



Arkansas Bureau of Legislative Research Analysis and Recommendations

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Project Summary



Property insurance for AMAIT, APSIT, & ASBA experienced significant increase of premiums for 2022-2023



Arkansas Legislative Council tasked Perr&Knight with:



Researching self-insured structures and financial positions in select states



Performing an actuarial analysis



Providing Subcommittee with an accurate multi-year strategic path forward



OVERVIEW OF SELECT STATES' SELF-INSURANCE PROGRAMS



Select States' Self-Insured Programs – Overview



State	Program Name & Function	Coverages	Assets	SIR * Highest SIR
Louisiana	ORM – State owned buildings LCPIC – Insurance of last resort	Property and workers' comp. Residential and commercial property	\$ (17.7M) \$ 973M	\$ 50M
Mississippi	MDFA – State owned buildings IHL – Public universities MDE – K-12 Schools MCCB – Community colleges	Property, workers comp., Purchase insurance open market Purchase insurance open market Purchase insurance open market	\$ 33.5M \$ 8.5M --- ---	None
Missouri	MOA – State property preservation fund MOPERM – Membership risk pool local governments	Workers' comp, liability, property, auto Liability, property, cyber (until 2021)	--- \$ 163M	\$ 500K
Oklahoma	OSIG – School risk pool OMES – State owned buildings / assets	Property, liability, auto Property, human resource, cyber	\$ 40M \$ 20M	\$ 30M
Tennessee	TCIC – State owned buildings and contents LGIP – General fund, highway, schools and other PEP – Membership building and personal	Property and cyber. Workers' comp, property, liability Liability, workers' comp., property	\$ 40M \$ 49M \$ 264M	\$ 25M
Texas	SORM – State owned buildings, personal property TWIA – Coastal county property (Residential and commercial)	Auto and property Property (Wind and Hail)	\$ 8M \$ 713M	\$ 5M



State Focus: Tennessee

Background

- Experienced significant increases in property insurance in 2018 & 2019
- Established TCIC in 2022

Insurance Structure and Coverage

- Captive insurance structure
- Managed by TN Dept of Treasury & regulated by TN DOI
- Provides property, GL, and cyber coverages; plans to add WC
- Premiums collected as usual, with funding set at 80% confidence level

Financial Overview

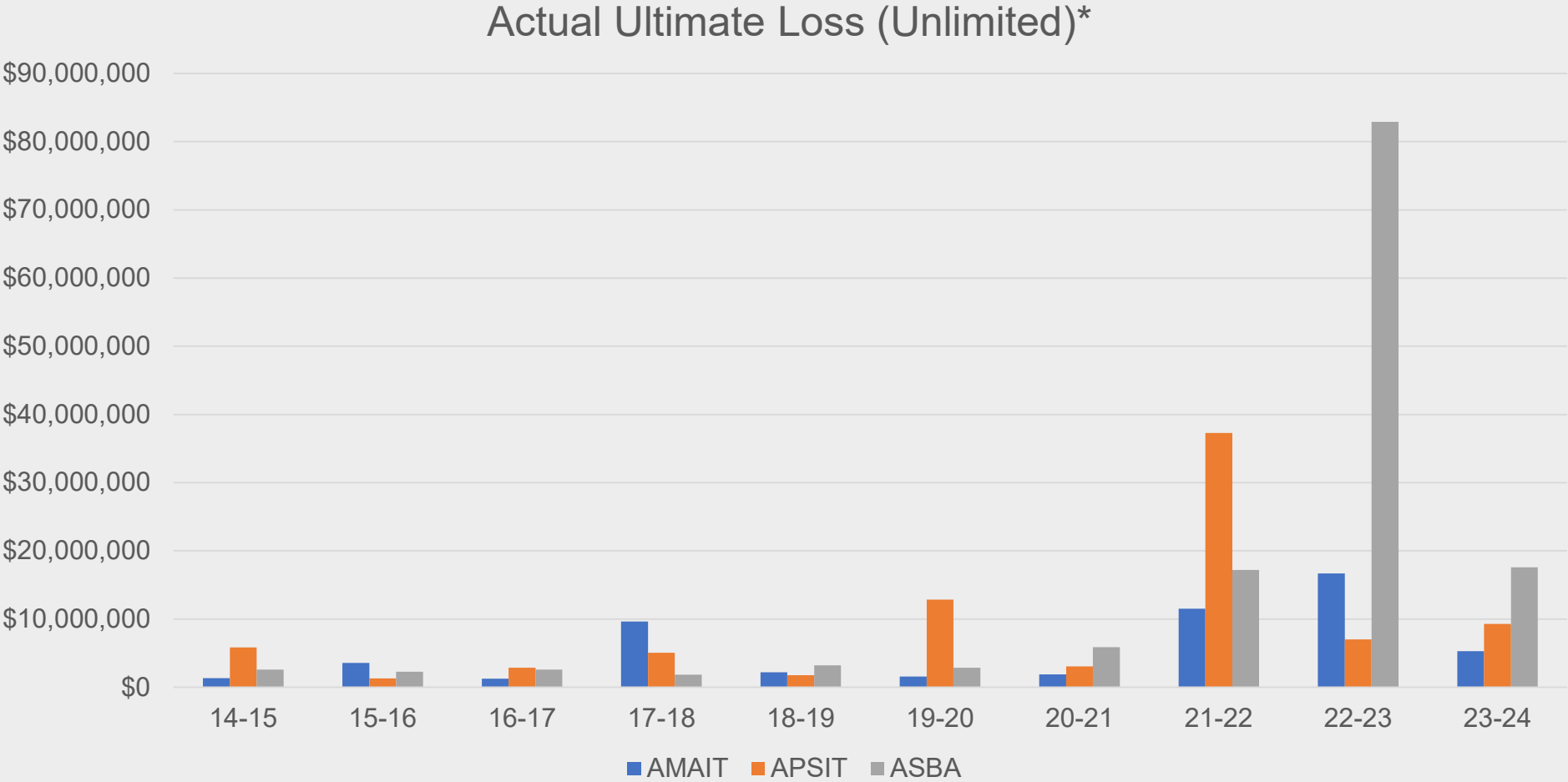
- Insured values \$31.4B in 2022
- 2023 assets are \$39.7M
- Provides \$25M coverage above deductibles ranging from \$25K to \$2.5M;
 - May increase coverage to \$50M
- Purchase commercial insurance up to \$600M



ACTUARIAL ANALYSIS



Summary of Historical Results



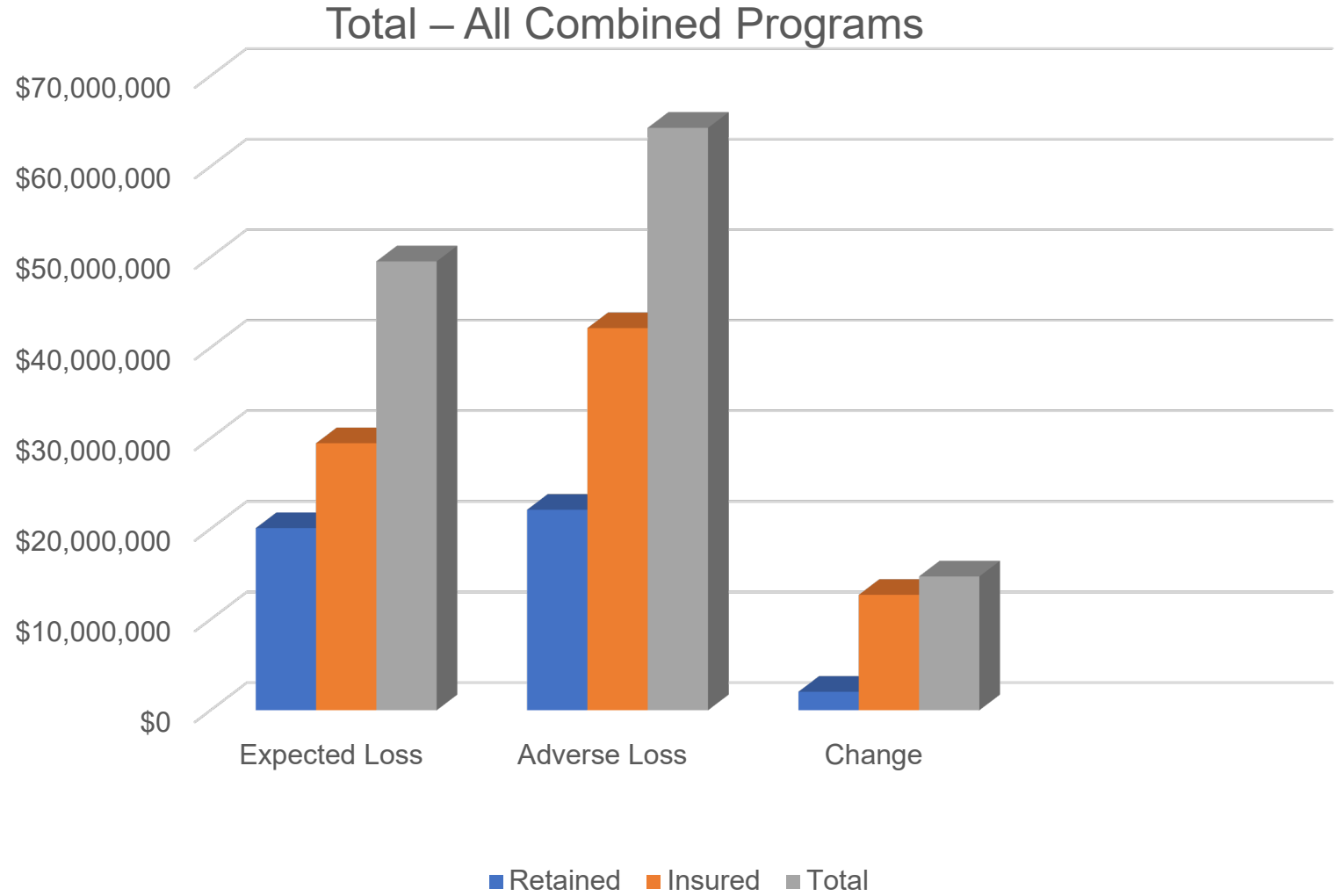
* Note: The 23-24 ultimate incurred loss includes IBNR.



Program Retained Risk vs Insurer Risk



- Risk is measured as the change in loss dollars retained versus change in lost dollars insured when an “adverse” year occurs
- Higher claim cost in recent years shifted to insurance market, i.e., not retained
- Not enough risk being retained in current insurance structure





OBSERVATIONS



2024-2025 Fiscal Year Property Insurance Information



Agency	Total Insured Value	Aggregate Retained Limit ¹	Commercial Insurance Premiums ²	Self-Insurance Premiums ²	Net Position
AMAIT	\$25,354,003,100	\$8,500,000	\$27,112,741	-\$835,895	\$20,046,502
APSIT	\$9,873,125,300	\$6,000,000	\$16,998,650	\$1,030,139	\$14,478,381
ASBA ³	\$16,036,657,900	\$3,000,000	\$13,638,169	\$7,198,638	\$16,804,829
Total	\$51,263,786,300		\$57,749,554	\$7,392,882	\$51,329,712

Notes:

1. In addition to the aggregate retention limit, ASPIT properties are subject to a \$2.0M per occurrence deductible, and ASBA is subject to a \$500k deductible and only losses up to a \$750k excess the \$500k deductible erode the aggregate retained limit.
2. Figures incorporate gross insurance premiums and include other coverages such as cyber and vehicle.
3. Commercial Insurance Premium, Self-Insurance Premium, and Net Position data through fiscal year ending 2023.



RECOMMENDATIONS



#1: Retain More Risk

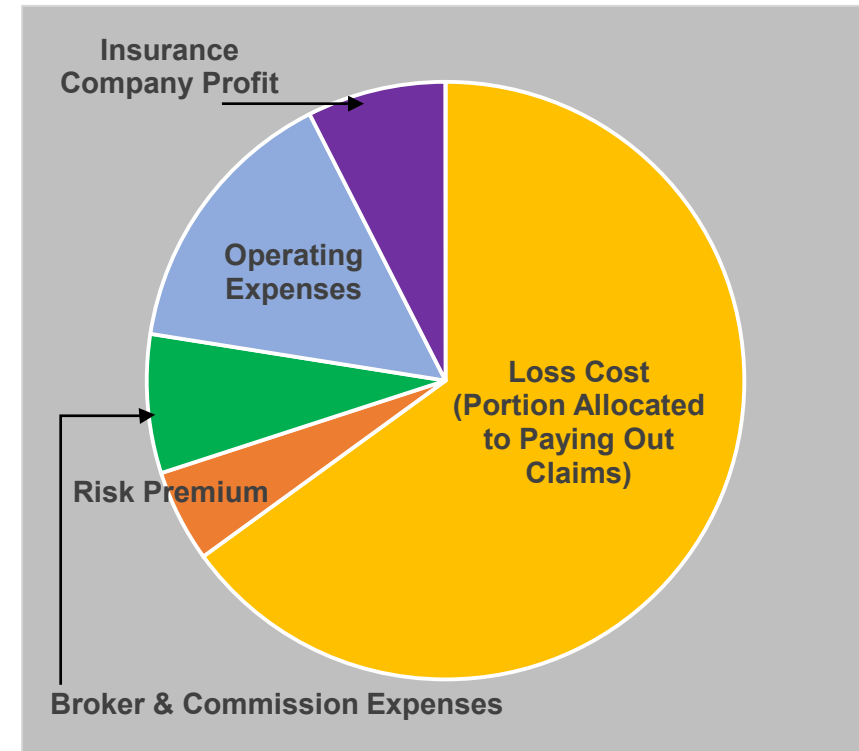
Benefits:

- Risk transfer inefficient
- Reduced risk premium

Disadvantages:

- Capital is put at risk
- Administrative costs

Components of Property Insurance Premium



#2: Perform an Annual Independent Actuarial Analysis

Benefits:



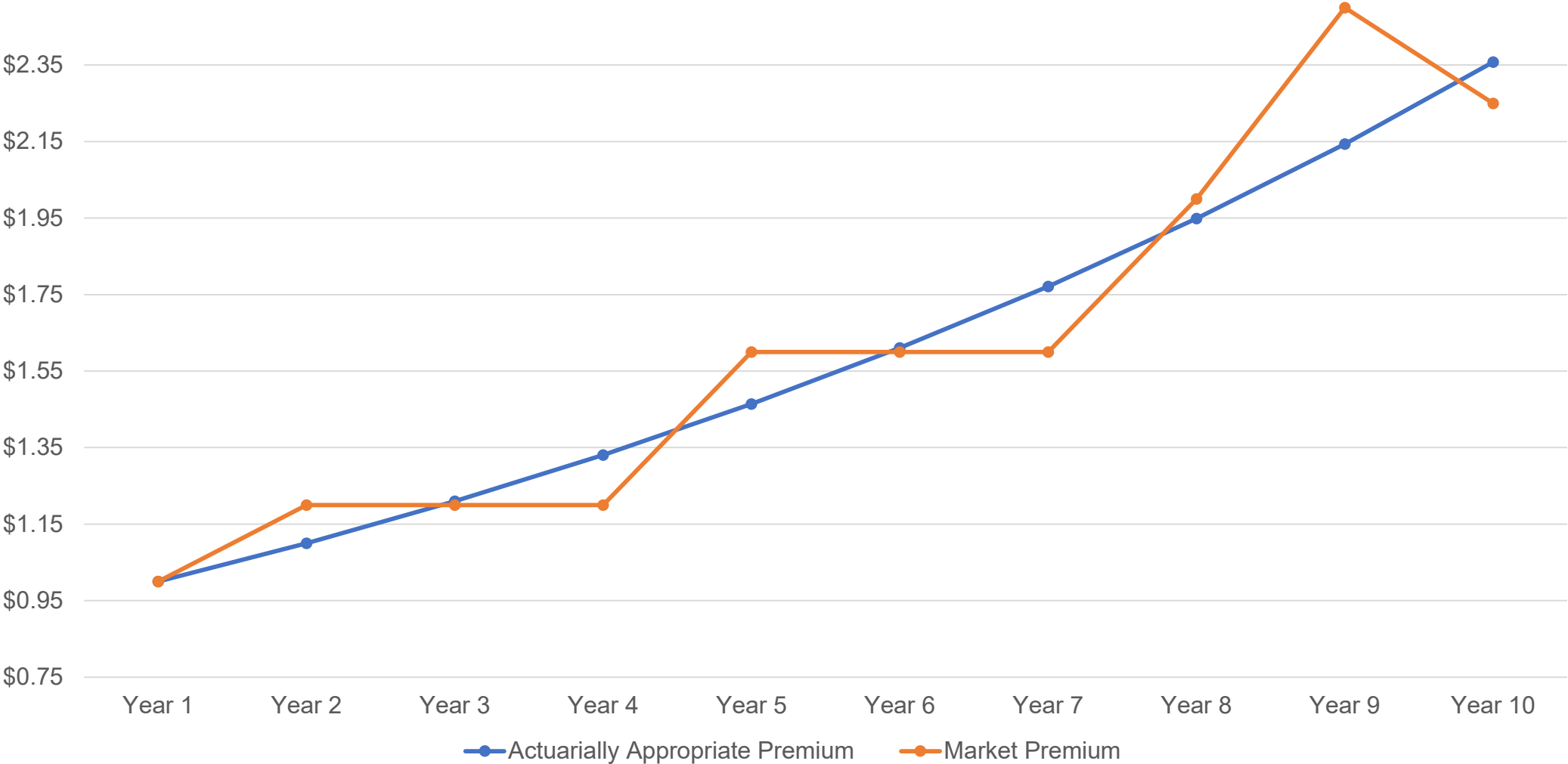
- **Accuracy:** AR Gen. Assembly can adjust their funding levels based on the latest data and fund at various confidence levels
- **Reduce Suprises:** An actuarial study can be prepared well in advance, allowing the AR Gen. Assembly to know what their self-insured insurance costs will be, turning an unknown into a known quantity
- **Flexibility:** Analyze different retention and funding levels giving the AR Gen. Assembly the ability to adjust to changing market conditions
- **Project and Fund for Catastrophic Losses:** An annual actuarial study will give the AR Gen. Assembly better tools to prepare for catastrophic events such as floods and earthquakes



Action Plan – Actuarial vs. Market Premium



Sample Scenario





#3: Form a Captive

Benefits:

- Pooling risk between the 3 agencies produces more stable results
- Pooling net positions allows for higher retentions
- Strategically respond to hardening/softening insurance market premiums
- Potential for additional coverages to be added to the captive in the future
- Additional economic advantages for the state of Arkansas:

State	# of Captives (Year)	Collective Written Premiums	Tax & License Revenue
Vermont	659 (2023)	\$30.6 Billion	\$35.3 Million
Hawaii	254 (2022)	\$15.6 Billion	Unavailable
Tennessee	164 (2023)	\$2.4 Billion	Unavailable



Next Steps: Plans of Action for the AR General Assembly

Plan Options:

- **Plan A**: Increase the annual aggregate retentions for each agency. This plan does not entail forming a captive.
- **Plan B**: Maintain the current insurance structure for each of the agencies and create the Captive to retain risk above the agencies' current retentions.
- **Plan C**: Utilize the Captive to replace the insurance operations of the agencies, while increasing retentions and retaining additional risk above current retentions.
Combination of Plans A and B



Benefits of Plan A

Plan A is the simplest option & least amount of disruption to the current structure

No change to current structure, except:

- Each agency retains 25% of 1st XS layer
- Estimated annual savings = \$5.1M
- Worst-case additional 1-year loss = \$43.75M, but total net positions of \$51M more than adequate

Realizes benefits of Recommendation #1 (Retaining More Risk):

- Reduced risk transfer inefficiencies caused by insurance company expenses
- Reduced risk premium and operating expenses
- Does NOT require the formation of a captive



Benefits of Plan B

Least disruptive way to self-insure additional risk through the Captive

Realize some of the benefits of forming the Captive

No changes to current agencies insurance structures

Structure Captive to strategically replace excess insurance coverage that is not providing fair value

Company #3's rate per \$100M of \$1K TIV is 25% higher than other reinsurers

Reinsurer (Parent Company)	Limit	Quoted Premium	Rate per \$100M of \$1K TIV
Company 1	\$25,000,000	\$6,954,314	\$1.102
Company 2	\$2,000,000	\$719,091	\$1.425
Company 3	\$5,000,000	\$1,963,749	\$1.557
Company 4	\$5,000,000	\$1,323,561	\$1.049
Company 5	\$3,750,000	\$1,440,493	\$1.522
Company 6	\$9,250,000	\$3,728,114	\$1.597
Total	\$50,000,000	\$16,129,322	\$1.279
Total Excl. Company 3	\$45,000,000	\$14,165,573	\$1.248



Our Recommendation – Plan C

We recommend Plan C, which is essentially Plans A & B:

- Pools agencies' risks and net positions
- Simplifies & increases agencies' current retentions
- Allows strategic use of Captive
- Only replaces insurance operations of agencies

Details include:

- Uniform limits of \$2M / \$15M for all 3 agencies
- Captive may replace XS reinsurance
- Funding Captive with \$45M in initial surplus = 1-year worst-case loss scenario
- Est. Captive funding to be \$32M (reinsurance costs currently unknown)
- No additional capital will be necessary (current net position = \$51M)
- Current agencies programs to run off



Final Notes on the Formation of a Captive

We estimate Captive will take 3-6 months to form

We estimate the setup fees to be approximately \$675,000

A high-level look at the steps involved with forming a Captive are listed in our accompanying report

Forming a Captive does not mean significant changes to the three participating agencies.

Agencies will continue with current functions such as:

- Risk Management
- Underwriting
- Claims Handling

Captive simply acts as the risk transfer mechanism through which each of the agencies will run their insurance premiums and claim payments