

Chapter 4: Exposures

was concerns regarding the transition. Instead, the rating variables and rating algorithm were adjusted to address the inequities. This debate over the choice of workers compensation exposure base continues to reemerge.

The following table shows the exposure bases currently used for different lines of business. Multi-peril package policies such as commercial general liability use different exposure bases for pricing different aspects of the package policy.

4.1 Typical Exposure Bases

Line of Business	Typical Exposure Bases
Personal Automobile	Earned Car Year
Homeowners	Earned House Year
Workers Compensation	Payroll
Commercial General Liability	Sales Revenue, Payroll, Square Footage, Number of Units
Commercial Business Property	Amount of Insurance Coverage
Physician's Professional Liability	Number of Physician Years
Professional Liability	Number of Professionals (e.g., Lawyers or Accountants)
Personal Articles Floater	Value of Item

EXPOSURES FOR LARGE COMMERCIAL RISKS

Large commercial risks present unique challenges for ratemaking and for the use of more conventional exposure bases. As a result, ratemaking for large commercial risks is often done via composite rating and loss-rated composite rating.

Composite rating is used for some large commercial risks when the amount of exposure is difficult to track throughout the policy period. For example, some commercial multi-peril policies use different exposure measures for each aspect of coverage (e.g., sales revenue for general liability, amount of insurance or property value for commercial business property). The policy premium is initially calculated using estimates for each exposure measure along with the relevant rating algorithms for each coverage. These individual exposure estimates, however, are expected to change throughout the course of the policy term. Rather than auditing each exposure measure, a proxy measure is used to gauge the overall change in exposure to loss. For example, if property value is chosen as the proxy exposure measure, a 20% increase in property value during the policy term would trigger a premium adjustment of 20% for the whole policy's premium.

In loss-rated composite rating, premium is calculated based on the individual risk's historical loss experience (i.e., without any use of standard rating algorithms). In that case, the implicit exposure base is the risk. This rating technique is discussed in more detail in Chapter 15.

AGGREGATION OF EXPOSURES

Methods of Aggregation for Annual Terms

As described in Chapter 3, four common methods of data aggregation are calendar year, accident year, policy year, and report year. In regards to aggregating exposures, there are only two methods applicable: calendar year (which is the same as calendar-accident year) and policy year.