

# Actuarial Insight for Governing Bodies

AGRiP – March 2022

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# Observation

## Same financial stresses

- Social inflation
- Hard market
- COVID uncertainty

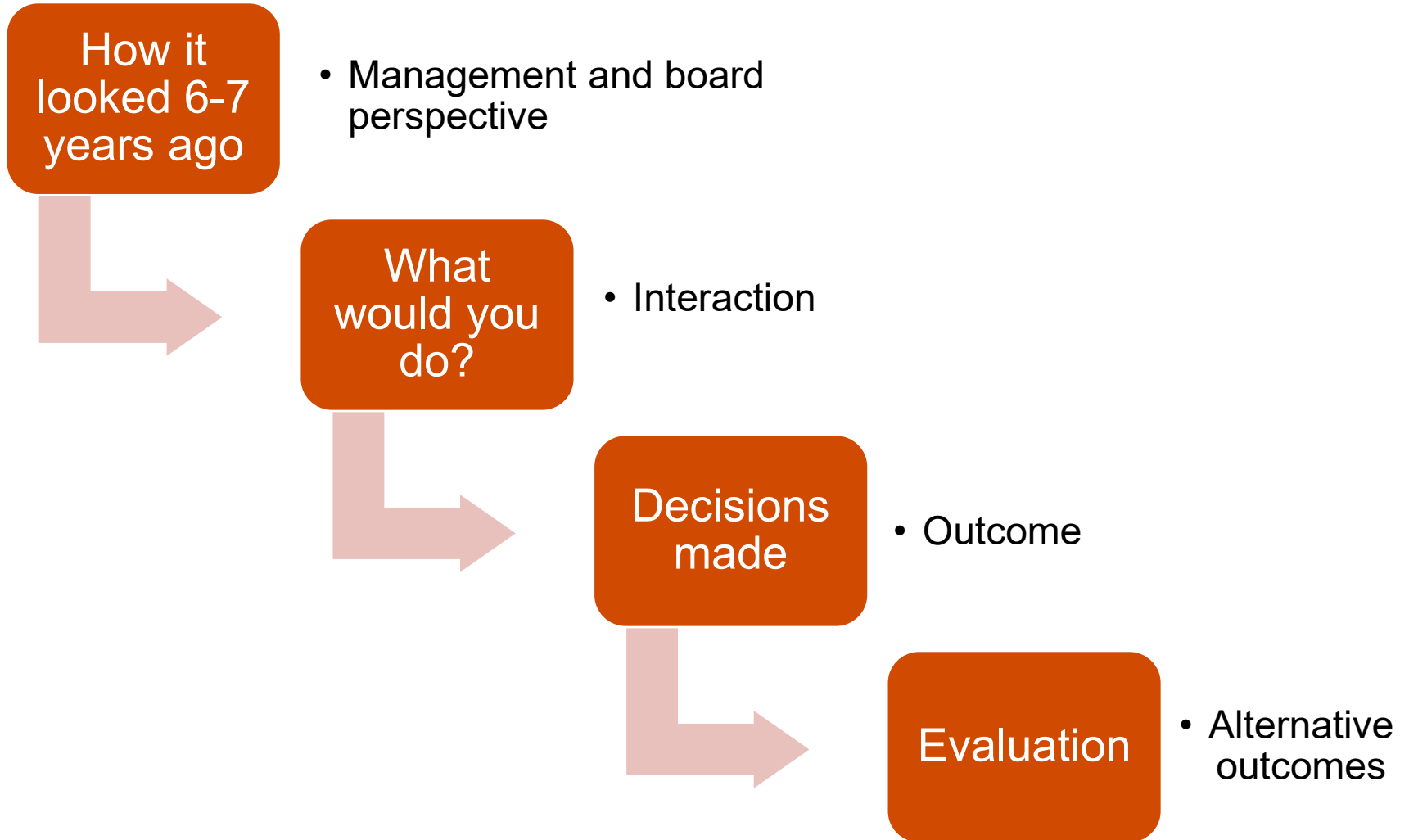
## Very different reactions

- Painful rate increases/pool failures
- Membership protected from impact

## Why?

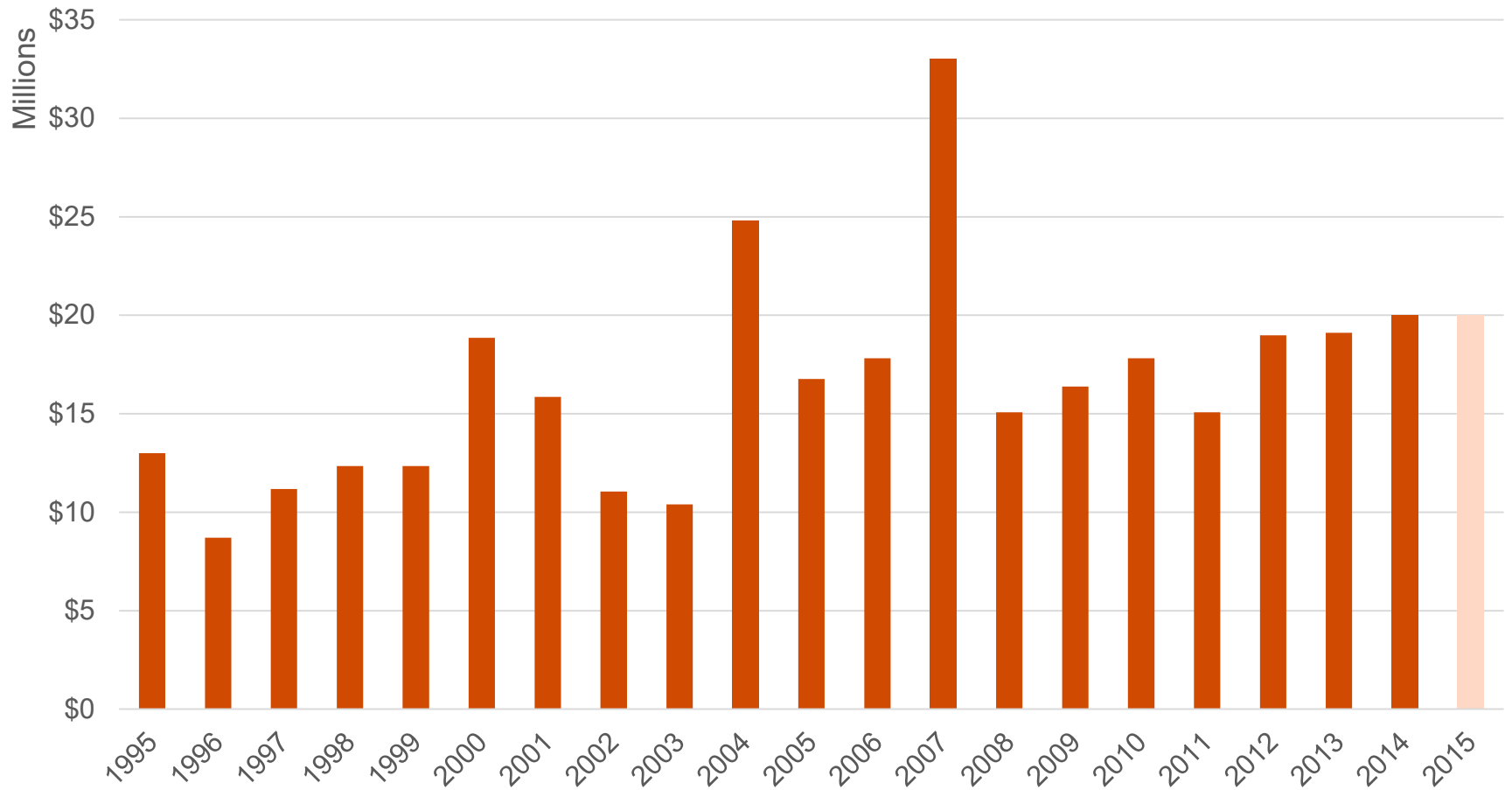
- Operational differences
- Financial metrics
- Decision framework
- Luck

# Case study approach to session

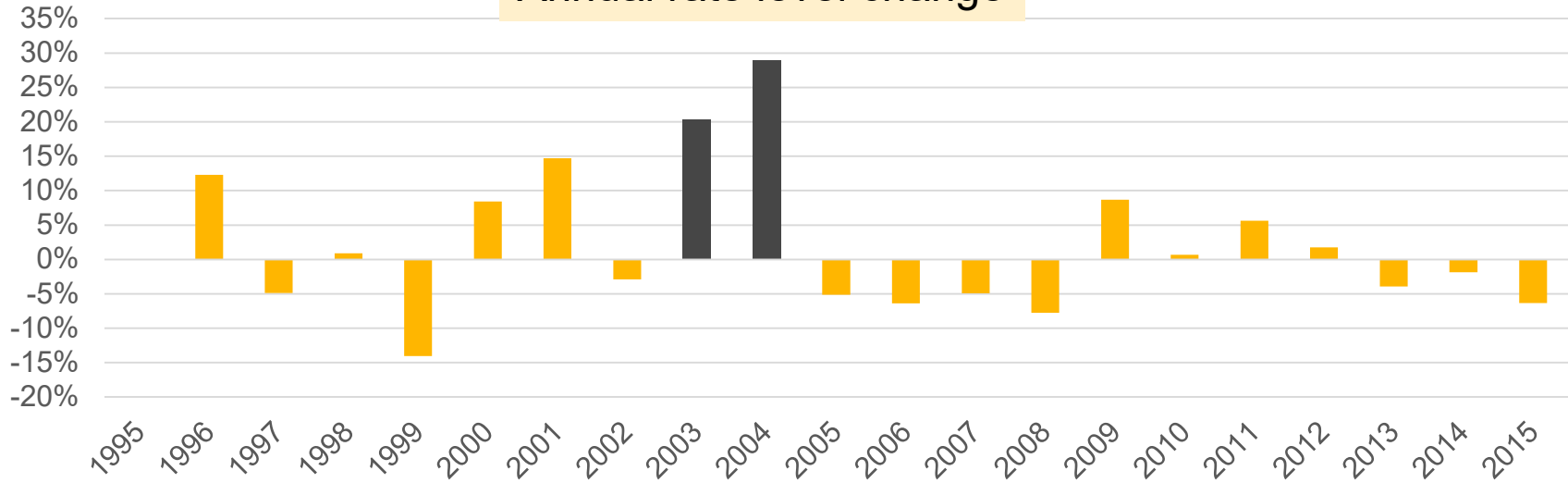


# Historical Pool Losses

Setting rates for 2016 (in mid 2015)



Annual rate level change

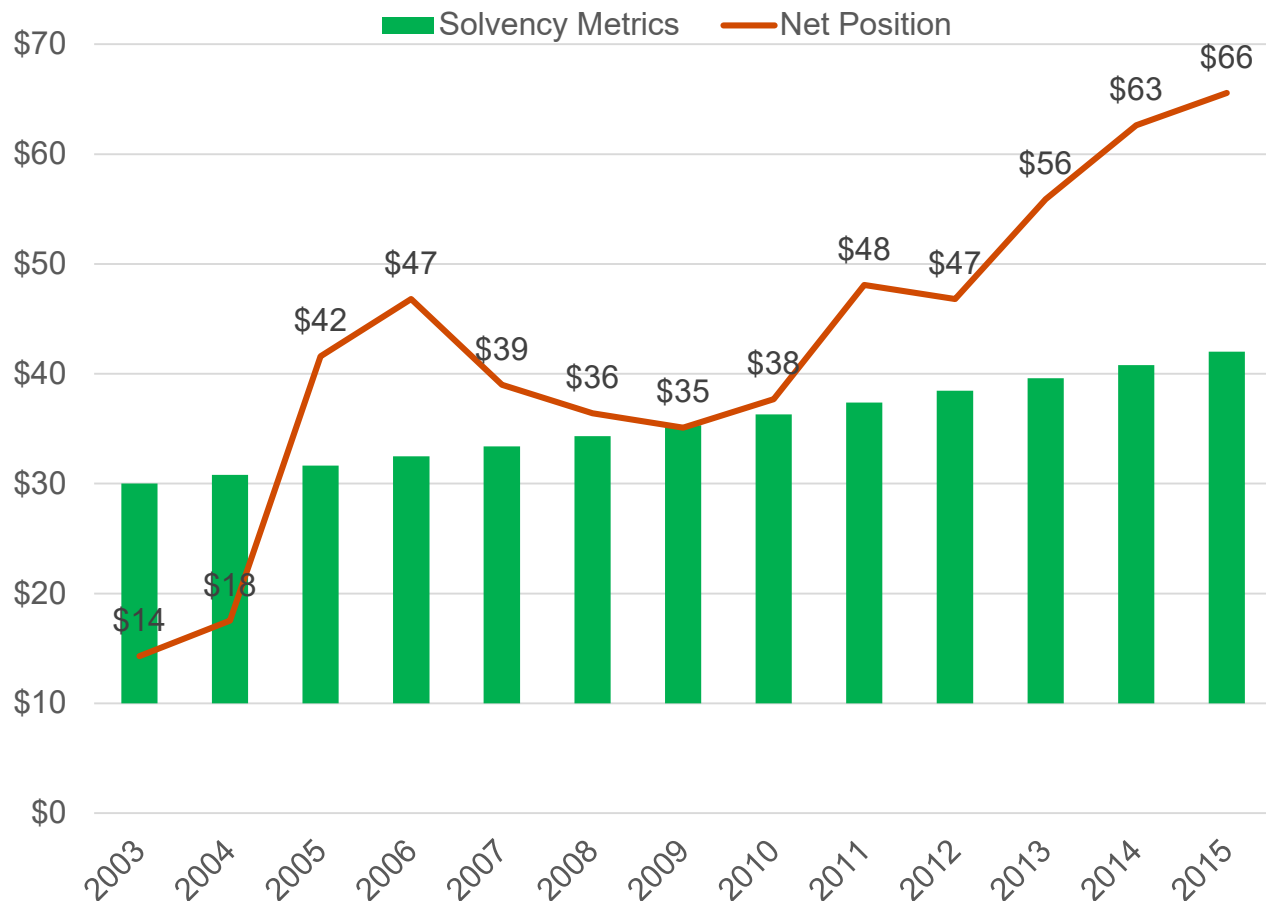


Cumulative rate level change



# Historical net position & solvency metrics

(Actual through 2014 and projected for 2015)



Solvency metrics:

1. Confidence levels
2. Financial leverage ratios

Green area shows range of results

# What should rates be for 2016?

Decision framework at the time

## Actuarial Indications

- Projected 2016 costs are \$32m
- Includes losses, operational costs and excess insurance

## Rate Stability

- \$30m was charged out for 2015

## Funding adequacy

- Continue to exceed all solvency metrics
- Substantial increase in net position in recent years

## Competition

- Competing pool but not well capitalized
- Membership retention and satisfaction very high

## Insurance Marketplace

- Continued soft market
- Periodic but limited claims experience above \$1m retention

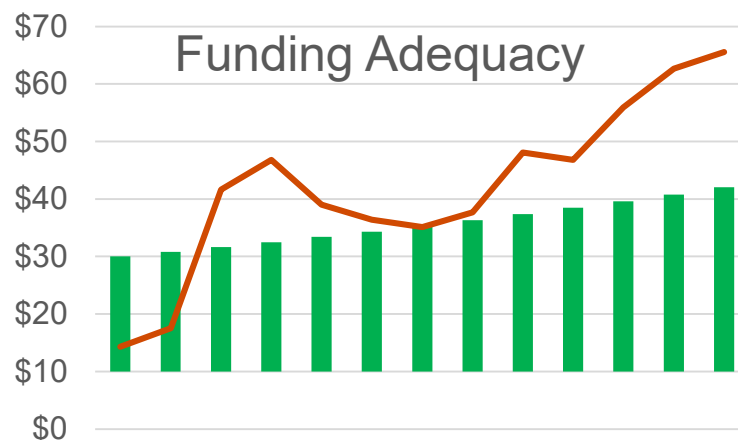
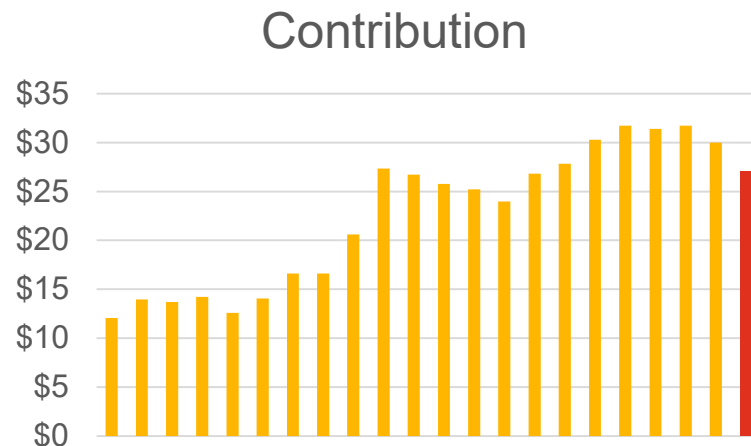
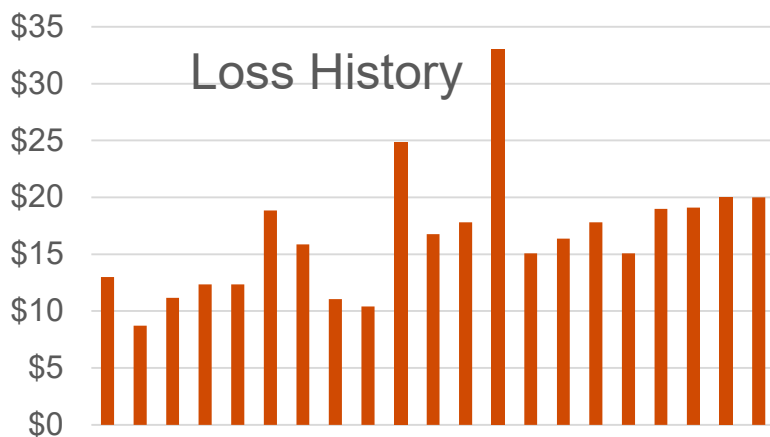
## Loss experience

- Some spikes in history due to unique situations
- Stable over the last 8 years

# Discussion

# What did the pool do?

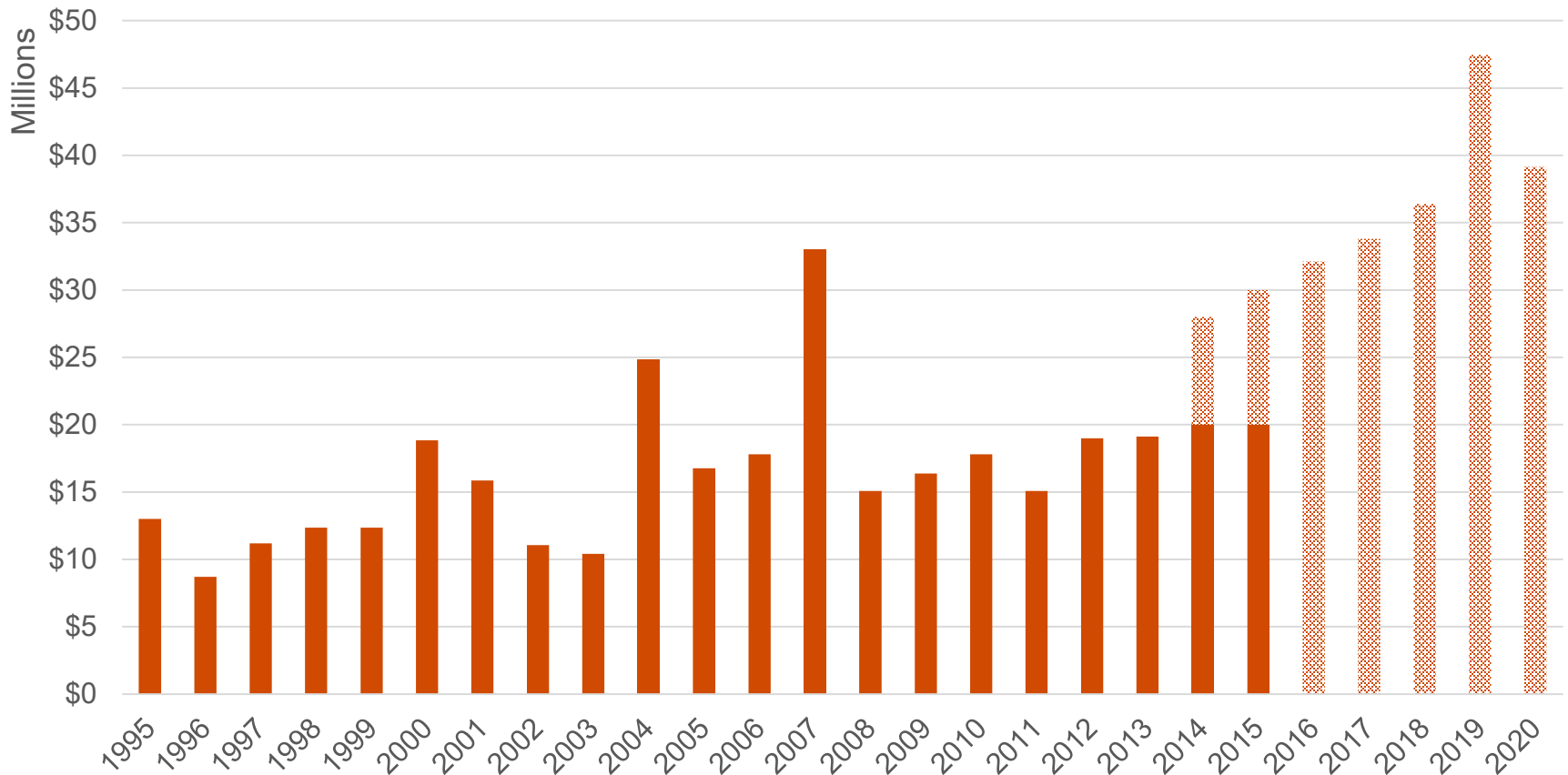
- Reduced rates 10% for 2016
- Projected contributions of \$27m versus projected net costs of \$32m
- Release some of the excess capital back to the membership



Outcome

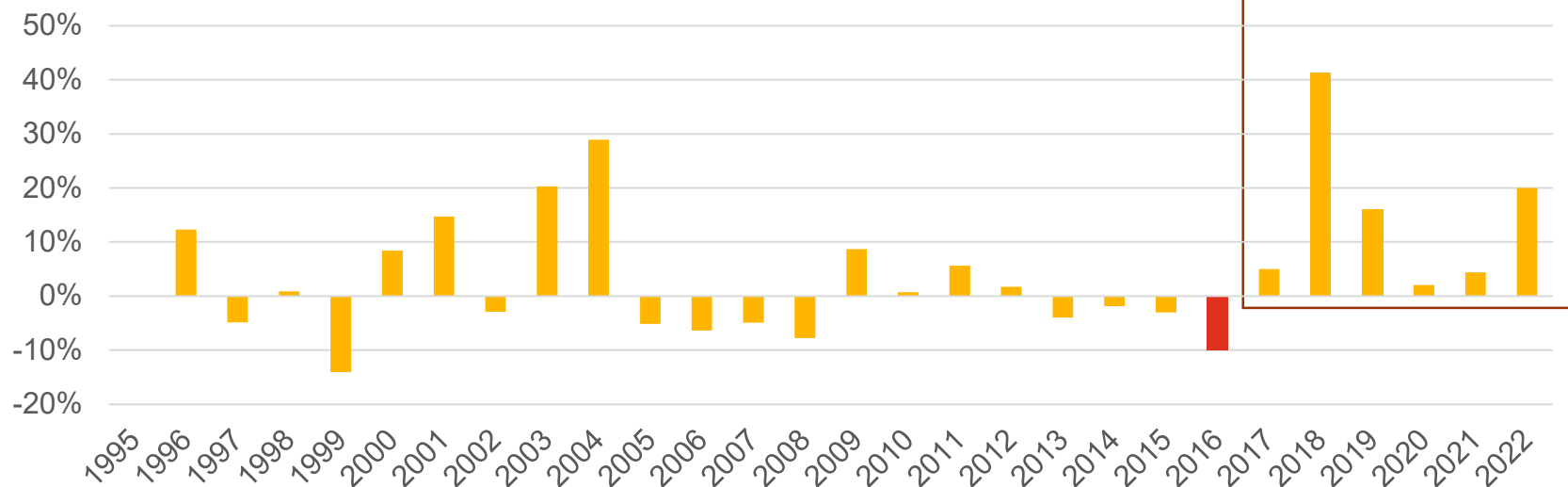
# Future loss emergence

Adverse or typical based on history?

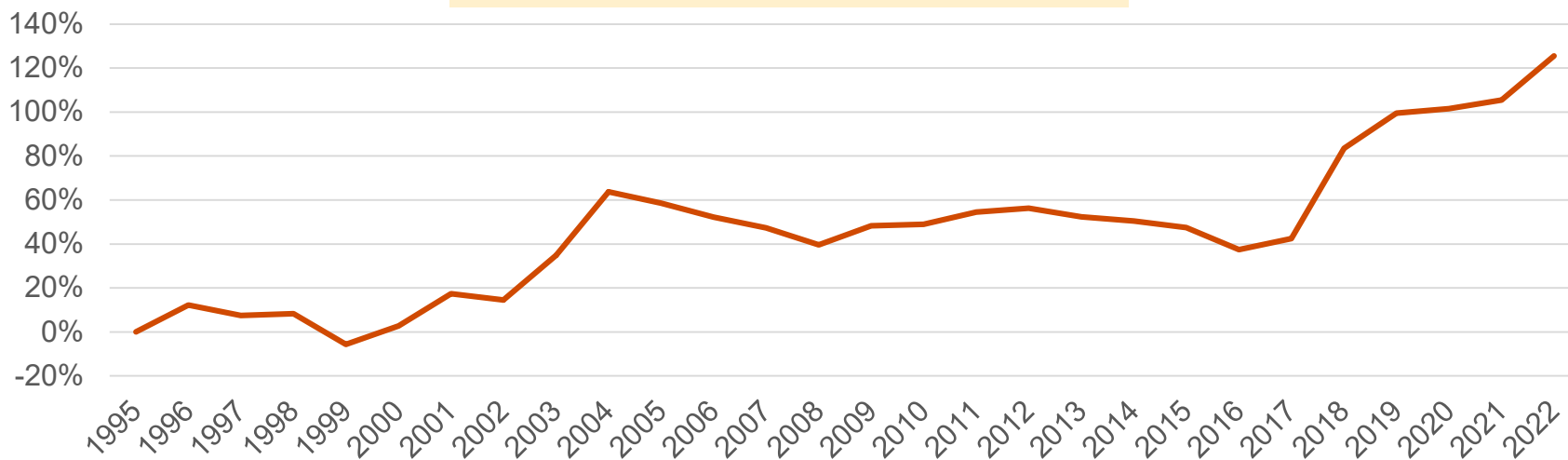


# Resulting rate action

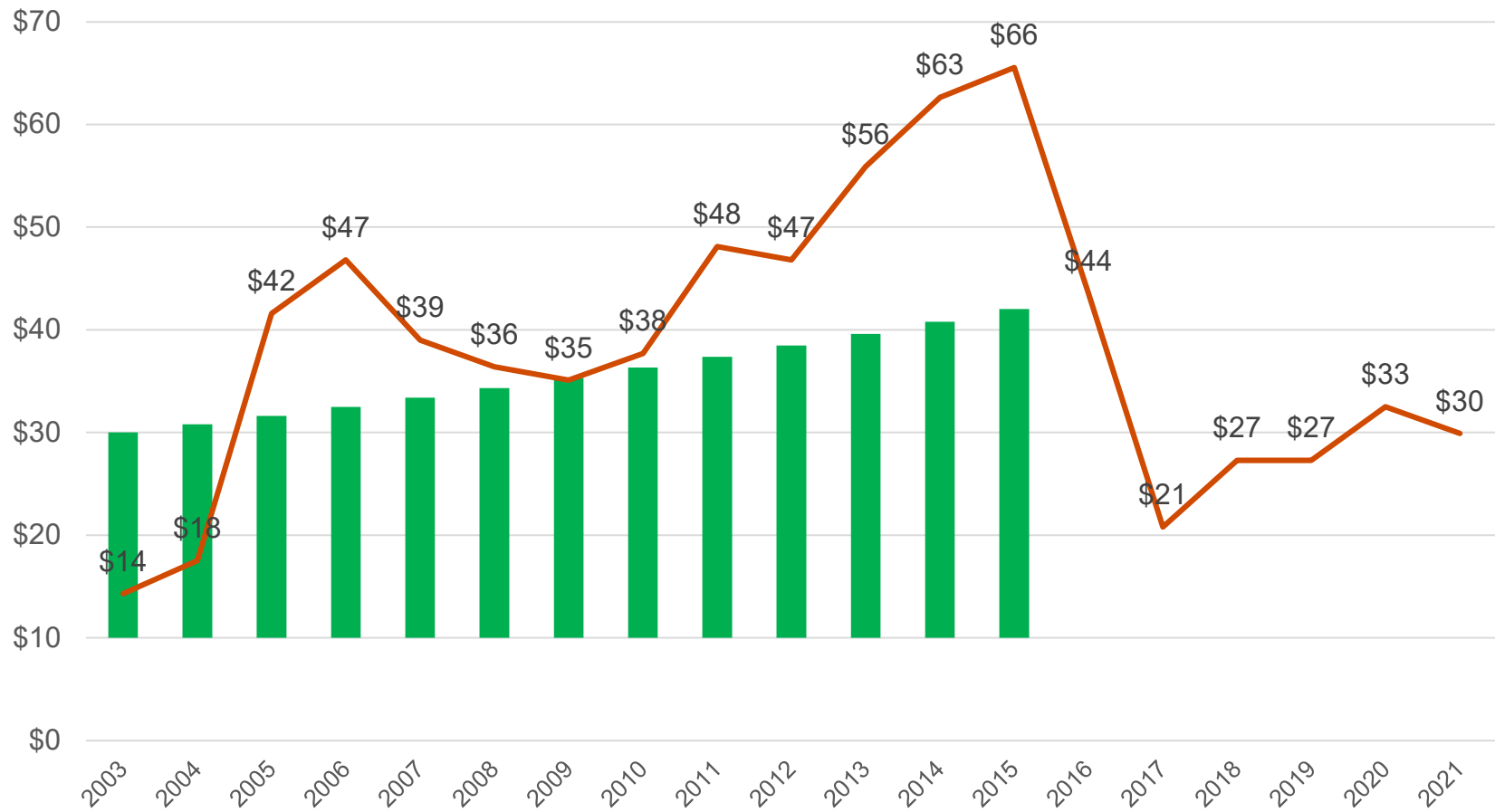
Annual rate level change



Cumulative rate level change



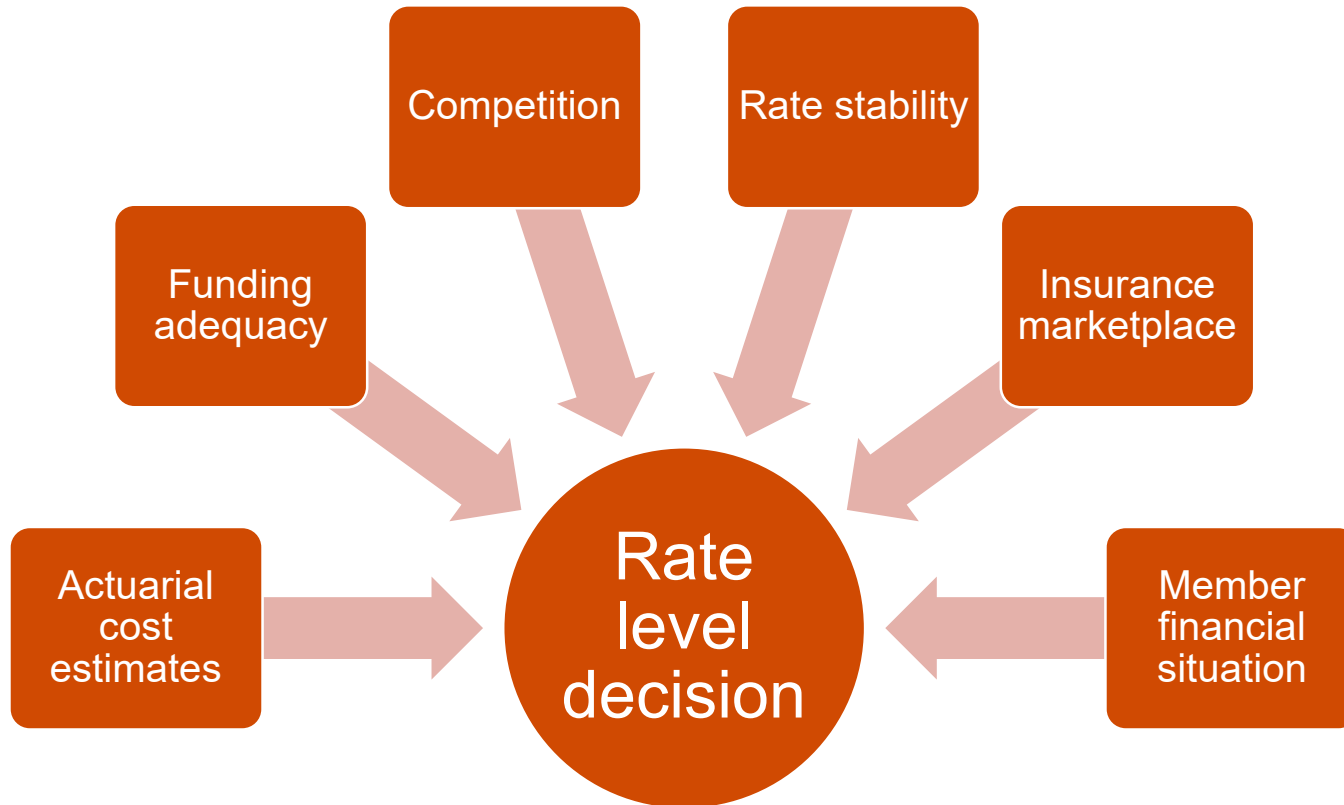
# Net position impact



# Evaluation

# 2016 rate setting

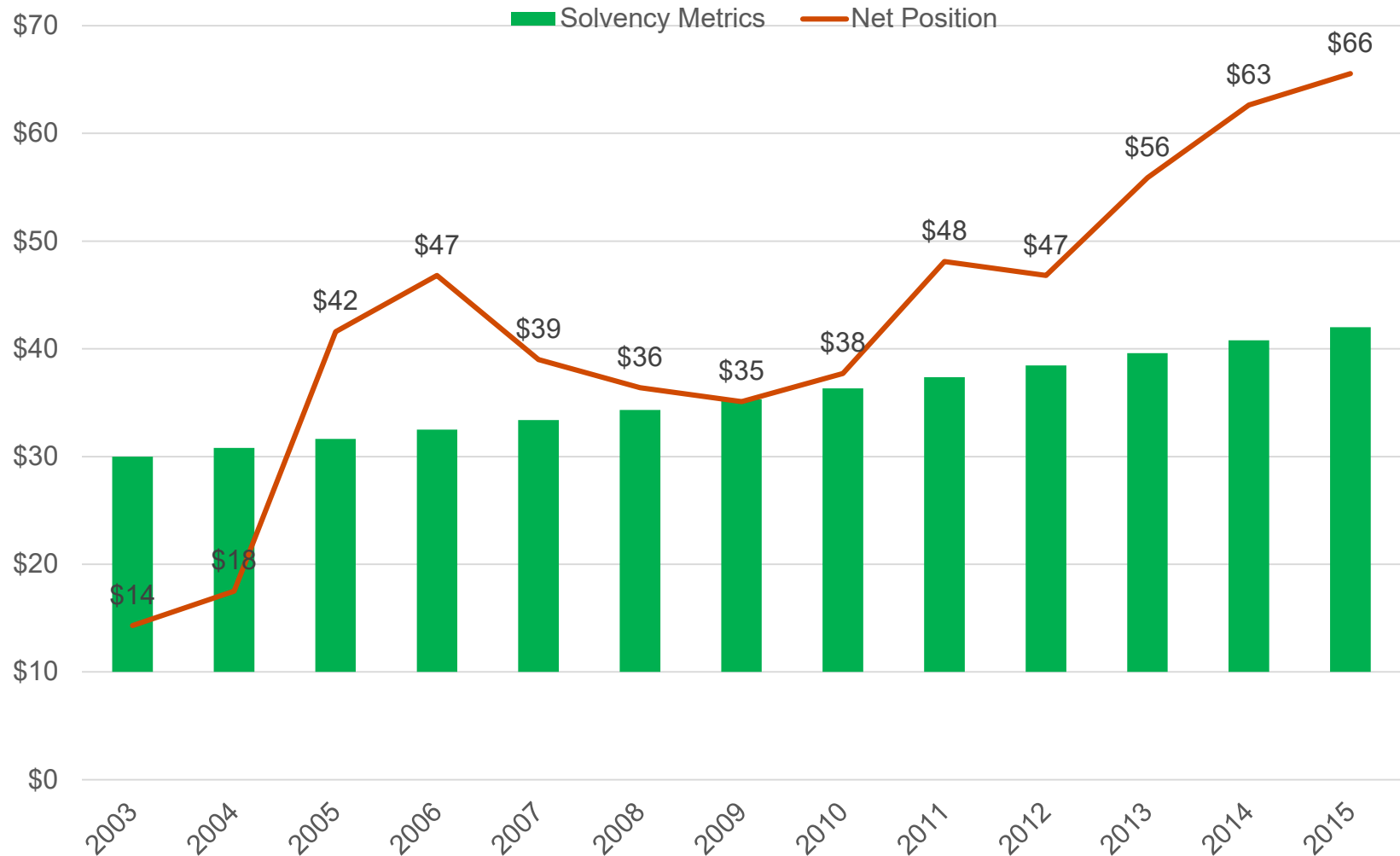
## Board member perspective



Properly informed decision – right?

# Funding adequacy assessment

Dependent on the appropriateness of the solvency measures



# Historical perspective on pool solvency metrics

## 1. Pools Form

- Insurance availability crisis
- Long-term solvency not on radar

## 2. Financial Expectations Increase

- Capital accumulated
- “Benchmark” ratios, confidence levels, formulaic approaches to evaluation
- Void filled

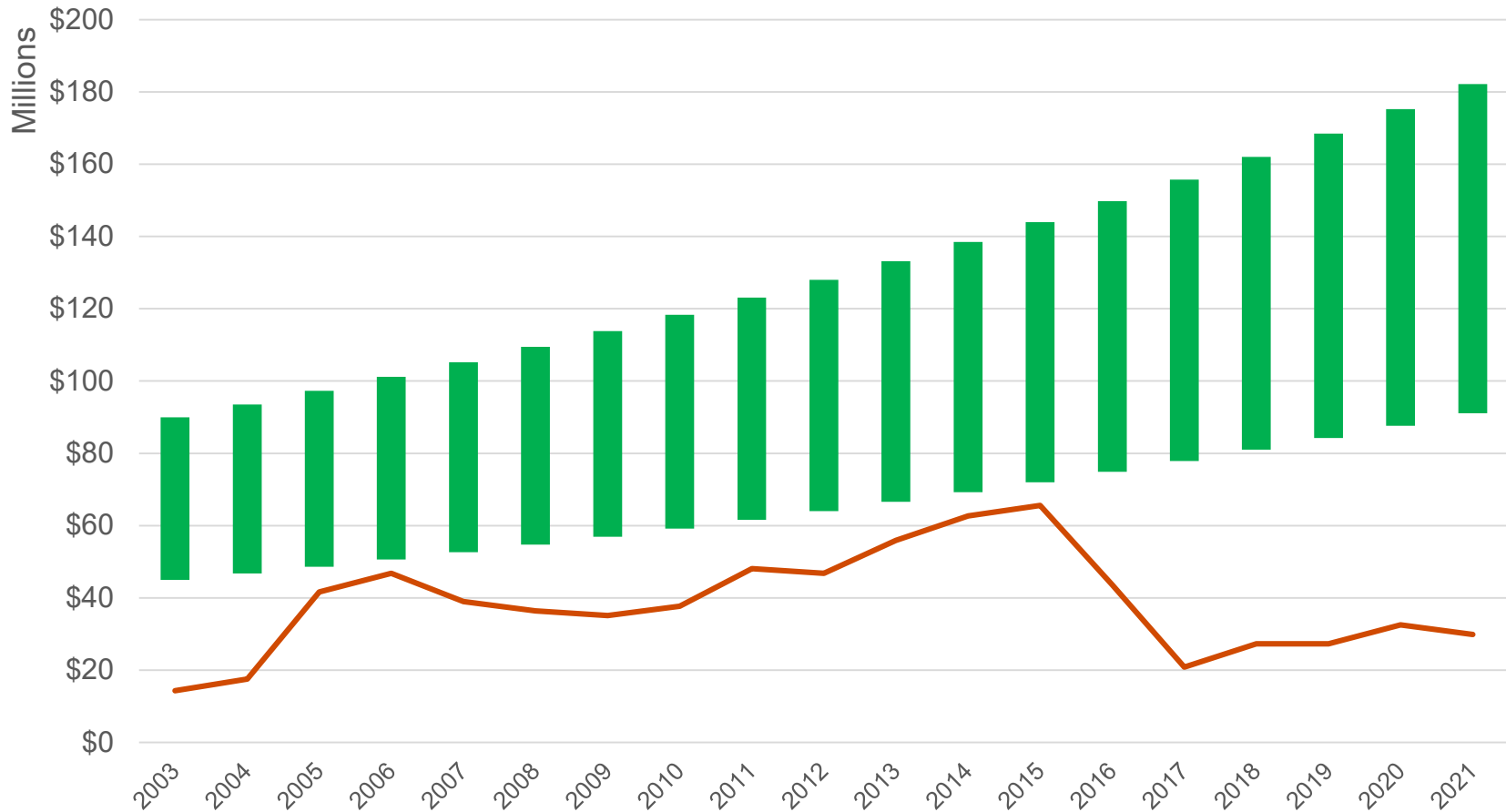
## 3. 2010 to 2019

- Pools’ simplistic measures are problematic
- More robust capital measures developed in broader industry
- Best practices become actuarial standard in 2019
- Standard specifically applies to pools

## 4. Current State

- Better governance
- More informed decision making
- Some gaps remain in pooling industry

# Solvency metrics using best practices/actuarial standard



# Comparison of considerations underlying solvency metrics

## Capital adequacy considerations 2019 actuarial standard

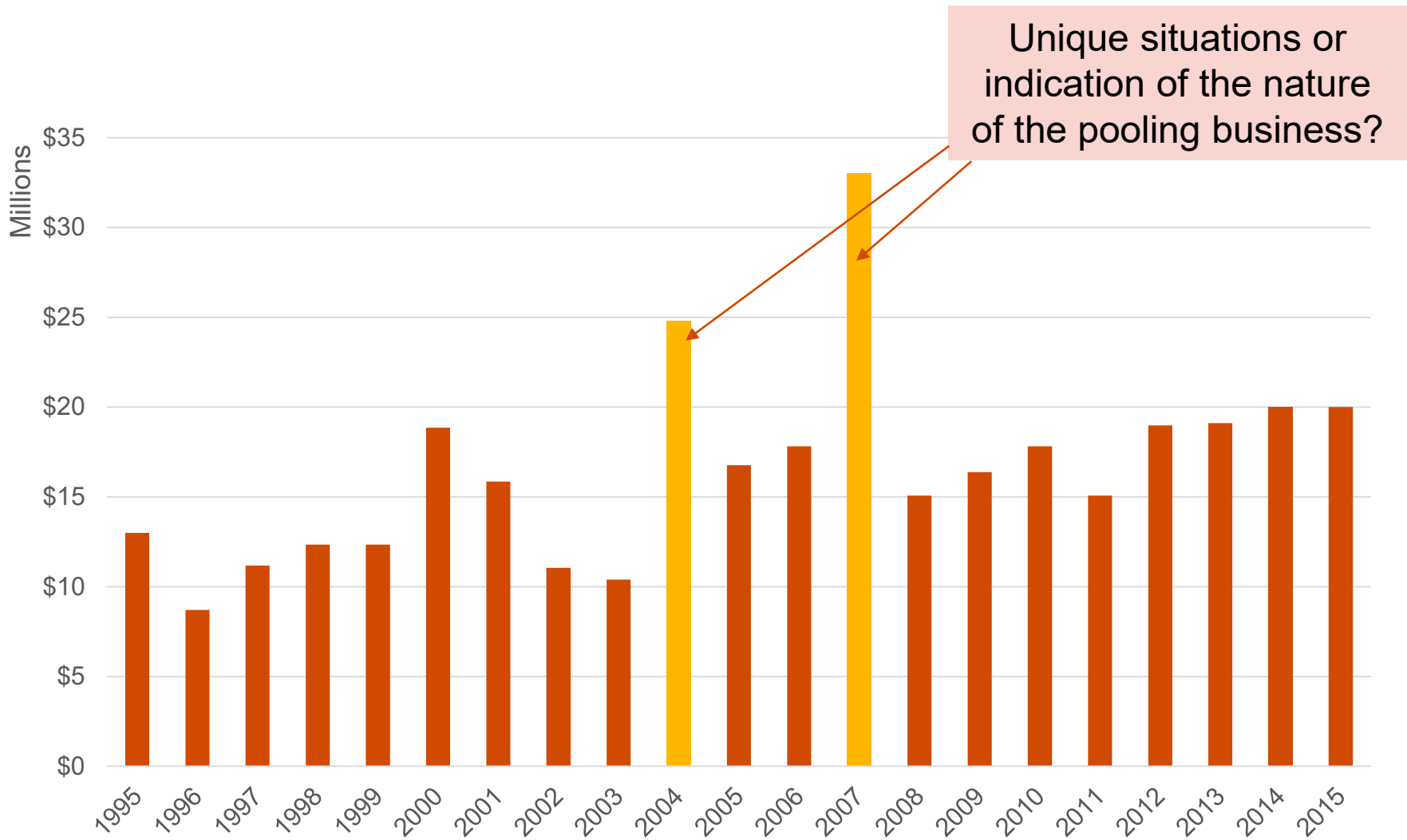
- Measure all financial risks
  - Actuarial estimates
  - Investment
  - Credit
  - Correlation
- Desired capability to withstand capital events
- Tolerance for a retroactive assessment
- Options to replenish capital and continue operations after a capital event
- Purpose of capital account – rate stability
- Potential changes in the risk profile (retention)
- Any restrictions on the use of assets or net position

## Metrics in use by this pool (and others)

- Confidence level
  - 10% chance we may run out of gas
- “Benchmark” ratios
  - assumes pools have the same risk profile and answers to all these considerations
- Insurance industry formulas
  - RBC or BCAR
  - risk concentration, size and retentions are vastly different

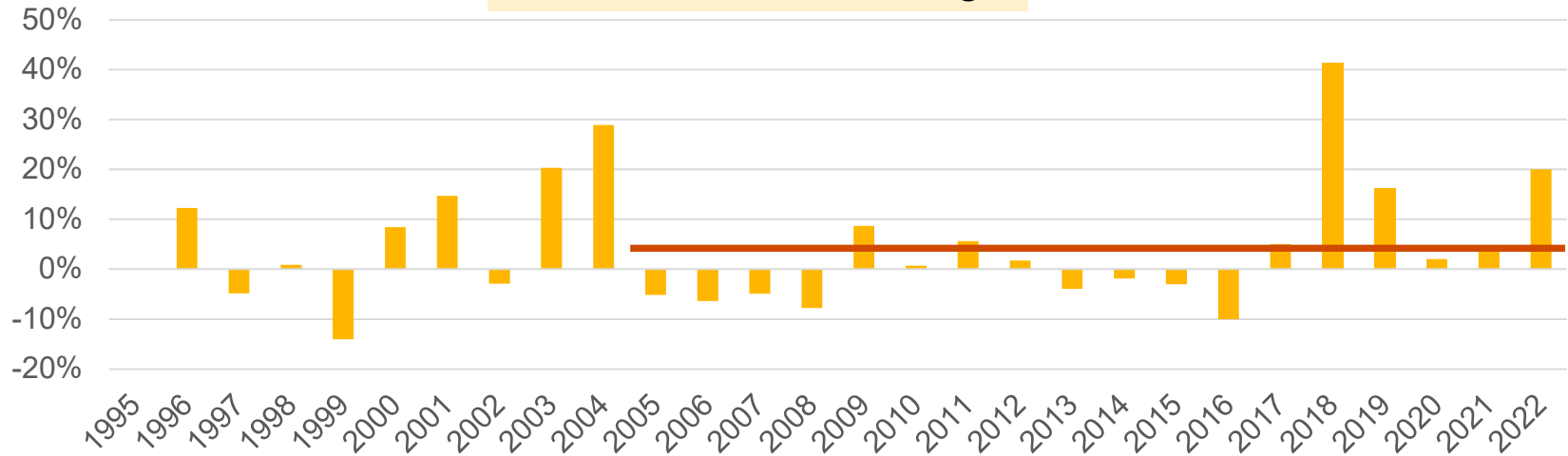
Illusion of financial protection when in fact none exists

# Were there missed warnings?

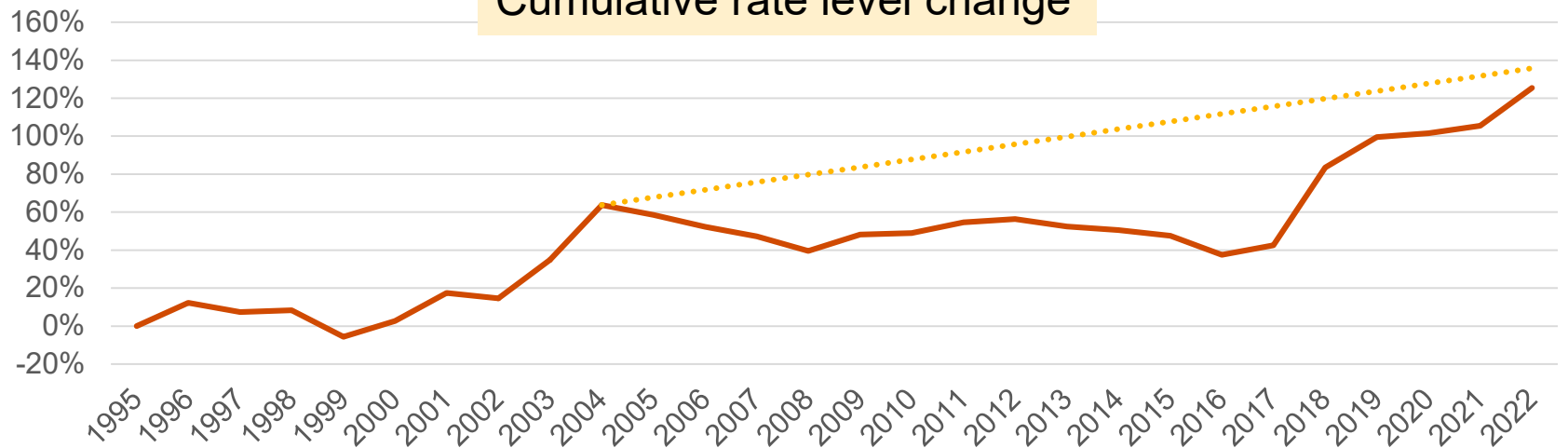


# Re-examine 2005-22 decisions

Annual rate level change

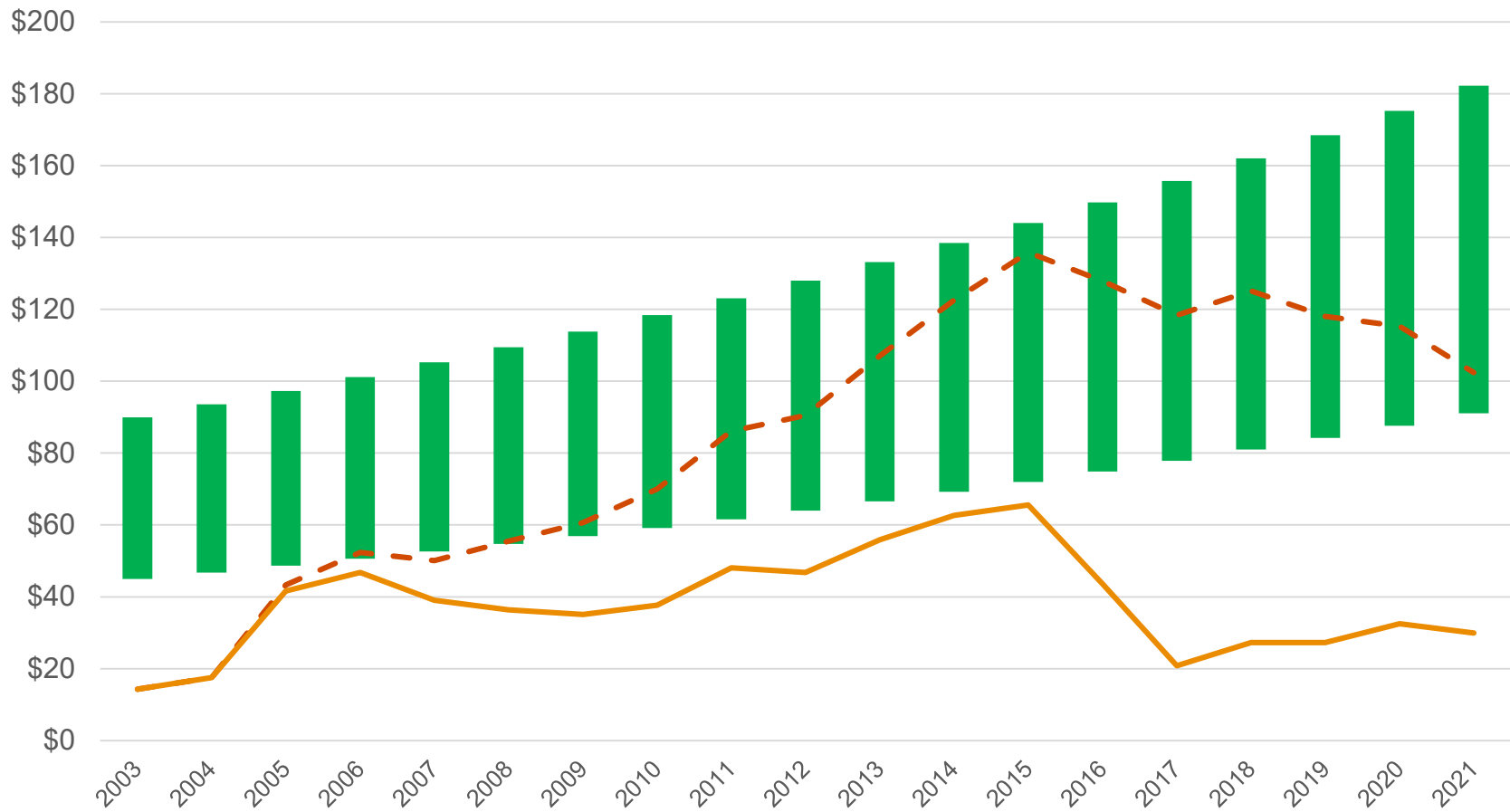


Cumulative rate level change



# Alternative outcome

4% rate increases beginning in 2005



# Conclusion

Test of a pool is how it reacts to adverse situations

Informed decisions require valid information

Risk and capital decisions can have a lasting impact

Beware of false sense of financial security

Pooling is largely self(un)-regulated

# Thank you

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