**COMMERCIAL LINES MANUAL – COMMERCIAL GENERAL LIABILITY**

**RATING RULES**

This manual contains the commercial general liability rules, rates, and risk quality factor rating procedures for qualified oil heat and propane, septic service, and contract bus operator market segments.

**Risk Quality Factor Pricing**

In recognition that insureds with limited loss expectancy would pay more premium than is equitable if they were combined with homogenous groupings of insureds that have a much greater expectancy of loss, we are introducing a risk quality factor pricing. This pricing will be applied in a fair and nondiscriminatory manner based upon the individual risk quality of the insured. Pricing based upon the presence or absence of hazards and controls not contemplated in any individual risk rating plan provides the basis to the risk quality factor pricing philosophy.

Assumption: Loss Costs published by Insurance Services Office (ISO) are average loss costs and do not reflect certain inherent risk management strengths or weaknesses possessed by an individual insured.

Risk Quality Factors

This pricing contains three levels of risk quality: Superior, Standard and Substandard. Each level of risk quality is assigned a factor as follows.

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| **RISK QUALITY** | **FACTOR** |
| Substandard | 1.25 |
| Standard | 1.00 |
| Superior | .75 |

Risk Quality Criteria

Specific criteria for selecting the appropriate risk quality factor are contained in our “Eligibility Requirements for Risk Quality Factor Pricing” (attached). Risk quality can be measured by identifying hazards and their matching controls.

1. High quality insureds:
   1. Have eliminated hazards, or
   2. Have established controls to reduce frequency or severity of losses associated with hazards.

Such insureds should pay less than insureds that are not high quality insureds because of such criteria.

1. Financially strong insureds exhibit the ability to:
   1. Hire and retain quality employees;
   2. Physically maintain buildings, equipment and vehicles owned or used by the business in a safe and acceptable manner; and
   3. Operate the business in a safe manner by instituting safety procedures and programs.

Such insured should qualify for a lower premium than insureds that are not able to exhibit any of the characteristics listed above.

1. Insureds with quality management:
   1. Are experienced in their type of business;
   2. Exhibit a willingness and ability to recognize loss exposures; or
   3. Maintain loss prevention practices.

Such insureds should qualify for a lower price than insureds that have inexperienced management or management that cannot afford to invest in loss prevention practices and thus are expected to have more frequent or severe losses.

Risk quality factors will reflect the relative experience or inexperience and the financial strength or weakness of the insured.

ELIGIBILITY REQUIREMENTS FOR RISK QUALITY FACTOR PRICING

The following table contains underwriting criteria for Commercial General Liability coverage. These criteria are provided to assist in selecting the appropriate risk quality factor for each account. Every policy must be evaluated for each characteristic\*. Determine eligibility as follows:

*Superior: At least three of the characteristics are rated Superior with no criteria below Standard.*

*Standard: At least three of the characteristics are rated Standard.*

*Substandard: Two or more characteristics are rated Substandard.*

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| **Characteristic** | **SUPERIOR** | **STANDARD** | **SUBSTANDARD** |
| Years in Business / Management | At least 6 years in business or equivalent experience. | At least 3 years in business or equivalent experience. | Less than 3 years in business. |
| Financial Strength | Dun & Bradstreet credit appraisal (where applicable and available) equals 1 or 2 (high or good) and the company’s financial composite is above industry average; or  Review by company financial staff   1. Determines a profitable, stable financial position with increasing revenues or 2. Assigns this rating | Dun & Bradstreet credit appraisal (where applicable and available) equals 3 or above and the company’s financial composite is equal to or above industry average; or  Review by company financial staff   1. Determines a profitable, stable financial position or 2. Assigns this rating | Dun & Bradstreet credit appraisal (where applicable and available) equals 1, 2, 3 or 4 or the company’s financial composite is below industry average; or  Review by company financial staff   1. Determines an unprofitable or unstable or 2. Assigns this rating |
| Hazards and Controls | Based on classification review in AM Best’s Underwriting Guide and/or FC&S (National Underwriter Company) Bulletins, insureds whose actual operations are much less hazardous or significantly better controlled than the average insured contemplated by the class. | Based on classification review in AM Best’s Underwriting Guide and/or FC&S (National Underwriter Company) Bulletins, insureds whose actual operations reflect the average insured contemplated by the class with respect to hazards or controls. | Based on classification review in AM Best’s Underwriting Guide and/or FC&S (National Underwriter Company) Bulletins, insureds whose actual operations are more hazardous or less controlled than the average insured contemplated by the class. |
| Risk Transfer | Insured obtains favorable contractual arrangements where possible with its subcontractors, suppliers, lessees or lessors.  Obtains Certificates of Insurance that evidence our insured as an Additional Insured are obtained with such parties. | Insured obtains Certificates of Insurance.  May or may not have an established policy for risk transfer arrangements. | Insured has no established policy with respect to obtaining Certificates of Insurance or entering into favorable risk transfer arrangements where possible with its subcontractors, suppliers, lessees or lessors. |

\*If information for a specific characteristic is not available at the time of underwriting evaluation, the characteristic may be omitted. Accounts should be re-evaluated at each renewal. Renewal underwriting decisions may consider new information that has become available, which may result in movement of an account to a different risk quality factor.

Exceptions to this eligibility should be rare. For an exception to be made there must be a compelling reason supporting the unsuitability of the indicated risk quality factor. For example, you may have factual information suggesting that account characteristics or operations will be materially different in the near future than they have been in the past (i.e. acquiring a new entity or selling a portion of an existing operation, moving to a new location, buying new equipment, hiring a new safety director, etc.).