



2017 RPM Seminar
March 28-29, 2017
San Diego, CA


**Residual Markets:
"Last Resort" Coverage**



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Private Passenger Auto Plans

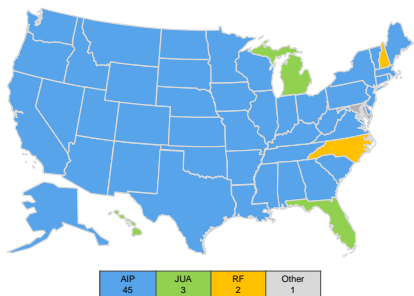
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Some Useful Terms

- Types of auto residual market mechanisms
 - Assigned Risk Plans (AIPs)
 - JUA
 - Reinsurance Facility
 - State Fund
- AIPSO – Auto Insurance Plan Service Office
 - Industry funded
 - Administers the auto residual market on behalf of the industry
- LAD (Limited Assignment Distribution)
 - Option for company to buy out of all auto residual market obligations

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Private Passenger Auto Plans – CW View



Source: APISO

Last Updated 3/13/2015

What options does a company have to fulfill their auto residual market obligation?



Take own assignments on an in house policy administration system

- Build new or utilize existing IT platform for this line of business
 - Requires familiarity with and programming of Plan specific rules/rates/rating plans for all active states
 - Involuntary market rating plans are generally significantly different than voluntary market rating plans
- Need in-house expertise for effective management of this line of business (UW results flow directly to bottom line of company results)
 - Premium pursuit/correct classification efforts
 - Customer and producer service unit
 - Data/Statistical reporting functions, including credit mechanisms
 - Claims may need specialized handling

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What options does a company have to fulfill their auto residual market obligation?

Take own assignments on third party policy administration system

- Outsource the IT platform for this business
- Effective management of the business is still required; may be available from the vendor
- Metrics to watch:
 - Average premium of assigned business relative to industry
 - Severities relative to industry (frequency differences to industry may be random)



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What options does a company have to fulfill their auto residual market obligation?

Enter into a LAD agreement (LAD = "Limited Assignment Distribution")

- Opportunity exists in most states (some restrictions if voluntary market share is >5%)
- LAD company assumes ALL responsibility/obligations arising from this market
 - Quota obligation
 - Underwriting gain/loss
 - Data/Statistical reporting
- Evaluation criteria:
 - Evaluate assigned risk combined ratio
 - Use fully loaded expenses for this line of business (IT costs, vendor costs, head counts, accounting, claims costs, etc.)
 - Compare CR to quoted LAD supplier cost to determine savings opportunity



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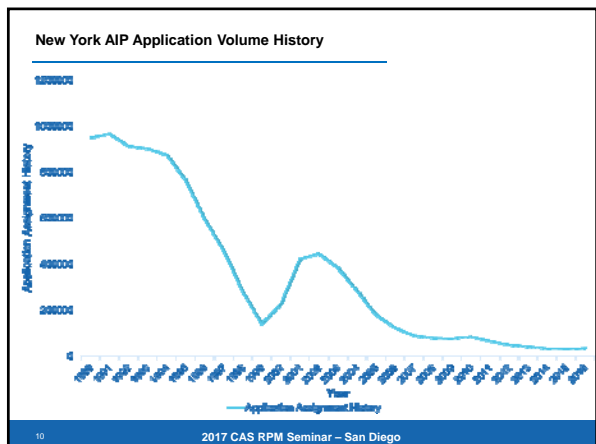
What options does a company have to fulfill their auto residual market obligation?

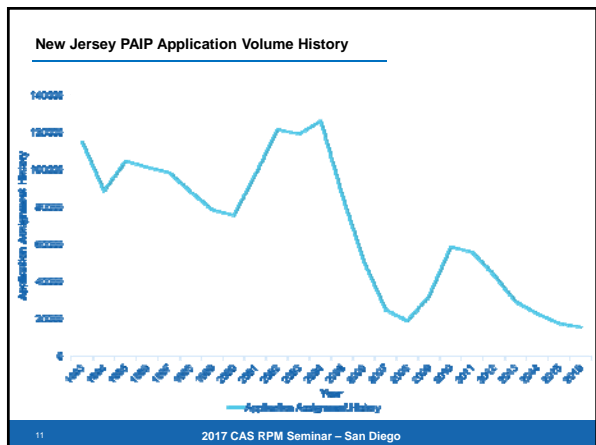
The assigned risk mechanism is very costly to manage today

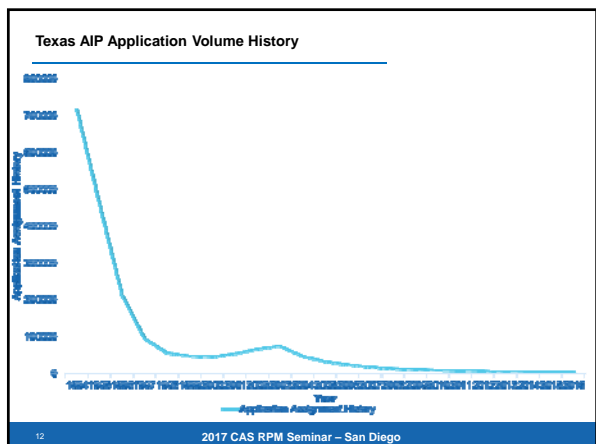
- No opportunity to achieve scale in processing costs (even large carriers)
- Line expertise is present in only isolated pockets
- Per policy fixed costs in the industry today are estimated to be >\$1000 (and growing), with UW losses additional



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Appendix – Glossary (cont.)

Assigned Risk

- LAD** **Limited Assignment Distribution.** It is the mechanism by which automobile insurance companies can pay a *servicing carrier* to accept and manage their entire personal auto assigned risk obligation. Generally, automobile insurance companies don't have the AIP (Automobile Insurance Plan) specialization required to manage AIP business effectively. They are unfamiliar with the claims, service and pricing complexities of dealing with Assigned Risk and would rather focus their resources on managing their core business initiatives.

- Servicing Carrier** An insurance company contracted to service shared market policyholders, under either pooling mechanisms or LAD arrangements.

- Servicing Carrier Agreement** A contract between an auto insurance residual market mechanism and an insurance company that sets forth duties and responsibilities of the mechanism and an insurance company for processing assigned risk plan business.

- Service Fees** Allowances to servicing carriers, in excess of operating fees, generally expressed as a percentage of written premiums, to compensate for services performed on behalf of pooling arrangements.
