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Sweet Success
OF RISK MANAGEMENT
PARMA ANNUAL CONFERENCE
FEBRUARY 7-10, 2023
SACRAMENTO CONVENTION CENTER

How to make a perfect layer cake – understanding the key elements of your insurance tower

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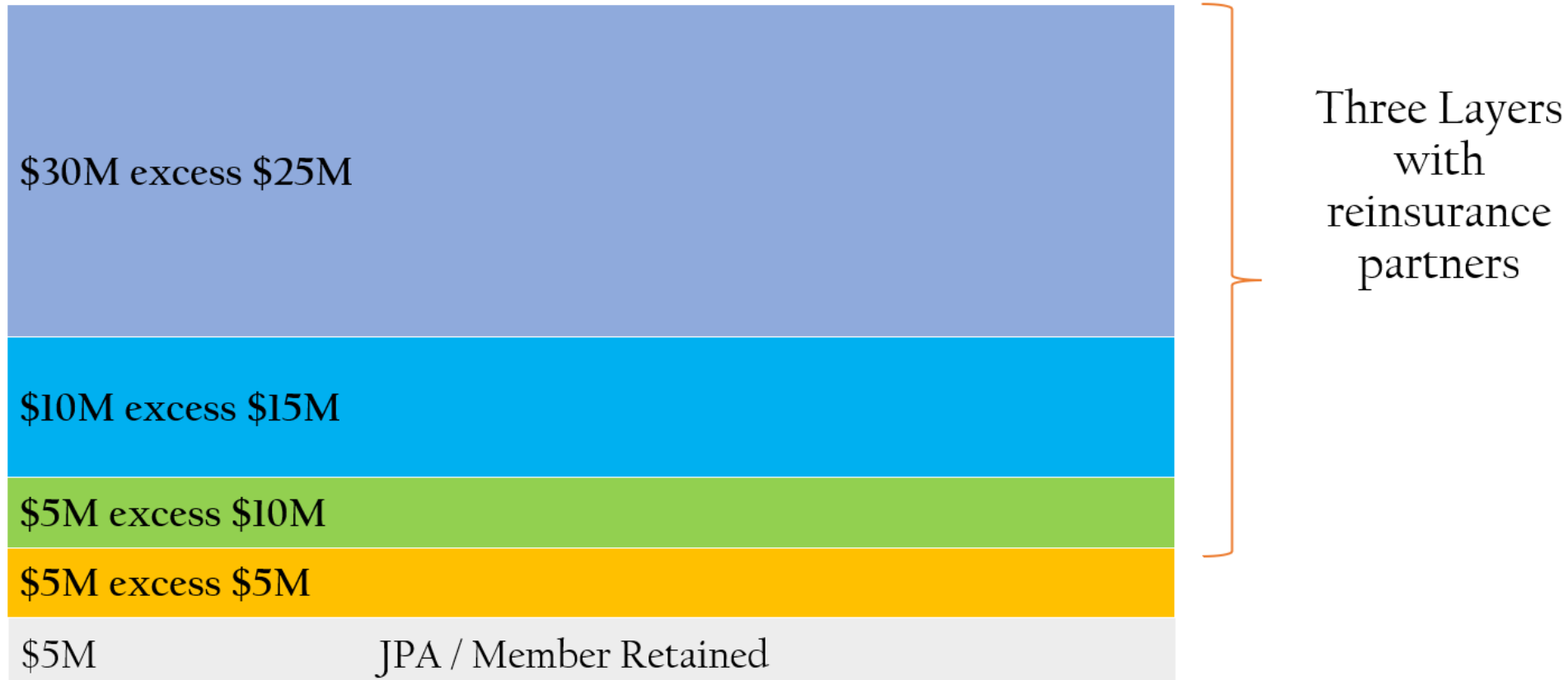
Carrie Wilson, State of California

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Topics for discussion today:

1. Deductibles v. self-insured retentions
2. Corridor and annual aggregate deductibles
3. Per occurrence and aggregate limits, drop-down coverage
4. Aggregate/stop loss coverage
5. JPA participation
6. Insurance tower basics by line of coverage

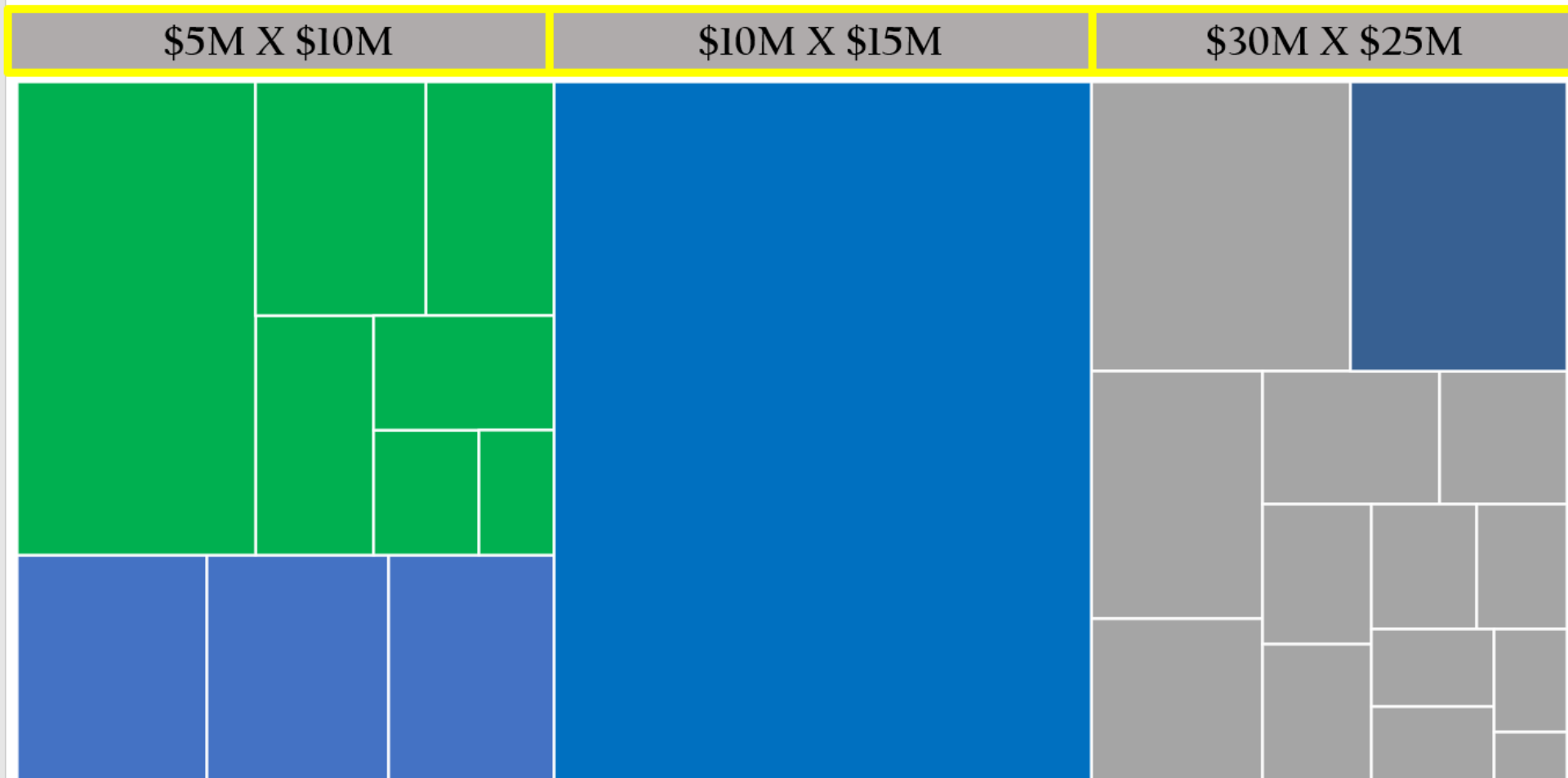# What do we mean when we refer to layers and a tower?

$30M excess $25M

$10M excess $15M

$5M excess $10M

$5M excess $5M

$5M   JPA / Member Retained

Three Layers
with
reinsurance
partners

The reality of some programs is much more complex

$5M X $10M | $10M X $15M | $30M X $25M

Reinsurance Partners 2009-2023

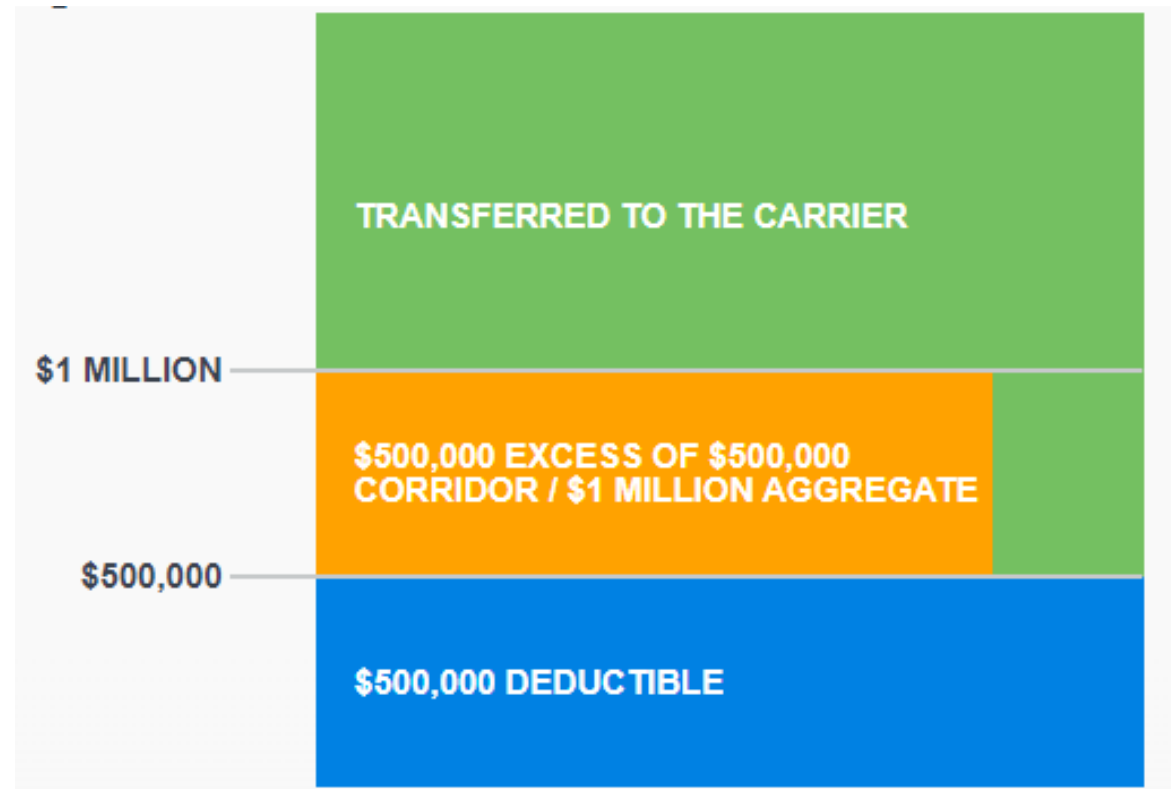| Year	Partners
2008-09	1
2014/15	6
2018/19	9
2022/23	18

Deductibles v. self-insured retentions

- **Self-insured retention (SIR)** requires the insured to make payments up to the SIR limit, including defense costs, before the insurer makes payments towards the claim.

- **Deductible** requires the insurer to pay losses immediately, then collect reimbursement from the insured afterward.

- Deductible may be subtracted from the total policy limits.

- High deductible programs may have an insurer collateral requirement.

Corridor and annual aggregate deductibles

- **Annual aggregate deductible:** insured reimburses the insurer for losses during the policy up to the agreed annual aggregate. Insurer pays the remainder of losses for the period.

- **Corridor deductible:** a second deductible that applies after an underlying layer of insurance is exhausted.

Corridor deductible example

*Milliman: https://us.milliman.com/en/insight/five-reasons-for-risk-managers-to-talk-to-their-consulting-actuary

Per occurrence and aggregate limits, drop-down coverage

- **Per occurrence limit**: the maximum amount the insurer will pay for all claims resulting from an occurrence regardless of number of claims, claimants, injuries, property damage, etc.

- **Aggregate limit**: the maximum limit the insurer will pay during the policy for all losses. May except losses from specific, itemized exposures.

- **Drop down coverage**: if the underlying limits are exhausted, the excess policy will drop down and act as primary insurance. An element of difference in conditions (DIC) coverage.

Drop-down coverage difference in conditions (DIC)

- **Drop down coverage**
  - Example: you have a $5M/$10M excess of $5M layer in your liability tower. After several large claims, your $10M aggregate limit is exhausted. You may be able to negotiate a drop down provision with your $5M excess of $10M excess insurer.
  - This has been an increasingly common request with the relatively new introduction of aggregate limits in excess liability placements.

- **Difference in conditions (DIC)**
  - Primarily with property insurance, specifically addressing catastrophic exposures
  - You place a DIC policy in addition to a traditional, primary property policy that excludes catastrophic exposures. The DIC can act as excess property and also drop down to act as primary catastrophic exposure coverage.

Aggregate/stop loss deductibles

- **Stop loss:** insurer is responsible after a total dollar amount of loss has been reached on a per-loss basis. The terms are not as regularly used, generally reflected as a per occurrence deductible or SIR.

- **Aggregate stop loss:** insurer is responsible for all losses after a total dollar amount of all losses (aggregate) has been reached. The total typically has a range of say 3 to 5 times the deductible/SIR.

Aggregate stop loss example

$100,000 per occurrence deductible

$500,000 annual aggregate deductible

- Once the $500,000 annual amount is reached, the insurer is responsible for all losses after that point.

- Often the policies are written so that a lower 'maintenance deductible' still applies to additional losses. In this case, a maintenance deductible may be $10-25,000 per occurrence.

JPA participation

- Most California public agencies participate in joint powers authorities (JPA) for property & casualty coverages
- Coverage may be provided as a self-insurance pool, as a pass through to a traditional insurer, and/or on an excess basis
- JPA's are not insurers, though coverage functions very similarly
- JPA's can be primary or excess in your tower

Excess JPA example
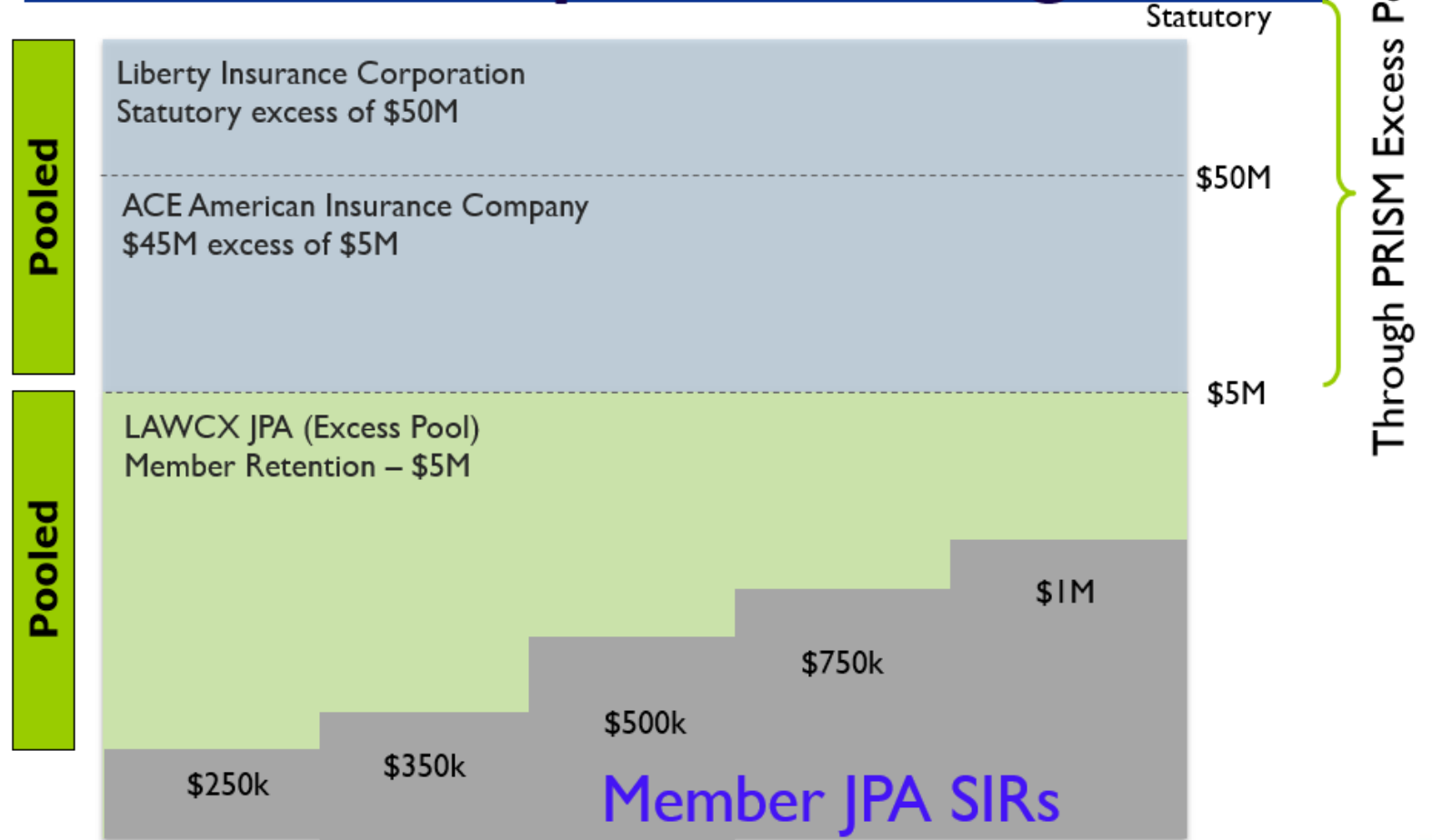*Primary JPA to Excess JPA (LAWCX) to Excess JPA (PRISM)*

*Sample LAWCX JPA 2020 structural representation

Workers' Compensation Program

Statutory

Pooled
- Liberty Insurance Corporation — Statutory excess of $50M
- $50M
- ACE American Insurance Company — $45M excess of $5M

$5M

Pooled
- LAWCX JPA (Excess Pool) — Member Retention – $5M

$1M
$750k
$500k
$350k
$250k

Member JPA SIRs

Through PRISM Excess Pool

Insurance tower basics by line of coverage

- Liability – the challenging California public entity liability market has increased the complexity of most programs.
    - Individual entities and JPAs are trying to be as creative as possible
    - The introduction of aggregate limits on excess layers driving new issues
    - LEL/SAM coverage moving toward separate limits and limitations
- Property – the market continues to push for higher retentions and provide lower capacity per insurer.
    - Margin clauses surfacing (co-insurance)
    - Strikes/riots/civil commotion limitations

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Insurance tower basics by line of coverage

- Workers' compensation – the California market continues to be stable with limited changes to structure.
  - High severity claims pushing retentions up -> some corridor options emerging
- Auto physical damage – the RCV market is extremely narrow resulting in limitations and tiered deductibles by vehicle value.
- Cyber – dramatic market changes over the past 2-3 years.
  - Retention increases
  - Separate ransomware limitations, war and systemic loss exclusion updates

Thank you.

Questions for Discussion?

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