

State: Pennsylvania **Filing Company:** Insurance Services Office, Inc.
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations
Product Name: HO-2013-RLA1
Project Name/Number: Homeowners Advisory Prospective Loss Costs Revision/HO-2013-RLA1

Filing at a Glance

Company: Insurance Services Office, Inc.
Product Name: HO-2013-RLA1
State: Pennsylvania
TOI: 04.0 Homeowners
Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Filing Type: Rate
Date Submitted: 09/10/2013
SERFF Tr Num: ISOF-129194632
SERFF Status: Assigned
State Tr Num:
State Status: Received Review in Progress
Co Tr Num: HO-2013-RLA1

Effective Date: 04/01/2014
Requested (New):
Effective Date: 04/01/2014
Requested (Renewal):
Author(s): Sheila Lemley, Roger Steinbach, Arlene Byrd, Richard DeSanctis, Laura Panesso, Kandy Taccki, Peter Quirk, Adrena Nunnally, Beth Flynn, Victor Armooh
Reviewer(s): Xiaofeng Lu (PC) (primary), Michael McKenney (PC)
Disposition Date:
Disposition Status:
Effective Date (New):
Effective Date (Renewal):

State Filing Description:

State: Pennsylvania **Filing Company:** Insurance Services Office, Inc.
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations
Product Name: HO-2013-RLA1
Project Name/Number: Homeowners Advisory Prospective Loss Costs Revision/HO-2013-RLA1

General Information

Project Name: Homeowners Advisory Prospective Loss Costs Status of Filing in Domicile: Not Filed
 Revision
 Project Number: HO-2013-RLA1 Domicile Status Comments:
 Reference Organization: Reference Number:
 Reference Title: Advisory Org. Circular:
 Filing Status Changed: 09/11/2013
 State Status Changed: 09/11/2013 Deemer Date:
 Created By: Kandy Taccki Submitted By: Kandy Taccki
 Corresponding Filing Tracking Number:

Filing Description:
 Revision of Homeowners Advisory Prospective Loss Costs.

Company and Contact

Filing Contact Information

Peter Quirk, Regional Manager pquirk@iso.com
 2525 Cabot Drive 630-955-1080 [Phone] 225 [Ext]
 Suite 105 201-748-1888 [FAX]
 Lisle, IL 60532

Filing Company Information

Insurance Services Office, Inc.	CoCode:	State of Domicile: New Jersey
545 Washington Boulevard	Group Code:	Company Type:
Jersey City, NJ 07310-1686	Group Name:	Advisory/Rating Organization
(201) 469-2207 ext. [Phone]	FEIN Number: 13-3131412	State ID Number:

Filing Fees

Fee Required? No
 Retaliatory? No
 Fee Explanation:

State Specific

*Filing Fee Amount: N/A
 *Date Filing Fee Mailed: N/A
 *Filing Fee Check Number: N/A
 *Filing Fee Check Date: N/A
 *NAIC Number: N/A

SERFF Tracking #:

ISOF-129194632

State Tracking #:

Company Tracking #:

HO-2013-RLA1

State: Pennsylvania **Filing Company:** Insurance Services Office, Inc.
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations
Product Name: HO-2013-RLA1
Project Name/Number: Homeowners Advisory Prospective Loss Costs Revision/HO-2013-RLA1

Rate Information

Rate data applies to filing.

Filing Method:

Rate Change Type:

Decrease

Overall Percentage of Last Rate Revision:

8.500%

Effective Date of Last Rate Revision:

04/01/2013

Filing Method of Last Filing:

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where req'd):	Minimum % Change (where req'd):
Insurance Services Office, Inc.	-5.300%	-5.300%				%	%

SERFF Tracking #:

ISOF-129194632

State Tracking #:**Company Tracking #:**

HO-2013-RLA1

State:

Pennsylvania

Filing Company:

Insurance Services Office, Inc.

TOI/Sub-TOI:

04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations

Product Name:

HO-2013-RLA1

Project Name/Number:

Homeowners Advisory Prospective Loss Costs Revision/HO-2013-RLA1

Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1		Revised Loss Costs	See Attached	Replacement		HO-2013-RLA1 - PA - Sect A - Scope of Revision.pdf

PENNSYLVANIA
HOMEOWNERS INSURANCE

SECTION A – SCOPE OF REVISION

Statewide Loss Cost Level Changes	A-2
Loss Cost Level Changes by Territory	A-3
Present and Filed Base Class Loss Costs by Territory.....	A-4
Territory Definitions	A-5

PENNSYLVANIA
HOMEOWNERS INSURANCE

STATEWIDE LOSS COST LEVEL CHANGES (A)

<u>FORM</u>	<u>AGGREGATE LOSS COSTS AT CURRENT LEVEL (B)</u>	<u>FILED LOSS COST LEVEL CHANGE</u>
Owners	\$ 425,958,536	- 5.3%
Tenants	\$ 8,915,335	- 5.3%
Condominium Unit Owners	\$ 7,649,771	- 5.8%
ALL FORMS	\$ 442,523,642	- 5.3%

(A) For trend purposes, the period of use for this revision is assumed to begin on 4/1/2014.

(B) Year ended 9/30/2012 aggregate loss costs at current level based on ISO staff developed loss costs contained in the latest implemented filing.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL CHANGES BY TERRITORY

<u>Territory</u>	<u>Owners</u>	<u>Tenants</u>	<u>Condominium Unit Owners</u>
04	- 5.4%	- 5.6%	- 6.4%
30	- 5.4%	+ 13.3%	+ 3.0%
31	- 5.4%	- 5.6%	- 6.4%
32	- 10.1%	- 0.9%	- 6.4%
33	- 0.7%	- 5.6%	- 6.4%
34	- 0.7%	- 5.6%	- 6.4%
35	- 5.4%	- 5.6%	- 6.4%
36	- 5.4%	- 0.9%	- 1.7%
37	- 14.9%	- 0.9%	- 6.4%
38	- 10.1%	- 5.6%	- 6.4%
39	- 5.4%	- 5.6%	- 15.7%
40	- 5.4%	- 0.9%	- 6.4%
41	- 10.1%	- 5.6%	- 6.4%
42	- 5.4%	- 10.3%	- 6.4%
43	- 5.4%	- 5.6%	- 6.4%
44	- 5.4%	- 10.3%	- 6.4%
45	- 5.4%	- 10.3%	- 6.4%
46	- 5.4%	- 5.6%	- 1.7%
47	- 5.4%	- 5.6%	- 1.7%
48	- 5.4%	- 5.6%	- 6.4%
49	- 5.4%	- 0.9%	- 6.4%
Statewide	- 5.3%	- 5.3%	- 5.8%

PENNSYLVANIA
HOMEOWNERS INSURANCE

PRESENT AND FILED BASE CLASS LOSS COSTS BY TERRITORY (A)

Territory Code	PRESENT			FILED		
	Owners Form 3 \$60,000 Base	Tenants \$20,000 Base	Condominium Unit Owners \$20,000 Base	Owners Form 3 \$60,000 Base	Tenants \$20,000 Base	Condominium Unit Owners \$20,000 Base
04	\$224.98	\$68.44	\$132.49	\$212.83	\$64.61	\$124.01
30	121.09	35.64	35.65	114.55	40.38	36.72
31	104.99	39.96	24.86	99.32	37.72	23.27
32	83.69	26.82	28.51	75.24	26.58	26.69
33	98.56	33.76	35.87	97.87	31.87	33.57
34	112.61	41.37	50.06	111.82	39.05	46.86
35	97.93	36.02	36.86	92.64	34.00	34.50
36	102.50	55.30	48.46	96.97	54.80	47.64
37	126.49	26.27	47.77	107.64	26.03	44.71
38	116.93	22.84	60.33	105.12	21.56	56.47
39	113.62	33.98	52.43	107.48	32.08	44.20
40	102.91	41.09	35.73	97.35	40.72	33.44
41	100.62	41.04	38.35	90.46	38.74	35.90
42	105.36	32.04	21.88	99.67	28.74	20.48
43	110.59	42.45	36.73	104.62	40.07	34.38
44	137.86	28.52	69.79	130.42	25.58	65.32
45	119.79	44.15	71.30	113.32	39.60	66.74
46	104.59	24.48	44.96	98.94	23.11	44.20
47	138.95	27.91	52.68	131.45	26.35	51.78
48	90.41	49.89	34.44	85.53	47.10	32.24
49	117.64	29.81	34.15	111.29	29.54	31.96

(A) Base Class is Protection Class 5, Frame Construction.

**PENNSYLVANIA
HOMEOWNERS INSURANCE
TERRITORY PAGES**

1. **TERRITORY DEFINITIONS** - (For all Coverages and Perils Other Than Earthquake).

A. Cities

City of	County of	Code
Allentown	Lehigh	30
Bethlehem	Lehigh and Northampton	30
Erie	Erie	36
Philadelphia	Philadelphia	04
Pittsburgh	Allegheny	34

B. Other Than Cities

County of	Code
Adams	33
Allegheny	35
Armstrong	43
Beaver	40
Bedford	49
Berks	32
Blair	49
Bradford	43
Bucks	44
Butler	43
Cambria	43
Cameron	43
Carbon	49
Centre	49
Chester	46
Clarion	43
Clearfield	43
Clinton	49
Columbia	49
Crawford	43
Cumberland	33
Dauphin	33
Delaware	47
Elk	43
Erie	37
Fayette	43

County of	Code
Forest	43
Franklin	33
Fulton	49
Greene	43
Huntingdon	49
Indiana	43
Jefferson	43
Juniata	49
Lackawanna	38
Lancaster	32
Lawrence	43
Lebanon	33
Lehigh	31
Luzerne	39
Lycoming	48
McKean	43
Mercer	43
Mifflin	49
Monroe	49
Montgomery	45
Montour	49
Northampton	31
Northumberland	49
Perry	49
Philadelphia	04
Pike	49
Potter	43
Schuylkill	49
Snyder	49
Somerset	43
Sullivan	43
Susquehanna	43
Tioga	43
Union	49
Venango	43
Warren	43
Washington	41
Wayne	43
Westmoreland	42
Wyoming	43
York	33

SERFF Tracking #:

ISOF-129194632

State Tracking #:**Company Tracking #:**

HO-2013-RLA1

State:

Pennsylvania

Filing Company:

Insurance Services Office, Inc.

TOI/Sub-TOI:

04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations

Product Name:

HO-2013-RLA1

Project Name/Number:

Homeowners Advisory Prospective Loss Costs Revision/HO-2013-RLA1

Supporting Document Schedules

Bypassed - Item:	Authorization to File (PC)
Bypass Reason:	N/A
Attachment(s):	
Item Status:	
Status Date:	

Satisfied - Item:	Actuarial Explanatory Memorandum & Supporting Exhibits (PC)
Comments:	
Attachment(s):	HO-2013-RLA1 - PA - Sect E - Loss Costs and Rating Information.pdf HO-2013-RLA1 - PA - Executive Summary.pdf HO-2013-RLA1 - PA - Table of Contents.pdf HO-2013-RLA1 - PA - Sect B - Calculation of Changes.pdf HO-2013-RLA1 - PA - Sect C - Supporting Material.pdf HO-2013-RLA1 - PA - Sect D - Air Hurricane Computer Model.pdf
Item Status:	
Status Date:	

Satisfied - Item:	Cover Letter
Comments:	
Attachment(s):	HO-2013-RLA1 - PA - Cover Letter.pdf
Item Status:	
Status Date:	

PENNSYLVANIA
HOMEOWNERS INSURANCE

SECTION E – LOSS COSTS AND RATING INFORMATION

Loss Costs and Relativities	E-2
Sample Calculation of the Filed Base Class Loss Cost	E-3-5
Owners	E-3
Tenants	E-4
Condominium Unit Owners	E-5
Current Relativities	E-6-10

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COSTS AND RELATIVITIES

Sample Loss Costs (Pages E-3-5)

Sample calculations of the Base Class Loss Costs for Owners, Tenants, and Condominium Unit Owners for one territory are displayed on Pages E-3-5. The Base Premium Computation section of the ISO manual provides instructions and factors to calculate Key Loss Costs.

RELATIVITIES (Pages E-6-10)

The current relativities included in this section of the Loss Cost Reference Filing are presented ONLY for information.

PENNSYLVANIA
HOMEOWNERS INSURANCE – OWNERS

SAMPLE CALCULATION OF THE FILED BASE CLASS (\$60,000) LOSS COST

<u>Territory</u>	<u>Current Base Class \$60,000 Loss Cost, Form 3, Class 5 Frame</u>		<u>Filed Loss Cost Level Adjustment Factor</u>		<u>Filed Base Class \$60,000 Loss Cost, Form 3, Class 5 Frame</u>
30	\$121.09	×	0.946	=	\$114.55

PENNSYLVANIA
HOMEOWNERS INSURANCE – TENANTS

SAMPLE CALCULATION OF THE FILED BASE CLASS (\$20,000) LOSS COST

<u>Territory</u>	<u>Current Base Class \$20,000 Loss Cost, Class 5 Frame</u>		<u>Filed Loss Cost Level Adjustment Factor</u>		<u>Filed Base Class \$20,000 Loss Cost, Class 5 Frame</u>
30	\$35.64	×	1.133	=	\$40.38

PENNSYLVANIA
HOMEOWNERS INSURANCE – CONDOMINIUM UNIT OWNERS

SAMPLE CALCULATION OF THE FILED BASE CLASS (\$20,000) LOSS COST

<u>Territory</u>	<u>Current Base Class \$20,000 Loss Cost, Class 5 Frame</u>		<u>Filed Loss Cost Level Adjustment Factor</u>		<u>Filed Base Class \$20,000 Loss Cost, Class 5 Frame</u>
30	\$35.65	×	1.030	=	\$36.72

PENNSYLVANIA
HOMEOWNERS INSURANCE

CURRENT RELATIVITIES

86-G2 Curve

1. Policy Size Relativities, Owners (Key Factors)

<u>Amount of Insurance</u>	<u>Relativity</u>	<u>Amount of Insurance</u>	<u>Relativity</u>	<u>Amount of Insurance</u>	<u>Relativity</u>
\$10,000	0.876	\$ 68,000	1.064	\$165,000	2.946
12,000	0.877	70,000	1.083	170,000	3.031
14,000	0.878	72,000	1.103	175,000	3.096
16,000	0.879	74,000	1.124	180,000	3.161
18,000	0.890	76,000	1.146	185,000	3.211
20,000	0.891	78,000	1.169	190,000	3.261
22,000	0.892	80,000	1.194	195,000	3.311
24,000	0.893	82,000	1.219	200,000	3.361
26,000	0.894	84,000	1.246	205,000	3.411
28,000	0.895	86,000	1.274	210,000	3.461
30,000	0.896	88,000	1.304	215,000	3.511
32,000	0.898	90,000	1.334	220,000	3.561
34,000	0.900	92,000	1.366	225,000	3.606
36,000	0.903	94,000	1.399	230,000	3.651
38,000	0.907	96,000	1.432	235,000	3.691
40,000	0.911	98,000	1.468	240,000	3.731
42,000	0.916	100,000	1.504	245,000	3.766
44,000	0.922	105,000	1.599	250,000	3.801
46,000	0.928	110,000	1.701	255,000	3.836
48,000	0.936	115,000	1.809	260,000	3.871
50,000	0.944	120,000	1.923	265,000	3.901
52,000	0.953	125,000	2.041	270,000	3.931
54,000	0.963	130,000	2.162	275,000	3.961
56,000	0.975	135,000	2.286	280,000	3.991
58,000	0.987	140,000	2.411	285,000	4.016
60,000	1.000	145,000	2.531	290,000	4.041
62,000	1.014	150,000	2.651	295,000	4.066
64,000	1.030	155,000	2.756	300,000	4.091
66,000	1.046	160,000	2.861		
				Each Additional 1,000	0.005

INSURANCE SERVICES OFFICE, INC.

PENNSYLVANIA
HOMEOWNERS INSURANCE

CURRENT RELATIVITIES

90-F4 Curve

2. Policy Size Relativities, Tenants (Key Factors)

<u>Amount of Insurance</u>	<u>Relativity</u>	<u>Amount of Insurance</u>	<u>Relativity</u>	<u>Amount of Insurance</u>	<u>Relativity</u>
\$ 6,000	0.356	\$34,000	1.532	\$62,000	2.526
7,000	0.402	35,000	1.570	63,000	2.554
8,000	0.448	36,000	1.608	64,000	2.582
9,000	0.494	37,000	1.646	65,000	2.610
10,000	0.540	38,000	1.684	66,000	2.638
11,000	0.584	39,000	1.722	67,000	2.666
12,000	0.628	40,000	1.760	68,000	2.694
13,000	0.672	41,000	1.798	69,000	2.722
14,000	0.716	42,000	1.836	70,000	2.750
15,000	0.760	43,000	1.874	71,000	2.778
16,000	0.808	44,000	1.912	72,000	2.806
17,000	0.856	45,000	1.950	73,000	2.834
18,000	0.904	46,000	1.988	74,000	2.862
19,000	0.952	47,000	2.026	75,000	2.890
20,000	1.000	48,000	2.064	76,000	2.918
21,000	1.038	49,000	2.102	77,000	2.946
22,000	1.076	50,000	2.140	78,000	2.974
23,000	1.114	51,000	2.178	79,000	3.002
24,000	1.152	52,000	2.216	80,000	3.030
25,000	1.190	53,000	2.254	81,000	3.058
26,000	1.228	54,000	2.292	82,000	3.086
27,000	1.266	55,000	2.330	83,000	3.114
28,000	1.304	56,000	2.358	84,000	3.142
29,000	1.342	57,000	2.386	85,000	3.170
30,000	1.380	58,000	2.414	86,000	3.198
31,000	1.418	59,000	2.442	87,000	3.226
32,000	1.456	60,000	2.470	88,000	3.254
33,000	1.494	61,000	2.498	89,000	3.282
				Each Additional 1,000	0.028

INSURANCE SERVICES OFFICE, INC.

PENNSYLVANIA
HOMEOWNERS INSURANCE

CURRENT RELATIVITIES

90-F6 Curve

3. Policy Size Relativities, Condominium Unit Owners (Key Factors)

<u>Amount of Insurance</u>	<u>Relativity</u>	<u>Amount of Insurance</u>	<u>Relativity</u>	<u>Amount of Insurance</u>	<u>Relativity</u>	
\$ 1,000	0.332	\$31,000	1.374	\$61,000	2.346	
2,000	0.364	32,000	1.408	62,000	2.372	
3,000	0.396	33,000	1.442	63,000	2.398	
4,000	0.428	34,000	1.476	64,000	2.424	
5,000	0.460	35,000	1.510	65,000	2.450	
6,000	0.492	36,000	1.544	66,000	2.476	
7,000	0.524	37,000	1.578	67,000	2.502	
8,000	0.556	38,000	1.612	68,000	2.528	
9,000	0.588	39,000	1.646	69,000	2.554	
10,000	0.620	40,000	1.680	70,000	2.580	
11,000	0.662	41,000	1.714	71,000	2.606	
12,000	0.704	42,000	1.748	72,000	2.632	
13,000	0.746	43,000	1.782	73,000	2.658	
14,000	0.788	44,000	1.816	74,000	2.684	
15,000	0.830	45,000	1.850	75,000	2.710	
16,000	0.864	46,000	1.884	76,000	2.736	
17,000	0.898	47,000	1.918	77,000	2.762	
18,000	0.932	48,000	1.952	78,000	2.788	
19,000	0.966	49,000	1.986	79,000	2.814	
20,000	1.000	50,000	2.020	80,000	2.840	
21,000	1.034	51,000	2.054	81,000	2.866	
22,000	1.068	52,000	2.088	82,000	2.892	
23,000	1.102	53,000	2.122	83,000	2.918	
24,000	1.136	54,000	2.156	84,000	2.944	
25,000	1.170	55,000	2.190	85,000	2.970	
26,000	1.204	56,000	2.216	86,000	2.996	
27,000	1.238	57,000	2.242	87,000	3.022	
28,000	1.272	58,000	2.268	88,000	3.048	
29,000	1.306	59,000	2.294	89,000	3.074	
30,000	1.340	60,000	2.320			
<hr/>					Each Additional 1,000	0.026

PENNSYLVANIA
HOMEOWNERS INSURANCE

CURRENT RELATIVITIES

4. Form Relativities

<u>Form</u>	<u>Relativities</u>
2	0.75
3	1.00
5	1.25
8	1.25

5. Protection – Construction Relativities

Note that the following protection-construction relativities are applied to a homeowners loss cost that includes coverage for non-fire causes of loss such as water, theft, wind and liability that are not materially influenced by the fire protection grade. The protection-construction relativities would differ more by grade if they were being applied to a fire only loss cost.

<u>Construction</u>	<u>Protection Class</u>	<u>Owners</u>		
		44	<u>Territory</u> 04, 30-33, 36, 38, 39, 45, 46, 49	34, 35, 37, 40-43, 47, 48
Frame	1	0.96	0.94	0.92
	2	0.97	0.95	0.94
	3	0.98	0.97	0.96
	4	0.99	0.99	0.98
	5	1.00	1.00	1.00
	6	1.03	1.04	1.05
	7	1.07	1.10	1.13
	8	1.08	1.11	1.15
	8B	1.08	1.13	1.17
	9	1.09	1.13	1.18
Masonry	10	1.20	1.30	1.40
	1	0.82	0.80	0.78
	2	0.83	0.82	0.80
	3	0.83	0.83	0.81
	4	0.84	0.84	0.83
	5	0.85	0.85	0.85
	6	0.87	0.88	0.89
	7	0.89	0.91	0.92
	8	0.90	0.92	0.94
	8B	0.90	0.93	0.95
9	0.90	0.93	0.95	
10	0.99	1.06	1.12	

PENNSYLVANIA
HOMEOWNERS INSURANCE

CURRENT RELATIVITIES

5. Protection – Construction Relativities - Continued

<u>Construction</u>	<u>Protection Class</u>	<u>Tenants</u>	<u>Condominium Unit Owners</u>
Frame	1	0.92	0.95
	2	0.95	0.97
	3	0.98	0.98
	4	0.99	0.99
	5	1.00	1.00
	6	1.09	1.03
	7	1.32	1.07
	8	1.33	1.08
	8B	1.34	1.08
	9	1.34	1.08
	10	1.59	1.17
Masonry	1	0.78	0.85
	2	0.81	0.86
	3	0.83	0.87
	4	0.84	0.87
	5	0.84	0.88
	6	0.91	0.91
	7	1.00	0.92
	8	1.01	0.93
	8B	1.01	0.93
	9	1.02	0.93
	10	1.18	0.99

6. Three and Four Family Relativity

One and two families	1.00
Three and four families	1.30

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

PURPOSE

This document:

- revises advisory prospective base class loss costs. These revised loss costs represent a -5.3% statewide change from the current loss costs.
- provides the analyses used to derive these advisory loss costs.

DEFINITION
OF THE ISO
ADVISORY
PROSPECTIVE
LOSS COST

Advisory prospective loss costs in this document are that portion of a rate that does not include provisions for expenses (other than loss adjustment expenses) or profit, and are based on historical aggregate losses and loss adjustment expenses adjusted through development to their ultimate value as well as a model-generated hurricane loss provision, both projected through trending to a future point in time.

LOSS COST
LEVEL
CHANGES

The indicated and filed statewide advisory loss cost level changes are:

<u>Form</u>	<u>Indicated</u>	<u>Filed</u>
Owners	-5.3%	-5.3%
Tenants	-5.3%	-5.3%
Condominium Unit Owners	-5.8%	-5.8%
All Forms	-5.3%	-5.3%

Indicated and filed loss cost level changes are changes from the current loss costs.

Note that throughout this document, Policy Forms HO-2, 3, 5, and 8 are referred to as Owners, Policy Form HO-4 is referred to as Tenants, and Policy Form HO-6 is referred to as Condominium Unit Owners.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

INDICATED VS.
FILED
CHANGE

For Owners, Tenants, and Condominium Unit Owners, the filed changes equal the indicated changes.

CATASTROPHE
PROCEDURE

In order to improve the accuracy and reliability of our indicated prospective loss costs, we have developed and enhanced specialized catastrophe procedures in the calculation of property loss costs in hurricane-prone states. Our specialized procedures incorporate a state-of-the art tropical cyclone (hurricane) computer model, as developed by AIR Worldwide Corporation (AIR). AIR, a pioneer in the application of sophisticated computer modeling to the hurricane peril as well as other catastrophes, is a wholly owned subsidiary of Insurance Services Office, Inc. This computer model can estimate hurricane losses more accurately and with greater geographic specificity than traditional experience-based techniques. It uses the meteorological database of approximately 100 years of hurricanes, a sophisticated wind field model, and engineering and insurance-based damage relationships to develop reliable estimates of expected hurricane losses.

See Section D for more information on the AIR model and ISO's Homeowners hurricane ratemaking procedures.

Historical loss experience (1960 to present), excluding hurricane losses accounted for by the model, continues to be used in ISO's traditional excess procedure to reflect other wind-and-water-related hazards.

UPDATED
HURRICANE
MODEL

The indications developed in this document are based on the AIR Atlantic Tropical Cyclone Model - Version 14.0.1 as implemented in CLASIC/2 v15. This latest version of the model incorporates historical hurricane activity through 2010 for modeling the frequency of events. Further details on changes to the AIR model are discussed in Section D of this filing.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

PRIOR ISO
REVISIONS

The last revisions in this state were:

<u>Reference Document or Filing Designation</u>	HO-2012-RLA1	HO-2011-RLA1	HO-2010-RLA1
<u>Rate Level/Loss Costs</u>	Loss Costs	Loss Costs	Loss Costs
<u>Dates</u>			
Filed	09/19/2012	08/26/2011	08/20/2010
Implemented	04/01/2013	05/01/2012	03/01/2011
<u>Changes</u>			
Indicated	+ 8.5%	+ 5.1%	+ 6.4%
Filed	+ 8.5%	+ 5.1%	+ 6.4%
Implemented	+ 8.5%	+ 5.1%	+ 6.4%

SOURCE DATA

The data used in this revision is:

- ISO reporting companies voluntary market experience.
- 5 Accident years ended 09/30/2012 for all Homeowners Forms.
- Modeled hurricane loss costs generated by a computer simulation that utilizes a meteorological database of approximately 100 years of hurricanes.

TERRITORIAL
DISTRIBUTION

ISO has distributed the statewide changes by territory according to each territory's own experience. Modeled hurricane base class loss costs are included in the territory's total base class loss cost. The average change varies by territory ranging from -14.9% to -0.7% in Owners, -10.3% to +13.3% for Tenants, and -15.7% to +3.0% for Condominium Unit Owners.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

TREND AND
OTHER
ADJUSTMENTS

Loss Trend:

The loss costs that we are developing in this document will be used in a future period. In order for the historical experience to be an accurate representation of this future period, the application of "trend factors" is required.

A loss trend factor is a measure of the anticipated change in claim cost that is expected to occur between the historical time period represented in the actual loss experience and the time period during which future losses will be paid. In this document, loss trend factors based on the changes observed in countrywide external indices through the first quarter of 2013 have been used.

An adjustment ("trend from first dollar") is included to account for the fact that the countrywide consumer indices reflect no deductible and are on a "first dollar" basis, whereas ISO's loss experience is on a base deductible basis. In this state, the base deductible is \$500.

The following are the annual trend factors for the forms listed for the incurred non-modeled losses and the modeled hurricane base class loss cost:

<u>Form</u>	<u>Annual Loss Trend Factor</u>
Owners	+2.4%
Tenants	+1.1%
Condominium Unit Owners	+1.1%

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

Premium Trend:

The amount of insurance purchased by insureds affects the cost of Homeowners insurance. As inflation affects the price of homes, insureds tend to buy higher amounts of insurance. As a result, premium revenue increases.

In order to reflect the increase in revenue, ISO uses a premium trend procedure, the effect of which is to reduce the indicated loss costs. The premium trend factors are based on trends in the amounts of coverage selected by insureds. Note that an analysis of recently reported data for the owners' forms indicates that the rate of growth in average policy limits has decreased relative to the average growth rate for the five-year historical time period underlying our loss cost level analysis. While this decreased growth rate is partially reflected in the average policy limits underlying the latter part of the historical time period, the overall growth for the historical time period exceeds the more-recently observed growth rate. In order to reflect this slowdown in the rate of growth, our premium trend procedure incorporates a tempering factor of 0.70. The annual trends in amount of insurance are:

<u>Form</u>	<u>Annual Premium Trend Factor</u>
Owners	+1.9%
Tenants	+0.5%
Condominium Unit Owners	+0.8%

Other Adjustments:

Standard actuarial procedures have been used in calculating the loss costs including the adjustment of incurred non-modeled losses to ultimate settlement level and the reflection of all loss adjustment expenses for both modeled hurricane and incurred non-modeled losses.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

LARGEST
COMPANIES IN
ISO DATABASE

HOMEOWNERS (ASLOB 040)

1. Nationwide Mutual Insurance Company
2. Travelers Indemnity Company
3. United Services Automobile Association
4. Hartford Accident and Indemnity Company
5. Westfield Insurance Company
6. The Philadelphia Contributionship Insurance Company
7. Mutual Benefit Insurance Company
8. Amica Mutual Insurance Company
9. Motorists Mutual Insurance Company
10. Selective Insurance Company of America

Insurers are listed in descending order based on the percent of 09/30/2012 statewide premium volume as reported to ISO.

SIZE OF ISO
DATABASE

The market share of all insurers reporting to ISO in this state as measured by Annual Statement Page 15 written premium for the year ending 12/31/2011 is:

26.8%

COMPANY
DECISION

We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing the loss costs contained herein are appropriate for its use. We have included within this document the information upon which ISO relied in order to enable companies to make such independent judgments.

The historical data underlying the enclosed material comes from companies reporting to Insurance Services Office, Inc. (ISO). Therefore, the ISO experience permits the establishment of a much broader statistical ratemaking database than could be employed by using any individual company's data. A broader database enhances the validity of ratemaking analysis derived therefrom. At the same time, however, an individual company may benefit from a comparison of its own experience to the aggregate ISO experience, and may reach valid conclusions with respect to the manner in which its own loss costs can be expected to differ from ISO's projections based on the aggregate data.

Some calculations included in this document involve areas of ISO staff judgment. Each company should carefully review and evaluate its own experience in order to determine whether the ISO selected loss costs are appropriate for its use.

INSURANCE SERVICES OFFICE, INC.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

EXECUTIVE SUMMARY

COMPANY
DECISION
(Cont'd)

This material has been developed by ISO staff. ISO staff has relied on information, and unique knowledge and expertise, provided by AIR-Worldwide Corporation (a wholly-owned subsidiary of ISO, Inc.) for the derivation of the modeled hurricane loss costs used in this document.

COPYRIGHT
EXPLANATION

The material distributed by Insurance Services Office, Inc. is copyrighted. All rights reserved. Possession of these pages does not confer the right to print, reprint, publish, copy, sell, file or use same in any manner without the written permission of the copyright owner.

PENNSYLVANIA
HOMEOWNERS INSURANCE

TABLE OF CONTENTS

SECTION A – SCOPE OF REVISION

Statewide Loss Cost Level Changes	A-2
Loss Cost Level Changes by Territory	A-3
Present and Filed Base Class Loss Costs by Territory	A-4
Territory Definitions	A-5

SECTION B – CALCULATION OF CHANGES

Methodology Overview	B-2
Determination of Statewide Advisory Loss Cost Level Changes	B-3-11
Determination of Advisory Loss Cost Level Changes by Territory	B-12-21

SECTION C – SUPPORTING MATERIAL

Countrywide Loss Adjustment Expense Experience	C-2-3
Trend Procedure	C-4-16
Credibility Tables	C-17
Loss Development	C-18-21
Non-Modeled Excess Wind and Water Procedure	C-22-29

SECTION D – AIR HURRICANE COMPUTER MODEL

Hurricane Model Procedure	D-2
Description of AIR Hurricane Model	D-3-7
Hurricane Model Output	D-8-10

SECTION E – LOSS COSTS AND RATING INFORMATION

Loss Costs and Relativities	E-2
Sample Calculation of the Filed Base Class Loss Cost	E-3-5
Current Relativities	E-6-10

PENNSYLVANIA
HOMEOWNERS INSURANCE

SECTION B – CALCULATION OF CHANGES

Methodology Overview	B-2
Determination of Statewide Advisory Loss Cost Level Changes	B-3-11
Owners	B-4
Tenants	B-5
Condominium Unit Owners	B-6
Determination of Advisory Loss Cost Level Changes by Territory	B-12-21
Owners	B-13
Tenants	B-14
Condominium Unit Owners	B-15
Experience for Determination of Statewide Total Base Class Loss Cost	
Owners	B-16
Tenants	B-17
Condominium Unit Owners	B-18

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS COST LEVEL REVISION

METHODOLOGY OVERVIEW

INTRODUCTION

Homeowners advisory prospective loss costs are determined by evaluating the adequacy of the current loss costs to pay for losses and loss adjustment expenses that will be incurred in the prospective (or future) period. This evaluation is done separately for Owners, Tenants, and Condominium Unit Owners.

DETERMINATION
OF STATEWIDE
LOSS COST
INDICATION

The first step in this process is the determination of the statewide loss cost indication. In other words, what percentage changes on average must be made to the current loss costs in order to achieve adequacy for the prospective conditions? The percentage changes are presented on the exhibits labeled "Determination of Statewide Advisory Loss Cost Level Change".

DISTRIBUTION
TO TERRITORIES

ISO then distributes the statewide loss cost indication to the individual territorial loss costs by comparing the relative loss experience including modeled hurricane losses by territory to the statewide average. Actual hurricane losses accounted for by the model have been replaced with modeled hurricane losses.

APPLICATION OF
PERCENT CHANGES

The last step is the calculation of the ISO advisory prospective loss costs. This is achieved by applying the territory changes to the current loss costs.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES

OBJECTIVE	The objective of this procedure is to determine the indicated statewide advisory loss cost level change. This procedure answers the question: what percentage change must be made, on average, to the current loss costs in order for them to be adequate to cover indemnity losses and all loss adjustment expenses incurred during the prospective period in which the revised loss costs are assumed to be in effect?
DESCRIPTION	This procedure compares the developed and trended base class loss cost including a trended modeled hurricane base class loss cost with the current statewide average base class loss cost. Developed and trended non-modeled base class loss costs (hurricane losses accounted for by the model have been removed) are calculated for five years and a weighted average is determined. The five year weights vary from year to year, giving greater weight to the more recent experience. The weighted non-modeled base class loss cost is then credibility weighted with the expected base class loss cost. This credibility weighted base class loss cost is added to a trended modeled hurricane base class loss cost and then divided by the current statewide average base class loss cost to determine the indicated loss cost level change.
EXPERIENCE	The historical experience used in this review is the latest available data as reported under the ISO Personal Lines Statistical Plan - Other Than Automobile (PLSP-OTA). The data is aggregated on an accident year basis. Hurricane losses accounted for by the model have been removed from this experience.
MODELED HURRICANE BASE CLASS LOSS COSTS	A computerized model has been employed to generate hurricane base class loss costs used in this review. The model, developed by AIR-Worldwide Corporation, provides mean damage ratios, which when combined with the current amount of insurance, calculate the expected hurricane losses. These modeled hurricane losses are divided by earned house years to produce loss costs by territory which are then combined with the non-modeled experience loss costs to determine the total indicated loss costs. For further discussion of the catastrophe ratemaking procedure, please see Section D.

PENNSYLVANIA

HOMEOWNERS INSURANCE - OWNERS

CALCULATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGE

<u>Accident Year Ended</u>	(1) Developed Incurred Non-Modeled Losses on a Common <u>Deductible Level</u>	(2) Trended Incurred Non-Modeled Losses and LAE <u>Adjusted for Excess</u>	(3) Classification and Coverage <u>Factor</u>
09/30/2008	262,580,828	366,071,723	3.908
09/30/2009	329,450,403	421,302,982	4.069
09/30/2010	458,873,162	402,208,908	4.218
09/30/2011	503,862,878	461,326,810	4.267
09/30/2012	309,724,288	379,049,709	4.378

	(4) Trended Classification and Coverage <u>Factor</u>	(5) Earned House <u>Years</u>	(6) Trended Non-Modeled Base Class <u>Loss Cost</u>	(7) <u>Weights</u>
09/30/2008	4.468	803,339	101.99	0.10
09/30/2009	4.531	815,358	114.04	0.15
09/30/2010	4.571	821,679	107.09	0.20
09/30/2011	4.567	818,007	123.49	0.25
09/30/2012	4.626	816,806	100.32	0.30

(8)	Weighted Non-Modeled Base Class Loss Cost	=	109.69
(9)	Credibility (4,075,189 House Years)	=	1.00
(10)	Expected Non-Modeled Base Class Loss Cost	=	111.17
(11)	Credibility-Weighted Non-Modeled Base Class Loss Cost	=	109.69
(12)	Modeled Base Class Loss Cost	=	3.08
(13)	Total Base Class Loss Cost (11) + (12)	=	112.77
(14)	Current Base Class Loss Cost	=	119.13
(15)	Indicated Loss Cost Level Change (13) / (14)	=	0.947
(16)	Filed Loss Cost Level Change	=	0.947
			(or -5.3%)

*Actual hurricane losses of \$5,006,732 in the year ending 9/30/2008 and \$54,888,209 in the year ending 9/30/2011 have been excluded.

PENNSYLVANIA

HOMEOWNERS INSURANCE - TENANTS

CALCULATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGE

<u>Accident Year Ended</u>	(1) Developed Incurred Non-Modeled Losses on a Common <u>Deductible Level</u>	(2) Trended Incurred Non-Modeled <u>Losses and LAE</u>	(3) Classification and Coverage <u>Factor</u>
09/30/2008	5,510,521	6,593,986	1.832
09/30/2009	5,946,090	7,073,546	1.845
09/30/2010	5,808,416	6,930,110	1.847
09/30/2011	7,751,790	9,230,680	1.844
09/30/2012	6,879,183	8,071,132	1.837

	(4) Trended Classification and Coverage <u>Factor</u>	(5) Earned House Years <u>Years</u>	(6) Trended Non-Modeled Base Class <u>Loss Cost</u>	(7) <u>Weights</u>
09/30/2008	1.900	97,994	35.42	0.10
09/30/2009	1.895	107,177	34.83	0.15
09/30/2010	1.884	113,046	32.54	0.20
09/30/2011	1.872	118,007	41.78	0.25
09/30/2012	1.867	126,219	34.25	0.30

(8)	Weighted Non-Modeled Base Class Loss Cost	=	35.99
(9)	Credibility (562,443 House Years)	=	1.00
(10)	Expected Non-Modeled Base Class Loss Cost	=	36.85
(11)	Credibility-Weighted Non-Modeled Base Class Loss Cost	=	35.99
(12)	Modeled Base Class Loss Cost	=	0.40
(13)	Total Base Class Loss Cost (11) + (12)	=	36.39
(14)	Current Base Class Loss Cost	=	38.44
(15)	Indicated Loss Cost Level Change (13) / (14)	=	0.947
(16)	Filed Loss Cost Level Change	=	0.947
			(or -5.3%)

*Actual hurricane losses of \$24,768 in the year ending 9/30/2008 and \$236,971 in the year ending 9/30/2011 have been excluded.

PENNSYLVANIA

HOMEOWNERS INSURANCE - CONDOMINIUM UNIT OWNERS

CALCULATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGE

<u>Accident Year Ended</u>	(1) Developed Incurred Non-Modeled Losses on a Common <u>Deductible Level</u>	(2) Trended Incurred Non-Modeled <u>Losses and LAE</u>	(3) Classification and Coverage <u>Factor</u>
09/30/2008	5,136,547	6,146,483	3.271
09/30/2009	5,714,633	6,798,202	3.331
09/30/2010	6,230,131	7,433,265	3.322
09/30/2011	6,569,219	7,822,498	3.321
09/30/2012	5,584,457	6,552,070	3.334

	(4) Trended Classification and Coverage <u>Factor</u>	(5) Earned House Years <u>Years</u>	(6) Trended Non-Modeled Base Class <u>Loss Cost</u>	(7) <u>Weights</u>
09/30/2008	3.473	31,493	56.20	0.10
09/30/2009	3.472	32,789	59.72	0.15
09/30/2010	3.446	34,540	62.45	0.20
09/30/2011	3.429	35,189	64.83	0.25
09/30/2012	3.414	35,538	54.00	0.30

(8)	Weighted Non-Modeled Base Class Loss Cost	=	59.48
(9)	Credibility (169,549 House Years)	=	0.90
(10)	Expected Non-Modeled Base Class Loss Cost	=	62.94
(11)	Credibility-Weighted Non-Modeled Base Class Loss Cost	=	59.83
(12)	Modeled Base Class Loss Cost	=	0.98
(13)	Total Base Class Loss Cost (11) + (12)	=	60.81
(14)	Current Base Class Loss Cost	=	64.57
(15)	Indicated Loss Cost Level Change (13) / (14)	=	0.942
(16)	Filed Loss Cost Level Change	=	0.942
			(or -5.8%)

*Actual hurricane losses of \$13,898 in the year ending 9/30/2008 and \$525,916 in the year ending 9/30/2011 have been excluded.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES

COLUMN (1) DEVELOPED INCURRED NON-MODELED LOSSES ON A COMMON DEDUCTIBLE LEVEL

Reported incurred non-modeled losses are adjusted to a common \$500 Section I Deductible Level by Loss Elimination Ratios (LERs). (By the term "LER," applied to a loss occurring on a policy carrying a deductible of "\$D," we mean the ratio $K = (\text{Loss amount reflecting a deductible of } \$500) / (\text{Loss amount reflecting a deductible of } \$D)$. When D is greater than 500, K is greater than 1.00 and the "LER" is a measure of the additional loss amount that would be paid using the smaller \$500 deductible). Loss Elimination Ratios are applied in class detail for each deductible and form, based on the most recent ISO analysis of losses eliminated.

The incurred non-modeled losses shown reflect the LERs as well as loss development factors to bring the non-modeled losses to an "ultimate" settlement basis. The derivation of the loss development factors is found in Section C.

The incurred losses termed "non-modeled" have been adjusted to remove hurricane losses, which are accounted for by the hurricane model.

COLUMN (2) TRENDED INCURRED LOSSES AND LAE ADJUSTED FOR EXCESS (EXCESS APPLICABLE ONLY TO OWNERS)

The calculation for this column is:

(Column (1) - Adjusted Excess Losses) x Excess Factor x LAE x Current Cost Factor x Composite Loss Projection Factor

Since wind and water not accounted for by the model can cause large and unexpected losses, a "catastrophe" or an excess wind and water procedure is incorporated in the development of Owners loss costs. Excess losses, as calculated in Section C, are those losses which result from unusually severe wind and water activity. Hence, they are removed from the experience used in developing loss costs. The purpose of this procedure is to avoid shifts in loss costs (both upward and downward) which will result from reflecting large, unexpected losses only in the year in which they occur. In order to reflect the impact of excess wind and water losses on a long-term basis, the Column (1) losses excluding the Non-Modeled Excess Losses on a base Deductible Level are multiplied by the Excess Factor as derived in Section C.

Loss adjustment expenses are included by applying a factor of 1.140 to the incurred losses adjusted for excess. This factor is based on five years of countrywide experience as shown in Section C.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES

COLUMN (2)
(Cont'd)

Trending is included to recognize the anticipated cost levels for the period that the new loss costs are assumed to be in effect. The Current Cost Factors account for loss trend as measured by the external index from a given accident year to the point in time corresponding to the midpoint of the latest available quarter of the Current Cost Index. A detailed derivation of these factors is shown in Section C in the "Development of Current Cost Factors and Loss Projection Factor" exhibit. The Composite Loss Projection Factor is derived and explained in Section C in the "Development of Composite Factor & Trend From First Dollar" exhibit. This factor projects losses from the midpoint of the latest quarter of trend to one year beyond the effective date.

For Tenants and Condominium Unit Owners, the Column (2) losses are calculated in the same manner except that the losses in these forms are not subject to the excess loss procedure.

COLUMN (3)

CLASSIFICATION AND COVERAGE FACTOR

The Classification and Coverage Factor (average rating factor) for each year is calculated in the following way:

The Aggregate Loss Cost at Current Level (i.e. the total volume generated by extending each house year by class and coverage by the current ISO loss costs) is divided by the earned house years to produce an average loss cost at current level.

The average loss cost at current level is then divided by the current base class loss costs (for Owners: Form 3, Frame Protection Class 5, \$60,000 Coverage A; for Tenants: Frame Protection Class 5, \$20,000 Coverage C; for Condominium Unit Owners: Frame Protection Class 5, \$5,000 Coverage A, \$20,000 Coverage C). This ratio is the Classification and Coverage Factor.

COLUMN (4)

TRENDED CLASSIFICATION AND COVERAGE FACTOR

The calculation for this column is:

Statewide Trended Loss Costs at Current Level (LCCL) = Sum of Territory LCCL
x Statewide Current Amount Factor x Amount of Insurance Projection Factor

Trended C&Cs = Statewide Trended LCCL / (Sum of Territory House Years x
Territory Base Class Loss Cost)

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES

COLUMN (4)
(Cont'd)

The Classification and Coverage Factors have been trended (by virtue of using trended LCCL) to recognize the changes in revenue that accrue due to increases in amounts of insurance for the period that the new loss costs are assumed to be in effect. The Current Amount Factors measure the amount of insurance trend on the loss costs at current level from a given accident year to the point in time corresponding to the midpoint of the latest available quarter of the Current Cost Index. The Amount of Insurance Projection Factor reflects the full effect of amount of insurance trend since it projects loss costs at current level from the midpoint of the latest quarter of trend to six months beyond the effective date. The Amount of Insurance Projection Factor and Current Amount Factor are derived and explained in Section C on the "Development of Current Amount Factors and Amount of Insurance Projection Factor" exhibit.

COLUMN (6)

TRENDED BASE CLASS LOSS COST

The Trended Base Class Loss Cost = Column (2) / Column (4) / Column (5). Since the losses in Column (2) are generated by the experience of all classifications, it is necessary to transform them to a base class basis (see Column (3) explanation for definition of base class by form). This is accomplished by dividing them by the trended classification and coverage factors.

LINE (8)

WEIGHTED NON-MODELED BASE CLASS LOSS COST

The Weighted Non-Modeled Base Class Loss Costs (WLC) is derived by weighting the Trended Base Class Loss Costs in Column (6) on Column (7), which gives greater weight to the more recent experience. The Weighted Base Class Loss Cost, excluding credibility considerations, represents the amount expected to be needed to pay for losses and loss adjustment expense in the prospective period.

LINE (9)

CREDIBILITY

The standard for 100% credibility is a five-year total of 240,000 house years for Owners, 285,000 house years for Tenants, and 190,000 house years for Condominium Unit Owners. Partial credibility is determined by the "square root rule". (See Section C.) The selected minimum value for statewide credibility is 50%.

LINE (10)

EXPECTED NON-MODELED BASE CLASS LOSS COST

The Expected Non-Modeled Base Class Loss Cost (ELC) is the non-hurricane portion of the indicated Base Class Loss Cost from the prior loss cost level revision, trended from twelve months beyond the effective date of the current loss cost to twelve months beyond the effective date assumed in this document.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES

LINE (11) CREDIBILITY-WEIGHTED BASE CLASS LOSS COST

The Credibility-Weighted Base Class Loss Cost (CWLC) is a weighted average of the WLC and the ELC.

$$\text{CWLC} = (\text{Credibility}) \times \text{WLC} + (1 - \text{Credibility}) \times \text{ELC}.$$

LINE (12) MODELED HURRICANE BASE CLASS LOSS COST

The model-generated hurricane loss cost on a statewide basis is derived in Section D. The losses have already been adjusted to a base deductible. However, they exclude loss adjustment expenses and must be trended and adjusted to a base class basis. Similarly as shown in the “Determination of Statewide Advisory Loss Cost Level Change” exhibits, loss adjustment expenses are included by applying a factor of 1.140 to the modeled hurricane loss cost. To reflect anticipated cost levels and changes in revenue that accrue due to increases in amount of insurance for the period that the new loss costs are assumed to be in effect, a current cost/amount factor is employed as in the “Determination of Statewide Advisory Loss Cost Level Change” exhibits. This factor trends the modeled hurricane loss cost to the midpoint of the latest available quarter of the Current Cost Index. To project the modeled hurricane loss costs from the midpoint of the latest quarter of trend to one year beyond the effective date for losses, and 6 months beyond for Amounts of Insurance, a Composite Loss Projection Factor and Amount of Insurance Projection Factor are applied.

The modeled hurricane loss cost is an average loss cost for all classes and must be converted to a base class basis by dividing by the latest year Classification and Coverage factor. The result of this calculation is a projected modeled hurricane base class loss cost.

LINE (13) TOTAL INDICATED BASE CLASS LOSS COST

The Total Indicated Base Class Loss Cost is the sum of the Projected Non-Modeled Base Class Loss Cost and the Modeled Hurricane Base Class Loss Cost. It represents the amount expected to be needed to pay for losses and loss adjustment expenses in the prospective period.

LINE (14) CURRENT BASE CLASS LOSS COST

The Current Base Class Loss Cost is the weighted average of the current territory base class loss costs using latest year house years as weights.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF STATEWIDE ADVISORY LOSS COST LEVEL CHANGES

LINE (15) INDICATED LOSS COST LEVEL CHANGE

The total indicated base class loss cost shown is divided by the current base class loss cost to yield the indicated loss cost level change.

LINE (16) FILED LOSS COST LEVEL CHANGE

For all forms, the filed changes equal the indicated changes.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY

OBJECTIVE	The purpose of this procedure is to distribute the statewide advisory loss cost level change to each territory.
DESCRIPTION	This procedure compares individual territory combined non-modeled and model-generated experience to statewide combined non-modeled and model-generated experience. First, the five year experience non-modeled base class loss cost is calculated for each territory and statewide, and projected to the latest year loss cost level to be consistent with the modeled hurricane base class loss costs. The projected territory experience non-modeled base class loss cost is then credibility-weighted with the statewide (multiplied by the current non-modeled base class loss cost relativity) to produce a credibility-weighted experience non-modeled base class loss cost for each territory. This credibility-weighted experience non-modeled base class loss cost is then added to the modeled hurricane base class loss cost. This total base class loss cost is then divided by the statewide to produce a territory experience relativity. Next, this experience relativity for each territory is compared to the relativity to statewide of its current base class loss cost to produce indicated relative changes by territory.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY – OWNERS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Territory	Aggregate Loss Cost Volume at Current Level	Relativity to SW of Current Non-Modeled Base Class Loss Cost	Projected Experience Non-Modeled Base Class Loss Cost	Credibility	Credibility- Weighted Non-Modeled Base Class Loss Cost	Modeled Hurricane Base Class Loss Cost	Total Base Class Loss Cost (6) + (7)	Relativity of Territory (8) to SW (8)	Relativity to SW of Current Base Class Loss Cost	Indicated Relative Change (9) ÷ (10)	Filed Relative Loss Cost Change	Filed Base Class Loss Cost Change
04	45,908,457	1.870	186.12	1.00	186.12	5.00	191.12	1.975	1.889	1.046	1.000	-5.4%
30	4,674,616	1.028	94.61	0.80	95.09	2.98	98.07	1.013	1.016	0.997	1.000	-5.4%
31	13,896,292	0.878	83.11	1.00	83.11	3.23	86.34	0.892	0.881	1.012	1.000	-5.4%
32	21,287,899	0.688	60.31	1.00	60.31	2.14	62.45	0.645	0.703	0.917	0.950	-10.1%
33	40,889,281	0.830	85.33	1.00	85.33	1.49	86.82	0.897	0.827	1.085	1.050	-0.7%
34	10,561,163	0.956	98.63	1.00	98.63	1.12	99.75	1.031	0.945	1.091	1.050	-0.7%
35	22,777,582	0.847	80.15	1.00	80.15	1.09	81.24	0.840	0.822	1.022	1.000	-5.4%
36	2,093,817	0.893	79.38	0.60	81.33	0.87	82.20	0.849	0.860	0.987	1.000	-5.4%
37	3,125,782	1.089	78.29	0.60	88.08	0.72	88.80	0.918	1.062	0.864	0.900	-14.9%
38	9,305,720	1.001	83.68	1.00	83.68	1.49	85.17	0.880	0.982	0.896	0.950	-10.1%
39	10,805,305	0.973	87.11	1.00	87.11	1.31	88.42	0.914	0.954	0.958	1.000	-5.4%
40	4,090,484	0.889	83.29	0.80	83.41	0.82	84.23	0.870	0.864	1.007	1.000	-5.4%
41	5,974,676	0.874	71.28	1.00	71.28	1.25	72.53	0.750	0.845	0.888	0.950	-10.1%
42	11,899,720	0.915	86.41	1.00	86.41	1.06	87.47	0.904	0.884	1.023	1.000	-5.4%
43	46,453,303	0.937	90.74	1.00	90.74	0.85	91.59	0.946	0.928	1.019	1.000	-5.4%
44	37,941,242	1.140	108.86	1.00	108.86	6.66	115.52	1.194	1.157	1.032	1.000	-5.4%
45	38,471,360	1.004	89.36	1.00	89.36	4.87	94.23	0.974	1.006	0.968	1.000	-5.4%
46	23,959,426	0.864	76.40	1.00	76.40	3.85	80.25	0.829	0.878	0.944	1.000	-5.4%
47	21,005,601	1.160	106.53	1.00	106.53	4.68	111.21	1.149	1.166	0.985	1.000	-5.4%
48	2,377,024	0.754	78.86	0.60	75.77	0.81	76.58	0.791	0.759	1.042	1.000	-5.4%
49	48,459,786	0.971	89.33	1.00	89.33	1.29	90.62	0.936	0.988	0.947	1.000	-5.4%
Statewide	425,958,536		94.36				96.77			0.9998	1.0010	-5.3%

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY –TENANTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<u>Territory</u>	<u>Aggregate Loss Cost Volume at Current Level</u>	<u>Relativity to SW of Current Non-Modeled Base Class Loss Cost</u>	<u>Projected Experience Non-Modeled Base Class Loss Cost</u>	<u>Credibility</u>	<u>Credibility-Weighted Non-Modeled Base Class Loss Cost</u>	<u>Modeled Hurricane Base Class Loss Cost</u>	<u>Total Base Class Loss Cost (6) + (7)</u>	<u>Relativity of Territory (8) to SW (8)</u>	<u>Relativity to SW of Current Base Class Loss Cost</u>	<u>Indicated Relative Change (9) ÷ (10)</u>	<u>Filed Relative Loss Cost Change</u>	<u>Filed Base Class Loss Cost Change</u>
04	1,456,679	1.728	54.05	0.80	53.98	0.68	54.66	1.750	1.780	0.983	1.000	-5.6%
30	174,752	0.926	47.16	0.40	36.13	0.42	36.55	1.170	0.927	1.262	1.200	+13.3%
31	301,155	1.045	31.83	0.40	32.21	0.41	32.62	1.044	1.039	1.005	1.000	-5.6%
32	541,401	0.698	23.60	0.80	23.22	0.30	23.52	0.753	0.698	1.079	1.050	-0.9%
33	976,330	0.892	25.35	0.90	25.59	0.21	25.80	0.826	0.878	0.941	1.000	-5.6%
34	453,153	1.077	34.89	0.60	34.32	0.15	34.47	1.103	1.076	1.025	1.000	-5.6%
35	552,051	0.954	31.41	0.70	30.88	0.15	31.03	0.993	0.937	1.060	1.000	-5.6%
36	95,931	1.476	64.65	0.20	49.62	0.14	49.76	1.593	1.438	1.108	1.050	-0.9%
37	35,661	0.690	36.20	0.10	22.91	0.10	23.01	0.737	0.683	1.079	1.050	-0.9%
38	128,518	0.610	19.54	0.30	19.13	0.22	19.35	0.619	0.594	1.042	1.000	-5.6%
39	214,924	0.929	30.00	0.40	29.32	0.19	29.51	0.945	0.884	1.069	1.000	-5.6%
40	96,306	1.091	50.96	0.20	37.31	0.13	37.44	1.198	1.069	1.121	1.050	-0.9%
41	116,522	1.097	32.75	0.20	33.82	0.18	34.00	1.088	1.068	1.019	1.000	-5.6%
42	181,086	0.859	18.08	0.40	23.25	0.16	23.41	0.749	0.833	0.899	0.950	-10.3%
43	944,816	1.118	32.33	0.70	33.05	0.12	33.17	1.062	1.104	0.962	1.000	-5.6%
44	383,632	0.724	19.01	0.60	20.40	0.79	21.19	0.678	0.742	0.914	0.950	-10.3%
45	976,668	1.144	31.57	0.80	32.36	0.57	32.93	1.054	1.148	0.918	0.950	-10.3%
46	306,491	0.636	21.52	0.60	20.82	0.44	21.26	0.681	0.637	1.069	1.000	-5.6%
47	280,237	0.714	23.35	0.50	22.77	0.56	23.33	0.747	0.726	1.029	1.000	-5.6%
48	100,076	1.294	28.12	0.20	37.79	0.12	37.91	1.214	1.298	0.935	1.000	-5.6%
49	598,946	0.784	26.56	0.70	25.90	0.17	26.07	0.835	0.775	1.077	1.050	-0.9%
Statewide	8,915,335		31.07				31.24			1.0001	1.0029	-5.3%

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY – CONDOMINIUM UNIT OWNERS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Territory	Aggregate Loss Cost Volume at Current Level	Relativity to SW of Current Non-Modeled Base Class Loss Cost	Projected Experience Non-Modeled Base Class Loss Cost	Credibility	Credibility- Weighted Non-Modeled Base Class Loss Cost	Modeled Hurricane Base Class Loss Cost	Total Base Class Loss Cost (6) + (7)	Relativity of Territory (8) to SW (8)	Relativity to SW of Current Base Class Loss Cost	Indicated Relative Change (9) ÷ (10)	Filed Relative Loss Cost Change	Filed Base Class Loss Cost Change
04	2,483,453	2.068	95.39	0.70	98.74	1.13	99.87	1.913	2.052	0.932	1.000	-6.4%
30	37,407	0.549	61.12	0.10	31.57	0.83	32.40	0.621	0.552	1.125	1.100	+3.0%
31	134,914	0.377	21.28	0.30	19.98	0.84	20.82	0.399	0.385	1.036	1.000	-6.4%
32	151,016	0.435	19.15	0.30	21.43	0.60	22.03	0.422	0.442	0.955	1.000	-6.4%
33	440,576	0.557	26.49	0.50	27.59	0.41	28.00	0.536	0.556	0.964	1.000	-6.4%
34	284,219	0.779	43.27	0.40	41.39	0.26	41.65	0.798	0.775	1.030	1.000	-6.4%
35	314,930	0.575	27.18	0.40	28.65	0.28	28.93	0.554	0.571	0.970	1.000	-6.4%
36	31,083	0.763	70.21	0.10	42.40	0.29	42.69	0.818	0.750	1.091	1.050	-1.7%
37	21,521	0.752	9.44	0.00	38.74	0.25	38.99	0.747	0.740	1.009	1.000	-6.4%
38	24,289	0.894	11.68	0.00	46.06	0.41	46.47	0.890	0.934	0.953	1.000	-6.4%
39	39,973	0.764	6.23	0.10	36.05	0.40	36.45	0.698	0.812	0.860	0.900	-15.7%
40	43,530	0.555	22.70	0.10	28.00	0.25	28.25	0.541	0.553	0.978	1.000	-6.4%
41	56,870	0.598	40.29	0.10	31.76	0.35	32.11	0.615	0.594	1.035	1.000	-6.4%
42	40,022	0.340	21.30	0.20	18.27	0.30	18.57	0.356	0.339	1.050	1.000	-6.4%
43	160,459	0.557	36.28	0.30	30.97	0.25	31.22	0.598	0.569	1.051	1.000	-6.4%
44	906,604	1.073	59.08	0.50	57.18	1.51	58.69	1.124	1.081	1.040	1.000	-6.4%
45	1,385,488	1.102	60.71	0.70	59.53	1.04	60.57	1.160	1.104	1.051	1.000	-6.4%
46	563,126	0.692	41.06	0.50	38.36	0.89	39.25	0.752	0.696	1.080	1.050	-1.7%
47	365,029	0.811	49.84	0.40	45.01	1.02	46.03	0.882	0.816	1.081	1.050	-1.7%
48	2,583	0.501	11.97	0.00	25.81	0.27	26.08	0.500	0.533	0.938	1.000	-6.4%
49	162,679	0.509	26.60	0.30	26.34	0.32	26.66	0.511	0.529	0.966	1.000	-6.4%
Statewide	7,649,771		51.52				52.21			1.0001	1.0062	-5.8%

PENNSYLVANIA
HOMEOWNERS INSURANCE

EXPERIENCE FOR DETERMINATION OF STATEWIDE TOTAL
BASE CLASS LOSS COST – OWNERS

<u>Territory</u>	<u>Latest Year Earned House Years</u>	<u>Latest Year Classification and Coverage Factor</u>	<u>Total Base Class Loss Cost</u>
04	62,925	3.243	191.12
30	9,262	4.168	98.07
31	27,370	4.836	86.34
32	56,685	4.487	62.45
33	92,463	4.487	86.82
34	24,966	3.757	99.75
35	57,207	4.066	81.24
36	5,272	3.875	82.20
37	5,384	4.590	88.80
38	17,316	4.596	85.17
39	22,053	4.312	88.42
40	9,817	4.049	84.23
41	14,315	4.148	72.53
42	27,216	4.150	87.47
43	95,695	4.389	91.59
44	53,157	5.177	115.52
45	62,231	5.161	94.23
46	41,231	5.556	80.25
47	34,220	4.418	111.21
48	5,675	4.633	76.58
49	92,346	4.461	90.62
Statewide	816,806	4.378	

Statewide Total Base Class Loss Cost =

$$\frac{\sum_{i=04}^{49} [(Terr. Total Base Class Loss Cost)_i \times (Terr. Latest Yr. House Yrs.)_i \times (Terr. Latest Yr. C \& C Factor)_i]}{[(Statewide Latest Year House Years) \times (Statewide Latest Year Class \& Coverage Factor)]}$$

= \$96.77

PENNSYLVANIA
HOMEOWNERS INSURANCE

EXPERIENCE FOR DETERMINATION OF STATEWIDE TOTAL
BASE CLASS LOSS COST – TENANTS

<u>Territory</u>	<u>Latest Year Earned House Years</u>	<u>Latest Year Classification and Coverage Factor</u>	<u>Total Base Class Loss Cost</u>
04	13,973	1.523	54.66
30	3,079	1.592	36.55
31	3,939	1.913	32.62
32	10,321	1.956	23.52
33	15,281	1.893	25.80
34	7,600	1.441	34.47
35	8,411	1.822	31.03
36	1,056	1.643	49.76
37	682	1.990	23.01
38	2,631	2.139	19.35
39	3,014	2.099	29.51
40	1,278	1.834	37.44
41	1,444	1.966	34.00
42	3,000	1.884	23.41
43	10,599	2.100	33.17
44	6,675	2.015	21.19
45	11,400	1.940	32.93
46	6,055	2.068	21.26
47	5,315	1.889	23.33
48	989	2.028	37.91
49	9,477	2.120	26.07
Statewide	126,219	1.837	

Statewide Total Base Class Loss Cost =

$$\frac{\sum_{i=04}^{49} [(Terr. Total Base Class Loss Cost)_i \times (Terr. Latest Yr. House Yrs.)_i \times (Terr. Latest Yr. C \& C Factor)_i]}{[(Statewide Latest Year House Years) \times (Statewide Latest Year Class \& Coverage Factor)]}$$

= \$31.24

PENNSYLVANIA
HOMEOWNERS INSURANCE

EXPERIENCE FOR DETERMINATION OF STATEWIDE TOTAL
BASE CLASS LOSS COST – CONDOMINIUM UNIT OWNERS

<u>Territory</u>	<u>Latest Year Earned House Years</u>	<u>Latest Year Classification and Coverage Factor</u>	<u>Total Base Class Loss Cost</u>
04	6,614	2.834	99.87
30	277	3.788	32.40
31	1,265	4.290	20.82
32	1,364	3.883	22.03
33	3,348	3.669	28.00
34	1,773	3.202	41.65
35	2,495	3.424	28.93
36	156	4.112	42.69
37	118	3.818	38.99
38	95	4.238	46.47
39	151	5.049	36.45
40	321	3.795	28.25
41	384	3.862	32.11
42	466	3.925	18.57
43	1,156	3.779	31.22
44	3,653	3.556	58.69
45	5,337	3.641	60.57
46	3,229	3.879	39.25
47	2,005	3.456	46.03
48	18	4.167	26.08
49	1,313	3.628	26.66
Statewide	35,538	3.334	

Statewide Total Base Class Loss Cost =

$$\frac{\sum_{i=04}^{49} [(Terr. Total Base Class Loss Cost)_i \times (Terr. Latest Yr. House Yrs.)_i \times (Terr. Latest Yr. C \& C Factor)_i]}{[(Statewide Latest Year House Years) \times (Statewide Latest Year Class \& Coverage Factor)]}$$

= \$52.21

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY

COLUMN (3) RELATIVITY TO STATEWIDE OF CURRENT NON-MODELED BASE CLASS LOSS COST

The Relativity to Statewide of Current Non-Modeled Base Class Loss Cost is the Credibility-Weighted Non-Modeled Base Class Loss Costs that underlie the current base class loss costs divided by the statewide average of these loss costs. [The statewide average is calculated by weighting the territory loss costs on the latest year house years.] This ratio has been adjusted to account for approved loss cost level changes that differ from the indicated loss cost level changes. Only differences not related to the model are considered.

COLUMN (4) PROJECTED EXPERIENCE NON-MODELED BASE CLASS LOSS COST

The Projected Experience Non-Modeled Base Class Loss Cost by territory is derived by dividing each of the five year's projected incurred losses (adjusted by the territory wind and water provision procedure for Owners, as shown in Section C, and with hurricane losses accounted for by the model removed) by each year's Classification and Coverage Factor. These losses are then summed over the five year period and divided by the five year house years.

To generate a total base class loss cost by territory, the experience base class non-modeled loss cost must be summed with the modeled hurricane base class loss cost. As the modeled loss cost is on a 2012 cost level, the 5 years of incurred losses used to generate the experience base class non-modeled loss costs must be projected to this same level. This is accomplished by employing current cost and amount factors adjusted to a 2012 base.

COLUMN (5) CREDIBILITY

The standard for 100% credibility is a five-year total of 60,000 house years for Owners, 75,000 house years for Tenants, and 50,000 house years for Condominium Unit Owners. Partial credibility is determined by the "square root rule". See Credibility Tables in Section C.

COLUMN (6) CREDIBILITY-WEIGHTED PROJECTED NON-MODELED BASE CLASS LOSS COST

The Credibility-Weighted Projected Non-Modeled Base Class Loss Cost is a weighted average of the projected territory non-modeled base class loss cost and the projected statewide non-modeled base class loss cost. For territory i , the credibility-weighted projected non-modeled base class loss cost equals $(\text{Credibility})_i \times (\text{projected territory experience non-modeled base class loss cost})_i + (1 - \text{Credibility})_i \times (\text{projected statewide experience non-modeled base class loss cost}) \times (\text{relativity to statewide of current non-modeled territory base class loss cost})$.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY

COLUMN (7)	<p><u>MODELED HURRICANE BASE CLASS LOSS COST</u></p> <p>The modeled hurricane loss costs by territory are derived in Section D. This loss cost is an average loss cost for all classes and must be transformed to a base class basis by dividing by the territory's latest year classification and coverage factor. This modeled hurricane base class loss cost is assumed to be fully credible.</p>
COLUMN (8)	<p><u>TOTAL BASE CLASS LOSS COST</u></p> <p>The total base class loss cost is the sum of the credibility-weighted projected non-modeled base class loss cost and the modeled hurricane base class loss cost. The statewide total base class loss cost is determined by form in the exhibits "Experience for Determination of Statewide Total Base Class Loss Cost".</p>
COLUMN (10)	<p><u>RELATIVITY TO STATEWIDE OF CURRENT BASE CLASS LOSS COST</u></p> <p>The Relativity to Statewide of Current Base Class Loss Cost is the current ISO territory base class loss cost divided by the current average statewide base class loss cost, as shown in the "Determination of Statewide Advisory Loss Cost Level Changes" exhibits (Line 14). The average statewide base class loss cost is the average of the current territory base class loss costs using latest year house years as weights.</p>
COLUMN (11)	<p><u>INDICATED RELATIVE CHANGE</u></p> <p>The indicated change by territory is derived by comparing the total base class loss cost relativity (Column (9)) to the current relativity (Column (10)).</p>
COLUMN (12)	<p><u>FILED RELATIVE CHANGE</u></p> <p>The filed relative change is based on the indicated relative change in Column (11) and has the effect of imposing an additional measure of credibility.</p>
COLUMN (13)	<p><u>FILED BASE CLASS LOSS COST CHANGE</u></p> <p><u>The territory filed loss cost level change is the ratio of the filed territory relative change to the statewide average filed relative change, multiplied by the filed statewide loss cost level change.</u></p> <p><u>Territory Column (12)</u> x Statewide loss cost level change <u>Statewide Column (12)</u></p>

PENNSYLVANIA
HOMEOWNERS INSURANCE

DETERMINATION OF ADVISORY LOSS COST LEVEL CHANGES BY TERRITORY

In order to combine the experience base class non-modeled loss cost with the modeled hurricane base class loss cost, the non-modeled loss cost must be placed on the same cost level as the modeled loss cost. Therefore, the non-modeled experience loss cost must be projected to the latest year, the level of the modeled hurricane base class loss cost. This is accomplished by developing Current Cost/Amount Factors, similar to those shown for statewide, except they are relative to the latest year of the experience period, 9/30/2012. Once the territory Current Cost/Amount Factors are generated, they may be applied to each of the five years of non-modeled hurricane losses and adjusted to a base level by dividing out Classification and Coverage Factors. These losses are then summed over the five year period and divided by the five year house years to produce the Projected Experience Base Class Non-Modeled loss cost. This calculation is illustrated below using hypothetical values for Owners.

I. DEVELOPMENT OF HYPOTHETICAL CURRENT COST/AMOUNT FACTORS FOR PROJECTING TERRITORY EXPERIENCE BASE CLASS LOSS COST:

(1) Year Ended	(2) Average Relativity	(3) Relativity to Latest Year <u>1.687/(2)</u>	(4) Current Amount Factor <u>((3) - 1.0) x .70) + 1</u>	(5) Current Cost Index	(6) Current Cost Factors to Latest Year <u>392.5/(5)</u>	(7) Territory Current Cost/ Amount Factor <u>(6)/(4)</u>
9/30/2008	1.281	1.317	1.222	339.6	1.156	.946
9/30/2009	1.375	1.227	1.159	352.8	1.113	.960
9/30/2010	1.455	1.159	1.111	366.3	1.072	.965
9/30/2011	1.574	1.072	1.050	379.2	1.035	.986
9/30/2012	1.687	1.000	1.000	392.5	1.000	1.000

II. CALCULATION OF HYPOTHETICAL PROJECTED EXPERIENCE NON-MODELED BASE CLASS LOSS COST:

Terr	Year	(1) Non-Modeled Losses	(2) Classification and Coverage Factor	(3) Current Cost/ Amount Factor	(4) Projected Base Losses <u>((1)/(2)) x (3)</u>	Terr X Projected Experience Non-Modeled Base Class Loss Cost
X	9/30/2008	\$10,000	1.417	.946	\$ 6,676	
	9/30/2009	20,000	1.457	.960	13,178	
	9/30/2010	30,000	1.517	.965	19,084	
	9/30/2011	40,000	1.577	.986	25,010	
	9/30/2012	50,000	1.636	1.000	<u>30,562</u>	
					\$ 94,510	
					÷ 5,000	= \$18.90

PENNSYLVANIA
HOMEOWNERS INSURANCE

SECTION C – SUPPORTING MATERIAL

Countrywide Loss Adjustment Expense Experience	C-2-3
Trend Procedure	C-4-16
Development of Current Cost Factors (CCF) and Loss Projection Factor	
Owners	C-7
Tenants and Condominium Unit Owners	C-8
Development of Composite Loss Projection Factor and Trend From First Dollar	
Owners	C-9
Tenants	C-10
Condominium Unit Owners	C-11
Development of Current Amount Factors and Amount of Insurance Projection Factor (All Forms)	C-12
Credibility Tables	C-17
Loss Development	C-18-21
Non-Modeled Excess Wind and Water Procedure	C-22-29
Derivation of Non-Modeled Excess Water Losses	C-24-25
Derivation of Non-Modeled Excess Wind and Water Factor	C-26-27
Development of Non-Modeled Excess Losses on a Base Deductible Level	C-28
Methodology for Calculating Non-Modeled Wind and Excess Water Provisions by Territory	C-29

PENNSYLVANIA
HOMEOWNERS INSURANCE

COUNTRYWIDE LOSS ADJUSTMENT EXPENSE EXPERIENCE

OBJECTIVE	The reported indemnity losses and modeled hurricane base class loss costs must be loaded for both allocated and unallocated loss adjustment expenses (LAE).
DESCRIPTION	A factor representing the ratio of the sum of the incurred indemnity losses plus all LAE to the sum of the incurred indemnity losses was selected based on countrywide financial data excluding major non-ISO reporting companies shown on the following page.

PENNSYLVANIA
HOMEOWNERS INSURANCE

COUNTRYWIDE LOSS ADJUSTMENT EXPENSE EXPERIENCE Ø

	(1) 2007	(2) 2008	(3) 2009	(4) 2010	(5) 2011	(6) 2007-2011 MEAN
(1) Direct Losses Incurred	\$14,303,985	\$19,779,123	\$17,167,766	\$19,297,090	\$26,573,235	
(2) Direct Loss Adjustment Expenses Incurred	\$2,141,030	\$2,636,660	\$2,526,619	\$2,746,933	\$3,304,713	
(3) Loss Adjustment Expenses Incurred as ratio to Losses Incurred [(2)/(1)]	15.0%	13.3%	14.7%	14.2%	12.4%	13.9%
(4) Selected Loss Adjustment Expense Ratio						14.0%

Note: All dollar amounts displayed in thousands.

Ø Items (1) and (2) are from the Insurance Expense Exhibits for Agency and Direct Writers Combined excluding major non-ISO reporting companies.

PENNSYLVANIA
HOMEOWNERS INSURANCE
TREND PROCEDURE OVERVIEW

INTRODUCTION

The prospective loss cost level established in this document reflects the anticipated cost level and changes in revenue due to increases in amounts of insurance for the period that the new loss costs are assumed to be in effect.

In reviewing experience, aggregate loss costs have been placed on current loss cost levels and historical losses and modeled hurricane losses have been put on a common deductible level. The exhibits on the following pages present the trending procedure used in this document to reflect the effects of inflation on non-modeled losses, aggregate loss costs, and the modeled hurricane base class loss costs.

AMOUNT OF
INSURANCE
TRENDING

The formula used to develop aggregate loss costs (and the Class and Coverage factors derived from them) and the modeled hurricane base class loss costs incorporates a method which reflects changes in the amounts of insurance selected by insureds. This is needed since the policies written during the experience period, if written today, would be written at higher amounts of insurance in order to maintain an appropriate average amount of insurance coverage level.

The trend is applied in two steps. First, current amount factors trend amounts of insurance from the experience period to the midpoint of the latest quarter of external loss trend data. Then, amounts of insurance are projected from the midpoint of latest quarter of external loss trend data to the average date of writing, six months beyond the anticipated effective date of this document, by a Projection Factor based on the average annual rate of change in average amount of insurance relativity.

LOSS TRENDING

We measure the impact of inflation using external economic index data.

External Loss Data

In order to measure the effect of inflation on losses, an external index, the Current Cost Index (CCI), is used. ISO determines external loss trend for the Owners forms based on a weighted average of buildings and contents indices. Trend for Tenants and Condominium Unit Owners forms is determined based on contents indices only.

The buildings index was constructed from the bimonthly Boeckh Residential index (BRI). The BRI is compiled by Marshall & Swift/Boeckh Company and represents an inflation measure of the cost of constructing and renovating buildings. Further use of figures derived from the BRI requires the prior written consent of ISO. This index was used through October 2003 with subsequent construction cost growth estimates determined from analyses of governmental information on buildings-related material and labor costs. To derive construction cost growth estimates, ISO used the Producer Price Index (PPI) and average weekly earnings data as published by the Bureau of Labor Statistics (BLS). The PPI tracks the cost of a predetermined group of goods in all stages of production.

The contents measure is based on Consumer Price Indices (CPI) from the Bureau of labor Statistics (BLS). The CPI measures the average change over time in the prices paid by urban consumers for a market basket of goods and services. Even though the contents trend for both Owners and Tenant/Condominium Unit Owners uses the same indices, the weightings differ.

PENNSYLVANIA
HOMEOWNERS INSURANCE

TREND PROCEDURE OVERVIEW

LOSS TRENDING
(Cont'd)

For Owners, the MCPI is a weighted average of the following subgroups of our reconstructed Consumer Price Index: House furnishings (48%), Medical Care (20%), Apparel Commodities (16%) and Entertainment Commodities (16%). The Boeckh Residential and the Modified Consumer Price indices are weighted 55% and 45%, respectively. These weights are based on Homeowners loss distributions. The indices are displayed in the "Development of Current Cost Factors (CCF) and Loss Projection Factor – Owners" exhibit.

Since Tenants covers only contents and Condominium Unit Owners covers primarily contents, the Modified Consumer Price Index is used exclusively for loss trending in Tenants and Condominium Unit Owners, and is a weighted average of the following subgroups of the "All-Urban" Consumer Price Index: House furnishings (54%), Apparel Commodities (18%), Entertainment Commodities (18%) and Medical Care (10%). This index is displayed in the "Development of Current Cost Factors (CCF) and Loss Projection Factor – Tenants and Condominium Unit Owners" exhibit.

The current cost factors used for the Determination of Statewide Advisory Loss Cost Level changes trend adjusted incurred historical and modeled losses from each year in the experience period to the midpoint of the latest quarter of external loss trend data. The current cost factors used for the determination of advisory loss cost level changes by territory trend the experience non-modeled base class loss costs by territory from each year in the experience period to the midpoint of the latest year of the experience period. This is done to place the experience non-modeled loss costs on the same cost level as the modeled hurricane base class loss costs. For the statewide review, the losses are then projected from the midpoint of the latest quarter of cost index data to the average date of accident, 12 months beyond the anticipated effective date of this document, by a projection factor based on the latest annual rate of change in the applicable external index.

Trend from First Dollar Adjustment

A trend from first dollar adjustment factor is needed since loss trend indices are based on full coverage (first dollar) losses, whereas ISO's non-modeled loss experience and the modeled hurricane base class loss cost are adjusted to a base deductible level. Applying first dollar trend to deductible losses understates the trend effect. This is due to the elimination of losses below the deductible. The trend from first dollar factor when applied to the external index produces a trend factor appropriate for deductible losses.

PENNSYLVANIA
HOMEOWNERS INSURANCE

TREND PROCEDURE OVERVIEW

LOSS TRENDING
(Cont'd)

Composite Loss Projection Factor

The composite loss projection factor includes an external loss projection factor, and an adjustment for trend from first dollar. The composite loss projection factor is applied to non-modeled and modeled losses to project them from the midpoint of the latest quarter of trend to the average date of loss (12 months past the effective date). A separate composite loss projection factor is calculated and applied to the modeled hurricane base class loss costs to account for the different length of trend period for the modeled loss costs.

PENNSYLVANIA
HOMEOWNERS INSURANCE - OWNERS

DEVELOPMENT OF CURRENT COST FACTORS (CCF) AND LOSS PROJECTION FACTOR

QUARTER ENDING MARCH 31, 2013

PART A: CURRENT COST INDEX (CCI)

<u>Month</u>	<u>CCI</u>	<u>3 Month Average</u>	<u>Month</u>	<u>CCI</u>	<u>3 Month Average</u>
4/2010	615.8		10/2011	627.9	
5/2010	615.2		11/2011	629.1	
6/2010	612.0	614.3	12/2011	631.3	629.4
7/2010	609.3		1/2012	635.3	
8/2010	609.4		2/2012	635.1	
9/2010	611.1	609.9	3/2012	636.4	635.6
10/2010	611.2		4/2012	638.9	
11/2010	613.5		5/2012	639.8	
12/2010	614.5	613.1	6/2012	638.9	639.2
1/2011	616.7		7/2012	637.4	
2/2011	612.2		8/2012	637.7	
3/2011	613.5	614.1	9/2012	639.1	638.1
4/2011	618.6		10/2012	642.0	
5/2011	620.2		11/2012	643.7	
6/2011	621.7	620.2	12/2012	645.3	643.7
7/2011	621.3		1/2013	648.6	
8/2011	624.0		2/2013	649.5	
9/2011	626.9	624.1	3/2013	651.7	649.9

PART B: CURRENT COST FACTORS (CCF)

<u>Year</u>	<u>Average CCI</u>	<u>Current Cost Factors To Quarter Ending March 31, 2013 649.9 ÷ Average CCI</u>
10/1/2007 - 9/30/2008	600.8	1.082
10/1/2008 - 9/30/2009	606.8	1.071
10/1/2009 - 9/30/2010	610.9	1.064
10/1/2010 - 9/30/2011	617.9	1.052
10/1/2011 - 9/30/2012	635.6	1.022

PART C: COMPUTATION OF LOSS PROJECTION FACTOR

ANNUAL RATE OF CHANGE	=	1.023 or +2.3%
LOSS PROJECTION FACTOR *	=	1.023 ^(25.5/12) = 1.050

* TO PROJECT LOSSES FROM 2/15/2013 TO 4/1/2015.

PENNSYLVANIA
 HOMEOWNERS INSURANCE – TENANTS AND CONDOMINIUM UNIT OWNERS
DEVELOPMENT OF CURRENT COST FACTORS (CCF) AND LOSS PROJECTION FACTOR

QUARTER ENDING MARCH 31, 2013

PART A: CURRENT COST INDEX (CCI)

<u>Month</u>	<u>CCI</u>	<u>3 Month Average</u>	<u>Month</u>	<u>CCI</u>	<u>3 Month Average</u>
4/2010	309.7		10/2011	311.7	
5/2010	308.7		11/2011	311.4	
6/2010	307.3	308.6	12/2011	310.1	311.1
7/2010	305.2		1/2012	310.8	
8/2010	305.2		2/2012	312.6	
9/2010	307.0	305.8	3/2012	314.0	312.5
10/2010	307.5		4/2012	314.6	
11/2010	306.4		5/2012	314.5	
12/2010	304.7	306.2	6/2012	313.9	314.3
1/2011	305.4		7/2012	313.3	
2/2011	307.7		8/2012	313.1	
3/2011	309.2	307.4	9/2012	314.5	313.6
4/2011	310.0		10/2012	315.2	
5/2011	310.2		11/2012	314.5	
6/2011	309.5	309.9	12/2012	312.4	314.0
7/2011	308.8		1/2013	313.3	
8/2011	309.5		2/2013	314.9	
9/2011	310.4	309.6	3/2013	315.7	314.6

PART B: CURRENT COST FACTORS (CCF)

<u>Year</u>	<u>Average CCI</u>	<u>Current Cost Factors To Quarter Ending March 31, 2013 314.6 ÷ Average CCI</u>
10/1/2007 - 9/30/2008	307.0	1.025
10/1/2008 - 9/30/2009	308.8	1.019
10/1/2009 - 9/30/2010	307.9	1.022
10/1/2010 - 9/30/2011	308.3	1.020
10/1/2011 - 9/30/2012	312.9	1.005

PART C: COMPUTATION OF LOSS PROJECTION FACTOR

ANNUAL RATE OF CHANGE = 1.010 or +1.0%

LOSS PROJECTION FACTOR * = $1.010^{(25.5/12)} = 1.021$

* TO PROJECT LOSSES FROM 2/15/2013 TO 4/1/2015.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DEVELOPMENT OF COMPOSITE LOSS PROJECTION FACTOR AND TREND FROM FIRST DOLLAR OWNERS

A. CALCULATION OF TREND FROM FIRST DOLLAR OF LOSS

Year Ended	(1) Current Cost Factor	(2) Weights	
09/30/2008	1.082	0.10	
09/30/2009	1.071	0.15	
09/30/2010	1.064	0.20	
09/30/2011	1.052	0.25	
09/30/2012	1.022	0.30	
(B) Base Deductible Amount		=	500
(3) Weighted Current Cost Factors = Sum of (1) X (2)		=	1.051
(4) Loss Projection Factor		=	1.050
(5) Loss Trend = (3) X (4)		=	1.104
(6) Five Year Non-Modeled Adjusted Claims		=	258,785
(7) Five Year Non-Modeled Liability Claims		=	18,324
(8) Losses Eliminated by Base Deductible = ((6)-(7)) X (B)		=	120,230,500
(9) Five Year Non-Modeled Losses and Loss Adjustment Expense Adjusted for Excess = (Total Losses - Excess Losses) x LAE x Excess Factor = (1,864,491,559 - 375,031,369) x 1.140 x 1.070		=	1,816,843,540
(10) Factor to Adjust Non-Modeled Losses for Effect of Trending From First Dollar = 1.0 + (((5) - 1.0) x (8)) / ((5) x (9))		=	1.006

B. CALCULATION OF COMPOSITE LOSS PROJECTION FACTOR

(11) Annualized Trend From First Dollar (10) ^{12/54.0}		=	1.001
(12) Factor to Adjust Modeled Losses for Effect of Trending From the First Dollar of Loss = (11) ^{36.0/12}		=	1.003
(13) Composite Loss Projection Factor for Non-Modeled Losses = (4) x (10)		=	1.056
(14) Composite Loss Projection Factor for Modeled Losses = (4) x (12)		=	1.053

PENNSYLVANIA
HOMEOWNERS INSURANCE

DEVELOPMENT OF COMPOSITE LOSS PROJECTION FACTOR AND TREND FROM FIRST DOLLAR
TENANTS

A. CALCULATION OF TREND FROM FIRST DOLLAR OF LOSS

Year Ended	(1) Current Cost Factor	(2) Weights	
09/30/2008	1.025	0.10	
09/30/2009	1.019	0.15	
09/30/2010	1.022	0.20	
09/30/2011	1.020	0.25	
09/30/2012	1.005	0.30	
(B) Base Deductible Amount		=	500
(3) Weighted Current Cost Factors = Sum of (1) X (2)		=	1.016
(4) Loss Projection Factor		=	1.021
(5) Loss Trend = (3) X (4)		=	1.038
(6) Five Year Non-Modeled Adjusted Claims		=	6,752
(7) Five Year Non-Modeled Liability Claims		=	537
(8) Losses Eliminated by Base Deductible = ((6)-(7)) X (B)		=	3,107,500
(9) Five Year Non-Modeled Losses and Loss Adjustment Expense			
= Total Losses x LAE			
= 31,896,000 x 1.140		=	36,361,440
(10) Factor to Adjust Non-Modeled Losses for Effect of Trending From First Dollar			
= $1.0 + ((5) - 1.0) \times (8) / ((5) \times (9))$		=	1.003

B. CALCULATION OF COMPOSITE LOSS PROJECTION FACTOR

(11) Annualized Trend From First Dollar $(10)^{12/54.0}$		=	1.001
(12) Factor to Adjust Modeled Losses for Effect of Trending From the First Dollar of Loss			
= $(11)^{36.0/12}$		=	1.003
(13) Composite Loss Projection Factor for Non-Modeled Losses			
= (4) x (10)		=	1.024
(14) Composite Loss Projection Factor for Modeled Losses			
= (4) x (12)		=	1.024

PENNSYLVANIA
HOMEOWNERS INSURANCE

DEVELOPMENT OF COMPOSITE LOSS PROJECTION FACTOR AND TREND FROM FIRST DOLLAR
CONDOMINIUM UNIT OWNERS

A. CALCULATION OF TREND FROM FIRST DOLLAR OF LOSS

Year Ended	(1) Current Cost Factor	(2) Weights	
09/30/2008	1.025	0.10	
09/30/2009	1.019	0.15	
09/30/2010	1.022	0.20	
09/30/2011	1.020	0.25	
09/30/2012	1.005	0.30	
(B) Base Deductible Amount		=	500
(3) Weighted Current Cost Factors = Sum of (1) X (2)		=	1.016
(4) Loss Projection Factor		=	1.021
(5) Loss Trend = (3) X (4)		=	1.038
(6) Five Year Non-Modeled Adjusted Claims		=	6,424
(7) Five Year Non-Modeled Liability Claims		=	561
(8) Losses Eliminated by Base Deductible = ((6)-(7)) X (B)		=	2,931,500
(9) Five Year Non-Modeled Losses and Loss Adjustment Expense			
= Total Losses x LAE			
= 29,234,987 x 1.140		=	33,327,885
(10) Factor to Adjust Non-Modeled Losses for Effect of Trending From First Dollar			
= $1.0 + ((5) - 1.0) \times (8) / ((5) \times (9))$		=	1.003

B. CALCULATION OF COMPOSITE LOSS PROJECTION FACTOR

(11) Annualized Trend From First Dollar $(10)^{12/54.0}$		=	1.001
(12) Factor to Adjust Modeled Losses for Effect of Trending From the First Dollar of Loss			
= $(11)^{36.0/12}$		=	1.003
(13) Composite Loss Projection Factor for Non-Modeled Losses			
= (4) x (10)		=	1.024
(14) Composite Loss Projection Factor for Modeled Losses			
= (4) x (12)		=	1.024

PENNSYLVANIA
HOMEOWNERS INSURANCE

DEVELOPMENT OF CURRENT AMOUNT FACTORS AND AMOUNT OF INSURANCE
PROJECTION FACTOR

Year End	(1)	(2)	(3)
	Average Relativity	Relativity to Projected Point <u>3.837 / (1)</u>	Current Amount Factor <u>(((2)-1.0) x 0.70) + 1</u>
09/30/2008	3.320	1.156	1.109
09/30/2009	3.444	1.114	1.080
09/30/2010	3.577	1.073	1.051
09/30/2011	3.641	1.054	1.038
09/30/2012	3.704	1.036	1.025
02/15/2013	3.837		

Year End	(1)	(2)	(3)
	Average Relativity	Relativity to Projected Point <u>1.501 / (1)</u>	Current Amount Factor <u>(((2)-1.0) x 0.75) + 1</u>
09/30/2008	1.444	1.039	1.029
09/30/2009	1.465	1.025	1.019
09/30/2010	1.478	1.016	1.012
09/30/2011	1.487	1.009	1.007
09/30/2012	1.486	1.010	1.008
02/15/2013	1.501		

CONDOMINIUM UNIT OWNERS

Year End	(1)	(2)	(3)
	Average Relativity	Relativity to Projected Point <u>2.625 / (1)</u>	Current Amount Factor <u>(((2)-1.0) x 0.75) + 1</u>
09/30/2008	2.466	1.064	1.048
09/30/2009	2.527	1.039	1.029
09/30/2010	2.544	1.032	1.024
09/30/2011	2.562	1.025	1.019
09/30/2012	2.586	1.015	1.011
02/15/2013	2.625		

	Owners	Tenants	Condominium Unit Owners
(4) A (Mean of Fitted Line of Column (1))	= 3.537	1.472	2.537
(5) B (Average Annual Increment of Column (1))	= 0.097	0.011	0.028
(6) Annual Rate of Change = (5) / (4)	= 0.027	0.007	0.011
(7) Annual Rate of Change Tempered 25% = (6) x 0.75*	= 0.019	0.005	0.008
(8) Amount of Insurance Projection Factor = (1 + (7)) ^{19.5/12}	= 1.031	1.008	1.013

*0.70 for Owners

PENNSYLVANIA
HOMEOWNERS INSURANCE

TREND PROCEDURE

EXPLANATION OF THE DEVELOPMENT OF CURRENT COST FACTORS (CCF)
AND LOSS PROJECTION FACTOR EXHIBITS

Part A

These are the quarterly averages of the Current Cost Index (CCI) for the latest twelve available quarters. The CCI (for Owners forms) reflects a 55%-45% weighting of the BRI and MCPI. (The buildings portion of the Owners CCI is based on the Boeckh Residential Index through October 2003 and subsequent construction cost growth estimates, as described on page C-4). The 3-month average is a straight average of the 3 CCI points for that quarter. For Tenants and Condominium Unit Owners, only the MCPI is used.

Part B

The Current Cost Factors for the Statewide Advisory Loss Cost level indication are developed by dividing the average CCI values, for a given year, into the latest quarterly average CCI value. The Current Cost Factors (CCF) adjust losses from each experience year to the level expected at the midpoint of the latest quarter of the Current Cost Index (CCI).

Part C

The latest annual rate of change for historical and modeled losses is developed by fitting a least squares exponential curve to the latest 12 quarterly CCI points. The annual rate of change is then used to determine the external Loss Projection Factor which, as part of the Composite Loss Projection Factor, is used to project losses from the midpoint of the latest quarter to 12 months beyond the anticipated effective date.

PENNSYLVANIA
HOMEOWNERS INSURANCE

TREND PROCEDURE

EXPLANATION OF "DEVELOPMENT OF COMPOSITE LOSS PROJECTION FACTOR" EXHIBITS

SECTION A

CALCULATION OF TREND FROM FIRST DOLLAR OF LOSS (FOR
NON-MODELED LOSSES)

The formula to develop loss costs employs external trend indices to bring non-modeled and modeled losses to current and anticipated cost levels. These indices estimate changes in claim cost from the first dollar of loss, i.e. before the application of a deductible.

Applying first dollar trend to non-modeled and modeled losses which reflect the application of a deductible understates the trend effect. This is due to the elimination of losses below the deductible. To ensure adequate loss costs, we add back in the losses eliminated by the deductible which are calculated by multiplying the number of claims (excluding liability claims as no deductible is applicable to them) by the deductible amount \$500. The losses including those eliminated by the deductible are trended. The losses below the deductible are then removed to put the losses back on a \$500 deductible level.

The ratio of loss amounts calculated as described above to loss amounts computed as "base deductible losses x loss trend" is the Trend from First Dollar adjustment factor, which covers the time period from the weighted midpoint of the experience period, 10/1/2010, to the average date of coverage, 12 months past the effective date for the incurred non-modeled losses.

All hurricane losses and claims accounted for by the model have been removed from the calculation of the adjustment to trend from first dollar.

SECTION B

CALCULATION OF COMPOSITE LOSS PROJECTION FACTOR

For the modeled hurricane base class loss costs, the trend from first dollar adjustment factor covers the time period from the midpoint of the model experience period, 4/1/2012, to the average date of coverage, 12 months past the effective date. This factor is calculated by annualizing the non-modeled loss trend from first dollar adjustment on line (11) and extending it over the time period described above, as shown in line (12).

For all forms, the Composite Loss Projection Factor for non-modeled losses, line (13), is calculated as the product of lines (4) and (10). Line (14) displays the Composite Projection Factor for the modeled base class loss costs, calculated as the product of lines (4) and (12).

PENNSYLVANIA
HOMEOWNERS INSURANCE

TREND PROCEDURE

EXPLANATION OF THE DEVELOPMENT OF CURRENT AMOUNT FACTORS AND
AMOUNT OF INSURANCE PROJECTION FACTOR EXHIBITS

COLUMN (1)

AVERAGE RELATIVITY

Average Relativities are the average policy amount relativities based on the current policy amount curves in effect. The relativities listed for 2/15/2013 (which corresponds to the midpoint of the latest quarter of the Current Cost Index) are Projected Values based on linear least squared fits of the latest five values.

$$\text{Projected Value} = R + (I \times M/12)$$

where I is the average annual increment B obtained from one least squares fit.

M is the number of months from the average date of writing for policies in effect during the latest year of the experience period, 10/1/2011, to the midpoint of the latest quarter of trend data, 2/15/2013.

R is the average relativity for the latest year of experience period, ending 9/30/2012.

COLUMN (2)

RELATIVITY TO PROJECTED VALUE

The projected value for 2/15/2013 is divided by each relativity in column (1).

COLUMN (3)

CURRENT AMOUNT FACTORS

Current amount factors in column (3) are tempered 30% (25% in Tenants and Condominium Unit Owners) due to

- a) the impact of new construction (Owners only), and
- b) the variation in insureds from year to year.

LINES (4) - (6)

The linear least squares fit is used to compute Annual Rates of Change.

LINE (7)

The Annual Rates of Change are tempered 30% (25% in Tenants and Condominium Unit Owners) in order to reflect the effects of the following:

- a) the impact of new construction (Owners only) and
- b) variation of insureds from year to year

Note that an analysis of recently reported data for the owners' forms indicates that the rate of growth in average policy limits has decreased relative to the average growth rate for the five-year historical time period underlying our loss cost level analysis. While this decreased growth rate is partially reflected in the average policy limits underlying the latter part of the historical time period, the overall growth for the historical time period exceeds the more-recently observed growth rate. In order to reflect this slowdown in the rate of growth, our premium trend procedure incorporates a tempering factor of 0.70.

PENNSYLVANIA
HOMEOWNERS INSURANCE

TREND PROCEDURE

EXPLANATION OF THE DEVELOPMENT OF CURRENT AMOUNT FACTORS AND AMOUNT OF
INSURANCE PROJECTION FACTOR EXHIBITS

LINE (8)

The Amount of Insurance Projection Factor is calculated as:

$$(1 + \text{Tempered Annual Rate of Change})^{N/12}$$

where N = the number of months from the midpoint of the latest quarter of trend to an average date of writing for policies that will be written using these loss costs; i.e. 6 months beyond the effective date.

PENNSYLVANIA
HOMEOWNERS INSURANCE

CREDIBILITY TABLES

STATEWIDE CREDIBILITIES

<u>Owners</u>		<u>Tenants</u>		<u>Condominium Unit Owners</u>	
<u>House Years</u>	<u>Credibility</u>	<u>House Years</u>	<u>Credibility</u>	<u>House Years</u>	<u>Credibility</u>
240,000 & Over	1.00	285,000 & Over	1.00	190,000 & Over	1.00
194,400 - 239,999	.90	230,850 - 284,999	.90	153,900 - 189,999	.90
153,600 - 194,399	.80	182,400 - 230,849	.80	121,600 - 153,899	.80
117,600 - 153,599	.70	139,650 - 182,399	.70	93,100 - 121,599	.70
86,400 - 117,599	.60	102,600 - 139,649	.60	68,400 - 93,099	.60
60,000 - 86,399	.50	71,250 - 102,599	.50	47,500 - 68,399	.50
38,400 - 59,999	.40	45,600 - 71,249	.40	30,400 - 47,499	.40
21,600 - 38,399	.30	25,650 - 45,599	.30	17,100 - 30,399	.30
9,600 - 21,599	.20	11,400 - 25,649	.20	7,600 - 17,099	.20
2,400 - 9,599	.10	2,850 - 11,399	.10	1,900 - 7,599	.10
0 - 2,399	.00	0 - 2,849	.00	0 - 1,899	.00

TERRITORY CREDIBILITIES

<u>Owners</u>		<u>Tenants</u>		<u>Condominium Unit Owners</u>	
<u>House Years</u>	<u>Credibility</u>	<u>House Years</u>	<u>Credibility</u>	<u>House Years</u>	<u>Credibility</u>
60,000 & Over	1.00	75,000 & Over	1.00	50,000 & Over	1.00
48,600 - 59,999	.90	60,750 - 74,999	.90	40,500 - 49,999	.90
38,400 - 48,599	.80	48,000 - 60,749	.80	32,000 - 40,499	.80
29,400 - 38,399	.70	36,750 - 47,999	.70	24,500 - 31,999	.70
21,600 - 29,399	.60	27,000 - 36,749	.60	18,000 - 24,499	.60
15,000 - 21,599	.50	18,750 - 26,999	.50	12,500 - 17,999	.50
9,600 - 14,999	.40	12,000 - 18,749	.40	8,000 - 12,499	.40
5,400 - 9,599	.30	6,750 - 11,999	.30	4,500 - 7,999	.30
2,400 - 5,399	.20	3,000 - 6,749	.20	2,000 - 4,499	.20
600 - 2,399	.10	750 - 2,999	.10	500 - 1,999	.10
0 - 599	.00	0 - 749	.00	0 - 499	.00

The formula used to obtain the credibility to be assigned is the square root of the quantity (5 years earned house years/house years required for full credibility). These tables are based on the 'frequency with severity modification' model discussed in "Credibility of the Pure Premium" by Mayerson, Bowers and Jones. The full credibility standards are based upon a Normal distribution with a 90% probability of meeting the test and a 5.0% and 10.0% maximum departure from the expected value for Statewide and Territories, respectively. The claims standards have been translated to house year standards. Minimum credibility is 50% for statewide.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS DEVELOPMENT

The incurred losses are developed to an "ultimate" settlement basis by applying loss development factors. The use of a loss development factor is necessitated by the fact that not all of the losses for a particular accident year have been finally determined at the time the experience is compiled. The modeled hurricane base class loss costs are at an ultimate settlement basis and therefore there is no need to apply loss development to them.

The incurred losses for each of the years appearing on the Statewide Loss Cost Level exhibit have been evaluated as of December 31, 2012. As an example, losses for the first accident year have "matured" for 63 months while losses for the last accident year have "matured" for 15 months. The immature experience must be adjusted to an ultimate settlement basis. This adjustment is accomplished through the use of loss development factors.

ISO loss development methodology is a basic loss development triangle. The loss development procedure uses statewide data and computes link ratios through 87 months. In selecting the final development factors, link ratios that are "outliers" are tempered.

INSURANCE SERVICES OFFICE, INC.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS DEVELOPMENT

OWNERS

Pennsylvania Incurred Losses as of

Accident Year	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>
2000	191,567,809	199,394,572	200,765,407	200,485,374	200,794,643	200,657,073	200,440,910
2001	158,050,634	161,603,818	162,752,430	163,314,648	162,923,807	162,062,661	162,549,941
2002	162,544,612	167,876,063	170,705,839	170,508,877	169,506,977	169,458,006	169,212,560
2003	210,294,260	216,396,334	218,459,890	217,567,830	217,027,037	216,747,131	216,736,048
2004	198,829,187	203,292,891	201,921,066	201,874,738	201,616,046	201,474,516	201,378,521
2005	200,073,073	201,028,069	199,682,591	199,510,699	198,863,514	198,760,587	198,420,681
2006	199,792,768	200,689,440	200,348,818	199,644,375	198,926,709	198,853,535	
2007	236,899,727	238,124,745	238,292,566	237,856,737	237,388,080		
2008	252,255,382	255,924,113	255,875,359	254,588,322			
2009	292,882,474	298,011,646	298,105,734				
2010	409,358,385	419,688,568					
2011	494,641,191						

Pennsylvania Link Ratios

Accident Year	<u>27:15</u>	<u>39:27</u>	<u>51:39</u>	<u>63:51</u>	<u>75:63</u>	<u>87:75</u>
2000	1.041	1.007	0.999	1.002	0.999	0.999
2001	1.022	1.007	1.003	0.998	0.995	1.003
2002	1.033	1.017	0.999	0.994	1.000	0.999
2003	1.029	1.010	0.996	0.998	0.999	1.000
2004	1.022	0.993	1.000	0.999	0.999	1.000
2005	1.005	0.993	0.999	0.997	0.999	0.998
2006	1.004	0.998	0.996	0.996	1.000	
2007	1.005	1.001	0.998	0.998		
2008	1.015	1.000	0.995			
2009	1.018	1.000				
2010	1.025					
	<u>27:15</u>	<u>39:27</u>	<u>51:39</u>	<u>63:51</u>	<u>75:63</u>	<u>87:75</u>
Average	1.020	1.003	0.998	0.998	0.999	1.000
Selected Link Ratio	1.020	1.003	0.998	0.998	0.999	1.000

Selected Loss Development Factors

<u>09/2008</u>	<u>09/2009</u>	<u>09/2010</u>	<u>09/2011</u>	<u>09/2012</u>
0.999	0.997	0.995	0.998	1.018

INSURANCE SERVICES OFFICE, INC.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS DEVELOPMENT

TENANTS

Pennsylvania Incurred Losses as of

Accident Year	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>
2000	4,176,085	4,332,775	4,366,637	4,302,995	4,233,672	4,190,787	4,180,487
2001	4,220,266	4,289,949	4,225,981	4,245,726	4,201,446	4,201,299	4,161,630
2002	3,131,115	3,312,357	3,352,930	3,355,994	3,357,173	3,347,764	3,347,764
2003	3,773,102	3,918,379	3,654,805	3,590,275	3,564,984	3,551,627	3,551,114
2004	2,611,397	2,586,492	2,549,102	2,548,884	2,597,491	2,597,127	2,597,127
2005	3,303,974	3,115,360	3,038,910	3,037,427	3,037,427	3,036,032	3,036,032
2006	4,543,562	4,453,372	4,471,023	4,514,581	4,498,327	4,498,227	
2007	5,584,775	5,330,429	4,918,002	4,829,032	4,761,809		
2008	6,045,295	5,949,419	5,265,150	5,270,218			
2009	6,173,582	6,232,170	6,233,602				
2010	6,707,219	6,767,325					
2011	6,766,035						

Pennsylvania Link Ratios

Accident Year	<u>27:15</u>	<u>39:27</u>	<u>51:39</u>	<u>63:51</u>	<u>75:63</u>	<u>87:75</u>
2000	1.038	1.008	0.985	0.984	0.990	0.998
2001	1.017	0.985	1.005	0.990	1.000	0.991
2002	1.058	1.012	1.001	1.000	0.997	1.000
2003	1.039	0.933	0.982	0.993	0.996	1.000
2004	0.990	0.986	1.000	1.019	1.000	1.000
2005	0.943	0.975	1.000	1.000	1.000	1.000
2006	0.980	1.004	1.010	0.996	1.000	
2007	0.954	0.923	0.982	0.986		
2008	0.984	0.885*	1.001			
2009	1.009	1.000				
2010	1.009					
Average	<u>27:15</u> 1.002	<u>39:27</u> 0.971	<u>51:39</u> 0.996	<u>63:51</u> 0.996	<u>75:63</u> 0.998	<u>87:75</u> 0.998
Selected Link Ratio	1.002	0.981	0.996	0.996	0.998	0.998

Selected Loss Development Factors

<u>09/2008</u>	<u>09/2009</u>	<u>09/2010</u>	<u>09/2011</u>	<u>09/2012</u>
0.996	0.992	0.988	0.969	0.971

* Value excluded in selection of link ratio.

INSURANCE SERVICES OFFICE, INC.

PENNSYLVANIA
HOMEOWNERS INSURANCE

LOSS DEVELOPMENT

CONDOMINIUM UNIT OWNERS

Pennsylvania Incurred Losses as of

Accident Year	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months
2000	3,377,519	3,456,167	3,496,628	3,481,517	3,475,516	3,451,516	3,451,516
2001	2,885,600	2,920,463	2,937,209	2,922,970	2,920,854	2,920,854	2,920,854
2002	2,915,282	2,821,081	2,967,503	2,924,056	2,924,112	2,924,112	2,924,112
2003	3,764,980	3,989,790	3,994,879	3,770,496	3,751,815	3,749,353	3,747,003
2004	3,556,346	3,628,762	3,653,952	3,690,667	3,689,725	3,689,460	3,686,872
2005	4,250,422	4,002,880	4,073,877	4,078,461	4,073,980	4,074,851	4,074,851
2006	4,236,128	4,485,895	4,500,667	4,650,003	4,633,266	4,586,756	
2007	5,318,051	5,470,042	5,153,300	5,083,895	5,086,929		
2008	4,987,917	5,023,049	5,007,891	4,975,894			
2009	5,274,935	5,303,023	5,251,487				
2010	6,404,413	6,367,573					
2011	6,618,933						

Pennsylvania Link Ratios

Accident Year	<u>27:15</u>	<u>39:27</u>	<u>51:39</u>	<u>63:51</u>	<u>75:63</u>	<u>87:75</u>
2000	1.023	1.012	0.996	0.998	0.993	1.000
2001	1.012	1.006	0.995	0.999	1.000	1.000
2002	0.968	1.052	0.985	1.000	1.000	1.000
2003	1.060	1.001	0.944	0.995	0.999	0.999
2004	1.020	1.007	1.010	1.000	1.000	0.999
2005	0.942	1.018	1.001	0.999	1.000	1.000
2006	1.059	1.003	1.033	0.996	0.990	
2007	1.029	0.942	0.987	1.001		
2008	1.007	0.997	0.994			
2009	1.005	0.990				
2010	0.994					
	<u>27:15</u>	<u>39:27</u>	<u>51:39</u>	<u>63:51</u>	<u>75:63</u>	<u>87:75</u>
Average	1.011	1.003	0.994	0.999	0.997	1.000
Selected Link Ratio	1.011	1.003	0.994	0.999	0.997	1.000

Selected Loss Development Factors

<u>09/2008</u>	<u>09/2009</u>	<u>09/2010</u>	<u>09/2011</u>	<u>09/2012</u>
0.997	0.996	0.990	0.993	1.004

PENNSYLVANIA
HOMEOWNERS INSURANCE

NON-MODELED

EXCESS WIND AND EXCESS WATER PROCEDURE

OBJECTIVE

Since wind and water* not accounted for by the hurricane model can cause large and unexpected losses, an excess wind and water procedure is incorporated in the development of Homeowners loss costs. The purpose of this procedure is to avoid shifts in loss costs (both upward and downward) which would result from reflecting large, unexpected losses only in the year in which they occur. All losses described in the following procedure have been adjusted to remove hurricane losses accounted for by the model. Losses as determined by the model have not been included in this procedure.

DESCRIPTION OF
NON-MODELED
EXCESS WIND
AND WATER
FACTOR
METHODOLOGY

The non-modeled excess wind and excess water procedure makes two adjustments to reported non-modeled losses. First, it removes the excess wind and water losses that actually occurred in a given year. Then, it replaces these losses with an expected excess wind and excess water loss provision, by application of the statewide excess factor. This statewide excess wind and excess water factor is based on the state's long-term history of excess wind and excess water losses and, therefore, is not subject to the type of yearly variation inherent in actual wind and excess water losses. The methodology for calculating the excess factor is described below.

Statewide excess water losses by year are calculated by determining a “normal” average water to total minus wind and water ratio which represents the long-term expected water to total minus wind and water ratio for the state. All losses above the “normal” water-to-total minus wind and water ratio are defined as excess water losses.

Statewide excess wind and excess water losses by year are calculated by determining a “normal” average wind-and-excess-water-to-total minus wind and excess water ratio, which represents the long term expected wind-and-excess-water-to-total minus wind and excess water ratio for the state. All losses above the “normal” wind-and-excess-water-to-total minus wind and excess water ratio are defined as excess wind and excess water losses.

* Water damage, freezing, other physical damage, and V&MM.

PENNSYLVANIA
HOMEOWNERS INSURANCE

NON-MODELED

EXCESS WIND AND EXCESS WATER PROCEDURE

DESCRIPTION OF
NON-MODELED
EXCESS WIND
AND WATER
FACTOR
METHODOLOGY
(CONT'D)

The “normal” wind-and-excess-water-to-total minus wind and water ratio is determined by first capping the wind-and-excess-water-to-total minus wind and excess water ratios for extreme wind and excess water years to 5 times the state's median wind-and-excess-water-to-total minus wind and excess water ratio.*

An excess wind-and-excess-water-to-total minus wind and excess water ratio for a given year is composed of two parts: (1) a capped excess wind-and-excess-water-to-total minus wind and excess water ratio and (2) an “excess wind and excess water ratio above the cap”.

The excess factor (line 14) is calculated as follows:

state excess factor = $[1.0 + \frac{[(\text{average capped excess ratio} + \text{average excess ratio above the cap}) \div (1.0 + \text{normal ratio} - \text{average capped excess ratio})]}{1.0 + \text{normal ratio} - \text{average capped excess ratio}}]$

For a description of the treatment of wind and water losses by territory, see the “Methodology for Calculating Wind and Excess Water Provisions by Territory” exhibit.

DEVELOPMENT
OF ADJUSTED
NON-MODELED
EXCESS LOSSES

The “Derivation of Excess Wind and Water Factor” exhibit develops a non-modeled excess wind and water factor using non-modeled losses on a reported basis. Since the “Determination of Statewide Advisory Loss Cost Level Change - Owners” exhibit in Section B uses losses adjusted to a common deductible level to determine the advisory loss cost level change, the “Development of Non-Modeled Excess Losses on a Base Deductible Level” exhibit calculates the adjusted excess losses by determining the ratio of total reported excess losses to the total reported wind and excess water losses. This ratio is then applied to the adjusted non-modeled wind and excess water losses to produce the adjusted excess non-modeled losses.

* In the procedure above, minimum values apply to the median wind-and-excess-water to total minus wind and excess water ratio and the capped wind-and-excess-water to total minus wind and excess water ratio. The median has a minimum of 0.100, the cap has a minimum of 5 x 0.100 (0.500). The values used for the median ratio and wind and excess water cap are shown on line 13 (minimum values are shown, where applicable).

PENNSYLVANIA
HOMEOWNER INSURANCE - OWNERS

DERIVATION OF NON-MODELED EXCESS WATER FACTOR

(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Year	Non-Modeled Reported Wind Losses	Non-Modeled Reported Water & Other PD Losses	Non-Modeled Reported Total Losses	Non-Modeled Reported Total- Wind-Water-Other PD Losses (3) - (2) - (1)	Total Water To Non- WW Ratio (2) / (4)	Excess Water Ratio (5) - AVG(5)	Non-Modeled Excess Water Losses (4) x (6)
12/1980	13,656,091	14,130,319	97,095,029	69,308,619	0.204	0.000	0
12/1981	4,219,133	16,590,578	89,253,789	68,444,078	0.242	0.000	0
12/1982	8,415,375	23,428,373	97,915,335	66,071,587	0.355	0.000	0
12/1983	8,197,666	23,844,637	100,928,570	68,886,267	0.346	0.000	0
12/1984	8,483,041	24,608,385	103,835,688	70,744,262	0.348	0.000	0
12/1985	32,211,276	31,416,440	148,494,833	84,867,117	0.370	0.000	0
12/1986	6,093,373	25,931,466	112,400,454	80,375,615	0.323	0.000	0
12/1987	6,947,521	32,309,061	120,988,671	81,732,089	0.395	0.000	0
12/1988	8,258,482	30,753,997	125,652,738	86,640,259	0.355	0.000	0
12/1989	16,955,022	42,920,601	144,580,865	84,705,242	0.507	0.000	0
12/1990	12,290,074	39,091,909	145,403,073	94,021,090	0.416	0.000	0
06/1992	13,386,720	44,020,348	159,316,980	101,909,912	0.432	0.000	0
12/1993	25,827,291	55,668,076	169,374,842	87,879,475	0.633	0.000	0
12/1994	16,014,109	169,147,974	252,648,601	67,486,518	2.506	1.776	119,856,056
12/1995	17,408,630	58,043,895	150,366,466	74,913,941	0.775	0.045	3,371,127
12/1996	39,867,218	160,051,335	302,404,429	102,485,876	1.562	0.832	85,268,249
12/1997	28,185,455	84,201,211	225,775,689	113,389,023	0.743	0.013	1,474,057
12/1998	55,151,928	86,871,318	270,933,284	128,910,038	0.674	0.000	0
12/1999	60,171,410	119,916,292	305,964,734	125,877,032	0.953	0.223	28,070,578
09/2001	37,518,931	112,384,176	287,415,441	137,512,334	0.817	0.087	11,963,573
09/2002	28,681,133	96,457,658	240,039,171	114,900,380	0.839	0.109	12,524,141
09/2003	25,923,578	138,049,955	281,929,697	117,956,164	1.170	0.440	51,900,712
09/2004	44,307,569	113,131,804	266,188,020	108,748,647	1.040	0.310	33,712,081
09/2005	18,573,879	89,976,673	228,518,505	119,967,953	0.750	0.020	2,399,359
09/2006	34,464,422	85,548,291	238,277,474	118,264,761	0.723	0.000	0
09/2007	36,520,663	95,438,601	259,018,790	127,059,526	0.751	0.021	2,668,250
09/2008	38,249,031	88,380,395	263,692,336	137,062,910	0.645	0.000	0
09/2009	58,428,653	120,116,436	328,194,358	149,649,269	0.803	0.073	10,924,397
09/2010	129,377,017	185,206,953	459,168,558	144,584,588	1.281	0.551	79,666,108
09/2011	187,990,394	146,172,398	499,901,548	165,738,756	0.882	0.152	25,192,291

(continued on next page)

PENNSYLVANIA
HOMEOWNER INSURANCE - OWNERS

DERIVATION OF NON-MODELED EXCESS WATER FACTOR

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	Non-Modeled Reported Wind Losses	Non-Modeled Reported Water & Other PD Losses	Non-Modeled Reported Total Losses	Non-Modeled Reported Total- Wind-Water-Other PD Losses (3) - (2) - (1)	Total Water To Non- WW Ratio (2) / (4)	Excess Water Ratio (5) - AVG(5)	Non-Modeled Excess Water Losses (4) x (6)
09/2012	53,380,156	109,291,327	299,833,257	137,161,774	0.797	0.067	9,189,839
TOTAL AVERAGE	\$ 1,075,155,241	\$ 2,463,100,882	\$ 6,775,511,225	\$ 3,237,255,102	22.637 0.730	4.719 0.152	\$ 478,180,818

NORMAL WATER TO NON-WIND & WATER RATIO = AVG. OF COL.(5) = 0.730

PENNSYLVANIA
HOMEOWNER INSURANCE - OWNERS

DERIVATION OF NON-MODELED EXCESS WIND & WATER FACTOR

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Non-Modeled Reported Wind Losses	Non-Modeled Excess Water Losses	Non-Modeled Reported Total Losses	Non-Modeled Reported Total-Wind- Excess Water Losses (3) - (2) - (1)	Total Wind & Excess To Non- WXSX Ratio (((1)+(2))/(4))	Capped Wind & Excess Water Ratio <(5xMED)	Capped Excess W & XSX Ratio (6)-AVG(6)	Capped Excess W & XSX Losses (4)x(7)	Excess W & XSX Ratio Above The Cap (5)-(6)	Non-Modeled Excess Losses Above The Cap (4)x(9)	Total Non- Modeled Excess Losses (8)+(10)
Year											
12/1961	1,445,700	0	13,503,622	12,057,922	0.120	0.120	0.000	0	0.000	0	0
12/1962	1,266,812	0	14,422,121	13,155,309	0.096	0.096	0.000	0	0.000	0	0
12/1963	1,989,354	0	20,338,613	18,349,259	0.108	0.108	0.000	0	0.000	0	0
12/1964	1,247,159	0	15,394,097	14,146,938	0.088	0.088	0.000	0	0.000	0	0
12/1965	1,181,462	0	16,977,467	15,796,005	0.075	0.075	0.000	0	0.000	0	0
12/1966	1,177,571	0	20,404,298	19,226,727	0.061	0.061	0.000	0	0.000	0	0
12/1967	2,043,420	0	23,162,263	21,118,843	0.097	0.097	0.000	0	0.000	0	0
12/1968	1,147,737	0	23,622,135	22,474,398	0.051	0.051	0.000	0	0.000	0	0
12/1969	1,072,891	0	20,710,825	19,637,934	0.055	0.055	0.000	0	0.000	0	0
12/1970	1,979,684	0	24,176,727	22,197,043	0.089	0.089	0.000	0	0.000	0	0
12/1971	2,343,636	0	28,519,836	26,176,200	0.090	0.090	0.000	0	0.000	0	0
12/1972	2,104,532	0	31,975,490	29,870,958	0.070	0.070	0.000	0	0.000	0	0
12/1973	1,465,061	0	34,164,349	32,699,288	0.045	0.045	0.000	0	0.000	0	0
12/1974	3,873,804	0	44,236,693	40,362,889	0.096	0.096	0.000	0	0.000	0	0
12/1975	6,071,488	0	53,227,461	47,155,973	0.129	0.129	0.000	0	0.000	0	0
12/1976	6,287,635	0	59,581,136	53,293,501	0.118	0.118	0.000	0	0.000	0	0
12/1977	4,579,644	0	70,016,319	65,436,675	0.070	0.070	0.000	0	0.000	0	0
12/1978	9,295,803	0	79,790,851	70,495,048	0.132	0.132	0.000	0	0.000	0	0
12/1979	4,426,620	0	66,901,783	62,475,163	0.071	0.071	0.000	0	0.000	0	0
12/1980	13,656,091	0	97,095,029	83,438,938	0.164	0.164	0.000	0	0.000	0	0
12/1981	4,219,133	0	89,253,789	85,034,656	0.050	0.050	0.000	0	0.000	0	0
12/1982	8,415,375	0	97,915,335	89,499,960	0.094	0.094	0.000	0	0.000	0	0
12/1983	8,197,666	0	100,928,570	92,730,904	0.088	0.088	0.000	0	0.000	0	0
12/1984	8,483,041	0	103,835,688	95,352,647	0.089	0.089	0.000	0	0.000	0	0
12/1985	32,211,276	0	148,494,833	116,283,557	0.277	0.277	0.103	11,977,206	0.000	0	11,977,206
12/1986	6,093,373	0	112,400,454	106,307,081	0.057	0.057	0.000	0	0.000	0	0
12/1987	6,947,521	0	120,988,671	114,041,150	0.061	0.061	0.000	0	0.000	0	0
12/1988	8,258,482	0	125,652,738	117,394,256	0.070	0.070	0.000	0	0.000	0	0
12/1989	16,955,022	0	144,580,865	127,625,843	0.133	0.133	0.000	0	0.000	0	0
12/1990	12,290,074	0	145,403,073	133,112,999	0.092	0.092	0.000	0	0.000	0	0

(continued on next page)

PENNSYLVANIA
HOMEOWNER INSURANCE - OWNERS

DERIVATION OF NON-MODELED EXCESS WIND & WATER FACTOR

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Year	Non-Modeled Reported Wind Losses	Non-Modeled Excess Water Losses	Non-Modeled Reported Total Losses	Non-Modeled Reported Total-Wind- Excess Water Losses (3) - (2) - (1)	Total Wind & Excess Water To Non- WXS Ratio (1)+(2)/(4)	Capped Wind & Excess Water Ratio <(5xMED)	Capped Excess W & XSW Ratio (6)-AVG(6)	Capped Excess W & XSW Losses (4)x(7)	Excess W & XSW Ratio Above The Cap (5)-(6)	Non-Modeled Excess Losses Above The Cap (4)x(9)	Total Non- Modeled Excess Losses (8)+(10)
06/1992	13,386,720	0	159,316,980	145,930,260	0.092	0.092	0.000	0	0.000	0	0
12/1993	25,827,291	0	169,374,842	143,547,551	0.180	0.180	0.006	861,285	0.000	0	861,285
12/1994	16,014,109	119,856,056	252,648,601	116,778,436	1.163	0.565	0.391	45,660,368	0.598	69,833,505	115,493,873
12/1995	17,408,630	3,371,127	150,366,466	129,586,709	0.160	0.160	0.000	0	0.000	0	0
12/1996	39,867,218	85,268,249	302,404,429	177,268,962	0.706	0.565	0.391	69,312,164	0.141	24,994,924	94,307,088
12/1997	28,185,455	1,474,057	225,775,689	196,116,177	0.151	0.151	0.000	0	0.000	0	0
12/1998	55,151,928	0	270,933,284	215,781,356	0.256	0.256	0.082	17,694,071	0.000	0	17,694,071
12/1999	60,171,410	28,070,578	305,964,734	217,722,746	0.405	0.405	0.231	50,293,954	0.000	0	50,293,954
09/2001	37,518,931	11,963,573	287,415,441	237,932,937	0.208	0.208	0.034	8,089,720	0.000	0	8,089,720
09/2002	28,681,133	12,524,141	240,039,171	198,833,897	0.207	0.207	0.033	6,561,519	0.000	0	6,561,519
09/2003	25,923,578	51,900,712	281,929,697	204,105,407	0.381	0.381	0.207	42,249,819	0.000	0	42,249,819
09/2004	44,307,569	33,712,081	266,188,020	188,168,370	0.415	0.415	0.241	45,348,577	0.000	0	45,348,577
09/2005	18,573,879	2,399,359	228,518,505	207,545,267	0.101	0.101	0.000	0	0.000	0	0
09/2006	34,464,422	0	238,277,474	203,813,052	0.169	0.169	0.000	0	0.000	0	0
09/2007	36,520,663	2,668,250	259,018,790	219,829,877	0.178	0.178	0.004	879,320	0.000	0	879,320
09/2008	38,249,031	0	263,692,336	225,443,305	0.170	0.170	0.000	0	0.000	0	0
09/2009	58,428,653	10,924,397	328,194,358	258,841,308	0.268	0.268	0.094	24,331,083	0.000	0	24,331,083
09/2010	129,377,017	79,666,108	459,168,558	250,125,433	0.836	0.565	0.391	97,799,044	0.271	67,783,992	165,583,036
09/2011	187,990,394	25,192,291	499,901,548	286,718,863	0.744	0.565	0.391	112,107,075	0.179	51,322,676	163,429,751
09/2012	53,380,156	9,189,839	299,833,257	237,263,262	0.264	0.264	0.090	21,353,694	0.000	0	21,353,694
Total	\$ 1,130,155,254	\$ 478,180,818	\$ 7,436,637,311	\$ 5,828,301,239	9.890	8.701	2.689	\$ 554,518,899	1.189	\$ 213,935,097	\$ 768,453,996
Average					0.198	0.174	0.054		0.024		

(12) NORMAL WIND TO NON-W&W RATIO = AVG. OF COL6 = 0.174

(13) MEDIAN WIND TO NON-W&W RATIO = 0.113 5 X MEDIAN WIND TO NON-W&W RATIO = 0.565

(14) EXCESS WIND FACTOR = 1.0 + {(AVG.(7) + AVG.(9))/(1.0 + (AVG.(6) - AVG.(7))}
 EXCESS WIND FACTOR = 1.0 + {(0.054 + 0.024)/(1.0 + 0.174 - 0.054)} = 1.070

PENNSYLVANIA

HOMEOWNERS INSURANCE – OWNERS FORMS

DEVELOPMENT OF NON-MODELED EXCESS LOSSES ON A BASE DEDUCTIBLE LEVEL

Accident Year Ended	(1) Non-Modeled Excess Water Losses Column (7) (a)	(2) Non-Modeled Reported Water Losses Column (2) (a)	(3) Excess Water Ratio <u>(1)/(2)</u>	(4) Non-Modeled Water Losses on a Base Deductible Level
09/30/2008	\$ 0	\$ 88,380,395	0.000	\$ 87,987,924
09/30/2009	10,924,397	120,116,436	0.091	120,262,230
09/30/2010	79,666,108	185,206,953	0.430	184,905,315
09/30/2011	25,192,291	146,172,398	0.172	147,792,622
09/30/2012	9,189,839	109,291,327	0.084	113,093,012

Accident Year Ended	(5) Non-Modeled Excess Water Losses on a Base Deductible Level	(6) Non-Modeled Wind Losses on a Base Deductible Level	(7) Non-Modeled Wind and Excess Water Losses on a Base Deductible Level <u>(5) + (6)</u>	(8) Non-Modeled Excess Losses Column (11)(b)
09/30/2008	\$ 0	\$ 37,782,323	\$ 37,782,323	\$ 0
09/30/2009	10,943,863	57,855,999	68,799,862	24,331,083
09/30/2010	79,509,285	129,443,619	208,952,904	165,583,036
09/30/2011	25,420,331	187,773,545	213,193,876	163,429,751
09/30/2012	9,499,813	54,641,578	64,141,391	21,353,694

Accident Year Ended	(9) Non-Modeled Reported Wind and Excess Water Losses Column (1) + (2) (b)	(10) Excess Ratio <u>(8)/(9)</u>	(11) Non-Modeled Excess Losses on a Base Deductible Level <u>(7) x (10)</u>
09/30/2008	\$ 38,249,031	0.000	\$ 0
09/30/2009	69,353,050	0.351	24,148,752
09/30/2010	209,043,125	0.792	165,490,700
09/30/2011	213,182,685	0.767	163,519,703
09/30/2012	62,569,995	0.341	21,872,214

(a) See the "Derivation of Non-Modeled Excess Water Losses" exhibit.

(b) See the "Derivation of Non-Modeled Excess Wind and Water Factor" exhibit.

PENNSYLVANIA

HOMEOWNERS INSURANCE

METHODOLOGY FOR CALCULATING NON-MODELED WIND AND EXCESS WATER PROVISIONS BY TERRITORY – OWNERS

In order to develop Non-Modeled Wind and Excess Water Provisions by territory*, the statewide provision** is distributed using each territory's "expected" wind and excess water losses. This procedure is illustrated in the following example (All hurricane losses accounted for by the model have been removed. Modeled hurricane losses are not included in this procedure):

Territory	(1) Long-Term*** Ratio of Wind and Excess Water to Non-Wind and Excess Water Losses	(2) Non-[Wind and Excess Water] Losses for Latest Five Years	(3) "Expected" Wind and Excess Water Losses for Latest Five Years <u>(1) x (2)</u>	(4) "Expected" Wind and Excess Water Distribution <u>(3) ÷ Total (3)</u>							
					(5) Statewide Wind and Excess Water Provision	(6) Territory A	(7) Territory B	(8) Territory C	(9) Territory A <u>(5) x (6)</u>	(10) Territory B <u>(5) x (7)</u>	(11) Territory C <u>(5) x (8)</u>
A	.250	\$16,000,000	\$ 4,000,000	.400	\$4,000,000	.400	.120	.480	\$1,600,000	\$480,000	\$1,920,000
B	.200	6,000,000	1,200,000	.120							
C	.600	8,000,000	4,800,000	.480							
Total			10,000,000	1.000							
x											
x+1											
x+2											
x+3											
x+4											

* When Loss Cost Changes By Territory are worked up, actual non-modeled wind and excess water losses by territory are taken out of the Adjusted Incurred Non-Modeled Losses and replaced with the losses arrived at using this procedure.

** The statewide wind and excess water provision is defined as $(T - E)F - (T - L_1 - L_2)$, where:

T = total statewide incurred non-modeled losses on a base deductible level

E = statewide non-modeled excess wind and water losses on a base deductible level

F = statewide excess wind and water factor

L₁ = non-modeled wind losses on a base deductible level

L₂ = statewide non-modeled excess water losses on a base deductible level

*** Average of yearly ratios of non-modeled wind to non-wind losses and non-modeled wind and excess water to non-wind and excess water losses based on territory experience for all available years.

PENNSYLVANIA
HOMEOWNERS INSURANCE

SECTION D – AIR HURRICANE COMPUTER MODEL

Hurricane Model Procedure.....	D-2
Description of AIR Hurricane Model	D-3-7
Hurricane Model Output	D-8-10

PENNSYLVANIA
HOMEOWNERS INSURANCE

HURRICANE MODEL PROCEDURE

INTRODUCTION	The modeled hurricane loss costs for the Homeowners policy forms reflect the use of the Atlantic Tropical Cyclone Model – Version 14.0.1 as implemented in CLASIC/2 v15, and developed by AIR Worldwide Corporation (AIR). AIR, a wholly owned subsidiary of Verisk Analytics, Inc., is a pioneer in the application of sophisticated computer modeling to the hurricane peril as well as other catastrophes.
HURRICANE COMPUTER MODEL	Models predict hurricane losses with greater accuracy and in greater geographic detail than traditional experience-based procedures. This model uses a meteorological database of both landfalling and non-landfalling tropical cyclones since 1900, a sophisticated windfield model, and engineering and insurance-based damage relationships to develop reliable estimates of expected hurricane losses. The model relates the probability of a hurricane at a specific location, the duration of the wind speeds at that location and the damageability relationship by type of structure to the current distribution of insureds.
MODELED HURRICANE LOSS COSTS	The hurricane computer model provides mean damage ratios as a percentage of the amount of insurance at risk. For each Homeowners policy form (Owners, Tenants, and Condominium Unit Owners), modeled hurricane loss costs by territory and state are calculated from these mean damage ratios and the current amount of insurance. See the section on "Mean Damage Ratios at the Base Deductible" for more details on calculating expected hurricane losses.
HURRICANE DEFINED	A hurricane is a tropical cyclone technically defined as a non-frontal, low pressure synoptic-scale system in which the maximum sustained surface wind speed is at least 74 miles per hour.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DESCRIPTION OF AIR HURRICANE MODEL

OVERVIEW OF
HURRICANE
COMPUTER MODEL

The model consists of several components – an event generation, local intensity, and damage module. The event generation module creates the stochastic storm catalog. Over 100 years of historical data on the frequency of hurricanes and their meteorological characteristics were used to fit statistical distributions for each parameter. By stochastically drawing from these distributions, the fundamental characteristics of each simulated storm are generated. These parameters include storm track, landfall location and track angle at landfall, and the intensity variables of central pressure, radius of maximum winds, and forward speed. The result is a large, representative catalog of potential events. The model generates simulated “years” of event activity. A simulated year represents a hypothetical year of catastrophe experience, which could happen in the current year. The AIR model allows for the possibility of multiple events occurring within a single year. Many thousands of these scenarios are run to produce the complete and stable range of potential annual experience of catastrophe event activity as well as ensuring full coverage of extreme events.

Once the model generates the characteristics of a simulated event, it propagates the event along its track. Peak gust wind speeds and wind duration are estimated for each geographical location affected by the storm, and the local intensity is estimated as a function of the magnitude of the event, distance from the source of the event, and a variety of local conditions. Damageability functions are then used to determine the relationship between the local intensity and the resulting damage to buildings and contents. Expected hurricane losses are calculated by applying the appropriate damage functions to the insured value of the properties.

EVENT
GENERATION
MODULE

The following storm characteristics are modeled as part of the event generation module.

Frequency of Occurrence – The model estimates frequency of occurrence based tropical cyclones occurring since 1900.

Landfall Location – The model estimates the probability of a hurricane occurring at points along the smoothed coastline from Texas to Maine.

Central Pressure – Central pressure is the primary determinant of hurricane wind speed and therefore of intensity. All else being equal, as central pressure decreases, wind speeds increase or, more precisely, wind speed is an increasing function of the difference between the central and peripheral pressure.

Radius of Maximum Winds – The radius of maximum winds is the distance from the storm's center, or eye, to where the strongest winds are found. On average, the radius of maximum winds tends to be larger at higher latitudes. Similarly, the radius will be smaller, on average, for more intense storms. These relationships are explicitly accounted for in the model. While a smaller radius of maximum winds corresponds to greater storm intensity, it does not necessarily follow that losses will be greater. This is because a smaller radius usually results in a smaller affected area.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DESCRIPTION OF AIR HURRICANE MODEL

EVENT
GENERATION
MODULE (Cont'd)

Forward Speed – Forward, or translational, speed is the rate at which a hurricane moves from point to point along its track. In general, the higher the latitude, the faster the hurricane's translational speed. Faster moving storms result in higher losses further inland. On the other hand, the faster a storm travels, the shorter the duration that a building is subjected to high wind speeds. In some areas, particularly along the coast, this can lead to lower losses than would otherwise be the case.

Track Angle at Landfall – Separate distributions for track angle at landfall are estimated for segments of coastline that are variable in length, depending upon the coastal orientation of that segment.

Storm Track – Once landfall location and the track angle at landfall are identified, the simulated storm track is generated using conditional probability matrices which resemble the curving and recurving tracks actually observed from the stochastic storm database.

Multiple-Landfalling Storms – In order to model multiple landfalling events as single storms, simulated storm tracks are joined statistically based on consistency of certain storm parameters.

LOCAL INTENSITY
MODULE

Once the model probabilistically generates the hurricane's meteorological characteristics, it simulates the storm's movement along its track. Calculations of local intensity begin with maximum over-water windspeed and adjustments are then made for the asymmetric nature of the hurricane windfield, storm filling over land, surface friction, and relative wind speed profiles.

Asymmetry Effect – In the Northern Hemisphere, hurricane winds rotate in a counter-clockwise direction. The combined effects of hurricane winds and forward motion (or translational speed) will produce higher wind speeds on the right-hand-side of the storm. The model accounts for the dynamic interaction of the translational and rotational speeds, and the inflow angle.

Filling Effect – As the storm moves inland its intensity begins to dissipate. Central pressure rises and the eye of the hurricane begins to "fill" as it moves away from its energy source, i.e., warm ocean water. The model filling equations are a function of the geographic location (particularly distance from coastline) and the time elapsed since landfall. Rates of fill vary by region, as is consistent with historical observation.

Surface Friction Effect – Differences in surface terrain also affect windspeeds. Wind velocity profiles typically show higher wind speeds at higher elevations. Winds travel more slowly at ground-level because of the horizontal drag force of the earth's surface, or surface friction. The addition of obstacles such as buildings will further degrade wind speed. In general, the rougher the terrain, due to both natural and man-made obstacles, the more quickly wind speeds dissipate.

Relative Wind Speeds – The wind speed at any particular location is dependent on the radial distance between the eye of the storm and the location of interest.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DESCRIPTION OF AIR HURRICANE MODEL

DAMAGE
ESTIMATION
MODULE

The tropical cyclone model develops a complete time profile of wind speeds for each location affected by the storm, thus capturing the effect of wind duration on structures as well as the effect of peak wind speed. Damage estimation for hurricanes begins at sustained wind speeds of 40 mph and is calculated cumulatively until sustained winds are once again below 40 mph.

Estimated damages are measured in terms of a Mean Damage Ratio (MDR) which is defined as the ratio of repair cost (i.e. losses) to the replacement cost. Four different coverages are modeled for personal lines – buildings, appurtenant structures, contents and additional living expenses. For each coverage, there are four construction types (frame, masonry veneer, masonry, and superior masonry) and three occupancy types (single-family, multi-family apartment/condominium, and multi-family all other).

DEMAND SURGE

The MDRs reflect demand surge - an observable, economic phenomenon of sudden inflation following a catastrophe. To the extent that individual insured properties' hurricane losses are partial, demand surge will raise the cost of covered losses, and consequently what the insurer ultimately pays. Demand surge is applied separately by coverage and varies by territory. One set of factors is applied to building and other structures losses. A factor of one is applied to contents losses, as AIR's research indicates that the items covered under contents coverage do not see significant price increases following catastrophic events. The demand surge on additional living expense coverage is calculated by applying an additional factor to the building and other structures function. AIR's research indicates that the additional living expense coverage is sensitive to demand surge due to longer-than-normal repair times when widespread damage occurs to property. Though the Homeowners renters and unit owners forms are primarily contents driven, demand surge does affect the additional living expense part of these two policy forms.

UPDATED
HURRICANE
MODEL

As noted at the beginning of this section, and in the Executive Summary, the indications are based on the latest version of the AIR model - the Atlantic Tropical Cyclone Model version 14.0.1 as implemented in CLASIC/2 v15. Two aspects of the model have been updated since ISO last filed a new version of the AIR model. The first involves revisions to the AIR U.S. industry exposure database for the United States. The second concerns updates to the hurricane catalog and event sets. While these enhancements are improvements to the model, they had a small impact on the modeled loss costs.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DESCRIPTION OF AIR HURRICANE MODEL

UPDATED
HURRICANE
MODEL
(Cont'd)

(1) Revised AIR Exposure Database for the United States

As part of its catastrophe models, AIR maintains an industry exposure database which captures by line of business risk counts, associated replacement costs and physical characteristics (such as occupancy, construction type, height, geographic location, etc.). The industry database provides modeling industry loss estimates for actual events in a real-time, for the re-creation of historical hurricanes, and for simulated events from the stochastic catalog. The revised industry database affects the demand surge adjustment in the modeled loss costs. Demand surge is a function of the ground-up industry losses. That is, whether or not an event triggers demand surge is determined by the size of the event's losses in relation to the industry losses. The re-computed industry losses due to the new exposure database change the demand surge adjustment in this filing, but only slightly.

Also, the new industry exposure database updates the ZIP code average physical properties and the population-weighted ZIP code centroids. The key characteristics of the ZIP code (distance to coast, elevation, and surface roughness due to land use/land cover) have been re-evaluated.

(2) Updated Hurricane Catalog and Event Set

The historical event set which is a part of the stochastic storm catalog now reflects hurricane seasons through 2010. These revisions are based on the June 2011 release of HURDAT, NOAA's hurricane database. As an ongoing project, NOAA has also been re-analyzing historical hurricanes, and has completed data through 1930. The revised catalog is used to refit probability distributions for the annual frequency of occurrence and frequency by landfall location. The re-analysis has resulted in changes to the storm tracks and landfall location for a small number of historical events. The impact on the location frequency distributions was correspondingly small. The inclusion of the two additional years where no hurricanes made landfall (2009 and 2010) to the database causes a slight reduction in annual frequency.

AGGREGATION

Mean Damage Ratios (MDRs) are calculated for each 5-digit zip code within the state. The zip code-specific MDRs are aggregated into each of the ISO territories by calculating a weighted average of the MDRs of the individual zip codes within a territory. The zip code MDRs are weighted using corresponding earned amount of insurance years. For a zip code contained in multiple territories, the zip code's earned amount of insurance years (and thus its weight) is allocated among the applicable territories.

PENNSYLVANIA
HOMEOWNERS INSURANCE

DESCRIPTION OF AIR HURRICANE MODEL

MEAN DAMAGE
RATIOS AT THE BASE
DEDUCTIBLE

For each zip code, construction class, and occupancy type, the model produces a combined coverage Mean Damage Ratios (MDRs) adjusted to the base deductible. The combined coverage MDRs reflect the differing weight given to buildings, appurtenant structures, contents, and additional living expenses, according to the coverages afforded by the various Homeowners policy forms. MDRs net of the base deductible are calculated based on the probability distributions of the combined damage ratios, exclusive of additional living expenses coverage. The additional living expenses MDRs on a ground-up basis are weighted with the other coverages, deductible-based MDRs to generate the combined coverage MDRs.

Owners provide coverage for the building and other structures, contents and additional living expenses. The weights used in calculating the Owners MDRs net of the base deductible are 1.00 for Coverage A, 0.10 for Coverage B, various for Coverage C, and 0.30 for Coverage D. The range for the Coverage C weight varies by territory, and ranges from 0.634 to 0.688. Since Owners are written almost entirely on single-family dwellings, only the single-family MDRs are used. The resulting combined coverage MDRs net of the base deductible are multiplied by the reported Coverage A amounts of insurance for each zip, territory, and construction type, and then summed to expected hurricane losses by state and territory.

Tenants provides coverage for contents and additional living expenses. The weights used in calculating the Tenants MDR net of the base deductible are 1.00 for Coverage C and 0.30 for Coverage D. Tenants is written on single-family and multi-family units (apartment/condominium and all other). Thus, the single-family, multi-family apartment/condominium, and multi-family all other MDRs are weighted together using the 2000 Census and internal data. The weight used for single-family is 0.348, for multi-family apartment/condominium is 0.078, and for multi-family all other is 0.574. The resulting combined coverage MDRs net of the base deductible are multiplied by the reported Coverage C amounts of insurance for each zip, territory, and construction type, and then summed to the expected hurricane losses by state and territory.

Condominium Unit Owners provides coverage for applicable building structures, contents and additional living expenses. The coverage weights underlying the MDR net of the base deductible are various for Coverage A, 1.00 for Coverage C, and 0.50 for Coverage D. The weight given Coverage A is the ratio of the reported Coverage A amount of insurance to that of Coverage C by territory. The range for this weight varied from 0.112 to 0.324. Since Condominium Unit Owners is written primarily on multi-family units, only the multi-family MDRs (apartment/condominium and all other) are used. The apartment/condominium weight is 0.103, while the all other multi-family weight is 0.897. The resulting combined coverage MDRs net of the base deductible are multiplied by the reported Coverage C amounts of insurance for each zip, territory, and construction type, and then summed to the expected hurricane losses by state and territory.

PENNSYLVANIA
HOMEOWNERS INSURANCE

HURRICANE MODEL OUTPUT

MODELED HURRICANE LOSS COSTS BY STATE AND TERRITORY

		(1)	(2)	(3)	(4)
	<u>Territory</u>	<u>Earned Amount of Insurance</u>	<u>Modeled Hurricane Losses</u>	<u>Average Modeled Hurricane Loss Costs</u>	<u>Aggregate Mean Damage Ratios</u>
Owners	04	14,347,782,887	1,019,700	16.21	0.007%
	30	2,461,880,341	115,214	12.44	0.005%
	31	8,596,655,401	426,969	15.60	0.005%
	32	15,109,665,628	544,463	9.61	0.004%
	33	24,337,006,911	617,686	6.68	0.003%
	34	6,433,595,257	104,954	4.20	0.002%
	35	15,426,527,316	253,726	4.44	0.002%
	36	1,201,102,894	17,704	3.36	0.001%
	37	1,426,134,761	17,769	3.30	0.001%
	38	4,522,391,405	118,593	6.85	0.003%
	39	5,274,287,361	124,654	5.65	0.002%
	40	2,218,447,647	32,533	3.31	0.001%
	41	3,673,945,042	74,239	5.19	0.002%
	42	6,601,474,046	119,639	4.40	0.002%
	43	22,063,286,039	357,154	3.73	0.002%
	44	19,137,827,113	1,833,903	34.50	0.010%
	45	23,628,811,451	1,563,719	25.13	0.007%
	46	16,398,589,710	881,264	21.37	0.005%
	47	11,147,503,948	707,619	20.68	0.006%
	48	1,394,833,813	21,188	3.73	0.002%
49	22,186,899,057	532,524	5.77	0.002%	
	Statewide	227,588,648,028	9,485,214	11.61	0.004%
Tenants	04	447,863,491	14,586	1.04	0.003%
	30	93,368,775	2,050	0.67	0.002%
	31	134,532,072	3,051	0.78	0.002%
	32	362,301,830	6,030	0.58	0.002%
	33	501,539,869	5,996	0.39	0.001%
	34	215,487,453	1,677	0.22	0.001%
	35	290,249,348	2,232	0.27	0.001%
	36	30,944,227	241	0.23	0.001%
	37	22,613,160	129	0.19	0.001%
	38	95,501,630	1,216	0.46	0.001%
	39	102,941,422	1,197	0.40	0.001%
	40	40,790,959	298	0.23	0.001%
	41	49,207,727	502	0.35	0.001%
	42	98,211,946	889	0.30	0.001%
43	355,932,986	2,735	0.26	0.001%	

PENNSYLVANIA
HOMEOWNERS INSURANCE

HURRICANE MODEL OUTPUT

MODELED HURRICANE LOSS COSTS BY STATE AND TERRITORY

	(1)	(2)	(3)	(4)
<u>Territory</u>	<u>Earned Amount of Insurance</u>	<u>Modeled Hurricane Losses</u>	<u>Average Modeled Hurricane Loss Costs</u>	<u>Aggregate Mean Damage Ratios</u>
44	252,274,352	10,639	1.59	0.004%
45	440,745,888	12,599	1.11	0.003%
46	231,478,800	5,492	0.91	0.002%
47	199,225,937	5,567	1.05	0.003%
48	32,897,624	243	0.25	0.001%
49	325,104,464	3,336	0.35	0.001%
Statewide	4,323,213,960	80,705	0.64	0.002%
Condominium Unit Owners				
04	409,371,217	21,088	3.19	0.005%
30	21,741,019	869	3.14	0.004%
31	105,915,179	4,584	3.62	0.004%
32	104,209,678	3,185	2.34	0.003%
33	237,270,659	4,990	1.49	0.002%
34	131,769,878	1,461	0.82	0.001%
35	186,564,554	2,379	0.95	0.001%
36	14,019,171	184	1.18	0.001%
37	8,824,483	112	0.95	0.001%
38	8,486,264	164	1.73	0.002%
39	15,131,891	308	2.04	0.002%
40	24,819,459	308	0.96	0.001%
41	31,715,290	513	1.34	0.002%
42	39,742,467	553	1.19	0.001%
43	87,035,099	1,109	0.96	0.001%
44	249,958,452	19,591	5.36	0.008%
45	417,517,745	20,231	3.79	0.005%
46	259,951,995	11,093	3.44	0.004%
47	146,885,957	7,043	3.51	0.005%
48	1,509,785	20	1.11	0.001%
49	91,145,952	1,503	1.15	0.002%
Statewide	2,593,586,194	101,288	2.85	0.004%

PENNSYLVANIA
HOMEOWNERS INSURANCE

HURRICANE MODEL OUTPUT

DETERMINATION OF MODELED HURRICANE LOSS COSTS BY STATE AND TERRITORY

COLUMN (1) EARNED AMOUNT OF INSURANCE

These are the latest year Earned Amount of Insurance Years for Coverage A for Owners Forms (Coverage C for Tenants and Condominium Unit Owners). Each Earned Amount of Insurance Year represents \$1.00 of coverage for one exposure for one year.

COLUMN (2) MODELED HURRICANE LOSSES

The expected modeled hurricane losses on a base deductible level are calculated by multiplying the Coverage A Amount of Insurance years for Owners Forms (Coverage C for Tenants and Condominium Unit Owners) by the weighted mean damage ratios for each construction class and summing over the territory. This procedure is explained in more detail in "Description of AIR Hurricane Computer Model, Mean Damage Ratios at the Base Deductible".

COLUMN (3) AVERAGE MODELED HURRICANE LOSS COSTS

The Average Modeled Hurricane Loss Costs are determined by dividing the modeled hurricane losses from Column (2) by the latest year earned house years.

COLUMN (4) AGGREGATE MEAN DAMAGE RATIOS

These are the average Mean Damage Ratio's (MDRs) as a percent of the amount of insurance at risk, for all construction classes combined. These MDRs have been calculated by dividing the Modeled Hurricane Losses from Column (2) by the Earned Amount of Insurance from Column (1).



INSURANCE SERVICES OFFICE, INC.

2525 CABOT DRIVE SUITE 105 LISLE, ILLINOIS 60532 PHONE: (630) 955-1080 FAX: (201) 748-1888

Peter A. Quirk, CPCU
Regional Manager
E-Mail: PQuirk@ISO.com

September 10, 2013

The Honorable Michael F. Consedine
Commissioner
Commonwealth of Pennsylvania
Insurance Department
1311 Strawberry Square
Harrisburg, PA 17120-0046

Attn: Bureau of Property & Casualty Insurance

Dear Commissioner Consedine:

Insurance Services Office, Inc.
HO-2013-RLA1
Homeowners Advisory Prospective Loss Costs Revision

Insurance Services Office, Inc. hereby files the captioned revision.

This revision is subject to the following rule of application:

These changes are applicable to all policies written on or after **April 1, 2014**.

In accordance with your loss cost procedures, this effective date applies only to those insurers who have filed loss cost adjustments to be automatically applicable to future ISO loss cost revisions for this program. Any other appropriately participating ISO insurer may adopt ISO loss costs by filing loss cost multipliers and selecting an effective date.

Your early approval will be greatly appreciated.

Sincerely,

A handwritten signature in black ink that reads "Peter A. Quirk". The signature is written in a cursive, flowing style.

Peter A. Quirk, CPCU

PAQ/kt