

CAYMAN ISLANDS.
CLEARLY BETTER BUSINESS.

GROUP CAPTIVES

APPROACHES TO PREMIUM DEVELOPMENT BY MEMBER

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OUTLINE OF PRESENTATION

1. Background on Speakers
2. Experience with Group Captives
3. Premium Development Methodologies
4. Issues & Concerns

BACKGROUND ON SPEAKERS

Joe Herbers – Managing Principal at Pinnacle
Located in Bloomington, Illinois
32 Years Actuarial Consulting experience

Jim DeWulf – Senior Vice President
Located in Chicago, Illinois
18 Years Captive Consulting experience

EXPERIENCE WITH GROUP CAPTIVES

Herbers / Actuarial Experience

- “ Work with 6 Providers of Group Captive Services
- “ 4-5 dozen Group Captives
- “ Over 30 years experience
- “ Both homogeneous & heterogeneous groups
- “ Small and large groups

DeWulf / Captive Experience

- “ Consultant on \$100mm Heterogeneous captive
- “ Consultant on \$45mm Homogenous Trucking captive
- “ Involved in multiple Homogenous and Heterogeneous captive formations
- “ Over 18 years of experience.

PREMIUM DEVELOPMENT

Data Needs in Underwriting Submission

Need following by Line of Coverage / Policy Period

- " Premiums
- " Paid, Case and Reported Incurred Losses
- " Paid, Open and Reported Claim Counts
- " Detail for Large claims > \$100,000
- " Historical Exposure
 - " Sales/Gross Receipts for General Liability
 - " # Power Units/Annual Mileage for Auto Liability
 - " Total # Units/Unit Values for Auto Phys. Damage
 - " Total Payroll for WC
- " Projected Exposure for Upcoming Year
- " Detail for Large claims > \$100,000

Qualitative Information in Submission

Nature of Business

- " Locations
- " Operating Divisions
- " Coverage
- " Significant Operational Changes

APPROACHES TO LOSS RATING

Experience Rating Approach

- Presume claims experience is reliable for projecting future costs
- Frequency layer and severity layer
- Frequency layer relies on individual member experience
- Severity layer relies on experience for all members of group

Exposure Rating Approach

- Exposure x Benchmark Loss Costs
- Benchmark loss costs can be
 - Indicated for group as a whole
 - Manual costs
 - Competitor costs
 - Minimum costs

EXPERIENCE RATING APPROACH

Fundamental Assumption:

Assume loss experience for individual risks is credible in primary loss layer

- Rely on latest 5-6 years of premium/loss/exposure data
- Incorporate benchmark ELR₅, loss development patterns, trend, benefit levels, ILF₅ (ELF)
- Determine nature of risk₅ operations
- Identify projected exposures
- Use experience rating for excess layer for group as a whole
- Limit percent of change from one year to next

ISSUES & CONCERNS

Operational Changes

- New Management
- Acquisitions or Divestitures
- Safety Director
- Risk Management programs

Data Issues

- Incomplete Submission or Missing Data
- Overlapping Policy Periods
- Multiple Divisions
- Underlying deductibles and retentions
- Recoveries (subrogation and/or second injury funds)

Unusual Coverages

- Garage
- Liquor liability
- Inland marine
- Pollution

CONSIDERATIONS

Credibility

- How many years of data to review
- Consistency vs. Volatility
- Impact of large individual claims
- Discontinued vs. ongoing operations

Actuarial Issues

- Benchmarks vs. captive data
- Loss Development
- Trend
- Changes in statutory benefit levels (WC)
- Expected Loss Ratios
- Exposure basis . inflation sensitive?
- Loss Adjustment Expenses

Judgment

- Balance between mechanics of mathematical process and judgment
- Consistency of approach
- Blend between actual data vs. benchmark costs
- Minimum premium

RENEWAL

Experience Rating Approach

- Develop frequency layer loss projections for each member individually
- Limit % change in frequency layer loss cost from prior year (i.e., capping)
- Apply minimum loss costs
- Develop indicated severity layer costs for group as a whole (using % relationship to frequency layer)
- Consider tiers for severity fund %s (if significant differences in exposure or experience points that way)

Tests of Reasonableness

- Sum of individual loss projections vs. indicated loss funds for group as a whole
- % change from prior year compared with the indicated change from rate change calculation (i.e.,

$$\frac{\text{Projected LR}}{\text{Permissible LR}} - 1.00$$

ADDITIONAL PREMIUM ADJUSTMENT FACTORS

Renewal Adjustment Considerations

- Review Risk sharing caused or absorbed by individual members
- Carrier concerns with individual members excess claim risk
- Review individual members lines of coverage for poor trends and adjusted properly
- Apply credits based on safety measures having greater impact than shown in renewal loss costs, material change in operations, anticipated reductions in losses based on potential recoveries, or compliance with carrier fillings

Prospect Adjustment Considerations

- Estimate future renewal to avoid material increase or decrease for respective prospect
- Larger accounts (>\$5mm) develop loss costs for full retention versus the separate frequency and severity loss costs
- Review unusual terms and conditions and consider adjustments based on exposures
- Apply credits if company's risk profile has material changed to a lower exposure or compliance with carrier fillings

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