

SECTION 10

RULES FOR SPECIAL RATING

1.0 DEFINITION

In this Section, the following words and expression shall have the following meaning :-

- 1.1 Association :- The Persatuan Insurans Am Malaysia (PIAM).
- 1.2 Member :- Members of the Association.
- 1.3 Malaysian Re :- The Malaysian Reinsurance Berhad and where the context so admits, includes persons deriving title thereunder and its successors-in-title.
- 1.4 Rating Committee :- For the purpose of determining special rates, Malaysian Re is the body appointed by the Association to form a Rating Committee comprising not less than six (6) qualified or experienced fire insurance underwriters from any of the Members of the Association deemed appropriate by it of whom not more than three (3) shall be from Malaysian Re and the Chairman of the Rating Committee shall be a representative from Malaysian Re.
- 1.5 Special Rate :- Any rate determined by the Rating Committee and will include the following :-
- 1.5.1 Provisional rate:- Interim rate determined by the insurer i.e. Tariff rated less LSI discount/ PFE discount/ Hose Reels discount(where applicable) pending finalization of special rate by the Rating Committee. **All other discounts in the Self-Rating Guidelines including FEA discounts (other than those mentioned) are not allowed to be given.**
- 1.5.2 Final rate:- The rate determined by Rating Committee upon submission of the required documentation.
- 1.5.3 Alternative rate:- Rate determined for Application of deductibles.
- 1.6 Risk :- All the property of the Insured situated within the compound/perimeter of one location/address OR in the case of an estate, other than an industrial estate, all the property so situated within the compound/perimeter of one location/address/named estate shall be treated as one risk.

2.0 GENERAL

- 2.1 These rules for special rating shall apply to all registered member insurers.

2.2 Terms of Reference of Rating Committee shall include inter alia:-

- (i) The Rating Committee shall determine all special rates.
- (ii) In the determination of the special rate, the Rating Committee shall adopt rules, regulations or statistics of the Association or make reference to international rates/quotes in instances where such reference is deemed necessary and relevant. Further, the Rating Committee shall be free to adopt its own procedures and working basis for determination of special rates.
- (iii) The Rating Committee may determine special rates and make them subject to such specially drafted warranties and clauses as the Committee considers appropriate.
- (iv) Confidentiality of all deliberations at the Rating Committee meetings shall be maintained at all times. Failure to observe confidentiality may result in the member being removed from the Rating Committee.
- (v) The Rating Committee may suggest new trade codes and rates.
- (vi) The Secretariat of the Rating Committee shall be based in Malaysian Re.

2.3 In respect of Fire policies, the Rating committee shall provide special rate for Fire and Lightning cover only. Rates for special/extraneous perils cover shall be determined by member companies in accordance with the perils rating formula and computation as shown in Appendix 1 except for frozen-rated risks which have been re-rated by the Rating Committee as specially rated risks after July 1, 1996 in which the perils rates shall continue to be determined by the Rating Committee.

2.4 The special rate so determined at that particular location shall be applicable to the Insured only and not to any other entity.

2.5 The Association reserves the absolute right to amend/alter/change any Rules relating to special rating as it deems fit.

3.0 MODUS OPERANDI OF RATING COMMITTEE

Members shall be advised of the special rates determined by the Rating Committee through special rating circulars from the Association. Such circulars shall contain the following information :-

The name of the Insured.
 The situation of the risk.
 The trade or occupation classification of the risk.
 The special rates.

If more than one application for special rating is submitted in respect of the same risk, the Rating Committee shall consider such application on a first come first served basis.

3.1 The Rating Committee may request for an inspection of the risk by the Rating Committee's representative(s).

In the event such request is made, the Applying Member is required to arrange for the inspection and pay for all travelling and incidental expenses incurred by the Rating Committee's representative(s).

3.2 The Rating Committee may reject an application if the prescribed form for the special rating is not completed in detail or does not give sufficient information/facts to warrant a special rate.

4.0 QUALIFICATION

4.1 Applications for special rates must be made :-

4.1.1 For risks where the sum insured (material damage and business interruption combined) exceed RM50 million. However, for those risks eligible for Large and Specialised Risk Scheme (LSR) under Bank Negara Malaysia (BNM), member company has the prerogative to dispense with this requirement.

4.1.2 For risks in which a trade or process of manufacture is carried on which does not appear in the classification in the Tariff.

4.2 Applications for special rating may be made :-

4.2.1 For risks in multiple occupancy where the application of Rule 1.31 of Section 1 would cause hardship.

4.2.2 In respect of a risk where it is jointly insured by more than one entity and that the sum insured of any entity is less than RM50 million and therefore, that particular entity does not qualify for special rating but is more than RM50 million if combined with other entity/ies, it shall nevertheless qualify for special rating provided that the combined total sum insured is RM50 million and above and the inter-relationship between each entity in the group is a holding company and its direct subsidiary company.

4.3 Applications for special rating from Takaful operators are also acceptable.

5.0 PROCEDURES

5.1 Special Rate

An application shall be submitted to the Rating Committee in the prescribed "Application For Special Rating" form.

5.2 Unclassified Risk

An application must be submitted by completing the prescribed "Application For Special Rating" form. To facilitate the Rating Committee in determining the special rate submitted under this category, members shall provide detailed information relating to the trade/process, construction, location and/or other relevant supporting information applicable to the said risk.

5.3 Alternative Rate

A written request must be submitted stating the level(s) of deductibles requested which shall be expressed in "Ringgit Malaysia".

5.4 Letter of Intent/Proposal Form/Policy Schedule/Tender Notice

Any application for special rating must be accompanied by the following documents :-

(i) a copy of Proposal Form signed and dated by the Proposer or alternatively, if the Proposal Form is not available :-

(a) a Letter of Intent from the Proposer, or

(b) a copy of the latest policy schedule

- (ii) for cases involving a Broker, the following documents are acceptable as alternative to (i) above :-
 - (a) Letter of Intent from the Insured requesting the Broker to seek for quotation, and
 - (b) Letter from the Broker to the Applicant Company requesting for a quotation.
- (iii) for cases where the Proposer tenders the insurance, the applicant company requesting for the special rate must attach a copy of the tender documents.

6.0 REVIEW

- 6.1 Special rates must be submitted for review in the event of any ***material change** of the risk. The application for review must be submitted within six (6) months of the material change of the risk.

[* "Material change" of the risk would mean a change to the risk which the insurer had initially considered and agreed to insure that would influence the judgment of a prudent insurer in deciding whether to accept such a change and on what terms if the change is accepted by the insurer.

Examples of a "material change" of the risk that requires submission for review of the special rate are:-

- a) Change in building construction
- b) Change in occupation
- c) Improvement or deterioration in the fire protection systems/facilities
- d) Introduction of a hazardous process, etc.

(Note : The list above are examples only and is not exhaustive)].

- 6.2 Members are required to carry out a survey and review of the risk once in every 3-years for all specially-rated risks above RM50 million.
- 6.3 Appeals shall be considered on the basis that the rate determined is not reflective of the quality of the risk. Such appeals must be substantiated with valid reasons and with the submission of supporting documents.

7.0 EFFECTIVE DATES OF SPECIAL RATES

7.1 Final Rate

Where an application for final rate is submitted to the Rating Committee within the same policy period, the effective date of the final rate shall be from the inception date of the said policy.

- 7.2 Where an application for final rate is submitted to the Rating Committee after the renewal date of the policy i.e. not within the same policy period when the provisional rate was first determined, the effective date of the final rate cannot be backdated to the previous policy period and shall take effect from the renewal date of the policy.

7.3 Change In Sum Insured

In the event where the sums insured for the risk which was subject for special rating falls below the qualifying limit of RM50 million (Material Damage & Consequential Loss Combined), the special rate shall be re-rated under the self-rating guidelines or where the sums insured falls below RM10 million, the tariff rate shall be applicable effective from the date of such change in the sums insured.

7.4 Others Circumstances

The Rating Committee shall, on the merit of each case, determine the effective date of any special rate for circumstances not falling under para 7.1 above.

8.0 COMPLIANCE

8.1 Any special rate determined by the Rating Committee shall be the minimum rate applicable.

8.2 In respect of applications for special rating where such application are deemed mandatory as in 4.1, failure to submit the said application in accordance with the requirements and procedures, shall constitute a breach of the Tariff rules.

APPENDIX I

DELEGATION OF PERILS RATING TO MEMBER COMPANIES FOR SPECIALLY-RATED RISKS WITH SUM INSURED ABOVE RM 50 MILLION - PERILS RATING FORMULA AND COMPUTATION

The Perils Rating Formula

Discounts on the perils premium are given on a layered basis according to the quantum of the Material Damage Sum Insured (MDSI) as follows :

	<u>MDSI</u>	<u>Discount(%)</u>
1st Level of Discount	Up to RM 15,000,000	50
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	82
3rd Level of Discount	RM 50,000,001 and above	90

3 examples are shown below to illustrate perils rating computation based on the above formula :

Example A

Basic Information:

Fire & Lightning rate	:	0.205%	(As given by the Rating Committee)
Total basic perils rate for	:	0.145%	[Aircraft damage, earthquake, impact ,
8 perils selected per Tariff			explosion (industrial without boilers),
			bwp (buildings not exceeding five storeys),
			rsmd (other than residential properties) ,
			flood and storm tempest]
MDSI	:	RM 14,000,000	

Based on the above, the perils rates computation shall be as follows:

		<u>MDSI</u>	<u>Discount(%)</u>	<u>Premium Payable</u> (RM)
1st Level of Discount	Up to RM 15,000,000	14,000,000	50	10,150*
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	0	82	0
3rd Level of Discount	RM 50,000,001 and above	0	90	0
Total Perils Premium Payable :				<u>RM10,150**</u>

		(RM)	
Fire & Lightning Premium	=	28,700	(RM 14,000,000 x 0.205%)
Total Perils Premium	=	10,150	(** as above)
Total Premium Payable	=	<u>38,850</u>	
Fire & Perils Rate	=	<u>38,850</u>	X 100 %
		<u>14,000,000</u>	
		<u>0.278%</u>	

Note:

* Premium Payable = (RM 14,000,000 x 0.145%) LESS 50% Discount

Example BBasic Information:

Fire & Lightning rate	:	0.565%	(as given by the Rating Committee)
Total basic perils rate for	:	0.116%	(Aircraft damage, earthquake, storm tempest and flood)
4 perils selected per Tariff			
MDSI	:	RM 45,000,000	

Based on the above, the perils rates computation shall be as follows:

		<u>MDSI</u>	<u>Discount(%)</u>	<u>Premium Payable (RM)</u>
1st Level of Discount	Up to RM 15,000,000	15,000,000	50	8,700*
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	30,000,000	82	6,264**
3rd Level of Discount	RM 50,000,001 and above	0	90	0
Total Perils Premium Payable :				<u>RM14,964***</u>

	(RM)	
Fire & Lightning Premium =	254,250	(RM 45,000,000 x 0.565%)
Total Perils Premium =	14,964	(*** as above)
Total Premium Payable =	<u>269,214</u>	
Fire & Perils Rate =	<u>269,214</u>	X 100 %
	45,000,000	
=	<u>0.598%</u>	

Notes :

* Premium Payable = (RM 15,000,000 x 0.116%) LESS 50% Discount

** Premium Payable = (RM 30,000,000 x 0.116%) LESS 82% Discount

Example CBasic Information:

Fire & Lightning rate	:	1.200%	(as given by the Rating Committee)
Total basic perils rate for	:	0.039%	(Aircraft damage, earthquake, impact,
5 perils selected per Tariff			storm tempest and bush/lalang)
MDSI	:	RM 80,000,000	

Based on the above, the perils calculation shall be as follows:

		<u>MDSI</u>	<u>Discount(%)</u>	<u>Premium Payable</u> (RM)
1st Level of Discount	Up to RM 15,000,000	15,000,000	50	2,925*
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	35,000,000	82	2,457**
3rd Level of Discount	RM 50,000,001 and above	30,000,000	90	1,170***
Total Perils Premium Payable :				<u>RM6,552****</u>
	(RM)			
Fire & Lightning Premium	=	960,000	(RM 80,000,000 x 1.200%)	
Total Perils Premium	=	<u>6,552</u>	(**** as above)	
Total Premium Payable	=	<u><u>966,552</u></u>		
Fire & Perils Rate	=	<u>966,552</u>	X 100 %	
		80,000,000		
	=	<u>1.208%</u>		

Notes :

* Premium Payable = (RM 15,000,000 x 0.039%) LESS 50% Discount

** Premium Payable = (RM 35,000,000 x 0.039%) LESS 82% Discount

*** Premium Payable = (RM 30,000,000 x 0.039%) LESS 90% Discount

Premium computation for special/extraneous perils where a separate sum insured is applicable to said peril

In the event a separate sum insured is nominated for a special/extraneous peril (provided that such nomination is permissible under the Tariff), then a separate rate may be given based on the formula.

Illustration on the premium computation is shown in 3 examples D, E and F below :

Example D

Peril Selected : EIC (B)
 Sum Insured nominated : RM 5,000,000 *
 Tariff Rate : 0.056 %
 MDSI : RM 12,000,000

Based on the above, the EIC (B) calculation is as follows:

		<u>Sum Insured</u> <u>(* as above)</u>	<u>Discount(%)</u>	<u>Premium</u> <u>Payable</u> <u>(RM)</u>
1st Level of Discount	Up to RM 15,000,000	5,000,000	50	1,400
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	0	82	0
3rd Level of Discount	RM 50,000,001 and above	0	90	0
Total premium payable after discount :				<u>RM1,400</u>
EIC (B) rate	=	$\frac{\text{RM1,400}}{\text{RM5,000,000}} \times 100 \%$		
	=	<u>0.028%</u>		

Example E

Peril Selected : EIC (B)
 Sum Insured nominated : RM 32,000,000 *
 Tariff Rate : 0.056 %
 MDSI : RM 60,000,000

Based on the above, the EIC (B) calculation is as follows :

		<u>Sum Insured</u> <u>(* as above)</u>	<u>Discount(%)</u>	<u>Premium</u> <u>Payable</u> <u>(RM)</u>
1st Level of Discount	Up to RM 15,000,000	15,000,000	50	4,200
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	17,000,000	82	1,714
3rd Level of Discount	RM 50,000,001 and above	0	90	0
Total premium payable after discount :				<u>RM5,914</u>

$$\begin{aligned}
 \text{EIC (B) rate} &= \frac{\text{RM5,914}}{\text{RM32,000,000}} \times 100 \% \\
 &= \underline{\underline{0.018\%}}
 \end{aligned}$$

Example F

Peril Selected : EIC (B)
 Sum Insured nominated : RM 60,000,000 *
 Tariff Rate : 0.056 %
 MDSI : RM 120,000,000

Based on the above, the EIC (B) calculation is as follows :

		<u>Sum Insured</u> <u>(* as above)</u>	<u>Discount(%)</u>	<u>Premium</u> <u>Payable</u> <u>(RM)</u>
1st Level of Discount	Up to RM 15,000,000	15,000,000	50	4,200
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	35,000,000	82	3,528
3rd Level of Discount	RM 50,000,001 and above	10,000,000	90	560
Total premium payable after discount :				<u>RM8,288</u>

$$\begin{aligned}
 \text{EIC (B) rate} &= \frac{\text{RM8,288}}{\text{RM60,000,000}} \times 100 \% \\
 &= \underline{\underline{0.014\%}}
 \end{aligned}$$

**PROVISIONAL SPECIAL RATING COMPUTATION FOR RISKS
WITH SUM INSURED (MD & CL COMBINED) MORE THAN RM50 MILLION**

INSURED : [ABC Plastics Sdn Bhd](#)

DATE : 1-Mar-13

LOCATION [Nilai, Negeri Sembilan](#)

CLSFN : Plastic Goods Manufacture - Group B

(i) Basic fire rate	Code	<input type="text" value="2504"/>	Cons.Class	<input type="text" value="C1B"/>	<input checked="" type="checkbox"/> Loading	RATE (%)
a) Insert Rating Committee's rate (where applicable)		<input type="text" value="0"/>				0.47190
b) Insert Additional Rate (where applicable)						0.00000
			1) Printing of plastic bags			0.10000
			2)			0.00000
						0.57190
(ii) Less Discount on Basic Fire rate (where applicable)			1)		<input type="text" value="0.00"/>	0.00000
						0.57190
(iii) Add Loading on Basic Fire rate (where applicable)						
Spray Painting - Not applicable						0.00
- Others (pls specify)	1)					0.00
	2)					0.00
						0.00
						0.00000
						0.57190
(iv) Less FEA Discount						
(a) Internal Appliances						
<input checked="" type="checkbox"/> PFE						2.50
<input checked="" type="checkbox"/> Hose Reels						5.00
						7.50
						0.04289
						0.52901
(v) Add Loading						
- Age of Building		<input type="text" value="Beyond 20 years"/>				5.00
						5.00
						0.02645
						0.55546
(vi) Less discount for :-						
Large Sum Insured (for MD only)						17.50
						17.50
						0.09721
(vii) Fire and Lightning only						0.45825
(viii) Add Rates For Special Perils permissible under Tariff.						
<input checked="" type="checkbox"/> aircraft damage			Perils Rate		Perils after Discount	
<input checked="" type="checkbox"/> earthquake & volcanic eruption			0.00500		0.00123	
<input checked="" type="checkbox"/> storm tempest			0.01000		0.00247	
<input checked="" type="checkbox"/> flood			0.01500		0.00370	
<input checked="" type="checkbox"/> explosion		<input type="text" value="Industrial w/o boilers"/>	0.08600		0.02121	
<input checked="" type="checkbox"/> impact damage			0.00600		0.00148	
<input checked="" type="checkbox"/> BWP		<input type="text" value="Others"/>	0.00400		0.00099	
<input checked="" type="checkbox"/> RSMD		<input type="text" value="Others"/>	0.00500		0.00123	
<input type="checkbox"/> Bush/Lalang fire			0.01400		0.00345	
<input type="checkbox"/> subsidence/landslip			0.00000		0.00000	
<input type="checkbox"/> Damage by falling trees			0.00000		0.00000	
<input type="checkbox"/> Others : pls specify		< please specify here >	0.00000		0.00000	
			0.00000		0.00000	
			Total Perils rate	=	0.14500	0.03577
MDSI =		<input type="text" value="\$60,000,000"/>				
						0.03577
(x) Fire and Special Perils						0.49402

Note : Workings of the layered discounts for perils' rates (combined)				Discount	Premium
		MD SI		%	Payable
1st Level of Discount	Up to RM 15,000,000	\$15,000,000		50	\$10,875
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	\$35,000,000		82	\$9,135
3rd Level of Discount	RM 50,000,001 and above	\$10,000,000		90	\$1,450
Total Perils Premium Payable					<u>\$21,460</u>

**PROVISIONAL SPECIAL RATING COMPUTATION FOR RISKS
WITH SUM INSURED (MD & CL COMBINED) MORE THAN RM50 MILLION**

INSURED : [A & Partners Sdn Bhd](#)

DATE : 1-Mar-13

LOCATION [Sg Wang Plaza, Kuala Lumpur](#)CLSFN : Office Buildings and contents - with not more than 50% of the
total floor area occupied for retail trading purposes

(i) Basic fire rate	Code 1204	Cons.Class CIA	% 0	Loading <input type="checkbox"/>	RATE (%)
a) Insert Rating Committee's rate (where applicable)					0.05500
b) Insert Additional Rate (where applicable)					0.00000
	1) 0				0.00000
	2) 0				0.00000
(ii) Less Discount on Basic Fire rate (where applicable)	1) 0.00				0.05500
					0.00000
					0.05500
(iii) Add Loading on Basic Fire rate (where applicable)					
Spray Painting - Not applicable	▼				0.00
- Others (pls specify)	1) Per Rule 1.31.2 Sec. 1 of RFT			25.00	
	2) 0.00			0.00	
			25.00		0.01375
					0.06875
(iv) Less FEA Discount					
(a) Internal Appliances					
<input checked="" type="checkbox"/> PFE			2.50		
<input checked="" type="checkbox"/> Hose Reels			5.00		0.00516
			7.50		0.06359
(v) Add Loading					
- Age of Building	Beyond 20 years			5.00	0.00318
			5.00		0.06677
(vi) Less discount for :-					
Large Sum Insured (for MD only)			15.00		
			15.00		0.01002
(vii) Fire and Lightning only					0.05676
(viii) Add Rates For Special Perils permissible under Tariff.					
<input checked="" type="checkbox"/> aircraft damage		Perils Rate		Perils after Discount	
<input checked="" type="checkbox"/> earthquake & volcanic eruption		0.00500		0.00210	
<input checked="" type="checkbox"/> storm tempest		0.01000		0.00420	
<input checked="" type="checkbox"/> flood		0.01500		0.00630	
<input checked="" type="checkbox"/> explosion	Non-Industrial w/o boilers	0.08600		0.03612	
<input checked="" type="checkbox"/> impact damage		0.00500		0.00210	
<input checked="" type="checkbox"/> BWP	Buildings > 5 storeys	0.00400		0.00168	
<input checked="" type="checkbox"/> RSMD	Others	0.00600		0.00252	
<input type="checkbox"/> Bush / Lalang fire		0.01400		0.00588	
<input type="checkbox"/> subsidence / landslip		0.00000		0.00000	
<input type="checkbox"/> Damage by falling trees		0.00000		0.00000	
<input type="checkbox"/> Others : pls specify < please specify here >		0.00000		0.00000	
	Total Perils rate =	0.14500		0.06090	
MDSI =	\$20,000,000				0.06090
(x) Fire and Special Perils					0.11766

Note : Workings of the layered discounts for perils' rates (combined)			Discount	Premium
		MD SI	%	Payable
1st Level of Discount	Up to RM 15,000,000	\$15,000,000	50	\$10,875
2nd Level of Discount	RM 15,000,001 to RM 50,000,000	\$5,000,000	82	\$1,305
3rd Level of Discount	RM 50,000,001 and above	\$0	90	\$0
Total Perils Premium Payable				<u>\$12,180</u>