

General Re-Rating Formula

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Abstract

In this paper, a re-rating formula which calculates proposed rates directly by means of fully developed and trended loss costs and current class differentials has been introduced.

The new formula eliminates the need to calculate the following, previously necessary variables:

- the overall rate change,
- classification parameters' loss ratios,
- proposed differentials that apply to the rate classification parameters
- balance back factor.

Surprisingly, to calculate new rates by our formula (18) we don't even need to know the current rates.

This model significantly reduces the amount of data manipulation in the P&C re-rating area, as well as in group insurance. As rates are measures of risk of an insurance product, the formula (18) can be considered as a risk management tool in the above practice areas.