

9. (1 point)

Given the following:

General Expenses	\$225,000
Written Premium	\$3,750,000
Earned Premium	\$3,000,000
Other Acquisition Expense	8.0%
Commission	12.0%
Taxes, Licenses & Fees	3.0%

Projected Ultimate Loss and LAE Ratio	62.0%
Target Underwriting Profit Ratio	5.0%

- All expenses are paid at policy inception.
- Commission and Taxes, Licenses & Fees are 100% variable.
- All other expense categories are 50% variable.

Calculate the indicated rate change assuming the data is fully credible.

# EXAM 5 FALL 2016 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 9			
TOTAL POINT VALUE: 1		LEARNING OBJECTIVE(S): A4, A5	
SAMPLE ANSWERS			
Category	Total %	Fixed Expenses %	Variable Expenses %
General Expenses	225k/3750k=6%	3%	3%
Other Acquisition Expense	8%	4%	4%
Commission & Brokerage	12%		12%
Taxes, Licence & Fees	3%		3%
		7%	22%

$$\text{Indicated Rate change} = \frac{62\% + 7\%}{1 - 22\% - 5\%} - 1 = -5.48\%$$

EXAMINER'S REPORT
Candidates were expected to determine appropriate general expenses ratio using written premium, appropriately separate the expense ratios into fixed and variable components, and determine the indicated rate change.
Common mistakes included: <ul style="list-style-type: none"><li>Using earned premium instead of written premium to derive the General Expense ratio</li><li>Missing negative sign in final answer</li></ul>