the individual multiline TOP changes based on the aggregate loss cost volume shown in column (1). The coverage change is a weighted average of the monoline and average multiline TOP changes based on the aggregate loss cost volume shown in column (1).

MULTILINE
CONSIDERATIONS

It should be noted that although this procedure generates multiline indications, this filing only addresses monoline loss cost levels. That is, upon implementation of this filing only the monoline loss costs will be revised. The multiline indications developed here will be combined with those of the other component coverages, e.g. GL Premises and Operations in the CPP review for the purpose of revising the package modification factors.

OVERVIEW

AGGREGATE LOSS COSTS AT CURRENT LEVEL

Exhibits C1, C2 and C3 provide the overall loss cost/rate level histories for Basic Group I, Basic Group II, and Special Causes of Loss respectively. These tables, along with Exhibits C4, C5 and C6, provide information on the on-level factors needed to bring collected aggregate loss costs to current loss cost level.

Exhibit C4 provides rate level/loss cost level histories by rating id (class vs. specific), rating group, and territory (where applicable) for Basic Group I, Exhibit C5 provides rate level/loss cost level histories by territory, coverage, and symbol (where applicable) for Basic Group II, and Exhibit C6 provides rate level/loss cost level histories by category for Special Causes of Loss. These tables can be used to develop on-level factors appropriate to bring collected aggregate loss costs up to current loss cost level. Factors based on these tables are more appropriate for company use than the overall factors shown on Exhibits C1, C2 and C3 if the company's mix of business differs substantially from the industrywide average. For example, if a company's business is very heavily concentrated in a single class or territory, it is more appropriate to use the rate level/loss cost history for that class rather than the overall average to develop on-level factors.

Exhibits C7, C8 and C9 provide the current implicit package modification factors (IPMFs) and IPMF caps for Basic Group I, Basic Group II and Special Causes of Loss.

ADJUSTMENTS TO LOSSES

The loss projection factors, current cost factors, and loss trend adjustments shown on Exhibit C10, C11 and C12 reflect the combined impact of all economic influences on Commercial Property underwriting results and are used to project past underwriting results to future loss levels. They are intended to reflect the impact of inflation on loss payments, the impact of higher costs due to repairs done on an “emergency” basis, the impact of coinsurance and relative insurance to value on loss payments, and any other economic influences which can affect underwriting losses but for which specific provisions are not made. Losses have also been developed to their ultimate settlement value using factors shown on Exhibit C17.

CREDIBILITY

Credibility, Z , is a weight given to the most recent body of data. The complement of credibility, $1-Z$, is the weight assigned to net trend. The final estimate is a weighted average obtained by using the formula $C = Z \times R + (1-Z) \times N$, where

Z = credibility

C = final estimate

R = estimate based on the most recent data

N = net trend

OVERVIEW (cont'd)

CREDIBILITY (cont'd)

Credibility may range from 0 to 1, where $Z=1$ is full credibility and $Z=0$ is no credibility. The actual numerical value of Z is calculated by considering how the state's volume of experience compares with the full credibility standard. Credibility is capped at 25% if the credibility calculated is less than 25%. See Exhibit C22, C23 and C24 for a complete explanation of the credibility standards for Basic Group I, Basic Group II, and Special Causes of Loss.

LOSS COST/RATE LEVEL HISTORY

Loss cost/rate level histories are provided for Basic Group I, Basic Group II and Special Causes of Loss. The loss cost/rate level changes are then further split out by rating territory, rating group or category since a company's business may be more heavily concentrated in a single class. These histories can be used to develop on-level factors appropriate to bring collected aggregate loss costs up to current loss cost levels.

EXPLANATORY NOTES TO EXHIBITS C1, C2 AND C3

LOSS COST/RATE LEVEL HISTORIES

COLUMN (1) EFFECTIVE DATE

The effective dates of the latest loss cost/rate level changes are shown.

COLUMN (2) LOSS COST/RATE LEVEL CHANGE

The overall loss cost/rate level change is shown in percent form.

COLUMN (3) LOSS COST/RATE LEVEL INDEX

The product of all loss cost/rate level changes up to and including the loss cost/rate change for that effective date is used to calculate on level factors.

COLUMN (4) WRITTEN ADJUSTMENT (ON LEVEL) FACTORS

These factors are used to bring individual policies with inception dates prior to the effective date up to current loss cost level. The actual loss cost/rate changes vary by rating id, rating group, and territory (where applicable) for Basic Group I, by territory, coverage, and symbol (where applicable) for Basic Group II, and by category for Special Causes of Loss. Consequently, these on-level factors represent average factors and are not the factors actually used to adjust the aggregate loss costs on an individual policy basis. For complete loss cost/rate level histories in detail, refer to Exhibits C4, C5 and C6.

COLUMN (5) WEIGHT

The weight indicates the portion of the effective year for which the on level factors apply. These can be used to calculate average yearly factors.

EXPLANATORY NOTES TO EXHIBIT C4

HISTORY OF BASIC GROUP I LOSS COST/RATE CHANGES
BY TERRITORY, RATING ID AND RATING GROUP

TERRITORY

The loss cost/rate level changes shown apply to the rating territory shown here.

EFFECTIVE DATE

The effective dates of the latest loss cost/rate level changes are shown.

LOSS COST/RATE LEVEL CHANGES

Loss cost/rate level changes are shown in percent form for each rating group.

EXPLANATORY NOTES TO EXHIBIT C5

HISTORY OF BASIC GROUP II LOSS COST CHANGES BY TERRITORY

COLUMN (1)	<u>TERRITORY</u> The loss cost level changes shown apply to the rating territory shown here.
COLUMN (2)	<u>EFFECTIVE DATE</u> The effective dates of the latest loss cost level changes are shown.
COLUMN (3)	<u>SYMBOL</u> The construction group symbol is shown here. Refer to the explanatory notes to Exhibit C25 for the symbol definitions.
COLUMN (4)	<u>BUILDING</u> Building loss cost changes are shown in percent form.
COLUMN (5)	<u>CONTENTS</u> Contents loss cost changes are shown in percent form.

EXPLANATORY NOTES TO EXHIBIT C6

HISTORY OF SPECIAL CAUSES OF LOSS
LOSS COST/RATE LEVEL CHANGES BY CATEGORY

COLUMN (1) EFFECTIVE DATE

The effective dates of the latest loss cost/rate level changes are shown.

COLUMN (2) LOSS COST/RATE LEVEL CHANGES BY CATEGORY

Loss cost/rate changes are shown in percent form for each category. Refer to Exhibit D2 for definitions of the current 14 categories.

The prior category definitions (before implementation of the revised rating for Special Causes of Loss) are:

- 01 - Buildings
- 02 - Apartments Contents
- 03 - Office Contents
- 04 - Mercantile, Motel/Hotel and Institutional Contents
- 05 - Service, Industrial/Processing, and Contractors Contents

COMMERCIAL PACKAGE POLICY IMPLICIT PACKAGE MODIFICATION FACTORS (IPMF's)
AND IPMF CAPS

IMPLICIT PACKAGE
MODIFICATION
FACTORS

Since multiline experience is included in the loss cost level evaluations, an additional adjustment is made to multiline aggregate loss costs after they have been brought to current ISO loss cost level. This adjustment is the application of implicit CPP package modification factors which vary for each of the eight CPP types of policy.

The loss costs used to price a Commercial Package Policy (CPP) are the monoline loss costs multiplied by the PMF to reflect the package policy discount for the particular type of CPP policy relative to the individual monoline policies. However, these PMF's measure the amount of multiline discount for all property coverages combined. A more accurate measure of the amount of multiline discount for each subline (e.g., Basic Group I, Basic Group II, or Special Causes of Loss) is the implicit package modification factor that was used to calculate the overall PMF for all property coverages combined.

For example, the published PMF for Apartments (all property coverages combined) may be .85, but the implicit PMF for Apartments, Commercial Basic Group I coverage only, may be .80. The average of the implicit PMF's for the various coverages is equal to the published PMF for each type of policy.

The current IPMF's by coverage for each CPP type of policy are applied to multiline aggregate loss costs at current level for Basic Group I, Basic Group II and Special Causes of Loss.

IPMF CAPS

For Basic Group I, Basic Group II, and Special Causes of Loss, the IPMF's lower caps are set at 0.50 and the upper caps are set at 1.50 for all TOP's.

EXPLANATORY NOTES TO EXHIBITS C7, C8 AND C9

IMPLICIT PACKAGE MODIFICATION
FACTORS (IPMF's) AND IPMF CAPS

EXHIBITS C7, C8
AND C9

These tables provide the current IPMF's and IPMF caps for Basic Group I, Basic Group II, and Special Causes of Loss. The IPMF's shown here are those which resulted from the most recent CPP revision. The IPMF lower caps are set at .50 and the upper caps are set at 1.50 for all TOP's.

TREND PROCEDURE

INTRODUCTION

The prospective loss cost levels established in this document reflect the anticipated claim cost and claim frequency levels and changes in revenue due to increased amounts of insurance purchased for the period when the new loss costs are assumed to be in effect.

LOSS TREND

EXTERNAL LOSS DATA

For Commercial Property, the loss trend factors are referred to as current cost factors (CCF's) and loss projection factors (LPF's). These CCF's and LPF's are based on the following accepted economic indices:

1. Xactware Commercial Index (XCI) for buildings loss projection factors and current cost factors
2. Producer Price Index (PPI) published by the US Department of Labor (Finished Goods Less Energy, Not Seasonally Adjusted) for contents factors
3. Index for Manufacturers' Sales Exposure (IMSEP) developed by ISO using indices published by the Department of Commerce and Chain-Type Price Index for Retail Sales (RSALES) produced by the Bureau of the Census, Bureau of Economic Analysis for time element factors

The CCF's adjust losses for actual inflationary changes which have taken place between the accident date and the midpoint of the latest period of external trend information, i.e., 2/15/2023 for property damage and time element. The LPF's adjust losses for projected inflationary changes from the midpoint of the latest period of external trend information to the anticipated average date of accident for policies written under the proposed loss costs (assumed to be 12 months after the assumed revision date based on all one-year policies).

The CCF's and LPF's are calculated separately for buildings, contents, and time element coverages. For coverage 3 (buildings and contents on a combined basis), combined trend factors are calculated using the following weights for buildings and contents: 70%/30% for Basic Group I, 75%/25% for Basic Group II, and 50%/50% for Special Causes of Loss. For time element (coverages 4-9) the combined trend factors are calculated using 70%/30% weights for RSALES/IMSEP. The factors are applied by coverage to the losses reported under CSP and CMSP on an individual occurrence basis.

TREND PROCEDURE (cont'd)

LOSS TREND (cont'd)

LOSS TREND ADJUSTMENT - SEVERITY

An evaluation of the latest Commercial Property insurance data shows that the cost levels inherent in the property damage coverages are increasing at a different rate than those measured by the external indices. Therefore, to insure adequate prospective loss cost levels during the period for which loss costs are to be determined, loss trend adjustments (LTA's) have been applied. These factors were developed by comparing the annual rate of change in average claim costs to the annual rate of change in the external indices. (Refer to Exhibit C12 for the calculations.)

LOSS TREND ADJUSTMENT - FREQUENCY

In order to reflect total trend more precisely, a frequency component is included in the loss trend adjustment factors (LTA's) separately for buildings and contents for Basic Group I and contents only for Special Causes of Loss. No frequency component is used for Basic Group II and Special Causes of Loss buildings due to the extremely volatile nature of the coverages.

AMOUNT-OF-
INSURANCE
TREND

Cost changes over time to both real and personal property result in insureds purchasing increased amounts of insurance. To reflect the impact of this phenomenon, amount of insurance trend factors are applied to collected loss costs to bring them to prospective amount of insurance levels. These factors are developed by measuring amount of insurance trends on a sample of renewal policies.

The application and development of these factors parallels loss trend factors in that separate factors are developed for buildings, contents, and time element, and the adjustment to prospective amount of insurance levels is done in two steps. The current written factors adjust loss costs to the amount of insurance level for the midpoint of the latest period of renewal information, i.e. July 1, 2022. Total amount of insurance trend factors are then calculated by projecting these current factors to the average date of writing (i.e. to the amount of insurance level six months beyond the assumed effective date).

EXPLANATORY NOTES TO EXHIBIT C10

PART A: XACTWARE, PRODUCER PRICE, IMSEP, RSALES INDICES AND
COMBINED TIME ELEMENT

QUARTER	The quarter for which the indices shown apply.
XACTWARE COMMERCIAL INDEX (XCI)	The Xactware Commercial Index measures the costs of building material and repairs for commercial properties. The index, which is available since 1st Quarter 2005, is based on regular surveys of over 42,000 material and equipment suppliers and over 9,500 contractors, in addition to claims settlement data. The index values are created by estimating the cost to rebuild a sample set of different structures ranging in size, style, and quality in each economic market. The Xactware index is used in this filing to adjust for current cost from 1/1/2005 to the midpoint of the latest index point and for determining the loss projection factor.
PRODUCER PRICE INDEX (PPI)	The Producer Price Index is a time series which measures the price level for a predetermined group of goods produced relative to the price level for an earlier point in time (2009). The PPI Finished Goods Less Energy is published by the U.S. Department of Labor.
PRICE DEFLATOR INDEX FOR MANUFACTURERS' SALES EXPOSURE (IMSEP)	<p>The price deflator index for manufacturers' sales exposure is a quarter's model of Manufacturers' Sales Exposure Proxy (MSEP) for the period in question relative to MSEP measured in chained 2012 dollars. The price deflator is defined as the GNP (Gross National Product) price deflator with government expenditures, investment in intellectual property products, inventory changes, and all services except food services removed.</p> <p style="text-align: center;">$MSEP = (CD + CN + FS) + (EXD\&N - IMD\&N) + (IFIX - IPP)$, where</p> <p>CD and CN represent consumption of durables and nondurables, respectively; EXD&N and IMD&N represent exports and imports of merchandise, respectively; FS represents food services and IFIX represents gross private domestic fixed investment (including residential fixed investment as well as nonresidential fixed investment in structures, equipment, and intellectual property products); and IPP represents nonresidential fixed investment in intellectual property products.</p>
CHAIN-TYPE PRICE INDEX FOR RETAIL SALES (RSALES)	The Chain-Type Price Index for Retail Sales measures changes in losses due solely to inflation.

EXPLANATORY NOTES TO EXHIBIT C10 (cont'd)

PART B: COMPUTATION OF THE LOSS PROJECTION FACTOR

LOSS PROJECTION
FACTOR

The loss projection factor is calculated by fitting a least squares exponential curve to the appropriate number of points (where the appropriate number of points is determined based on judgment and an examination of the goodness of fit as determined by the R-squared values subject to a maximum of 12 quarterly points for property damage and time element).

The table displays the indices for those points used in fitting the curve. The relevant equations are shown and the annual rate of change in the indices based on the exponential fit is developed. This annual rate of change is projected over the period which extends from the latest period of cost information to the average accident date of the projection period.

PART C: CALCULATION OF CURRENT COST FACTORS (CCF'S)

CALENDAR YEAR
AVERAGES

The calendar year averages are the averages of the Xactware, PPI and Time Element indices for the given year. These average indices measure the average cost level of each year relative to the base.

CURRENT COST
FACTORS

The current cost factors are the ratios of the indices for the latest period of cost information divided by the average indices for each calendar year. These factors measure the changes in cost levels which have occurred from the midpoint of the given year to the latest point of cost information. In this regard, they represent average factors which would result if each year's losses were distributed evenly throughout the year.

For buildings, the index for the latest point is based on the latest available Xactware point.

Since losses are trended on a record by record basis, these calendar year factors are not actually used in ISO's trend calculations. Instead, factors are calculated from the bi-monthly or quarterly indices and applied to the unit losses based on the date of occurrence.

EXPLANATORY NOTES TO EXHIBIT C11

SUMMARY OF LOSS TREND ADJUSTMENTS (LTA'S)

COVERAGE

The LTA's vary by coverage (buildings, contents, and time element) and line of business (BG I, BG II, and SCL).

FIVE-YEAR INCURRED LOSSES

The five-year multistate incurred losses are used as weights to determine the annual LTA for all lines of business and coverages combined.

ANNUAL LTA's

The LTA's are the factors which are applied to losses to supplement the external indices in order to correctly reflect cost level and claim frequency changes. These are shown here as annual factors. However, they are applied over the entire length of the trend period, i.e. from the date of loss occurrence to the anticipated average accident date under the revised loss costs. The severity portion of the LTA is applied on an individual record basis in the same manner as the CCF's and LPF's. The frequency portion of the LTA is applied to the aggregate losses.

OVERVIEW

DEVELOPMENT OF LOSS TREND ADJUSTMENTS

INTRODUCTION

In order to supplement the external indices reflected in CCF's and LPF's, loss trend adjustments (LTA's) have been developed based on internal loss data. This is necessary because the external indices alone have been insufficient in reflecting cost level and claim frequency changes in Commercial Property Insurance. The following tables show the calculations used to develop these LTA's. Please note the development of the LTA's for the 2023 COMFAL reviews is based on internal commercial property experience through 12/31/2021 and external cost indices through 12/31/2021. Therefore, the CCF's and LPF's shown on Exhibit C12 will not necessarily match those shown on Exhibit C10. ISO has determined that the selected LTAs are appropriate to be used with the latest external indices shown on Exhibit C10.

EXPLANATORY NOTES TO EXHIBIT C12

DEVELOPMENT OF LOSS TREND ADJUSTMENTS (LTA'S)

I. EXTERNAL RATE OF CHANGE

COLUMN (1), (2)
AND (3)

CURRENT COST FACTORS

The CCF's underlying the LTA analysis are based on external cost indices through 12/31/2021 for buildings, contents and time element.

COLUMNS (4)
AND (5)

WEIGHTS

The standard review weights are shown for each line of business.

LINES (6)

AVERAGE CURRENT COST FACTORS

The average CCF's for the experience period are calculated based on the weights shown in columns (4) and (5).

LINE (7)

LOSS PROJECTION FACTORS

The LPF's underlying the LTA analysis are shown here.

LINE (8)

TOTAL TREND

The total trend is the product of the average CCF and the LPF.

LINE (9)

EXTERNAL ANNUAL RATE OF CHANGE

The total trend is converted to an annual basis by raising it to the reciprocal of the number of years between the weighted midpoint of the experience period and the anticipated average accident date. For BG I and SCL the weighted midpoint of the experience period is 01/01/2020, for BG II it is 01/01/2017. Accordingly, there are 54 and 90 months, respectively, to the anticipated average accident date of 07/01/2024.

II. INTERNAL ANNUAL RATES OF CHANGES

LINE (10)

SELECTED COMFAL

The displayed annual rates of change in the average claim costs for BG I, BG II, and SCL were selected based on several least squares exponential fits of the annual claim costs for each subline. This was done to the most recent ten years of Commercial Property data using all companies in the ratemaking data base.

EXPLANATORY NOTES TO EXHIBIT C12 (cont'd)

III. LTA CALCULATION

COLUMN (11)

ANNUAL EXTERNAL

The annual external rates of change from column (9) are shown here.

COLUMN (12)

ANNUAL INTERNAL

The adjusted annual internal rates of change in average loss from line (10) are shown here.

COLUMN (13)

INDICATED SEVERITY LTA

The indicated severity LTA's are calculated by dividing the annual internal rates of change by the annual external rates of change.

COLUMN (14)

FORMULA SEVERITY LTA

The severity LTA's in column (13) are then selected to temper the full effect of internal trend data. Without such tempering, full weight would in effect be given to the internal data without any consideration of the external cost indices.

COLUMN (15)

FREQUENCY EFFECT

The displayed annual rates of change in claim frequency for BG I and SCL were selected based on several least squares exponential fits of the claim frequency by subline. No frequency trend was selected for BG II and SCL buildings due to the extremely volatile nature of the coverage.

COLUMN (16)

FINAL LTA

The final LTA is the combination of the severity and frequency trend adjustments, calculated as column (14) times column (15), in factor form.

EXPLANATORY NOTES TO EXHIBIT C13
EXPOSURE AND PREMIUM TREND FACTORS

Exhibit C13 contains Exposure trend factors, Premium trend factors for Basic Group I, Basic Group II and Special Causes of Loss respectively, building and contents. As annual written exposures increase (decrease), the resulting limit of insurance factors used for rating decrease (increase) and the combined effect should be reflected when trending premiums to future level. There are separate premium trend factor tables for Basic Group I, Basic Group II and Special Causes of Loss since there are separate limit of insurance curves for BG I, BG II and SCL.

For Time Element, exposure trend factors are also used to trend premiums, i.e., there are not separate Time Element premium trend factors because Time Element does not use limit of insurance factors for rating.

COLUMNS (1)
AND (5) ANNUAL WRITTEN INCREASE

The annual written increases for buildings, contents, and time element are calculated from the actual changes in amount of insurance from one year to the next for a sample of renewal policies (based on BG I experience). The change in amount of insurance for each policy in the sample was weighted with its prior year's premiums to obtain a weighted average change for each year. The Annual Written Increase in Premiums (Exhibit C13) are calculated as the Annual Written Increase in Exposure tempered by the change in Limit of Insurance factor.

COLUMNS (2)
AND (6) 07/01/2022 WRITTEN FACTORS

The written factors for a given year are the product of the written annual changes for all years subsequent to that year. Although the 2022 written changes are based on two quarters of data, the consistency of this experience allows for the assumption that written changes for the first half of 2022 are applicable for the entire year.

COLUMNS (3)
AND (7) 09/01/2024 PROJECTED FACTORS

The 09/01/2024 factors are calculated by applying a factor to adjust the 07/01/2022 written factors to the amount of insurance level at the average date of writing, 09/01/2024. This is done using the selected annual changes in exposure or premium.

COLUMNS (4)
AND (8) 09/01/2024 EARNED EXPOSURES/PREMIUM FACTORS

The projected earned factors at the 09/01/2024 level (where 09/01/2024 is the average date of writing in the effective period) are calculated by earning the written factors assuming all one-year policies. The earning factors are shown in footnote (c).

EXPLANATORY NOTES TO EXHIBITS C14, C15 AND C16

BG I, BG II, AND SCL ADDITIONAL INFORMATION ON TREND ADJUSTMENTS

COLUMN (1) UNADJUSTED INCURRED LOSSES

The unadjusted incurred losses are the reported losses prior to any adjustment.

COLUMN (2) TRENDED INCURRED LOSSES

The trended incurred losses are the aggregate of the individual losses trended on a unit record basis.

COLUMN (3) AVERAGE TREND FACTOR

The average trend factors are the trended incurred losses in column (2) divided by the unadjusted incurred losses in column (1). Although average factors could be calculated from the information contained in Exhibits C10 through C12, they would differ from the factors shown in this table for the following reasons:

- (1) In calculating such averages, the usual assumption is that the losses are spread evenly throughout the year, yielding the midpoint of each year as the average date of loss. A predominance of losses at a certain time of the year could shift the average accident date away from the midpoint.
- (2) The average trend factors will be slightly higher due to the impact of trend on the deductible.

COLUMN (4) PERCENTAGE SPLIT BETWEEN BUILDINGS, CONTENTS, AND TIME ELEMENT

The current cost factors and loss projection factors are different for buildings, contents, and time element. Therefore, in addition to the reasons cited above, the average trend factors will differ from state to state depending on the buildings/contents/time element split. Companies with splits substantially different from the industrywide averages shown here may find it appropriate to develop trend factors which reflect their own coverage mix.

LOSS DEVELOPMENT

INTRODUCTION

For Commercial Property, losses are evaluated as of June 30, 2022, three months after the end of the latest experience year used in the review. In order to account for development of losses beyond fifteen months and to reflect overall loss development patterns, loss development was incorporated into the adjustment process of incurred losses to their ultimate settlement value.

LOSS DEVELOPMENT PROCEDURES

The application of loss development factors recognizes the fact that not all of the Commercial Property losses for a particular accident year have been finally determined at the time the experience is compiled.

The incurred losses underlying the statewide loss cost level indications were evaluated as of June 30, 2022.

Accident year ended March 31, 2022 includes all losses paid on accidents from April 1, 2021 to March 31, 2022 and all losses outstanding on those accidents as of June 30, 2022, fifteen months after the inception of the accident year. Similarly, accident years ended 2021, 2020, 2019 and 2018 include all losses paid and outstanding as of 27, 39, 51 and 63 months, respectively, after the inception of the accident year.

Thus, the immature experience reported as of 15, 27, 39 or 51 months must be adjusted to an ultimate settlement basis. This adjustment is accomplished through the use of loss development factors based on the historic multistate Basic Group I, Basic Group II, and Special Causes of Loss incurred losses as shown in Exhibit C17.

EXPLANATORY NOTES TO EXHIBIT C17

LOSS DEVELOPMENT

INTRODUCTION

Exhibit C17 shows multistate incurred loss development exhibits for Basic Group I, Basic Group II and Special Causes of Loss. The exhibits on Exhibit C17 are arranged identically for each subline and can be summarized as listing the following information: incurred losses by accident year and age, age-to-age factors by accident year, and age-to-ultimate factors.

INCURRED LOSSES

The multistate incurred losses are shown by accident year and age at the top of Exhibit C17. The multistate incurred losses are evaluated as of 15, 27, 39, 51 and 63 months. For Basic Group II, losses due to hurricanes reflected in the modeled hurricane loss costs have been removed from the experience for each rating territory and loss month.

AGE-TO-AGE DEVELOPMENT FACTORS

Age-to-age development factors or link ratios are calculated for each accident year. These age-to-age factors are calculated by dividing the incurred losses evaluated at each age by the incurred losses evaluated at the immediately preceding age. For example, 27:15 month age-to-age factors are calculated by taking the losses evaluated as of 27 months and dividing them by the losses evaluated as of 15 months, for each accident year. Age-to-age development factors are also calculated for 39:27 months, 51:39 months and 63:51 months. Latest five-year averages are then determined for each age-to-age interval.

AGE-TO-ULTIMATE DEVELOPMENT FACTORS

Age-to-ultimate factors are then calculated for the latest four years by multiplying the five-year average age-to-age development factors. These age-to-ultimate factors are then used in the adjustment of incurred losses to develop losses to their ultimate settlement value.

EXCESS LOSS PROCEDURES

INTRODUCTION

If not addressed, the presence or absence of large losses during the review period can produce significant fluctuations in loss cost levels. In order to develop a more stable body of experience, large losses have been smoothed. This procedure removes any excess losses from the experience and applies excess loss factors to the resultant state normal losses to generate the adjusted incurred losses. The adjusted losses developed in this manner replace the incurred losses in the loss cost level evaluation.

BASIC GROUP I

First, the excess portion of each large loss is removed from the trended loss experience.

Individual claim amounts that result from the same occurrence are grouped together, and if the total loss for one occurrence exceeds the normal loss cutoff (at 2005 cost levels), the total loss is identified as a large loss. Each large loss is then split into its normal and excess portions based on the normal loss cutoff.

The Basic Group I normal loss cutoff begins at \$250,000 and varies with the size of loss up to a maximum normal amount (approached asymptotically) of \$1,250,000. (The formula and a graph are shown on Exhibit C18.) The portion of each large loss exceeding the cutoff is considered excess and the portion of any loss up to the cutoff is considered normal.

As noted above, the excess loss procedure is performed on trended loss experience (i.e. loss experience adjusted to prospective cost levels by the current cost factors, loss projection factors, and loss trend adjustment factors (for claim cost only) shown in Exhibits C10 through C11). The loss trend adjustment for frequency trend is not reflected at this step in the process. The normal breakpoint of \$250,000 for BG I and the parameters in the normal loss formula are at 2005 cost levels and therefore have been similarly adjusted to prospective cost levels.

Both the normal and total incurred losses are aggregated over all states and years in the experience period by construction, protection, and amount of insurance intervals. Excess loss factors by construction, protection and amount of insurance are then calculated as the ratios of the ten-year multistate incurred losses to the ten-year multistate normal losses.

These factors are then smoothed by fitting curves (by amount of insurance intervals) to the indicated factors. The resulting factors are then balanced so that the original ten-year multistate incurred loss level is maintained.

The excess factors are then applied to the state normal losses, which are maintained in the same detail (construction, protection and amount of insurance) as well as by year, territory, rating group and TOP. The state normal losses used in this calculation have also been trended for frequency.

The excess loss factors vary by construction, protection and the amount of insurance because these are the most significant severity-related rating variables.

EXCESS LOSS PROCEDURES (cont'd)

BASIC GROUP II

Since wind caused by non-hurricane events can cause large and unexpected losses, a long-term excess procedure is used for Basic Group II. The purpose of this procedure is to avoid the shifts in loss costs which would result from reflecting large, unexpected losses only in the year in which they occur.

The Basic Group II excess procedure identifies periods of overall adverse experience, rather than individual large losses, since catastrophic non-hurricane wind losses affect both the frequency and the severity of losses. Also, due to the extreme volatility of these losses, a long-term review period (1950 - present) is used. Losses reflected in the hurricane model are not included in this procedure. For those years reported under the Commercial Statistical Plan (CSP), 1982 and later, hurricane losses have been replaced with average non-hurricane losses. For years prior to CSP reporting, any year in which a hurricane occurred has been excluded.

A loss ratio cutoff is used to determine normal and excess losses in the excess procedure. The application of this cutoff is described in the explanatory notes to Exhibit C20. The excess losses are used to determine the excess multiplier. The excess multiplier is derived in such a manner as to provide an estimate of the expected excess non-hurricane loss dollars per normal non-hurricane loss dollar.

The excess multiplier is applied to the normal non-hurricane losses for each accident year in the ten-year experience period used in the review. In this way, a review database is created reflecting both the current normal non-hurricane loss experience and the average excess non-hurricane loss experience based on the long-term review. This allows a concurrent evaluation of both the normal and the excess components of the BG II non-hurricane loss cost level.

SPECIAL CAUSES OF LOSS

Similar to Basic Group II, the Special Causes of Loss (SCL) smoothing procedure uses a loss ratio approach to reflect both the frequency and severity of unusual loss events which may produce significant fluctuations in loss cost levels. The excess procedure uses longer term statewide SCL experience (1986 - present) to account for the volatile nature of weather related losses (water damage from bursting pipes, or the weight of ice, sleet, or snow) which are the predominant cause of large SCL losses in a given experience period. A monthly normal loss ratio cutoff of 2.0 is used to define normal and excess losses. The resulting ratio of excess to normal losses over the long-term experience period is then applied to the normal losses used in the loss cost level review. The calculations underlying the smoothing procedure are described in the Explanatory Notes to Exhibit C21.

EXPLANATORY NOTES TO EXHIBIT C18

COUNTRYWIDE BASIC GROUP I EXCESS LOSS FACTORS

EXCESS LOSS
FACTORS

The multistate excess loss factors are the ratios of the ten-year multistate adjusted incurred losses to the ten-year multistate adjusted normal losses (both adjusted for severity trend). They are determined separately by construction, protection and amount of insurance range. Due to credibility considerations, both constructions and protections have been consolidated as shown. The amount of insurance ranges are also shown.

EXPLANATORY NOTES TO EXHIBIT C19

BASIC GROUP I ADDITIONAL EXCESS LOSS INFORMATION

COLUMN (1) TRENDED INCURRED LOSSES

The trended incurred losses are the aggregate of all individually-trended loss records prior to any adjustment for large losses. They are shown here fully trended for severity.

COLUMN (2) TRENDED NORMAL LOSSES

The normal losses are the aggregate of the normal portions of each loss occurrence. These are also fully trended.

COLUMN (3) STATE NORMAL PERCENTAGE

The state normal percentages are the statewide normal losses divided by the statewide trended incurred losses. These percentages can be used in conjunction with the multistate percentages and actual dollar amounts of normal losses to assess the state loss experience. For example, consistently lower state normal percentages relative to multistate normal percentages could indicate that the state has a greater propensity for large losses.

COLUMN (4) MULTISTATE NORMAL PERCENTAGES

The multistate normal percentages are the multistate normal losses divided by the multistate trended incurred losses. As noted above these can be used as a yardstick against which the statewide experience can be measured.

COLUMN (5) ADJUSTED INCURRED LOSSES

The adjusted incurred losses are the totals across all constructions, protections and exposures of the fully trended normal losses multiplied by the excess loss factors.

COLUMN (6) STATE AVERAGE EXCESS FACTOR

The state average excess factors are the adjusted incurred losses in column (5) divided by the normal losses in column (2). These factors represent the annual averages of the factors calculated separately by construction, protection and amount of insurance. The average excess factor reflects the normal loss mix by construction, protection and exposure. Heavy concentration in those subsets of the data with high excess factors will result in large average factors.

EXPLANATORY NOTES TO EXHIBIT C20

BASIC GROUP II EXCESS MULTIPLIER

COLUMN (1) EARNED PREMIUMS

The unadjusted earned premiums are shown for each year.

COLUMN (2) INCURRED NON-HURRICANE LOSSES

The unadjusted non-hurricane incurred losses are shown for each year. Note that any year prior to 1982 (pre-CSP) in which a hurricane occurred has been excluded from the excess review period. The incurred losses have been adjusted to reflect loss development.

COLUMN (3) NORMAL INCURRED NON-HURRICANE LOSSES

The normal incurred losses for each year are those non-hurricane losses which do not exceed 0.500 times the earned premium for that year.

COLUMN (4) NORMAL LOSS RATIO

For each year in the excess review period, the normal loss ratio is the ratio of the normal incurred losses to the earned premium for the same year.

COLUMN (5) STATE EXCESS LOSS RATIO

The state excess loss ratio for each year is the ratio of the excess losses to the earned premium for the year. The excess losses are calculated as the incurred losses minus the normal incurred losses for each year.

LINE (6) STATE EXCESS COMPONENT

The state excess component is determined by dividing the sum of the state excess loss ratios by the sum of all normal loss ratios (where each sum is taken across all non-hurricane accident years in the excess review period).

LINE (7) STATE EXCESS MULTIPLIER

The state excess multiplier is derived by adding unity to the state excess component.

EXPLANATORY NOTES TO EXHIBIT C21

SPECIAL CAUSES OF LOSS ADDITIONAL EXCESS LOSS FACTOR

COLUMN (1) EARNED PREMIUMS

These are the unadjusted earned premiums for each year.

COLUMN (2) INCURRED LOSSES

These are the unadjusted incurred losses for each year.

COLUMN (3) NORMAL INCURRED LOSSES

The normal incurred losses are shown for each year. The normal incurred losses are defined to be that portion of each month's losses which does not exceed 2.0 times the monthly earned premiums.

COLUMN (4) NORMAL LOSS RATIO

The normal loss ratio for each year is the ratio of the normal incurred losses for each year divided by the earned premiums for the year.

Column (4) = Column (3) ÷ Column (1)

COLUMN (5) EXCESS LOSS RATIO

The excess loss ratio for each year is the ratio of the excess losses to the earned premium for the year. The excess losses are calculated as the incurred losses minus the normal incurred losses for each year.

LINE (6) EXCESS COMPONENT

The excess component is determined by dividing the sum of the excess loss ratios by the sum of the normal loss ratios, where the sums are taken across all years in the excess review period.

LINE (7) EXCESS MULTIPLIER

The excess multiplier is derived by adding unity to the excess component.

OVERVIEW

APPLICATION OF CREDIBILITY

INTRODUCTION

Credibility, Z , is a weight given to the most recent body of data. The complement of credibility, $1-Z$, is the weight assigned to net trend. The final estimate is a weighted average obtained by using the formula $C = Z \times R + (1-Z) \times N$, where:

Z = credibility

C = final estimate

R = estimate based on the most recent data

N = net trend

Credibility may range from 0 to 1, where $Z=1$ is full credibility and $Z=0$ is no credibility. The actual numerical value of Z is calculated by considering how the state's volume of experience compares with an established full credibility standard. Credibility is capped at 25% if the credibility calculated is below 25%. See Exhibits C22, C23, and C24 for a complete explanation of the credibility standards for Basic Group I, Basic Group II, and Special Causes of Loss.

EXPLANATORY NOTES TO EXHIBITS C22, C23 AND C24

BASIC GROUP I, BASIC GROUP II, AND SPECIAL CAUSES OF LOSS
STATEWIDE CREDIBILITY CALCULATION

LINE (1a)
(BGI only)

Full Credibility Claims Standard of Frequency

Based on a Poisson distribution, the minimum sample size of claims is determined such that the probability that the actual number of claims will be within 5% of the expected number of claims is greater than 95%.

LINE (1b)
(BGI only)

Severity Modification Factor

This factor, defined as $(1 + S^2 / M^2)$, is used to modify the claims standard to reflect variance due to severity, where S is the standard deviation and M is the mean of the loss severity distribution (on a normal loss basis).

LINE (1c) - BGI
LINE (1) - BGII, SCL

Full Credibility Claims Standard

For Basic Group I, this standard is the product of the frequency standard in line (1a) and the severity modification factor in line (1b). For Basic Group II and Special Causes of Loss, standards for full credibility of 30,000 claims for BGII and 25,000 claims for SCL were selected to balance stability and responsiveness.

LINE (2)

Multistate Experience Period Ratio of Earned Risks to Claims

This ratio was determined based on Commercial Statistical Plan data for the latest experience period (Five years for Basic Group I and Special Causes of Loss; Ten years for Basic Group II).

LINE (3)

Full Credibility Earned Risks Standard

To translate the claims standard to an equivalent standard based on earned risks, the claims standard (line (1c) for BGI, (1) for BGII and SCL) is multiplied by the multistate experience period ratio of earned risks to claims (line (2)).

LINE (4)

Experience Period Statewide Earned Risks

This is the number of earned risks in the state for the experience period.

EXPLANATORY NOTES TO EXHIBITS C22, C23 AND C24 (cont'd)

LINE (5) Experience Period Aggregate Loss Costs

These are the state's experience period adjusted aggregate loss costs.

LINE (6) Statewide Experience Period Ratio of Aggregate Loss Costs to Earned Risks

This ratio is determined by dividing the state's experience period adjusted aggregate loss costs by its experience period earned risks.

LINE (7) Full Credibility Aggregate Loss Costs Standard

To translate the risk standard into an aggregate loss cost standard on a state by state basis, the ratio (line (6)) is multiplied by the full credibility earned risks standard (line (3)).

LINE (8) Credibility

The state's credibility is calculated by using the square root credibility formula:

$$Z = \sqrt{\frac{P}{C}}$$

where Z = credibility,
P = statewide five-year adjusted aggregate loss costs (line (5)), and
C = full credibility aggregate loss costs standard (line (7)).

When the indicated credibility is below 25%, a minimum cap of 25% is assigned to the state credibility in order to reasonably reflect the state's experience in the coverage change calculation.

BASIC GROUP II

HURRICANE PROCEDURES

INTRODUCTION

The Basic Group II ratemaking procedures in hurricane-prone states incorporate the use of a computerized hurricane model which can estimate hurricane losses more accurately and with greater geographic specificity than traditional experience-based techniques. The model uses a meteorological database of both landfalling and nonlandfalling tropical cyclones since 1900, a sophisticated wind field model, and engineering and insurance-based damage relationships to develop reliable estimates of expected hurricane losses. The model evaluates the probability of a hurricane at a specific location, the duration of the wind speeds at that location and the relative damageability by type of structure for the current distribution of exposures.

OVERVIEW OF THE USE OF HURRICANE MODELS IN RATEMAKING

The model provides hurricane loss costs (expected hurricane losses per \$100 of replacement cost value) by ZIP code, construction class, and coverage (building vs. contents). These loss costs are weighted together using the latest year Basic Group II premium distribution to calculate expected hurricane loss costs by BG II rating territory, symbol (construction grouping) and coverage (building vs. contents). The hurricane loss costs are then adjusted to an 80% coinsurance, base deductible, and base limit of insurance level, and a factor is applied to reflect all loss adjustment expenses.

The non-hurricane portion of the prospective loss costs is calculated by applying the statewide non-hurricane monoline change, based on the latest ten years of non-hurricane experience, to the non-hurricane portion of the current BG II loss costs.

The revised BG II loss costs are then equal to the sum of the modeled hurricane loss costs and the non-hurricane portion of the prospective loss costs.

BASIC GROUP II

DESCRIPTION OF THE HURRICANE MODEL

HURRICANE DEFINED

A hurricane is a tropical cyclone technically defined as a non-frontal, low pressure synoptic-scale system in which the maximum sustained surface wind speed is at least 74 miles per hour.

HURRICANE MODEL

The model consists of several components or modules - an event generation module, local intensity module, and damage module.

The event generation module is used to create the stochastic storm catalog. Over 100 years of historical data on the frequency of hurricanes and their meteorological characteristics were used to fit statistical distributions for each parameter used. These parameters include storm track, landfall location and track angle at landfall, and the intensity variables of central pressure, radius of maximum winds, and forward speed. By stochastically drawing from these statistical distributions, the fundamental characteristics of each simulated storm are generated. The result is a large, representative catalog of potential events.

Once the model generates the characteristics of a simulated event, it propagates the event along its track. Peak gust wind speeds and wind duration are estimated for each geographical location affected by the storm, and the local intensity is estimated as a function of the magnitude of the event, distance from the source of the event, and a variety of local conditions.

Damageability functions are then used to determine the relationship between the local intensity and the resulting damage to buildings and contents. Expected hurricane losses are calculated by applying the appropriate damage functions to the replacement value of the insured properties.

Following is a discussion of those elements reflected in the AIR tropical cyclone model for the Gulf and Atlantic Coasts of the continental United States.

EVENT
GENERATION
MODULE

The following storm characteristics are modeled as part of the event generation module:

Frequency of Occurrence - The model estimates frequency of occurrence based on tropical cyclones occurring since 1900.

Landfall Location - The model estimates the probability of a hurricane occurring at points along the smoothed coastline from Texas to Maine.

Central Pressure - Central pressure is the primary determinant of hurricane wind speed and therefore of intensity. All else being equal, as central pressure decreases, wind speeds increase or, more precisely, wind speed is an increasing function of the difference between the central and peripheral pressure.

Radius of Maximum Winds (Rmax) - The radius of maximum winds is the distance from the storm's center, or eye, to where the strongest winds are found. On average, the radius of maximum winds tends to be larger at higher latitudes. Similarly, the radius will be smaller, on average, for more intense storms. These relationships are explicitly accounted for in the model. While a smaller radius of maximum winds corresponds to greater storm intensity, it does not necessarily follow that losses will be greater. This is because a smaller radius usually results in a smaller affected area.

Forward Speed - Forward, or translational, speed is the rate at which a hurricane moves from point to point along its track. In general, the higher the latitude, the faster the hurricane's translational speed. Faster moving storms result in higher losses further inland. On the other hand, the faster a storm travels, the shorter the duration that a building is subjected to high wind speeds. In some areas, particularly along the coast, this can lead to lower losses than would otherwise be the case.

Track Angle at Landfall - Separate distributions for track angle at landfall are estimated for segments of coastline that are variable in length, depending upon the coastal orientation of that segment.

Storm Track - Once landfall location and the track angle at landfall are identified, the simulated storm track is generated using conditional probability matrices which resemble the curving and recurving tracks actually observed from the stochastic storm database.

Multiple-Landfalling Storms - In order to model multiple landfalling events as single storms, simulated storm tracks are joined statistically based on consistency of certain storm parameters.

LOCAL
INTENSITY
MODULE

Once the model probabilistically generates the hurricane's meteorological characteristics, it simulates the storm's movement along its track. Calculations of local intensity begin with the maximum over-water windspeed, and then adjustments are made for the asymmetric nature of the hurricane windfield, storm filling over land, surface friction, and relative wind speed profiles.

Asymmetry Effect - In the Northern Hemisphere, hurricane winds rotate in a counter-clockwise direction. The combined effects of hurricane winds and forward motion produce higher wind speeds on the right side of the storm, as viewed facing the storm's forward direction. The model accounts for the dynamic interaction of the forward (translational) and rotational speeds, as well as the inflow angle.

Filling Effect - As the storm moves inland its intensity begins to dissipate. Central pressure rises and the eye of the hurricane begins to "fill" as it moves away from its energy source, i.e., warm ocean water. The model filling equations are a function of the geographic location (particularly distance from coastline) and the time elapsed since landfall. Rates of filling vary by region, consistent with historical observations.

Surface Friction Effect - Differences in surface terrain (or land use/land cover) also affect windspeeds. Wind velocity profiles typically show higher wind speeds at higher elevations. Winds travel more slowly at ground-level because of the horizontal drag force of the earth's surface, or surface friction. The addition of obstacles such as buildings will further degrade wind speed. In general, the rougher the terrain, due to both natural and man-made obstacles, the more quickly wind speeds dissipate.

Relative Wind Speeds - The wind speed at any particular location is dependent on the radial distance between the eye of the storm and the location of interest.

DAMAGE
ESTIMATION
MODULE

The tropical cyclone model develops a complete time profile of wind speeds for each location affected by the storm, thus capturing the effect of wind duration on structures as well as the effect of peak wind speed. Damage estimation for hurricanes begins at sustained wind speeds of 40 mph and is calculated cumulatively until sustained winds are once again below 40 mph.

Separate damageability estimates exist by construction type (e.g., frame, joisted masonry, masonry non-combustible) and coverage (buildings vs. contents). Estimated hurricane damage is measured as the ratio of repair cost (i.e., expected hurricane losses) to the replacement cost of the property, capped at 80% of the replacement cost. 80% replacement cost is the exposure base, or limit of insurance, used in ISO's commercial property program.

BASIC GROUP II

RATEMAKING PROCEDURES AND LOSS COST CALCULATIONS

The following is an overview of the Basic Group II ratemaking procedures incorporating computer modeled hurricane loss costs in the hurricane-prone states.

REMOVAL OF HURRICANE LOSSES

Losses due to hurricanes reflected in the modeled hurricane loss costs are excluded from the Basic Group II loss database. Storm track data from several meteorological sources are analyzed to determine the date, location, and wind speed of each hurricane during the BG II experience period, and those losses incurred during the month of a hurricane reflected in the model are replaced with the average monthly non-hurricane losses for each rating territory. The resulting non-hurricane losses are used in the calculation of the statewide non-hurricane coverage change, the excess procedure (for CSP years, 1982 and later), and the type of policy relativities.

EXCESS PROCEDURE

The excess procedure smoothes catastrophic BG II losses due to perils other than hurricane. The procedure is based on long-term (1950 to present) statewide BG II non-hurricane experience. For those years prior to 1982 (pre-CSP), any year in which a hurricane occurred has been excluded from the excess procedure. For 1982 and later, losses incurred during the month of a hurricane have been replaced by average non-hurricane losses as described above. The normal loss ratio cutoff for each year included in the excess procedure is 0.500. From this follows the following definitions:

The Normal incurred losses for each year are those losses which do not exceed 0.500 times the earned premium for the year. The Excess incurred losses for each year are equal to the Incurred losses minus the Normal losses for the year.

$$\text{Normal Loss Ratio (NLR)} = \frac{\text{Normal Losses}}{\text{Earned Premium}}, \text{ for each year}$$

$$\text{Excess Loss Ratio (ELR)} = \frac{\text{Excess Losses}}{\text{Earned Premium}}, \text{ for each year}$$

$$\text{Excess Component} = \frac{\text{Sum of ELR's}}{\text{Sum of NLR's}}, \text{ over the long-term non-hurricane experience period}$$

The Excess Multiplier is equal to the excess component plus 1.000, and is applied to the normal non-hurricane losses used in the statewide experience review.

STATEWIDE
EXPERIENCE
LEVEL REVIEW

The statewide experience review (Exhibit B2) is based on the latest ten years of non-hurricane loss experience. The losses are normal non-hurricane losses (i.e., hurricane losses reflected by the model have been replaced by average non-hurricane losses and the resulting losses have been capped at 0.500 times the earned premium for each year), multiplied by the excess multiplier, loss adjustment expense factor, trend factors, and loss development factors. The non-hurricane aggregate loss costs are at current manual level and have been trended to the average date of writing in the assumed effective period.

NON-HURRICANE
LOSS COST
PROVISION

The non-hurricane portion of the revised BG II loss costs for each territory (where applicable), coverage, and symbol is calculated as:

Current Non-Hurricane Loss Cost \times Statewide Monoline Non-Hurr. Change

where the statewide monoline non-hurricane change is the product of the statewide non-hurricane coverage change (Exhibit B2) and the indicated monoline relativity found on Exhibit B8, Column (7).

MODELED
HURRICANE
LOSS COSTS

The model produces hurricane loss costs (expected hurricane losses per \$100 of replacement cost) including demand surge and truncated at 80% of value in ZIP code, coverage, and construction detail. These loss costs are weighted together to derive expected hurricane loss costs for each rating territory, coverage, and symbol, using the latest BG II premium distribution. The hurricane loss costs are then adjusted to an 80% coinsurance, base deductible, and base limit of insurance level, and a factor is applied to reflect all loss adjustment expenses.

REVISED
BASIC GROUP II
LOSS COSTS

The revised BG II loss costs are the sum of the non-hurricane portion of the revised loss costs plus the modeled hurricane loss costs.

The statewide BG II monoline change shown on Exhibit A1 is calculated as a weighted average of the individual loss cost changes for each territory (where applicable), coverage, and symbol. This monoline change (based on hurricane plus non-hurricane experience combined) is then used to determine the indicated loss cost adjustments by type of policy as described on Exhibit B8.

EXPLANATORY NOTES TO EXHIBIT C25

CALCULATION OF REVISED BASIC GROUP II LOSS COSTS

SYMBOL
DEFINITIONS

The Basic Group II (BG II) symbol definitions are:

<u>Symbol</u>	<u>Definition</u>
AA	Superior Wind Resistive
A	Wind Resistive
AB	Semi-Wind Resistive
B	Ordinary

COLUMN (1) Latest Year Aggregate Loss Costs

The latest accident year statewide aggregate loss costs for each symbol.

COLUMN (2) Current Loss Costs

The current manual loss costs are shown here.

COLUMN (3) Current Non-Hurricane Loss Costs

These are the current manual loss costs minus their hurricane component.

COLUMN (4) Statewide Monoline Non-Hurricane Loss Cost Change

The statewide monoline non-hurricane loss cost change is the product of the indicated statewide coverage change shown on Exhibit B2, line (10), times the monoline normalized formula relativity shown on Exhibit B8, column (7).

COLUMN (5) Indicated Non-Hurricane Loss Costs

The indicated non-hurricane loss costs are calculated as the current non-hurricane loss costs times the statewide non-hurricane monoline change and reflect that portion of the indicated BG II loss costs due to non-hurricane perils.

EXPLANATORY NOTES TO EXHIBIT C25

CALCULATION OF REVISED BASIC GROUP II LOSS COSTS (Cont'd)

COLUMN (6) Hurricane Modeled Loss Costs

These are the expected hurricane loss costs based on the computer simulation model. The model produces hurricane loss costs (expected hurricane loss per \$100 of replacement cost) by ZIP code, coverage (building vs. contents) and construction. These loss costs are weighted together using the latest year written premium to calculate expected hurricane loss costs by territory, coverage and symbol. The loss costs are then adjusted to reflect the 80% coinsurance clause, \$500 base deductible level, base limit of insurance (\$250,000 for buildings and \$50,000 for contents), and all loss adjustment expenses.

COLUMN (7) Indicated Total Loss Costs

The indicated total loss costs are equal to the sum of the revised non-hurricane loss costs plus the hurricane modeled loss costs.

COLUMN (8) Percent Change

The percentage change is the ratio of the indicated loss cost to current loss cost, minus one. The overall statewide change is a weighted average of the percent changes for each symbol based on the aggregate loss costs shown in column (1).

OVERVIEW

LOSS ADJUSTMENT EXPENSE FACTORS

OBJECTIVE	The reported indemnity losses must be loaded for any loss adjustment expenses (LAE) that are not reported in statistical detail to ISO.
PROPERTY COVERAGES	For the property coverages, only the incurred indemnity losses are reported to ISO under the Commercial Statistical Plan. All loss adjustment expenses must be loaded in. A factor representing the ratio of incurred losses plus all LAE to incurred losses was selected based on multistate financial data (see Exhibit D6 for the underlying data).
EXPERIENCE INCLUDED	Fire and Allied Lines incurred loss and loss adjustment expense experience for 2017-2021 is displayed on Exhibit D6. The experience is based on Insurance Expense Exhibit information compiled by A.M. Best. For Allied Lines, the loss adjustment expense ratios [Exhibit D6, line (3)(b)] for a few years are distorted by unusual catastrophe-related losses and loss adjustment expenses. The selected Allied Lines loss adjustment expense factor used for this review was selected after consideration of this distortion and based on a review of average loss adjustment expense ratios over a longer time period.
SELECTED FACTORS	The following factors have been used in this review to load incurred losses for all loss adjustment expenses:

Basic Group I	1.090
Basic Group II	1.010
Special Causes of Loss	1.010