15. (2 points)

A workers compensation annual policy for a large insured is expiring on January 1, 2020. The following changes have taken place at the insured since the policy was last issued on January 1, 2019:

- The insured has implemented a new job-specific training program to reduce the expected number of claims.
- The insured has doubled the number of their employees.

a. (0.5 point)

Briefly describe how each of these changes could be accounted for in the final premium for the January 1, 2020 renewal policy.

b. (1 point)

Describe how each of these changes are accounted for in the final premium on January 1, 2024 if the insured has no additional changes over the next four years.

c. (0.5 point)

Describe one additional rating mechanism that would benefit the company if the insured has grown substantially larger and more operationally complex between January 1, 2020 and January 1, 2024.

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QUESTION: 15	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVE(S): A11**

SAMPLE ANSWERS

Part a: 0.5 point

Sample responses for the new training program:

- Underwriting can reflect the training program via schedule rating, lower premium

Sample responses for the increase in employees:

- Manual premium increases due to doubling # of employees
- Exposures have doubled
- Higher employees contributes to higher premium, which may qualify the insured for a policy discount due to decreasing fixed expenses as a percentage of premium.

Part b: 1.0 point

Sample response for the new training program:

- This benefit should manifest itself in the claim experience.
- There should be no schedule rating adjustment as this will be reflected in the experience modification factor.

Sample response for the new training program:

- No changes to manual rates; premiums would still be higher due to number of employees

Part c: 0.5 point

- May consider using a high deductible WC policy if losses are growing with the company. If the insurer is becoming more complex, could mean more potential for loss. The high ded would cut down on prem costs.
- Retrospective rating will review the rates each year for expenses and capped losses, and adjust premium each year (subject to max and minimum). This will be able to account for the larger book and complexity of expenses.
- Premium discount since insured should be large enough that the fixed expense portion of the premium is a lower percentage of premium
- Self-insured retention for the insured to participate in its insurance exposures.

EXAMINER'S REPORT

Candidates were expected to understand how the short-term and long-term premium calculation is impacted due to insured changes. Candidates were expected to demonstrate an understanding of rating mechanisms.

Part a

Candidates were expected to know when to apply schedule rating versus manual rating and the affect the policyholder's actions have on the final premium.

Common mistakes included:

- Discussing discounts for the training program, but no identification of what discount (schedule/underwriting) applies
- Providing general commentary about premium increasing or decreasing, but no demonstration of how the insured's actions affect the premium calculation.

Part b
Candidates were expected to demonstrate an understanding of when experience rating applies and that the schedule modifications applied in part a. are removed. Candidates were also expected to demonstrate an understanding of how exposures are applied in the rating process. Common mistakes included: • Providing discussion related to how the long-term impact of the changes would affect loss experience with no demonstration of how that would be reflected in the premium calculation. • Not recognizing that the discount given in part a. should be removed once the training program would be reflected in the experience.
Part c
Candidates were expected to identify a rating mechanism not relied upon in parts a. and b. and describe when the rating mechanism applies or what the rating mechanism is used for. Common mistakes included: • Discussing experience rating, introduction of a new rating variable, application of GLMs or commentary on ways that insured can reduce its loss experience.