

10. (1 point)

A homeowners insurance company is considering utilizing number of vehicles in the household as an additional risk characteristic within its risk classification system.

Briefly discuss the appropriateness of adding this risk characteristic to the company's risk classification system using four considerations from the Actuarial Standard of Practice No. 12: Risk Classification (for All Practice Areas).

EXAM 5 FALL 2016 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 10	
TOTAL POINT VALUE: 1	LEARNING OBJECTIVE(S): A2
SAMPLE ANSWERS	
<u>Sample Answer 1</u> Causality – the number of vehicles does not seem to have an intuitive relationship to homeowners' losses, so this criteria may be violated Easy to verify – this would be easy to verify by checking vehicle records Existing Law – there is no current law which prohibits the use of number of vehicles in the risk classification system Objective – the number of vehicles is well defined and unambiguous.	
<u>Sample Answer 2</u> Credibility – Larger size categories (e.g., those with more than 5 vehicles) may lack enough volume to satisfy credibility concerns. Perhaps homes with more than 5 vehicles could be grouped together to determine loss costs for those homes associated with a large number of vehicles Relation to Expected Losses – Having a larger number of vehicles doesn't necessarily correlate with higher homeowner losses Industry Practices – number of vehicles is not a commonly used risk characteristic associated with homeowners' policies Practical – this characteristic should be easy to collect and verify	
EXAMINER'S REPORT	
Candidates were expected to be knowledgeable of the characteristics of an exposure base/rating variable. The question was open-ended, asking the candidate to list any four of the considerations associated with a risk characteristic delineated in ASOP 12. A common mistake was neglecting to 'briefly describe' each characteristic	