

Businessowners Policy By-Peril Rating Plan

What is by-peril rating?

By-peril rating is a more refined rating plan. We now have the capability to price a policy according to the causes of loss that represent the greatest threat to each property.

Why by-peril rating?

- Rating by peril, or cause of loss, allows us to rate more accurately by having better evaluations of true loss exposures. Developing a peril specific rating plan provides the flexibility to rate policies adequately, increase market share, reduce loss ratios, and lower total combined ratios.
- By rating at the individual peril level, insurers are better able to define and price risks. Breaking down risks to the individual peril level is intuitively appealing because some variables do well in predicting certain perils but not others. For example, population density may be an excellent predictor for theft and vandalism but provides little useful information for the hail or lightning peril.
- By-peril rating is a more sophisticated rating structure, which allows for greater geographical segmentation than offered today on our existing book. For example: changing from 18 to 250 rating territories. Creating new growth opportunities.
- By-peril rating adds depth to our appetite through the accurate rating of exposure by risk type.
- Expanded territories allow us to more accurately charge for weather. For example, price differential between coastal vs. inland area.
- By-peril rating applies to any new business eligible for the Commercial Lines Transformation (CLT) platform. As renewals begin to convert from legacy platforms, By-Peril rating will also apply to renewal policies as they migrate to the PolicyCenter platform.
- The removal of minimum premium and the introduction of new fixed expense constant of \$250 will allow us to address competitive issues in states with high minimum premiums.

By-peril rating implemented for new business on the CLT platform

All new base rates, base rating plan, tiering BP.1.0, territory definitions & relativities, fixed expense constant

- Base rates – (New)* Base rates will reflect the peril, coverage, and program mix indicated by multiple years of loss data paired with CAT model results.
- Base rating plan – (New)* The new base rating plan will contain newly developed countrywide by-peril rating factors for nonweather perils and state specific by-peril rating factors for weather perils. Individual state peril mixes are used to determine each peril's share of total premium.
- Tiering – Policies continue to have a single tiering grade, as they currently do on PCIO, but tiering factors will now vary by-peril. Explicit Multi-Policy Discount (MPD) is removed from rating step but the discount will now be implicitly accounted for in the tiering factor.
- Territory definitions & relativities – (New)* Definitions are being redefined with the new by-peril rating plan. Territory relativities will now vary by-peril/coverage.
- Fixed expense constant – (New)* Introducing a policy level charge to cover the cost of fixed expenses on the policy. Minimum premiums and Large Premium Discount Plan (LPDP) are removed.

Frequently asked questions

Will there be a base since the minimum premium goes away?

Yes, there is a chance that the premium could go below the previous state minimum, but it will not go lower than the fixed expense constant amount of \$250.

Where are the rating worksheets located in PolicyCenter?

Rating worksheets are located on the Quote screen. Click on the Show Rating Worksheet button. This will bring you to the Rating Worksheet. This tab is not available for agents to view.

Where are the scoring engine results located in PolicyCenter?

Scoring engine results are displayed in the Risk Analysis section on the UW Info tab. This tab is not available for agents to view.

How is the tiering model incorporated with by-peril?

It continues to be a factor within the rating steps.

BOP by-peril rating variables

Building Coverage	Content Coverage
Building Limit	Content Limit
Sprinkler	Sprinkler
Protection Class	Protection Class
Construction Type	Construction Type
Property Deductible	Property Deductible
Central Station Fire Alarm	Central Station Fire Alarm
Building Age	Building Age
Class Code	Class Code
Automatic Increase	Burglar Alarm
Territory	Territory
Town Group	Town Group
Building Code Effectiveness Grade	Theft Outside (Auto)
Building Valuation	Tiering
Tiering	N/A

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How we rate – current vs proposed

Current	Proposed
One rating plan for each coverage	Multiple perils rating plan within a coverage for those that are changing to by peril rating
Cost of writing policy built into the rates	Cost of writing policy charged through expense constant (\$250)
One tiering factor applied across all coverages	Tiering factor can vary by peril
Territory definition/factor done on a coverage level basis	Territory definition/factor developed on a by coverage/peril basis
Minimum premium is in place	Minimum premium removed
Explicit BA multi policy discount in rating step	Implicit BA multi policy discount in tiering factor
Property deductible factor that varies by deductible options	Property deductible factor that varies by deductible options, perils, building AOI, and Content AOI
Large Premium Discount Plan (LPDP) is available for larger policies	LPDP is no longer offered since we are implementing the expense constant which becomes smaller % of the policy premium as premium increases

How rating works

