

A. ELIGIBILITY

The term risk as used in this Plan means the exposures of any one insured which are to be rated. Allied or subsidiary interests shall not be included unless:

1. The insured holds a majority financial interest therein, or
2. The following conditions exist under an exclusive franchise arrangement between the franchise grantor and the other interests to be rated:
 - a. all interests operate under a common trade name, and
 - b. all interests use one or more identical products or services obtained through the franchise grantor, and
 - c. one source establishes and maintains standards regarding management control and is responsible for insurance premium payment for all interests operating under the exclusive franchise, and
 - d. there is no legal prohibition against ownership by the franchise grantor of the operations of the other interests to be rated.

Expenses are not taken into consideration in the parameters of this Plan.

Any risk meeting the following qualifications for the Fire, Theft, Combined Additional Coverage, Comprehensive, Collision, Limited Collision, Garagekeepers Legal Liability and Dealers Physical Damage exposure to be rated shall be eligible for the application of this Plan:

- (1) Five or more owned or hired automobiles, including trailers and semitrailers, which develop an annual premium of at least \$1,500, or
- (2) If it's a garage policy, and it has an annual manual premium of at least \$1,500, or

- (3) Any taxicab risk which develops an annual premium of at least \$1,000 irrespective of the number of vehicles comprising the risk.

EXCEPTION

Where five or more bodies are under one ownership and the chassis are under other ownership, such a risk shall be eligible for rating either for the bodies only or for the bodies and the chassis regardless of the ownership of the chassis.

Where the bodies only of such a risk are to be rated the number of bodies shall be used to determine eligibility.

Where both the chassis and the bodies are to be rated, a chassis and body shall be considered one complete unit and the bodies in excess thereof shall be used in addition to the number of complete units for determining eligibility.

B. EXPERIENCE MODIFICATION

The experience modification for the risk shall be determined in accordance with the experience rating procedure described herein, and shall be applied to current manual premium for the Fire, Theft, Combined Additional Coverage, Comprehensive, Collision and Limited Collision coverages and deductibles included in the policy being rated.

C. EXPERIENCE USED

The experience modification shall be determined, by the company establishing the rating, from the latest available three completed policy years of experience incurred in this state or in all states by the risk. In the event the experience for the full experience period is not available, at least two completed policy years shall be used. Risks with less than two completed policy years of experience shall not be experience rated. The experience period shall end at least six months prior to the rating date.

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Experience developed by companies other than the company establishing the modification or self-insured experience may be used subject to the periods specified above. If the risk has been self-insured or insured with a company from which the experience is not obtainable, the experience may be used if submitted to the company in the form of a statement signed by the insured. Experience in such form may be excluded from the rating if its reliability cannot be established.

D. DETERMINATION OF EXPERIENCE MODIFICATION

The experience modification shall be determined by application of the following procedure:

1. Total Premium Subject to Experience Rating

The premiums to be included in the rating are calculated as follows:

- a. Determine the current annual premium for the policy being rated using CAR's current manual rates. The policy being rated is the policy to which the experience modification of D.6. of this Section shall apply.
- b. The annual premium for each year of the experience period is the annual premium determined according to D.1.a. of this Section, multiplied by the appropriate detrend factor from Table A of this Section.

**Physical Damage Experience Rating Plan Factors
Table A – Premium Detrend Factors**

<u>Latest Year</u>	<u>2nd Latest Year</u>	<u>3rd Latest Year</u>
0.984	0.975	0.968

- c. The total premium subject to experience rating is equal to the sum of the detrended annual premiums calculated according to D.1.b. of this Section.
- d. If exposures have changed during the experience period, refer to the supplement to determine if an alternative rating methodology is in order.

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2. Losses Subject to Experience Rating

The losses to be included in the rating shall be the total of the following:

- a. Paid and outstanding losses, excluding allocated loss adjustment expense (ALAE), for each year in the experience period, with the amount of indemnity resulting from any single occurrence limited by the maximum single loss (MSL) value specified in Table C of this Section based on the total premium subject to experience rating. All losses from the experience period shall be adjusted to the deductible basis of the policy being rated.
- b. In cases where an insured has changed carriers, the company establishing the rating may be unable to obtain current valuations of past losses from previous carriers. Therefore losses may be evaluated at less than 18 months.

In these cases, an adjustment to reflect ultimate level of losses for each year in the experience period is needed. This adjustment is calculated by multiplying the annual premium from D.1.b. of this Section for the year by the adjusted expected loss ratio (AELR) and by the appropriate loss development factor (LDF). The formula for this adjustment is $P \times AELR \times LDF$, where

- (1) P is the annual premium for the particular year in the experience period from D.1.b. of this Section.
- (2) AELR is the adjusted expected loss ratio specified in Table C of this Section based on the total premium subject to experience rating from D.1.c. of this Section. If a risk includes more than one vehicle type, then the AELR from Table C of this Section should be the AELR for the predominant class of risk on the policy.

(3) LDF is the appropriate CAR basic limits loss development factor from Table B of this Section.

Physical Damage Experience Rating Plan Factors
Table B – Loss Development Factors

	<u>Factors for Immature Years</u>
Maturity (Months)	6
LDF	0.556
Maturity (Months)	9
LDF	0.272
Maturity (Months)	12
LDF	0.020
Maturity (Months)	15
LDF	0.000

The maturity of the losses for any year in the experience period is defined as the number of months between the latest loss valuation and the effective date of the policy to which these losses are assignable.

3. Actual Loss Ratio

Determine the actual loss ratio (ALR) by dividing the losses subject to experience rating from D.2.a. + D.2.b. of this Section by the total premium subject to experience rating from D.1.c. of this Section.

4. Credibility

The credibility for the risk is obtained from Table C of this Section based on the total premium subject to experience rating.

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E. Adjusted Expected Loss Ratio

The adjusted expected loss ratio (AELR) for the risk is obtained from Table C of this Section based on the total premium subject to experience rating. If a risk includes more than one vehicle type, then the AELR from Table C of this Section should be the AELR for the predominant class of risk on the policy.

F. Experience Modification

$$\frac{ALR - AELR}{AELR} \times CREDIBILITY = EXPERIENCE \text{ MODIFICATION}$$

If the experience modification is negative, it is a credit; if positive, it is a debit.

PHYSICAL DAMAGE EXPERIENCE RATING PLAN EXAMPLE

I. Basic Information

Assume the policy to be rated is effective 11/01/09 – 10/31/10 for private passenger type vehicles.

Assume the basic limits premium for OTC and collision using CAR rates effective 11/01/09 is \$7,000.

Assume the losses for three years, evaluated as of 04/01/09 are as follows:

<u>Year</u> (1)	<u>Maturity as of 04/01/09</u> (2)	<u>Losses</u> (3)
10/01/05 – 09/30/06	42	\$ 200 500 300
10/01/06 – 09/30/07	30	750 5,150
10/01/07 – 09/30/08	18	300 500 250

PHYSICAL DAMAGE EXPERIENCE RATING PLAN EXAMPL

II. Total Basic Limits Premium Subject to Experience Rating
(See D.1. of this Section)

<u>Year</u>	<u>Annual Basic Limits Premium</u>	<u>Table A Detrend Factors</u>	<u>Basic Limits Premium Subject to Experience Rating</u>
(1)	(2)	(3)	(4)
3 rd Latest Year	\$7,000	0.968	\$ 6,776
2 nd Latest Year	7,000	0.975	6,825
Latest Year	7,000	0.984	6,888
			\$20,489

From Table C of this Section, given the total basic limits premium subject to experience rating of \$20,489, the credibility is 0.33, the AELR is 0.588, and the MSL is \$7,250. (See D.2., 3. and 4. of this Section)

PHYSICAL DAMAGE EXPERIENCE RATING PLAN EXAMPLE

III. Losses Subject to Experience Rating (See D.2. of this Section)

A. Paid and Outstanding Losses

<u>Year</u> (1)	<u>Losses</u> (2)	<u>Losses</u> <u>Subject to MSL</u> <u>of \$7,000</u> (3)
10/01/05 – 09/30/06	\$ 200	\$ 200
	500	500
	300	300
10/01/06 – 09/30/07	750	750
	5,150	5,150
10/01/07 – 09/30/08	300	300
	500	500
	250	<u>250</u>
		\$7,950

IV. Experience Modification

Credibility (Step II)	0.330
Adjusted Expected Loss Ratio (Step II)	0.588
Losses Subject to Experience Rating (Step III)	\$7,950
Premium Subject to Experience Rating (Step II)	\$20,489
Actual Loss Ratio (\$7,950 / \$20,489)	0.388

Experience Modification = $\frac{0.388 - 0.588}{0.588} \times 0.33 = -0.112$ (factor of -0.112) or a 11.2% credit.

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**Physical Damage Experience Rating Plan Factors
Table C – Credibility, Adjusted Expect Loss Ratios and Maximum Single Losses**

<u>Premium Levels</u>		<u>Credibility</u>	<u>Adjusted Expected Loss Ratio</u>		<u>Maximum Single Losses</u>
			<u>Zone Rated</u>	<u>All Other</u>	
1 -	875	0.10	0.314	0.334	1,500
876 -	1,516	0.11	0.337	0.358	1,750
1,517 -	2,173	0.12	0.357	0.379	2,000
2,174 -	2,847	0.13	0.375	0.399	2,250
2,848 -	3,539	0.14	0.392	0.417	2,500
3,540 -	4,249	0.15	0.407	0.433	2,750
4,250 -	4,978	0.16	0.421	0.448	3,000
4,979 -	5,727	0.17	0.434	0.462	3,250
5,728 -	6,496	0.18	0.446	0.475	3,500
6,497 -	7,287	0.19	0.457	0.486	3,750
7,288 -	8,101	0.20	0.467	0.497	4,000
8,102 -	8,938	0.21	0.477	0.507	4,250
8,939 -	9,800	0.22	0.486	0.517	4,500
9,801 -	10,687	0.23	0.494	0.526	4,750
10,688 -	11,601	0.24	0.502	0.534	5,000
11,602 -	12,542	0.25	0.509	0.541	5,250
12,543 -	13,514	0.26	0.515	0.548	5,500
13,515 -	14,515	0.27	0.522	0.555	5,750
14,516 -	15,549	0.28	0.528	0.561	6,000
15,550 -	16,616	0.29	0.533	0.567	6,250

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**Physical Damage Experience Rating Plan Factors
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<u>Premium Levels</u>		<u>Credibility</u>	<u>Adjusted Expected Loss Ratio</u>		<u>Maximum Single Losses</u>
			<u>Zone Rated</u>	<u>All Other</u>	
16,617 -	17,719	0.30	0.538	0.573	6,500
17,720 -	18,859	0.31	0.543	0.578	6,750
18,860 -	20,038	0.32	0.548	0.583	7,000
20,039 -	21,258	0.33	0.552	0.588	7,250
21,259 -	22,521	0.34	0.557	0.592	7,500
22,522 -	23,830	0.35	0.560	0.596	7,750
23,831 -	25,187	0.36	0.564	0.600	8,000
25,188 -	26,595	0.37	0.568	0.604	8,250
26,596 -	28,056	0.38	0.571	0.608	8,500
28,057 -	29,575	0.39	0.574	0.611	8,750
29,576 -	31,153	0.40	0.577	0.614	9,000
31,154 -	32,796	0.41	0.580	0.617	9,250
32,797 -	34,506	0.42	0.583	0.620	9,500
34,507 -	36,289	0.43	0.586	0.623	9,750
36,290 -	38,148	0.44	0.588	0.626	10,000
38,149 -	40,089	0.45	0.591	0.629	10,250
40,090 -	42,118	0.46	0.593	0.631	10,500
42,119 -	44,240	0.47	0.595	0.633	10,750
44,241 -	46,462	0.48	0.597	0.636	11,000
46,463 -	48,792	0.49	0.599	0.638	11,250

Physical Damage Experience Rating Plan Factors
Table C – Credibility, Adjusted Expect Loss Ratios and Maximum Single Losses

<u>Premium Levels</u>		<u>Credibility</u>	<u>Adjusted Expected Loss Ratio</u>		<u>Maximum Single Losses</u>
			<u>Zone Rated</u>	<u>All Other</u>	
48,793 -	51,236	0.50	0.601	0.640	11,500
51,237 -	53,805	0.51	0.603	0.642	11,750
53,806 -	56,508	0.52	0.605	0.644	12,000
56,509 -	59,355	0.53	0.607	0.646	12,250
59,356 -	62,359	0.54	0.609	0.648	12,500
62,360 -	65,532	0.55	0.610	0.650	12,750
65,533 -	68,889	0.56	0.612	0.651	13,000
68,890 -	72,448	0.57	0.614	0.653	13,250
72,449 -	76,226	0.58	0.615	0.655	13,500
76,227 -	80,245	0.59	0.617	0.656	13,750
80,246 -	84,528	0.60	0.618	0.658	14,000
84,529 -	89,103	0.61	0.619	0.659	14,250
89,104 -	93,999	0.62	0.621	0.660	14,500
94,000 -	99,253	0.63	0.622	0.662	14,750
99,254 -	104,904	0.64	0.623	0.663	15,000
104,905 -	111,001	0.65	0.624	0.664	15,250
111,002 -	117,597	0.66	0.626	0.666	15,500
117,598 -	124,756	0.67	0.627	0.667	15,750
124,757 -	132,555	0.68	0.628	0.668	16,000
132,556 -	141,082	0.69	0.629	0.669	16,250

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			<u>Zone Rated</u>	<u>All Other</u>	
141,083 -	150,444	0.70	0.630	0.670	16,500
150,445 -	160,772	0.71	0.631	0.671	16,750
160,773 -	172,221	0.72	0.632	0.672	17,000
172,222 -	184,986	0.73	0.633	0.673	17,250
184,987 -	199,307	0.74	0.633	0.674	17,500
199,308 -	215,486	0.75	0.634	0.675	17,750
215,487 -	233,911	0.76	0.635	0.676	18,000
233,912 -	255,084	0.77	0.636	0.677	18,250
255,085 -	279,669	0.78	0.637	0.678	18,500
279,670 -	308,565	0.79	0.637	0.678	18,750
308,566 -	343,012	0.80	0.638	0.679	19,000
343,013 -	384,782	0.81	0.639	0.680	19,250
384,783 -	436,486	0.82	0.640	0.681	19,500
436,487 -	502,146	0.83	0.640	0.681	19,750
502,147 -	588,297	0.84	0.641	0.682	20,000
588,298 -	706,302	0.85	0.641	0.683	20,250
706,303 -	877,834	0.86	0.642	0.683	20,500
877,835 -	1,149,999	0.87	0.643	0.684	20,750
1,150,000 -	1,648,112	0.88	0.643	0.684	21,000
1,648,113 -	2,853,225	0.89	0.644	0.685	21,250
2,853,226 -	and Over	0.90	0.644	0.686	21,250