|  |  |
| --- | --- |
|  | **American Home/National Union Group** |
|  | **Psychoanalysts Professional Liability** |
|  | **Explanatory Memorandum** |
|  | **ALABAMA** |
|  | American Home/National Union Group is proposing to increase the base rate for Psychoanalysts Professional Liability by 3.0 %. |
| ***Exhibit 1:*** | ***CALCULATION OF INDICATED RATE LEVEL CHANGE*** |
|  | Ultimate developed, trended and on-level results are shown for countrywide and state loss experience for this program. Countrywide and state earned premiums have been adjusted to each state's present rate level by using the standard parallelogram method. Incurred Losses and Lae are trended to one year past the proposed effective date, in order to reflect changes in frequency and severity subsequent to the experience period. The indicated rate level change is based on a comparison of the credibility weighted loss ratio to the expected loss ratio. An offset for investment income is applied to the calculation of the target profit & contingency. The calculation of profit is based on the company's target rate of return of 15%. |
| ***Exhibit 2:*** | ***DEVELOPMENT OF REPORTED INCURRED LOSS AND LAE TO ULTIMATE*** |
|  | Countrywide and state calculation of ultimate loss and LAE ratios are shown for the most recent five years. Ratios are based on calendar year earned premiums and accident year ultimate loss and LAE, including unallocated LAE (Exhibit 6). |
| ***Exhibit 3*** | ***INCURRED LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT*** |
|  | Accident Year Loss and Allocated Loss Adjustment Expense experience for Psychoanalysts Professional Liability is shown as of 6/2009, along with age to age factors and the corresponding age to ultimate development factors (Exhibit 3A). These factors are then applied to the countrywide Exhibit 3A and state Exhibit 3B loss experience for Psychoanalysts Professional Liability. |
| ***Exhibit 4:*** | ***TREND ANALYSIS*** |
|  | Calculation of annual frequency/severity trend is based on the most recent policy year experience for Health Professional Liability. The least squares method has been used to measure the average change in frequency and severity. The trend period extends from the midpoint of each accident year to one year beyond the assumed effective date. |
| ***Exhibit 5:*** | ***EXPENSE PROVISIONS AND DETERMINATION OF EXPECTED LOSS RATIO*** |
|  | Expense provisions are based on the expenses found for Medical Malpractice in the American Home/National Union Group Insurance Expense Exhibit. The commission expense is program specific. The expected loss & lae ratio is the complement of the total expenses and profit load. The profit & contingency factor has been calculated based on a target rate of return on equity of 15%. |
| ***Exhibit 6:*** | ***DETERMINATION OF UNALLOCATED LOSS ADJUSTMENT EXPENSE FACTOR*** |
|  | The unallocated loss adjustment expense provision is determined using data from the Healthcare cost statements for the five most recent years. The factor is expressed as a percentage of total incurred losses and allocated loss adjustment expense. |
| ***Exhibit 7:*** | ***INVESTMENT INCOME EXHIBITS*** |
|  | The investment income exhibits are based on American Home/ National Union Group's Annual Statement experience and incorporate the Medical Malpractice premium and program budgeted expense provisions to determine an indicated investment income offset. The calendar year method was used to determine investment income. |