MANAGING INVESTMENT AND UNDERWRITING RISK

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UNDERWRITING RISKS

Reserving Risk

- Susceptibility of loss reserves to adverse development

Premium/Funding Risk

- Risk that future business/exposure will be unprofitable/underfunded

Catastrophe Risk

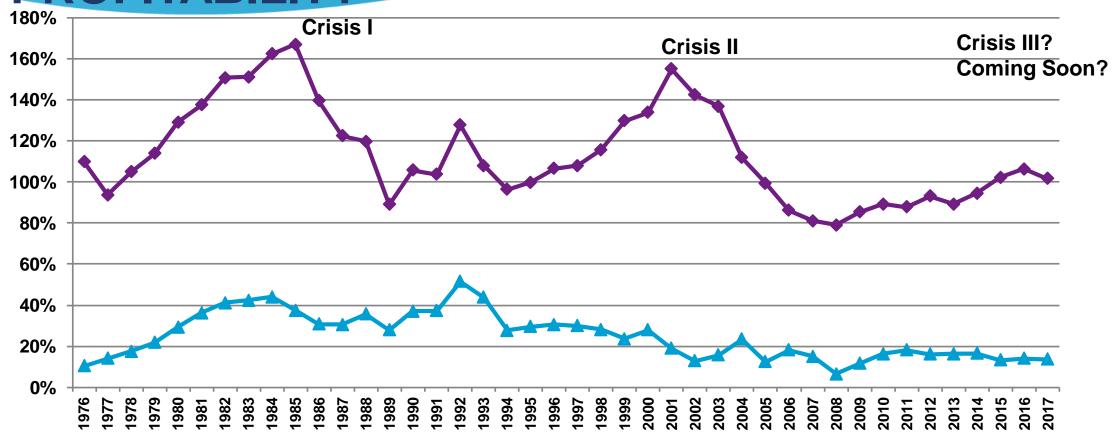
- Hurricanes and earthquakes for insurance companies
- Large individual losses
- Batch events

Insurance Cycle Risk

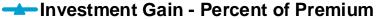
- Availability and pricing of reinsurance



MEDICAL MALPRACTICE INDUSTRY



Calendar Year







RISK MANAGEMENT OF INSURANCE BALANCE SHEET

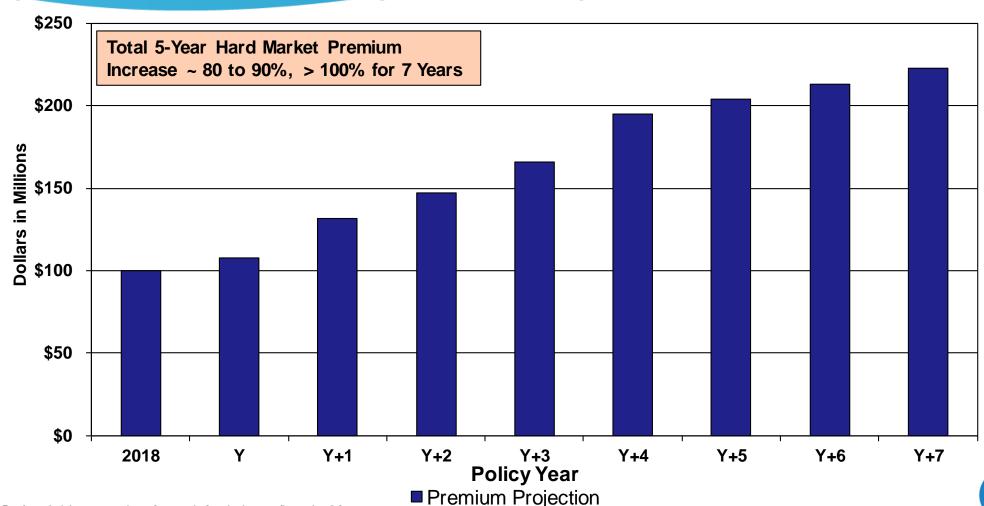
Objective: Manage surplus risk

	Liabilities	
Assets	\$700 Million	
\$1,000 Million	Surplus	
	\$300 Million	

	Loss Reserved	Surplus
	\$700 Million	\$300 Million
Hypothetical Reserve Increase	\$105 Million	\$105 Million
Loss as percentage	-15%	-35%



HYPOTHETICAL HARD MARKET CAPTIVE PREMIUM IMPACT



UNDERWRITING RISKS

- Hard market readiness
 - Mitigate reserve volatility using reserving best practices
 - Manage retention levels to buffer impact from reinsurance market volatility
 - Geographic diversity to help mitigate regional exposure
 - Utilize capital to fund adverse reserve development
 - Robust reinsurance program with long-term partners
- Pricing to reflect new exposures: acquisition and/or change in mix
- Develop more forward looking metrics to measure, monitor and price risk vs. lagging indicators (ie, claims data)



UNDERWRITING RISK OBJECTIVES

Risk Analysis

Consistent measure of risk using exposure & loss data

Initial and ongoing analysis of risk information

Insurance decision / risk classification

Apply actuarial leading practices

Reduce premium volatility via diversification

Ensure specialty rates reflect relative risk Risk Retention vs. Transfer

Limit large med mal claim risk

Counterparty credit risk

Risk retention funding cost/benefit



INVESTMENT RISKS

- Providing returns relative to desired risk levels
 - Competitive return on capital
 - Use benchmark which incents desired risk/return
- Manage liquidity/capital/returns through volatile markets
 - Rising interest rates
 - "New normal" equity market volatility
 - Use of Alternative Investments
- Governance
 - Board education
 - Outsource vs. In-house Investment Office



RISK MANAGEMENT OF INSURANCE BALANCE SHEET

Objective: Manage surplus risk

	Liabilities	
Assets	\$700 Million	
\$1,000 Million	Surplus	
	\$300 Million	

	Investment Assets	Surplus
	\$1,000 Million	\$300 Million
Hypothetical loss	\$100 Million	\$100 Million
Loss as percentage	-10%	-33%



INVESTMENT RISKS

Liquidity to Fund Claims

Guard against rising rates

Reinsurance for large loss protection

Manage funding gap relative to retention levels

Capital Preservation

Avoid loss of principal

Utilize capital to stabilize premium levels

Alternative investments mitigate market exposure

Targeted Return

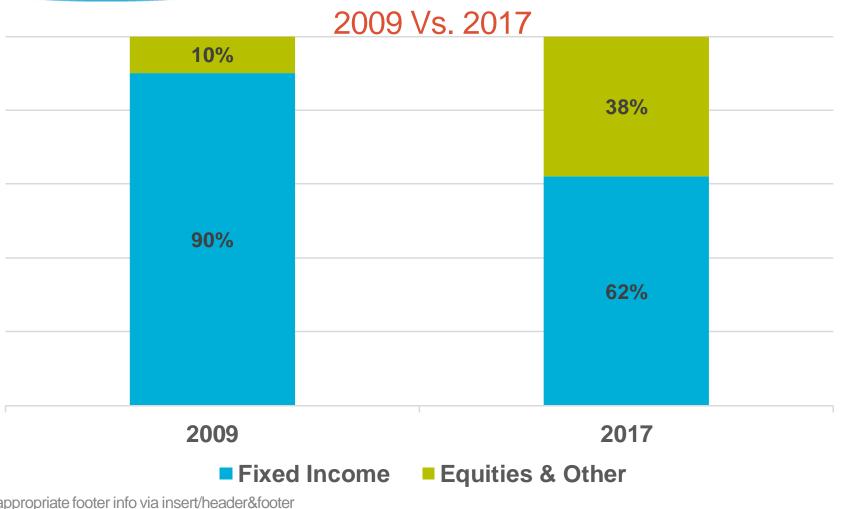
Maximize return subject to liquidity & risk constraints

Minimize short term volatility

Generate realized gains to fund premium discount

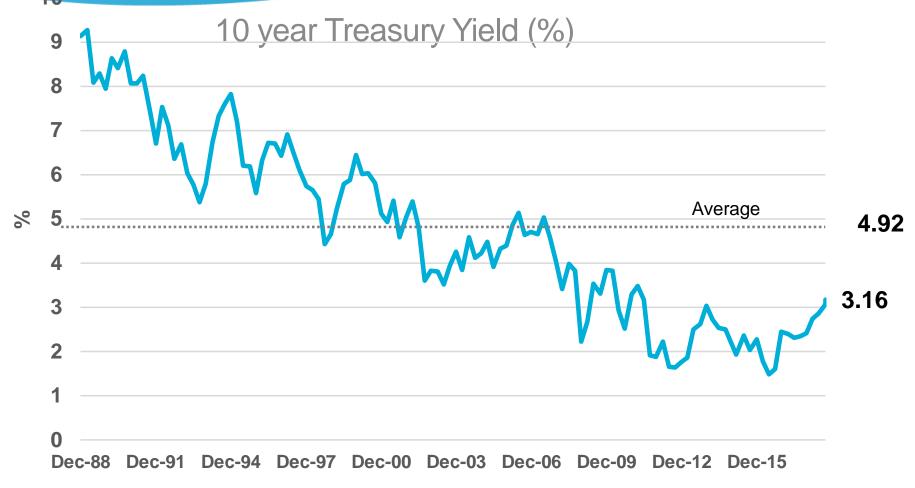


MPL INDUSTRY ASSET ALLOCATION



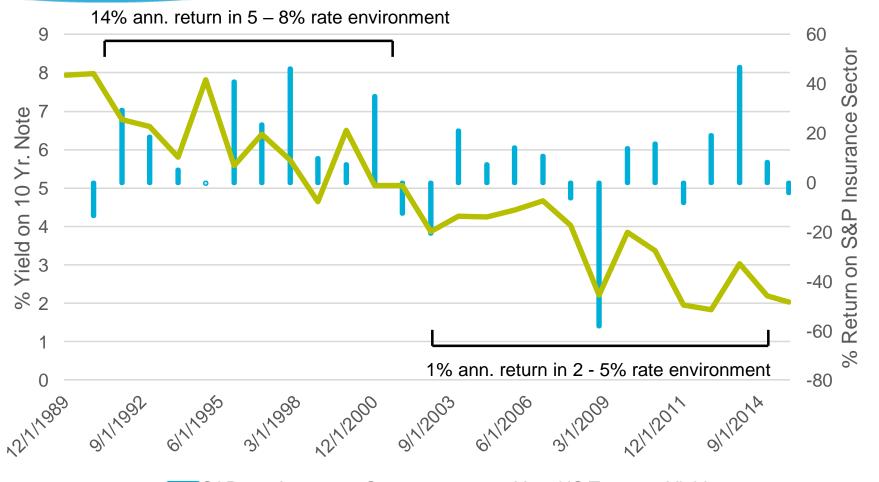


A RISE IN INTEREST RATES BUT STILL BELOW HISTORICAL AVERAGE





INSURANCE INDUSTRY HAS FARED BETTER IN HIGHER INTEREST RATE ENVIRONMENTS





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