

Some Useful Terms

- > Types of auto residual market mechanisms
 - Des or auto residual market mech

 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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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

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
- ➤ 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.)
 - $\succ \ \, \text{Compare CR to quoted LAD supplier cost to determine savings opportunity}$

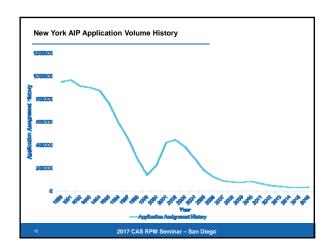
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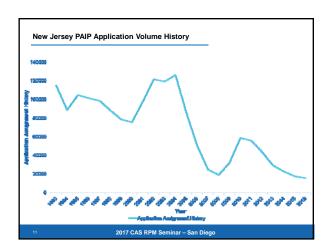
What options does a company have to fulfill their auto residual market obligation?

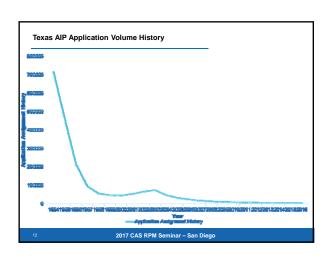
The assigned risk mechanism is very costly to manage today

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









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New paradigms (cont.)

1) Build one system (at AIPSO) that the entire industry can utilize

- > Eliminates need for multiple systems among various carriers
- > Could function as a "TPA" type of system, or utilize a fronting company to write the business
- > Utilize one company to manage/settle claims on behalf of the industry

2) Transition to a JUA type of model

- > Bid out for servicing carrier to act as insurer for the industry
- > Fixed % of premium paid to servicing carrier
- > Profits/Losses shared among industry based on market share, with maintenance of credit programs where it makes sense to do so

Opportunity to drive millions of dollars out of the industry cost structure on a national scale

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Questions?

Appendix - Glossary

JUA

Residual Market The Residual Market consists of consumers who are unable to purchase auto insurance through the voluntary market due to a variety of factors such as driving history or first time drivers

Automobile Insurance Plan Service Office. AIPSO is a nonprofit, <u>industry funded</u> organization that provides an array of services (actuarial, legal/regulatory, quota determination and administration, etc.) that ensures that various states' assigned risk plans operate effectively and efficiently

Auto Insurance Plan. An assigned risk plan, the most common type of auto residual market mechanism, currently found in 45 jurisdictions, michalip B.C. It is generally sold of the plant of the plant

Joint Underwriting Associations. JUAs are state-mandated pooling mechanisms through which all companies doing business in the state share the premiums, losses, and expenses associated with the residual market of that state. A servicing carrier is typically hired to issue and service the policies.

Reinsurance Facility. This is a pooling mechanism whereby each auto insurer is required to provide coverage and service the claims for any applicant, but is permitted to cede the premiums and losses of identified policies to the Reinsurance Facility. The profits or losses on Facility business are shared equitably among all auto insurance companies licensed in the state in proportion to their share of the market.

Appendix	= - Glossary (cont.)
	Assigned Risk
LAD	Limited Assignment Distribution. It is the mechanism by which automobile insurance companies can pay a surviving carrier to accept and marage wheir 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 prioring 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.
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