Errata to

Basic Ratemaking, 5th Edition

By Werner, G., and Modlin, C., Casualty Actuarial Society, 2016

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This note presents errata to text in Werner, G., and Modlin, C.'s paper on "Basic Ratemaking." Items printed in red indicate an update, clarification, or change from the original text.

1. Errata

- **Coinsurance Clause of Werner, G., and Modlin, C. (pp. 209-210) should be amended from:**

  The following notation is used in the coinsurance calculations:

  - I = indemnity received after loss
  - L = amount of loss after deductible
  - F = face value of policy (i.e., amount of insurance selected)
  - V = value of property
  - c = required coinsurance percentage
  - a = apportionment ratio
  - e = coinsurance penalty

  Using this notation, the coinsurance requirement (cV) is the amount of coverage required such that no penalty is applied. The coinsurance apportionment ratio (a) is the relationship of the amount of insurance selected (F) to the coinsurance requirement (cV), and is the factor applied to the loss amount to calculate the indemnity payment:

  $$a = min\left[\frac{F}{cV}, 1.0\right].$$

  The indemnity payment is given by the following basic formula:

  $$I = L \times \frac{F}{cV}, \text{ where } I \leq F \text{ and } I \leq L.$$

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[1] This note was prepared by the Exam 5 Syllabus Committee.

to:

The following notation is used in the coinsurance calculations:

- I = indemnity ~~received after loss~~ payment before deductible
- L = amount of loss ~~after~~ before deductible
- F = face value of policy (i.e., amount of insurance selected)
- V = value of property
- D = deductible amount
- c = required coinsurance percentage
- a = apportionment ratio
- e = coinsurance penalty

Using this notation, the coinsurance requirement (cV) is the amount of coverage required such that no penalty is applied. The coinsurance apportionment ratio (a) is the relationship of the amount of insurance selected (F) to the coinsurance requirement (cV), and is the factor applied to the loss amount to calculate the indemnity payment:

$$a = min\left[\frac{F}{cV}, 1.0\right].$$

The indemnity payment is given by the following basic formula:

$$I = \min\left(a \times L, F\right)$$

The indemnity payment after deductible is equal to $\max\left(I - D, 0\right)$.

- **Workers Compensation of Werner, G., and Modlin, C. (app. D-14):**

  - Assume that ALAE trends are 1.00 and that (4) = (2) x (3) x ALAE Trend. ALAE also needs to be trended when the ALAE Ratio being computed uses Projected Ultimate Indemnity and Medical Losses in the denominator.
  - Column (4) header: Projected Ultimate ALAE.

- **Composite Rating Example Calculation of Werner, G., and Modlin, C. (p. 300):**

  - Disregard the $500,000 general aggregate limit in the provided example. In the presence of a general aggregate limit, results would differ from those presented in the example.

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[1] This note was prepared by the Exam 5 Syllabus Committee.