

## Arizona Homeowners Actuarial Memorandum

### **Indications**

Below is a short summary of the components of the indications. Changes in methodology are noted within each section below, with the biggest change coming from moving the indication to by-peril.

#### Premiums at Current Rate Level

Collected premiums have been adjusted to reflect our current rate levels using the extension of exposures method at the by-peril granularity.

#### Premium Trend

We review the trend in rerated average premiums for the state/peril over a 6-year period and make retro and prospective selections based on that.

#### Loss Development Factors

Development matrices of both paid and case incurred losses including allocated loss adjustment expenses at the by-peril granularity were used to select loss development factors. This is analyzed at the countrywide level. Our final ultimate loss selections use a blend of the options. Loss data used in the indications was evaluated as of 6/30/2025.

#### Loss Trend

We review our own state/peril level experience as well as trends in ISO data. Given the small size of our book, we lean heavily on the industry data. Frequency and severity are selected separately.

#### Excess Loss Factor

We remove trended, developed losses in excess of our large loss threshold for each peril. That threshold is approximately the 99<sup>th</sup> percentile of losses for each peril, except for the Fire, Liability, and Medical Perils. For Fire and Liability, we used the 88<sup>th</sup> and 92<sup>nd</sup> percentile, respectively, to reduce extreme volatility in the excess layer and be mindful of actual limit for the Liability peril. For the Medical Peril, no excess losses are removed because of the low Medical Payments limits. The excess loss factor is derived by dividing the excess loss by trended EP at current rate level for each peril. Selection is based on a review of both AZ and countrywide experience since this can be volatile at a state level. Selected excess loss factor is then applied to the trended EP at current rate level and added to Projected Non-Catastrophe Ultimate Losses Less Excess Losses to obtain Projected Non-Catastrophe Ultimate Losses.

#### Credibility

A full credibility standard of 3,700 claims for Fire, Water Non-Weather, Theft, Other, Liability, and Medical and 3,000 claims for Water Weather, Wind, Hail, and Lightning over the six-year historical period was used. Partial credibility is assigned using the square root rule.

#### Modeled Catastrophe Losses

We are using AIR Catastrophe models for Hurricane, Severe Convective, Winter Storm, Wildfire and Fire Following Earthquake as we have done previously. We now split catastrophe into their respective peril – Fire Following Earthquake and Wildfire to the Fire Peril, Hurricane to Water Weather and Wind Perils, Severe Convective Storm to Wind and Hail Perils, and Winter Storm to Water Weather Peril. With situations where a catastrophe falls into multiple peril buckets (f.e Hurricane), we split AAL proportionally based on the latest 12-month WP at current rate level for each Peril. When making selections, we compare our observed and modeled CAT load.