

## Filing at a Glance

Company: Diamond State Insurance Company

Product Name: Equipment Breakdown      SERFF Tr Num: PENN-125224106      State: Arkansas

Coverage

TOI: 01.0 Property      SERFF Status: Closed      State Tr Num: AR-PC-07-025426

Sub-TOI: 01.0001 Commerical Property (Fire and Allied Lines)      Co Tr Num: 07-1CP-017      State Status:

Filing Type: Rule      Co Status:      Reviewer(s): Betty Montesi,  
Llyweyia Rawlins, Brittany Yielding

Author: Lorna Geiger      Disposition Date: 07-13-2007

Date Submitted: 07-11-2007      Disposition Status: Exempt from Review

Effective Date Requested (New): 08-15-2007

Effective Date (New): 08-15-2007

Effective Date Requested (Renewal): 08-15-2007

Effective Date (Renewal): 08-15-2007

## General Information

Project Name:      Status of Filing in Domicile: Pending

Project Number: 07-1CP-017      Domicile Status Comments:

Reference Organization:      Reference Number:

Reference Title:      Advisory Org. Circular:

Filing Status Changed: 07-13-2007

State Status Changed: 07-12-2007

Deemer Date:

Corresponding Filing Tracking Number:

Filing Description:

Diamond State Insurance Company is revising its optional Equipment Breakdown Coverage. Our currently approved Equipment Breakdown Endorsement, EIA-114 (12/99) and Schedule, SIA-100 (12/99) remain unchanged. We are proposing a change to our rating structure. The rates and rules currently approved under filing number: 00-1CF-002 will be replaced by a single surcharge. A flat surcharge of 4.65% of the property premium will be applied when the Equipment Breakdown Endorsement is attached to a policy.

Our proposed 4.65% rate was developed to be applied multiplicatively to the accounts property premium to calculate the Equipment Breakdown premium. For instance, the Equipment Breakdown premium for an account with a property premium of \$2,000 would be \$93 ( $\$2,000 \times .0465$ ). This rating methodology produces a lower charge than the current rating methodology.

## Company and Contact



## Correspondence Summary

### Dispositions

<b>Status</b>	<b>Created By</b>	<b>Created On</b>	<b>Date Submitted</b>
Exempt from Review	Llyweyia Rawlins	07-13-2007	07-13-2007

## Disposition

Disposition Date: 07-13-2007

Effective Date (New): 08-15-2007

Effective Date (Renewal): 08-15-2007

Status: Exempt from Review

Comment: Per Arkansas Code 23-67-206: Property and casualty insurance for commercial risk, excluding workers compensation, employers liability, and professional liability insurance are exempted from rate and rule filing and review. (see actual code site for details)

Rate data does NOT apply to filing.

Item Type	Item Name	Item Status	Public Access
Rate	Equipment Breakdown Coverage	Accepted for Informational Purposes	Yes

## **Rate Information**

Rate data does NOT apply to filing.

## Rate/Rule Schedule

<b>Review Status:</b>	<b>Exhibit Name:</b>	<b>Rule # or Page #:</b>	<b>Rate Action</b>	<b>Previous State Filing Number:</b>	<b>Attachments</b>
Accepted for Informational Purposes	Equipment Breakdown Coverage		Replacement	00-1CF-002	Equipment Breakdown Coverage.pdf

**DIAMOND STATE INSURANCE COMPANY**

**EQUIPMENT BREAKDOWN COVERAGE  
RATE DEVELOPMENT**

This memorandum explains how the rate for the equipment breakdown coverage for the eligible business was developed. This exhibit details the calculation of the gross Diamond State Insurance Company rate for Equipment Breakdown coverage of 4.65% of the property premium. The Diamond State rate was developed based on the loss experience of its reinsurer for this coverage, The Hartford Steam Boiler Inspection and Insurance Company (HSB).

The frequency and severity of losses are based on HSB experience from 1/1/2001 through 12/31/2003. In order to project the loss components, HSB analyzed the information for each class of business and identified the types of equipment subject to loss and the applicable causes of loss. HSB's actual experience with these classes of business follows:

<i>HSB Experience</i>					
Class	a # of Exposures Units	b # of claims	c =(b/a)  Annual Frequency of Losses	d  Total Loss dollars (trended to 2004)	e =(d/b)  average severity
Eligible Business Classes	1,411,696	9,176	0.65%	\$ 35,437,805	3,862

The frequency of losses (c) was derived by taking the number of claims (b) and dividing it by the number of exposure units (a). The average severity (e) was determined by dividing the total loss dollars (d) by the number of claims (b). In detail, we arrived at the frequency and severity as follows:

<b>Class</b>	<u>Frequency</u>	<u>(c) = (b) / (a)</u>		
	<i>b</i>	/	<i>a</i>	= <i>c</i>
Eligible Business Classes	<i>claims</i> 9,176		<i>exposure units</i> 1,411,696	<i>annual frequency of losses</i> 0.65%
	<u>Severity</u>	<u>(e) = (d) / (b)</u>		
	<i>d</i>	/	<i>b</i>	= <i>e</i>
	<i>loss dollars</i> \$ 35,437,805		<i>claims</i> 9,176	<i>average severity</i> \$ 3,862

Utilizing the above frequency and severity information, we calculated the Equipment Breakdown loss expectancies for Diamond State:

Diamond State Insurance Company					
	a	b	c =(a*b)	d	e =(c*d)
Class	# of locations	Frequency of losses	# of claims	Average Severity	Total Loss Dollars
Eligible Business Classes	57,922	0.65%	376	\$ 3,862	\$ 1,452,072

The number of claims (c) was derived by taking the number of locations (a) and multiplying it by the frequency of losses (b). The total loss dollars (e) were determined by multiplying the number of claims (c) by the average severity (d). In detail, we arrived at the total loss dollars as follows:

Eligible Business Classes	Number of claims (c) = (a) * (b)			
	a	b	=	c
	locations	frequency of losses		claims
	57,922	0.65%		376
	Total loss dollars (e) = (c) * (d)			
	c	d	=	e
	claims	average severity		total loss dollars
	376	\$ 3,862		\$ 1,452,072

We determined the Equipment Breakdown premium by taking the projected Equipment Breakdown losses and dividing them by the property premium. The following details how this was calculated.

All Eligible Classes	Total Equipment Breakdown Losses	Loss Cost Multiplier	Equipment Breakdown Premium	Property Premium	Equipment Breakdown Surcharge (EB premium / Property Premium)
Eligible Business Classes	\$ 1,452,072	3.030	<i>EB Losses * Adjusted LCM</i> \$ 4,399,778	\$ 94,618,903	0.0465

In detail, we arrived at the Equipment Breakdown Surcharge as follows:

Step one:	Total Equipment Breakdown Losses multiplied by the Loss Cost Multiplier =
Step two:	Equipment Breakdown Premium Equipment Breakdown Premium Divided by the Property Premium Equals the Equipment Breakdown Surcharge

The following expenses were used in the calculation of this rate:

Diamond State expenses	35.0%	
HSB Admin. & Inspection Expenses	32.0%	
Expense Total	67.0%	
Estimated Loss Ratio	33.0%	1-.670
Loss Cost Multiplier	3.030	1/ (.330)