Premium Adjustment Factors and Guidelines for 2013 Submissions Using the AIR MPCI Model for China

January 22, 2013

AIR WORLDWIDE

Copyright

2009-2013 AIR Worldwide. All rights reserved.

Information in this document is subject to change without notice. No part of this document may be reproduced or transmitted in any form, for any purpose, without the express written permission of AIR Worldwide (AIR).

Trademarks

AIR Worldwide is a registered trademark. CATRADER is a registered trademark of AIR Worldwide.

Confidentiality

AIR invests substantial resources in the development of its models, modeling methodologies and databases. This document contains proprietary and confidential information and is intended for the exclusive use of AIR clients who are subject to the restrictions of the confidentiality provisions set forth in license and other nondisclosure agreements.

Contact Information

If you have any questions regarding this document, contact:

AIR Worldwide
131 Dartmouth Street
Boston, MA 02116-5134
USA

Tel: (617) 267-6645
Fax: (617) 267-8284

Section I: Premium Adjustment Factor

The policy conditions for some provinces have changed for the 2013 season. This will have an influence on the premium collected (due to premium rate change) and also on the risks that are being written in certain provinces (due to deductible changes). These changes to the policy conditions for 2013 are summarized in Table 1 below.

Table 1. Summary of Policy Condition Changes for 2013

Province	Premium Rate	Sum Insured	Deductible	Franchise Deductible-Drought	Franchise Deductible-Flood & Wind
Anhui	x	x	x		
Beijing	x	x			
Fujian	x	x		x	x
Guangxi			x		
Hebei	x	x			x
Henan	x	x			
Hubei					x
Hunan	x	x			
Inner Mongolia			x		
Liaoning	x	x			
Shaanxi	x	x	x		x
Shandong				x	
Sichuan			x	x	
Tianjin			x		
Xinjiang	x		x		
Xizang (Tibet)			x	x	x
Yunnan	x	x	x	x	
Zhejiang	x		x		

AIR has developed premium adjustment factors to help users appropriately adjust their new premium information to account for these changes while using the current AIR MPCI Model for China in Version 14.0 of CATRADER. These adjustment factors – which account for premium rate changes, deductibles, and exposure changes – are provided in Table 2.

Table 2. Adjustment Factors for Different Provinces

Provinces	Premium Adjustment Factors
Anhui	0.92
Beijing	1.04
Fujian	1.6
Guangxi	0.9
Hebei	1.01
Henan	1.01
Hunan	1.21
Inner Mongolia	1.16
Liaoning	1.01
Shaanxi	1.12
Shandong	0.72/0.85*
Sichuan	1.09
Tianjin	1.11
Xinjiang	0.9
Xizang	0.82
Yunnan	0.83
Zhejiang	1.38
*For Ground-up and Quota Share analysis, use 0.72; for Excess Layer analysis, use 0.85.	

While modeling the new submissions, please **calculate your excess layer information using the premium from the submission without adjustment**. **Loss ratio calculation should also be based on premium without adjustment.** The exposure information should be adjusted (multiplied) using these premium adjustment factors before entering into CATRADER. **No other modification** should be made.

Section II: Additional Guidelines

Peril Filtering

Table 3 summarizes the perils (drought, flood or wind) covered for each province according to the current policy conditions. When using the AIR MPCI Model for China, clients should adjust the event filtering for each province in the program according to the "Filter Option" provided in Table 3.

For Hebei province, in which the current covered perils (hail/windstorm) in the policy conditions are different from all three perils included in the AIR MPCI Model for China, clients can include flood to account for some of the risks linked to the covered perils.

Table 3. Peril Coverage by Province

	Province	Drought	Flood	Typhoon*	Filter Option
1	Anhui			NO	
2	Beijing	NO		NO	Drought
3	Chongqing			NO	
4	Fujian			1	
5	Gansu	NO		NO	Drought
6	Guangdong	NO		2	Drought
8	Guangxi			3	
7	Guangzhou	NO		2	Drought
9	Guizhou			NO	
10	Hainan			4	
11	Hebei	NO		NO	Drought
12	Heilongjiang			NO	
13	Henan			NO	
14	Hubei			NO	
15	Hunan			NO	
16	Inner Mongolia			NO	
17	Jiangsu			NO	
18	Jiangxi			NO	
19	Jilin			NO	
20	Liaoning			NO	
21	Ningxia			NO	
22	Qinghai	NO		NO	Drought
23	Shaanxi	NO		NO	Drought
24	Shandong	NO coverage for Corn and Cotton only		NO	Drought: Include other crops for drought risk in separate company
25	Shanghai	NO		5	Drought
26	Shanxi	NO		NO	Drought
27	Sichuan			NO	
28	Tianjing	NO		NO	Drought
29	Xinjiang	NO		NO	Drought
30	Xizang			NO	
31	Yunnan			NO	
32	Zhejiang	NO		6	Drought

*Only six provinces are modeled for typhoon losses from events in the stochastic catalog of the AIR MPCI Model for China. For other inland provinces, typhoon losses are calibrated in the flood losses (due to precipitation).

Program Setup

Each program in CATRADER can have a maximum of 20 layers. For a large submission, such as PICC, clients can model each layer as a separate region (province level/city level/county level), set up several programs and then use portfolio analysis to produce a result for the combined programs.

Shangdong province excludes drought coverage for corn and cotton according to its current policy conditions. When exposure is provided for each individual crop, clients can set up a separate

company to include the rest of the crop exposures and run drought risk only. To get a total risk profile for Shangdong, portfolio analysis should be used. When exposure is provided only on a combined basis, a loss modification factor should be used.

Government Protections

The government protection program is different for each province. Thus, clients are encouraged to obtain the most up-to-date information on government protection for their provinces of interest.   Note that clients must cap the losses for each province to the limit at which government protection becomes available, using source programming in CATRADER.

About AIR Worldwide

AIR Worldwide (AIR) is the scientific leader and most respected provider of risk modeling software and consulting services. AIR founded the catastrophe modeling industry in 1987 and today models the risk from natural catastrophes and terrorism in more than 90 countries. More than 400 insurance, reinsurance, financial, corporate and government clients rely on AIR software and services for catastrophe risk management, insurance-linked securities, detailed site-specific wind and seismic engineering analyses, and agricultural risk management. AIR is a member of the Verisk Insurance Solutions group at Verisk Analytics (Nasdaq:VRSK) and is headquartered in Boston with additional offices in North America, Europe and Asia. For more information, visit www.air-worldwide.com.