

MANAGING INVESTMENT AND UNDERWRITING RISK

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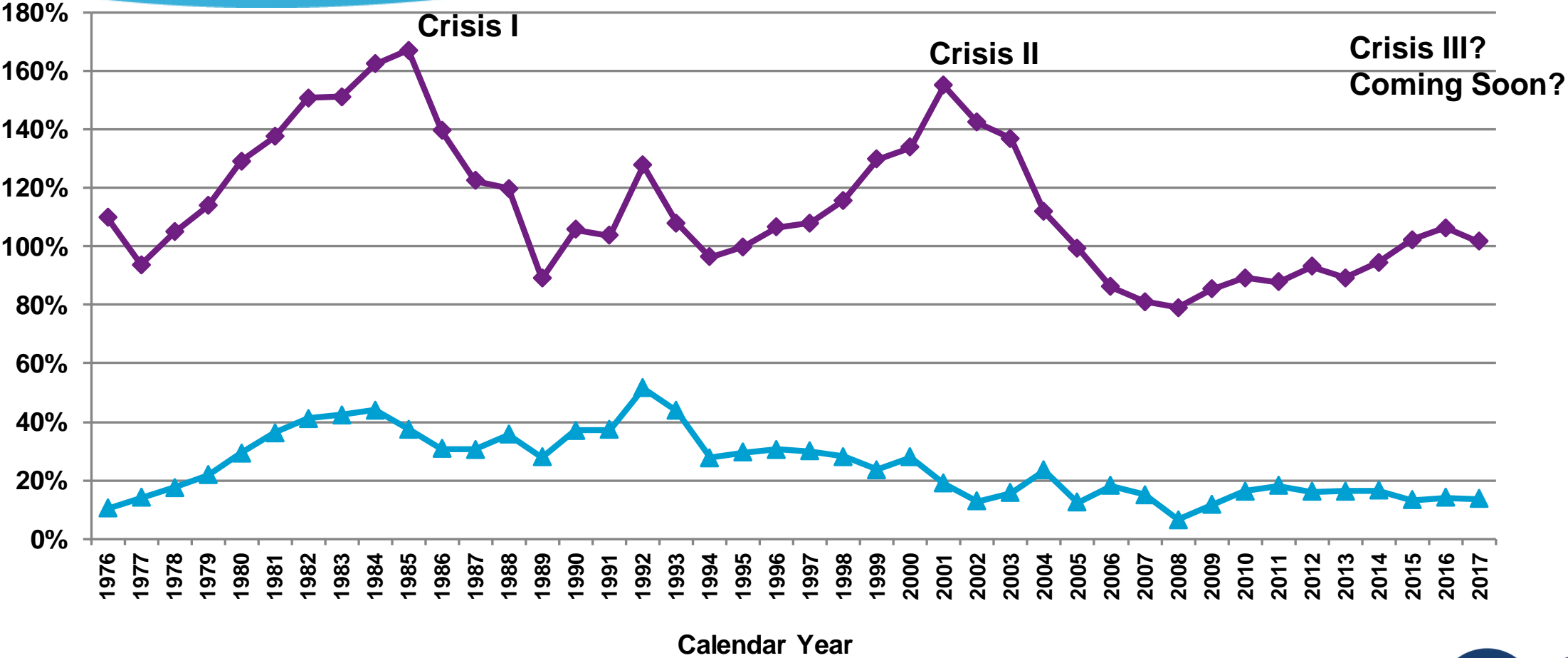
**CAYMAN
CAPTIVE
FORUM**
2018

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 PROFITABILITY



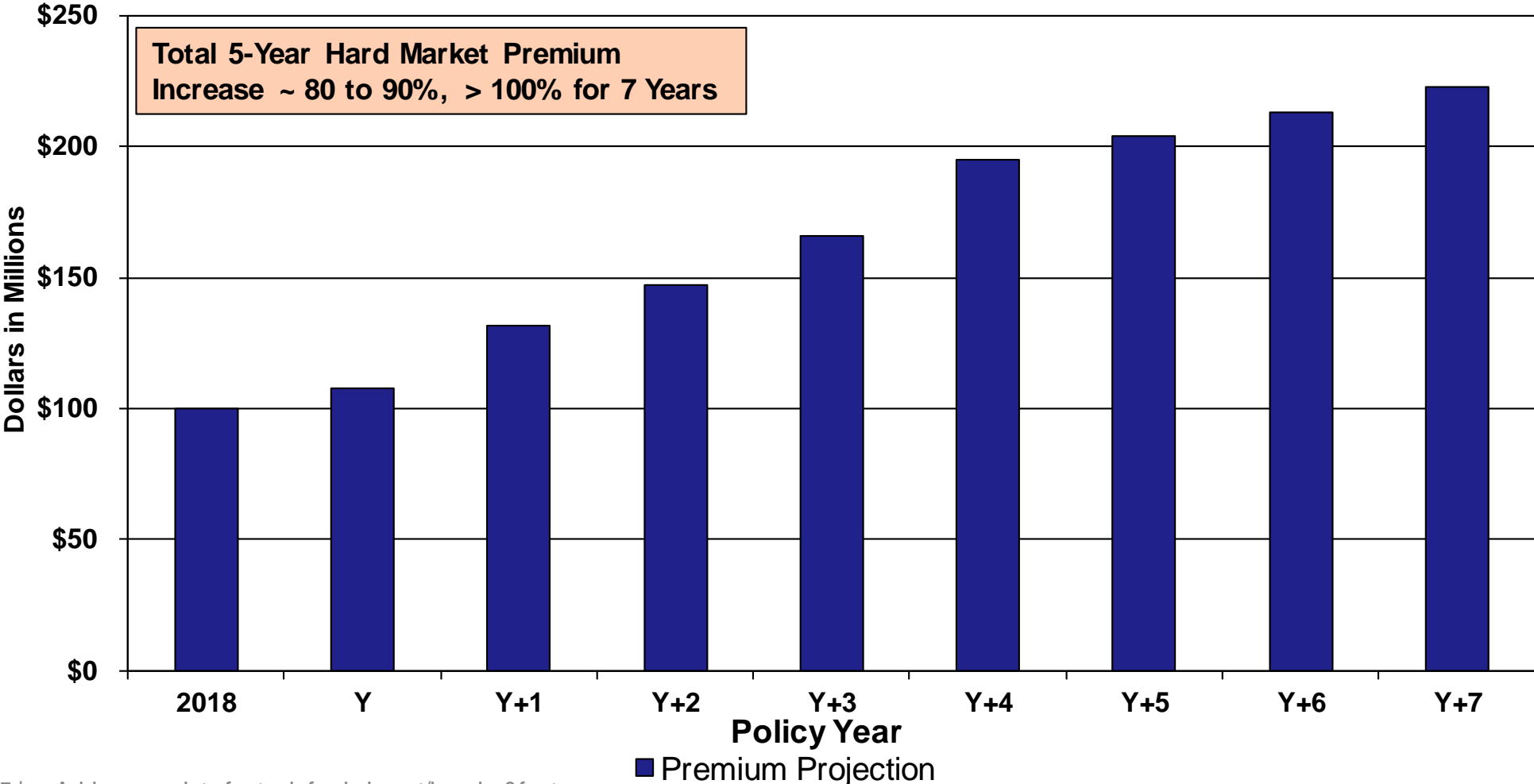
RISK MANAGEMENT OF INSURANCE BALANCE SHEET

Objective: Manage surplus risk

Assets \$1,000 Million	Liabilities \$700 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

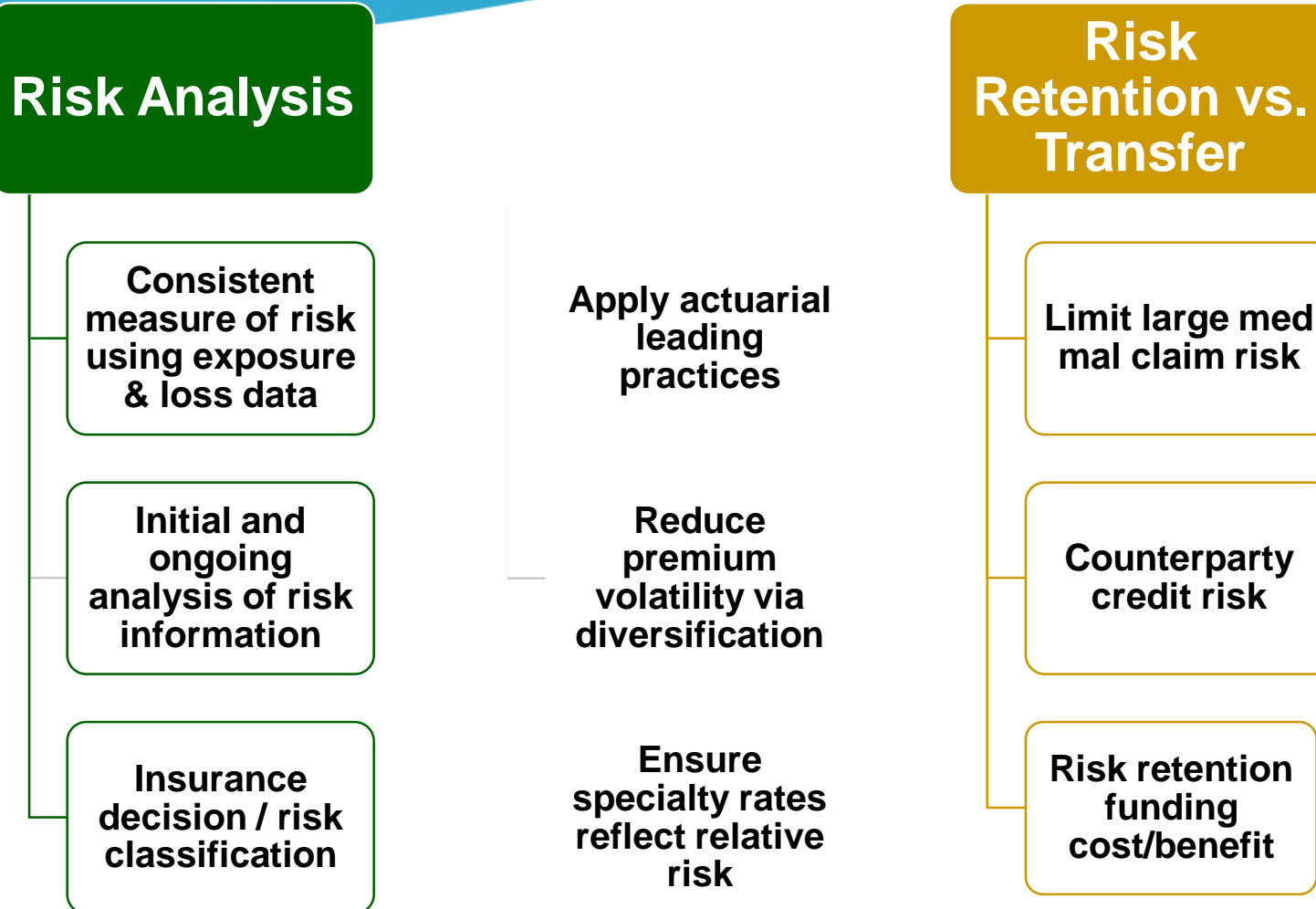


UNDERWRITING RISKS

- **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



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



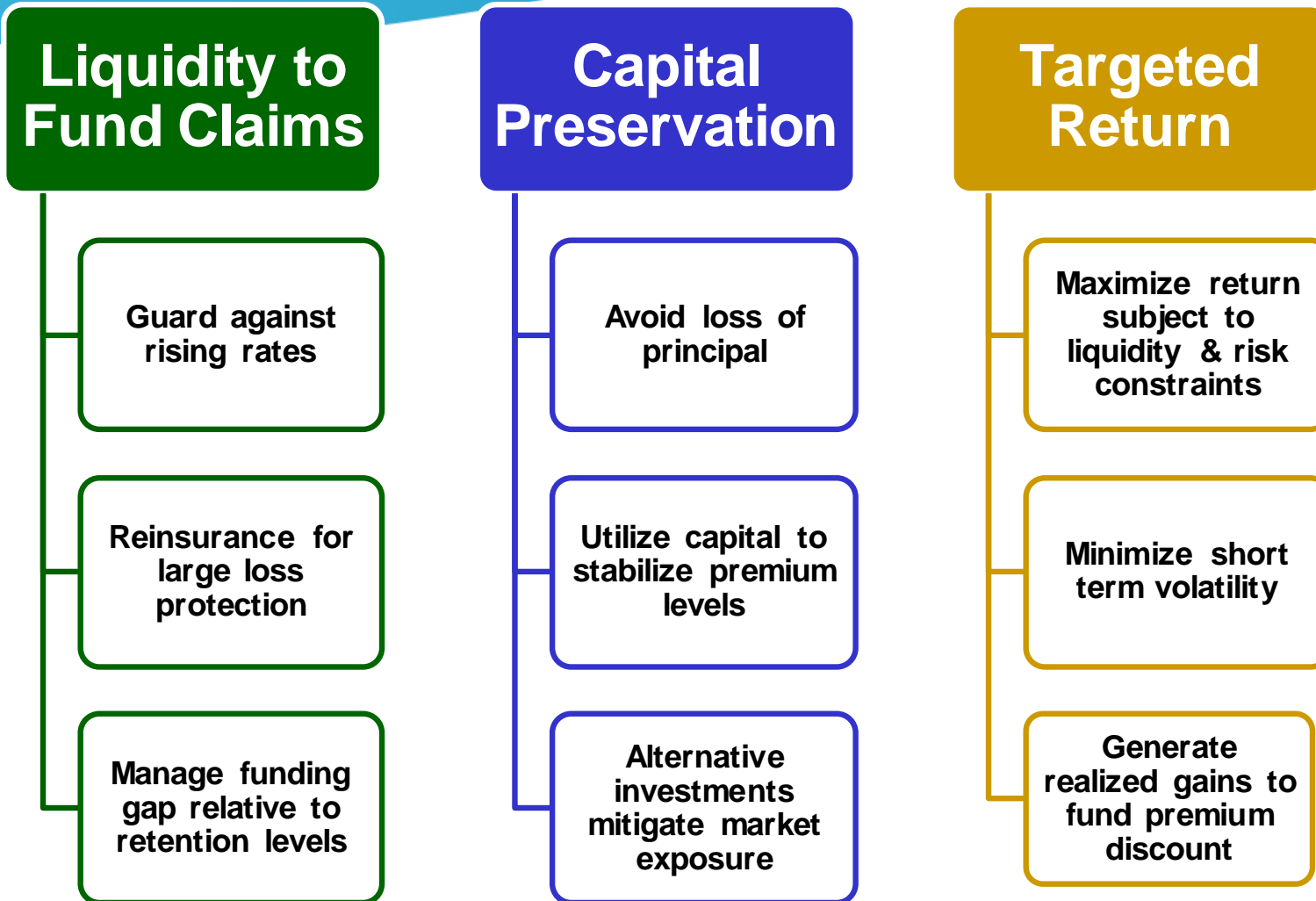
RISK MANAGEMENT OF INSURANCE BALANCE SHEET

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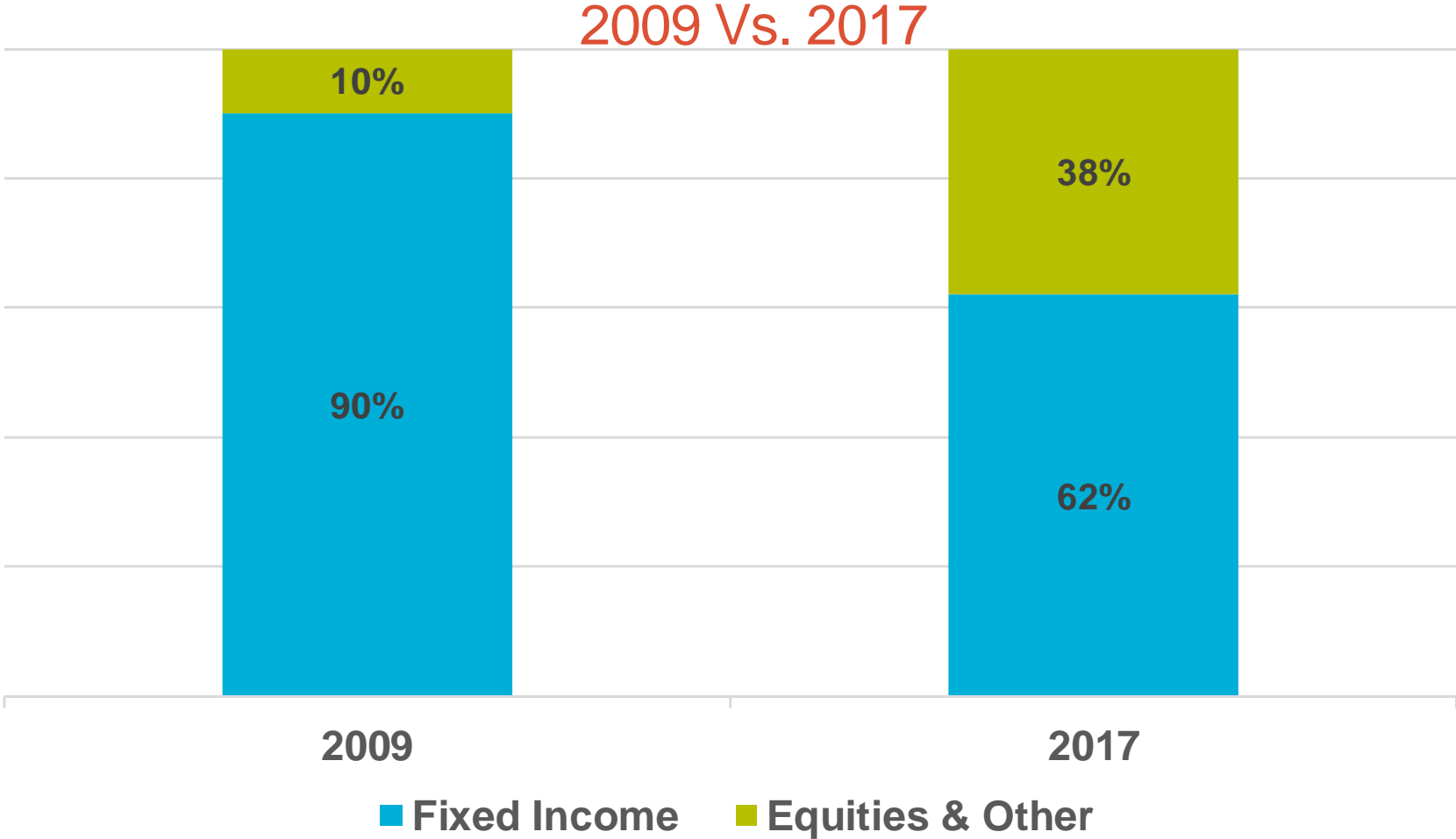
Assets \$1,000 Million	Liabilities \$700 Million
	Surplus \$300 Million

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

INVESTMENT RISKS



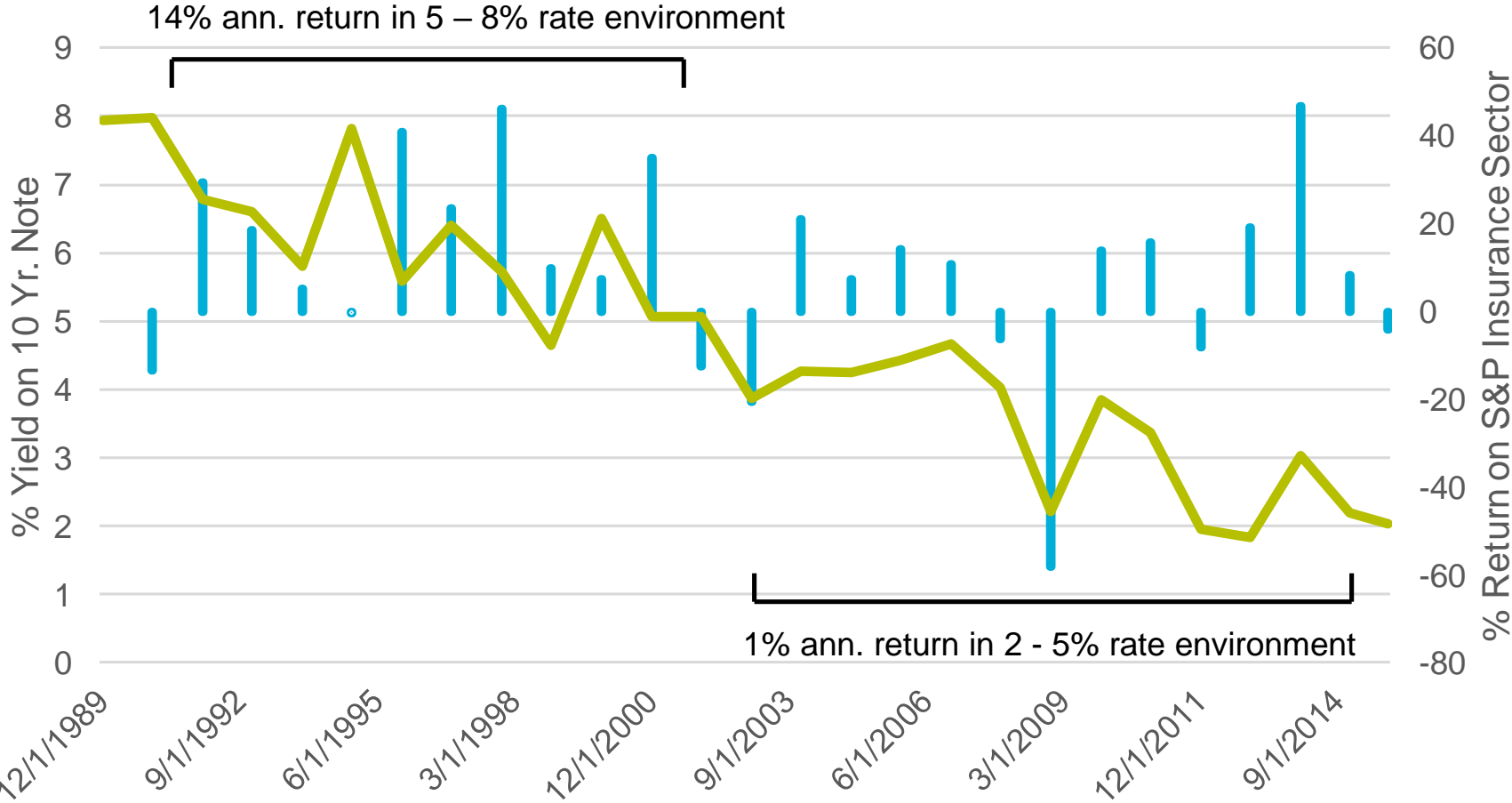
MPL INDUSTRY ASSET ALLOCATION



A RISE IN INTEREST RATES BUT STILL BELOW HISTORICAL AVERAGE



INSURANCE INDUSTRY HAS FARED BETTER IN HIGHER INTEREST RATE ENVIRONMENTS



■ S&P 500 Insurance Sector — 10 Year US Treasury Yield



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THANK YOU