



ACCEL Board of Directors Meeting

ACCEL

October 13, 2023

Introduction to Alternative Risk Transfer For Third-Party Liability Exposures

How Do We Insure Third-Party Liability Now?

2023-24 Excess Liability Program Structure

Limits*	Authority for California Cities Excess Liability (ACCEL)	Premium TRIA excluded
	7/1/23 to 7/1/24	
\$60M	Homesite Insurance Company \$2.5m (w/ \$10m Annual Policy Aggregate) xs \$57.5m (Policy #PEX218734000-00) - Amwins	\$51,307/M \$128,268
\$57.5M	StarStone Specialty Insurance Company \$5m (w/ \$20m Annual Policy Aggregate) xs \$52.5m (Policy #CSX00037877P-00) (Amwins)	\$68,410/M \$342,050
\$52.5M	Allied World National Assurance Company \$5.5m (w/ \$22m Annual Policy Aggregate) xs \$47m (Policy #0306-8014) (Amwins)	\$105,455/M \$580,000
\$47M	ACCEL retained (FFXS MOC policy – 100% Reinsured by Midvale Indemnity Company) \$2.5m (w/ \$10m Annual Policy Aggregate) xs \$44.5m (Policy #MOC0722-FFXS MOC; Cert No: PEF-172343050-00) - Amwins	\$161,920/M \$404,799
\$44.5M	ACCEL retained (FFXS MOC policy – 100% Reinsured by Upland Specialty Insurance Company) \$2m (w/ \$8m Annual Policy Aggregate) xs \$42.5m (Policy #MOC0722-FFXS MOC; Cert No: USXPE0386223) - Amwins	\$231,314/M \$462,627
\$42.5M	ACCEL retained (FFXS MOC policy – 100% Reinsured by Continental Indemnity Company) \$2.5m (w/ \$10m Annual Policy Aggregate) xs \$40m (Policy #MOC0722-FFXS MOC; Cert No: JCI23NPX-01050-03) - Amwins	\$282,704/M \$706,761
\$40M	ACCEL retained (FFXS MOC policy – 100% Reinsured by Everest Reinsurance Company) \$5m (w/ \$20m Annual Policy Aggregate) xs \$35m (Policy #MOC0722-FFXS MOC; Cert No: FC10049109-2023) - Amwins	\$356,316/M \$1,781,579
\$35M	Gemini Insurance Company \$10m (w/ \$40m Annual Policy Aggregate) xs \$25m (Policy #CEX09600358-10) (Amwins)	\$476,250/M \$4,762,500
\$25M	Great American E&S Insurance Company \$3.2m po \$10m (w/ \$40m Annual Policy Aggregate) xs \$15m (Policy #1827326-06) (Amwins Chicago)	\$635,000/M \$6,350,000
	StarStone Specialty Insurance Company \$1.8m po \$10m (w/ \$40m Annual Policy Aggregate) xs \$15m (Policy #APEICS1827326-08)- Amwins Chicago	
\$15M	Allied World National Assurance Company \$5m xs \$10m (Policy #0312-4087) - Amwins	\$1,000,000/M \$5,000,000
	\$10M Retained Amount (9m MOC xs 1m SIR)	

Total Premium (up to \$55m) - \$20,518,584 Plus Taxes/Fees

*Limits shown do not reflect the applicable Policy Aggregates for each layer participant

Alternative Risk Transfer

Alternative Risk Transfer

Defined

Alternative Risk Transfer (ART) – blended risk retention/transfer solutions which serve as an alternative to, or enhancement of, conventional commercial insurance - growing in popularity as organizations seek bespoke flexibility for an increasing array of risk scenarios.

As you can see on the previous slides, the current method of insuring the liability exposure could hardly be considered “traditional”, but for the sake of argument let’s just call it that for purposes of today’s discussion.

Examples

- *Loss Sensitive Solutions*
- Captives
- Parametric Products
- Risk Sharing Pools

Source: Allianz Global Corporate & Specialty (AGCS)

Common Features of an ART Solution

- Multi-year term
- Spread Aggregate(s)
- Retrospective premium calculations (Additional Premium or Return Premium)
- No loss bonus
- Commutations – typically required to receive any return premium

Alternative Risk Transfer

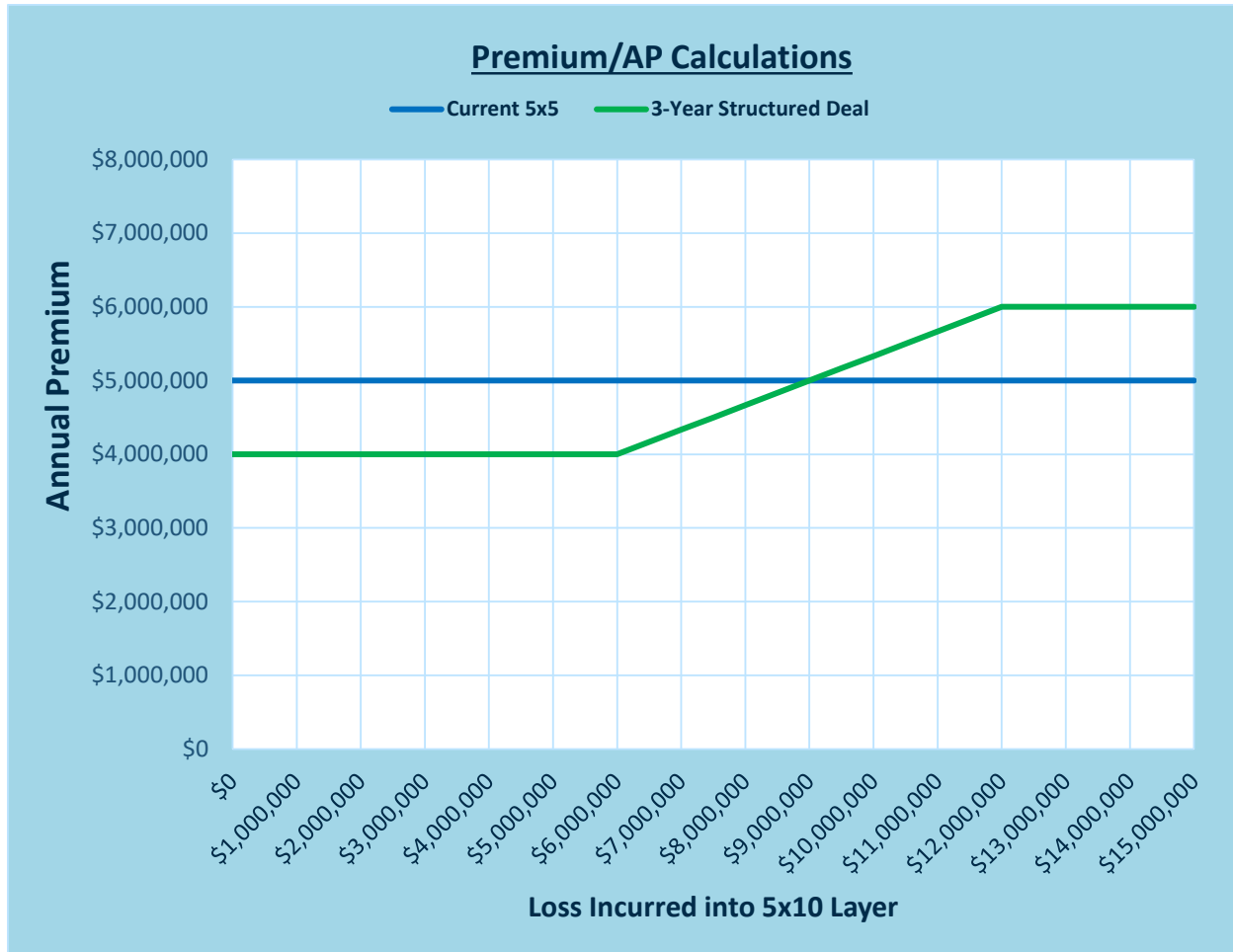
Loss Sensitive Conceptual Scenarios (Slide 1 of 5)

*Purely a **conceptual example** of what a Loss Sensitive ART could look like for ACCEL*

- Replacement for the current \$5M x \$10M layer
- 3 Year Commitment
- Limits:
 - \$5M Per Occurrence
 - \$10M Annual Aggregate
 - \$30M Term Aggregate
- \$12M **deposit** premium due up front (\$4M annual)
 - *Worst Case* Total Premium of \$18M
 - *Best Case* Total Premium of \$10M

Alternative Risk Transfer

Loss Sensitive Conceptual Scenarios (Slide 2 of 5)



- The current program is simply a horizontal line (blue). As the current premium of \$5M is not impacted whether or not there are losses paid into the layer. ‘Guaranteed Cost’.
- The 3-Year ART deal conceptual (green) line shows an annual deposit premium that moves according to loss activity. The ART deal would produce annualized savings if losses are less than \$9m incurred within the 5x10 layer over the 3-year duration. Thus, \$9M in losses is the ‘break-even’ point.

Note: Premium Comparison Only. Does not consider scenarios of aggregate exhaustion.

Alternative Risk Transfer

Loss Sensitive Conceptual Scenarios (Slide 3 of 5)

Does it make sense? Depends on the ACCEL's actual losses and the commercial insurance market's behavior.

- The current \$5M x \$10M Layer Annual Premium is \$5M. Let's assume this increases by 5% for each of the next 2 years. Annualized and total premium for a 3-year period is:

Year 1	\$5,000,000
Year 2	\$5,250,000
Year 3	<u>\$5,512,500</u>
TOTAL	\$15,762,500

- ***“Breakeven point”*** is having no more than \$9M in claims paid in this layer over the 3-year duration, but that assumes 0% annual premium increases in the traditional placement.

Of course ***we don't know how severe*** future losses will be ***or when they will occur***, nor do we know what future insurance premiums will be.

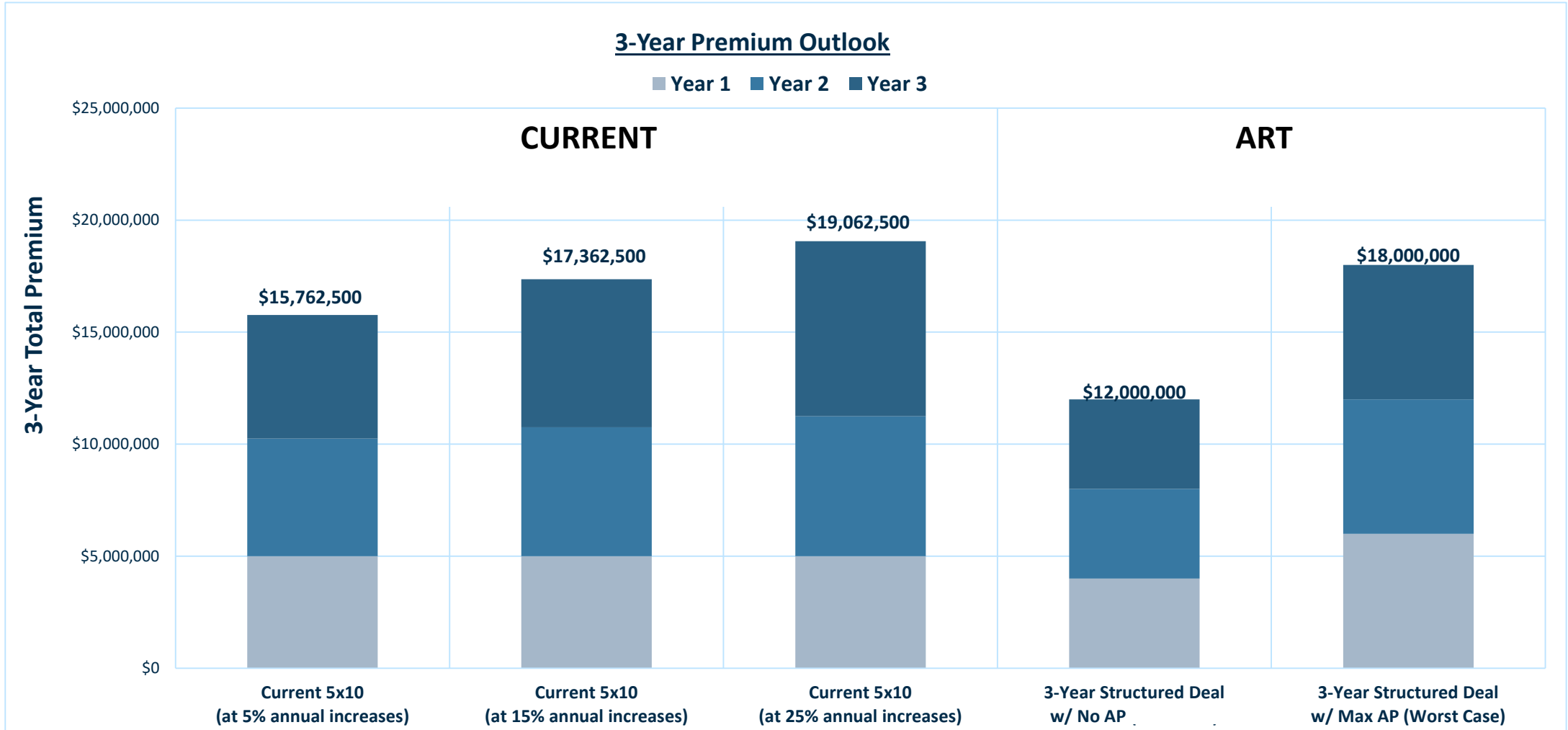
Alternative Risk Transfer

Loss Sensitive Conceptual Scenarios (Slide 4 of 5)

- There is value in the 3-year structured deal because they can provide certainty for the current renewal as well as the next two renewals to come. While there is uncertainty as to the AP component, insureds can fund to the maximum AP and then compare that to the traditional program, assuming moderate to material premium increases to the traditional program each year.
- The exhibit on the next slide contemplates 5%, 15%, and 25% renewal increases for the traditional program as a comparison point to the stability of locking in a 3-year deal.

Alternative Risk Transfer

Loss Sensitive Conceptual Scenarios (Slide 5 of 5)



Questions & Discussion



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