

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 a garage, and 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.

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.7. 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>	^{2nd} <u>Latest Year</u>	^{3rd} <u>Latest Year</u>
0.894	0.849	0.809

- 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.

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 $P \times \text{AELR} \times \text{LDF}$, 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	0.664
Maturity (Months)	9
LDF	0.282
Maturity (Months)	12
LDF	0. 000
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. and 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.

5. 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.

6. Experience Rating Adjustment Factor

The Experience Rating Adjustment Factor (ERAF) is a component applied to each calculation of the experience modification. The factor is 0.60.

7. Experience Modification

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

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 03/01/19 – 02/29/20 for private passenger type vehicles.

Assume the basic limits premium for OTC and collision using CAR rates effective 03/01/19 is \$7,500.

Assume the losses for three years, evaluated as of 03/01/19 are as follows:

<u>Year</u> (1)	<u>Maturity</u> (2)	<u>Losses</u> (3)
03/01/15 – 02/29/16	48	\$ 200 300
03/01/16 – 02/28/17	36	250 9,000
03/01/17 – 02/28/18	24	300 200 250

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

<u>Year</u> (1)	<u>Annual Basic Limits Premium</u> (2)	<u>Table A Detrend Factors</u> (3)	<u>Basic Limits Premium Subject to Experience Rating</u> (4)
3 rd Latest Year	\$ 7,500	0.809	\$ 6,068
2 nd Latest Year	7,500	0.849	6,368
Latest Year	7,500	0.894	<u>6,705</u>
			\$ 19,141

From Table C of this Section, given the total basic limits premium subject to experience rating of \$19,141, the credibility is 0.32, the AELR is 0.506, and the MSL is \$7,000. (See D.2., 3. and 4. of this Section)

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 Subject to MSL of \$7,000</u> (3)
03/01/15 – 02/29/16	\$ 200 300	\$ 200 300
03/01/16 – 02/28/17	250 9,000	250 7,000
03/01/17 – 02/28/18	300 200 250	300 200 <u>250</u> \$ 8,500

IV. Experience Modification

Credibility (Step II)	0.32
Adjusted Expected Loss Ratio (Step II)	0.506
Losses Subject to Experience Rating (Step III)	\$ 8,500
Premium Subject to Experience Rating (Step II)	\$ 19,141
Actual Loss Ratio (\$8,500/ 19,141)	0.444

$$\text{Experience Modification} = \frac{0.444 - 0.506}{0.506} \times 0.32 \times 0.60 = -.024 \text{ (factor of 0.976) or a 2.4\% credit.}$$

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

<u>Premium Level</u>		<u>Adjusted Expected Loss Ratio</u>			<u>Maximum Single Loss</u>
		<u>Credibility</u>	<u>Zone Rated</u>	<u>All Other</u>	
1 - 875	875	0.10	0.224	0.222	1,500
876 - 1,516	1,516	0.11	0.247	0.244	1,750
1,517 - 2,173	2,173	0.12	0.268	0.266	2,000
2,174 - 2,847	2,847	0.13	0.289	0.286	2,250
2,848 - 3,539	3,539	0.14	0.308	0.305	2,500
3,540 - 4,249	4,249	0.15	0.326	0.323	2,750
4,250 - 4,978	4,978	0.16	0.343	0.340	3,000
4,979 - 5,727	5,727	0.17	0.359	0.355	3,250
5,728 - 6,496	6,496	0.18	0.374	0.370	3,500
6,497 - 7,287	7,287	0.19	0.388	0.384	3,750
7,288 - 8,101	8,101	0.20	0.401	0.397	4,000
8,102 - 8,938	8,938	0.21	0.413	0.410	4,250
8,939 - 9,800	9,800	0.22	0.425	0.421	4,500
9,801 - 10,687	10,687	0.23	0.436	0.432	4,750
10,688 - 11,601	11,601	0.24	0.446	0.443	5,000
11,602 - 12,542	12,542	0.25	0.456	0.452	5,250
12,543 - 13,514	13,514	0.26	0.465	0.461	5,500
13,515 - 14,515	14,515	0.27	0.474	0.470	5,750
14,516 - 15,549	15,549	0.28	0.482	0.478	6,000
15,550 - 16,616	16,616	0.29	0.490	0.486	6,250
16,617 - 17,719	17,719	0.30	0.497	0.493	6,500
17,720 - 18,859	18,859	0.31	0.504	0.500	6,750
18,860 - 20,038	20,038	0.32	0.511	0.506	7,000
20,039 - 21,258	21,258	0.33	0.517	0.512	7,250
21,259 - 22,521	22,521	0.34	0.523	0.518	7,500
22,522 - 23,830	23,830	0.35	0.528	0.524	7,750
23,831 - 25,187	25,187	0.36	0.534	0.529	8,000
25,188 - 26,595	26,595	0.37	0.538	0.534	8,250
26,596 - 28,056	28,056	0.38	0.543	0.539	8,500
28,057 - 29,575	29,575	0.39	0.548	0.543	8,750

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

<u>Premium Level</u>		<u>Adjusted Expected Loss Ratio</u>			<u>Maximum Single Loss</u>
		<u>Credibility</u>	<u>Zone Rated</u>	<u>All Other</u>	
29,576 -	31,153	0.40	0.552	0.547	9,000
31,154 -	32,796	0.41	0.556	0.552	9,250
32,797 -	34,506	0.42	0.560	0.556	9,500
34,507 -	36,289	0.43	0.564	0.559	9,750
36,290 -	38,148	0.44	0.568	0.563	10,000
38,149 -	40,089	0.45	0.571	0.566	10,250
40,090 -	42,118	0.46	0.575	0.570	10,500
42,119 -	44,240	0.47	0.578	0.573	10,750
44,241 -	46,462	0.48	0.581	0.576	11,000
46,463 -	48,792	0.49	0.584	0.579	11,250
48,793 -	51,236	0.50	0.586	0.581	11,500
51,237 -	53,805	0.51	0.589	0.584	11,750
53,806 -	56,508	0.52	0.591	0.586	12,000
56,509 -	59,355	0.53	0.594	0.589	12,250
59,356 -	62,359	0.54	0.596	0.591	12,500
62,360 -	65,532	0.55	0.598	0.593	12,750
65,533 -	68,889	0.56	0.600	0.595	13,000
68,890 -	72,448	0.57	0.603	0.597	13,250
72,449 -	76,226	0.58	0.604	0.599	13,500
76,227 -	80,245	0.59	0.606	0.601	13,750
80,246 -	84,528	0.60	0.608	0.603	14,000
84,529 -	89,103	0.61	0.610	0.605	14,250
89,104 -	93,999	0.62	0.612	0.606	14,500
94,000 -	99,253	0.63	0.613	0.608	14,750
99,254 -	104,904	0.64	0.615	0.609	15,000
104,905 -	111,001	0.65	0.616	0.611	15,250
111,002 -	117,597	0.66	0.618	0.612	15,500
117,598 -	124,756	0.67	0.619	0.614	15,750
124,757 -	132,555	0.68	0.620	0.615	16,000
132,556 -	141,082	0.69	0.622	0.616	16,250

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

<u>Premium Level</u>		<u>Adjusted Expected Loss Ratio</u>			<u>Maximum Single Loss</u>
		<u>Credibility</u>	<u>Zone Rated</u>	<u>All Other</u>	
141,083 -	150,444	0.70	0.623	0.617	16,500
150,445 -	160,772	0.71	0.624	0.619	16,750
160,773 -	172,221	0.72	0.625	0.620	17,000
172,222 -	184,986	0.73	0.626	0.621	17,250
184,987 -	199,307	0.74	0.627	0.622	17,500
199,308 -	215,486	0.75	0.629	0.623	17,750
215,487 -	233,911	0.76	0.630	0.624	18,000
233,912 -	255,084	0.77	0.630	0.625	18,250
255,085 -	279,669	0.78	0.631	0.626	18,500
279,670 -	308,565	0.79	0.632	0.627	18,750
308,566 -	343,012	0.80	0.633	0.628	19,000
343,013 -	384,782	0.81	0.634	0.629	19,250
384,783 -	436,486	0.82	0.635	0.629	19,500
436,487 -	502,146	0.83	0.636	0.630	19,750
502,147 -	588,297	0.84	0.637	0.631	20,000
588,298 -	706,302	0.85	0.637	0.632	20,250
706,303 -	877,834	0.86	0.638	0.632	20,500
877,835 -	1,149,999	0.87	0.639	0.633	20,750
1,150,000 -	1,648,112	0.88	0.639	0.634	21,000
1,648,113 -	2,853,225	0.89	0.640	0.635	21,250
2,853,226 -	and Over	0.90	0.641	0.635	21,500