

# Rating Knowledge — An Endangered Species

by Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS



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In 1980, when I started my insurance career in a Cleveland area insurance agency, I had the opportunity to learn commercial insurance from the “bottom up.” (This was prior to PCs, the Internet, PowerPoint, cell phones or Blackberrys.) As archaic as it sounds, this training provided me with a very good foundation of knowledge, which, for the most part, has not changed to date. This point is evidenced by my leaving the insurance industry in 1988 to become a stay-at-home mom and returning to the same independent insurance agency in 2002.

During this 14-year lapse, some things had changed — and quite a bit! The assistant that I had once hired was now my manager, one of my former underwriters was now president of a regional insurance company, and business

was now conducted by computer and the Internet. However, most of what I learned in my first eight years in the insurance industry did not change. One company was still using a \$10,400 executive payroll for general liability as the premium-rating basis; automobile, general liability, property and workers compensation rating still used the same classifications; and the RCP property code still had the same components.

The problem I see today is that learning the fundamentals of rating is disappearing, both at the agency level and at the company level. Many company underwriters don't know how to rate. I called a company underwriter to get the percentage credit to increase the deductible, and this person had no idea what it was. I was advised that an underwriter just enters the information — it's the computer that generates the rating and premiums' output!

Agents should always request complete rating worksheets and have the knowledge to read them. This gives them the power to look for potential misclassifications, excessive base rates, credits that were not applied, and errors or omissions in the rating process. They will also, at least, be able to estimate any changes in property limits and general liability premium basis, and delete the collision on a vehicle and facilitate other common changes that come up in client meetings or calls.

Rating training is becoming very rare to find. Companies have cut back on agency training and seldom offer rating training. Agencies can neither afford to send employees long distances nor have them out of the office for long periods of time. My advice is to locate people in your organization who have rating knowledge. Have them develop a simple course and teach this to others in the organization — before it's too late! All processing, customer service and marketing employees in your agency should have this knowledge to properly service, retain and write new accounts. Audits,

endorsements, policies and proposals all involve understanding rating elements. To be able to do your best job, everyone involved in these processes needs to know the basics of rating. Extinction is nearing.

A sample rating outline follows, which can be amended to meet your needs.

- I. Property.
  - A. Basic Fire Rate.
    1. Class Rate.
      - a) Construction.
      - b) Protection Class.
    2. Specific Rate.
      - a) ISO Contact Information.
    3. Information Needed for Loss Cost Rate.
    4. RCP.
  - B. Group II and AOP Rates.
  - C. Other Rating Factors.
    1. Coinsurance.
    2. Deductible.
    3. RPM.
    4. Schedule Credit.
    5. Package Credit.
  - D. Premium = Limit of Insurance X Final Rate.
  - E. Other Coverage Premiums.
    1. BI/EE.
    2. Expanded Endorsements.
- II. General Liability.
  - A. Sublines.
    1. Premises (313).
    2. Product/Completed Operations (316).
    3. Independent Contractors (315).
  - B. Classifications and Codes.

- C. Premium Basis.
    - 1. Payroll (P) per \$1,000.
      - a) Payroll Rules.
      - b) Cap on Payrolls.
    - 2. Gross Sale(s) per \$1,000.
      - a) Inclusions.
      - b) Exclusion.
    - 3. Total Cost (c) per \$1,000.
    - 4. Area (A) per \$1,000.
  - D. Other Factors.
    - 1. Increased Limits.
    - 2. Deductible.
    - 3. Experience.
    - 4. Scheduled.
    - 5. Package.
  - E. Premium = Base Rate X  
Other Factors = Final Rate X  
Premium Basis.
  - F. Other Coverages.
    - 1. BFGL.
    - 2. Nonowned and Hired Car  
(NO & HC).
    - 3. Additional Insureds.
    - 4. Waivers.
  - G. Audits.
- III. Automobile.
- A. Vehicle Year, Make, Model.
    - 1. Model Year.
    - 2. Cost New/Symbol.
    - 3. VIN (Vehicle Identification  
Number).
  - B. Use of Vehicle.
    - 1. Service.
    - 2. Retail.
    - 3. Commercial.
    - 4. Private Passenger —  
Code: 0798.
  - C. Vehicle Weight.
    - 1. Light (Gross Vehicle  
Weight 0–10K/6).
    - 2. Medium (Gross Vehicle  
Weight 10–20K).
    - 3. Heavy (Gross Vehicle  
Weight 20–45,000).
    - 4. Extra Heavy (Over 45,000  
Gross Vehicle Weight).
    - 5. Heavy Truck — Tractors  
(Gross Vehicle Weight  
10–45,000).
    - 6. Extra Heavy Truck —  
Tractor (Over 45,000 Gross  
Vehicle Weight).
    - 7. Trailers.
    - 8. Semitrailers.
    - 9. Service or Utility (0–2,000  
Load Capacity).
  - D. Radius.
    - 1. Local (0–50 miles).
    - 2. Intermediate (51–200  
miles).
    - 3. Long Distance (Over 200  
miles).
  - E. Coding of PP (0798).
  - F. Territory (Garaging).
  - G. Liability Premium = Rate X  
Increased Limit's Factor X  
Credits.
  - H. Other Coverages.
    - 1. Expanded Automobile.
    - 2. Fellow Employee Exclusion  
Deleted.
    - 3. Nonowned and Hired Car.
      - a) Number of Employees.
      - b) Cost of Hire.
    - 4. Medical Payments.
    - 5. Uninsured Motorist.
  - I. Covered Automobile Symbols.
- IV. Employer's Liability and Workers  
Compensation.
- A. Payroll (Workers' Comp  
Rules).
  - B. Codes (Workers' Comp  
Codes).
  - C. Premium = Final Rate X  
Payroll per 100.
- V. Employee Benefits.
- A. Rated on Number of  
Employees.
  - B. May Be Included in Broad  
Form Endorsements.
- VI. Inland Marine — Contractors  
Equipment.
- A. ACV of Equipment.
  - B. Premium = Rate X Credits X  
Limit of Insurance per 100.
  - C. Other Coverages.
    - 1. Leased or Rented  
Equipment.
    - 2. Extra Expense.
- VII. Umbrella.
- A. Percentage of General Liability  
Premium.
  - B. Percentage of Automobile  
Liability Premium.  
  
Automobile — Number of  
Vehicles According to Class.
- Note:** Complete information may be  
found on Web sites such as ISO, NCCI  
or Silver Plume, and may involve  
subscriptions. ■