Experience Rating Physical Damage Procedures

The physical damage experience modification for the risk shall be determined in accordance with the experience rating procedure described below, and shall be applied to the manual premiums for all physical damage coverages included in the policy being rated.

In addition to any experience modification, a rate modification reflecting specified characteristics of the risk may be applied to the manual rates in accordance with the criteria outlined in the Physical Damage Schedule Rating Criteria, to the extent that such characteristics are not reflected in the experience of the risk.

The rate modification contains the standard allowance for expenses. If the expenses are less than standard, such modification if a credit shall be increased, or if a debit shall be decreased, by the amount of reduction in expenses.

Step 1. Determination Of Premium Subject To Experience Rating

a) Determine the annual premium at current Commerce or Citation voluntary rates for the policy being rated. The policy being rated is the policy to which the experience modification shall apply. The annual premium equals the current exposures for the risk, multiplied by the current manual rates for each eligible physical damage coverage.

b) Multiply the premium by the appropriate detrend factor displayed in Physical Damage Experience Rating Table 1 for each year of the experience period.

c) The sum of the detrended premiums for each year of the experience period is the premium subject to experience rating and is to be used in calculating the experience modification.

Note: If the actual exposures of the risk have increased or decreased by 25% or more since the experience period due to factors other than inflation, refer to Appendix B for procedures to determine the premium subject to experience rating.

Step 2. Maximum Single Loss (MSL), Adjusted Expected Loss Ratio (AELR), And Credibility Factor

The MSL, AELR, and credibility factor are determined from Physical Damage Experience Rating Table 2, based on the total premium subject to experience rating for the entire experience period.

Step 3. Losses Subject To Experience Rating

The losses to be included in the experience rating shall be the total of paid and outstanding losses, excluding allocated loss adjustment expense (ALAE), for each year in the experience period. The amount of loss resulting from any single occurrence shall be limited by the maximum single loss (MSL) value determined in step 2 above.
All losses in the experience period shall be adjusted to the deductible basis of the policy being rated before the MSL limit is applied. To make this adjustment when the deductible to be written is larger than the experience-period deductible, find the difference between the two deductibles and subtract it from each of the experience-period losses. (If the result is less than $0, use $0.) To make this adjustment when the deductible to be written is smaller than the experience-period deductible, find the difference between the two deductibles and add it to each of the experience-period losses.

**Step 4. Determination Of Actual Loss Ratio (ALR)**

Determine the actual loss ratio (ALR) by dividing the losses subject to experience rating from step 3 above by the premium subject to experience rating from step 1 above.

**Step 5. Experience Modification Factor**

The experience modification factor is calculated by the following formula:

\[
\frac{ALR - AELR}{AELR} \times Cred = ExperModFactor
\]

ALR = the actual loss ratio from step 4 above, AELR = the adjusted expected loss ratio from step 2 above, Cred = the credibility factor from step 2 above, and Exper Mod Factor = the experience modification factor. If the experience modification factor is negative, it is a credit. If the experience modification factor is positive, it is a debit.