



Objectives of Case Study

- Details of the last five years of XYZ
- Provide a timeline of key events that occurred at XYZ during this period and their relevance to the Company's failure
- Offer suggestions on what actuaries might do under similar circumstances

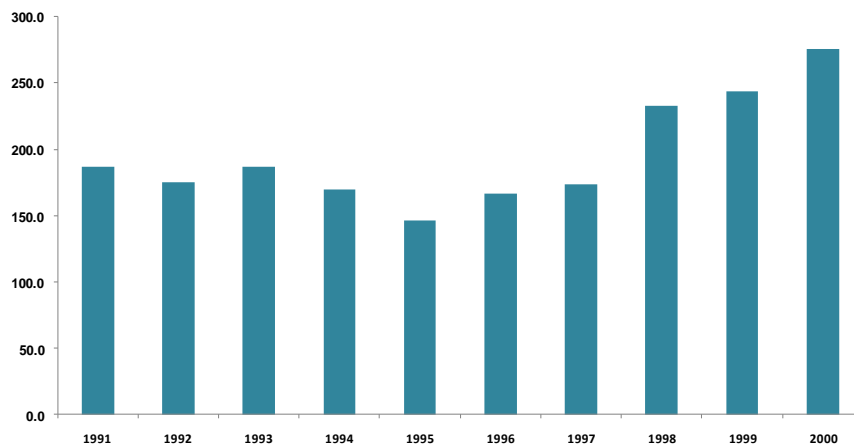
XYZ – A Short History

- Originally set up to provide professional liability insurance in one state
- Privately-held stock company
- Incorporated – 1976
- Liquidated – 2002

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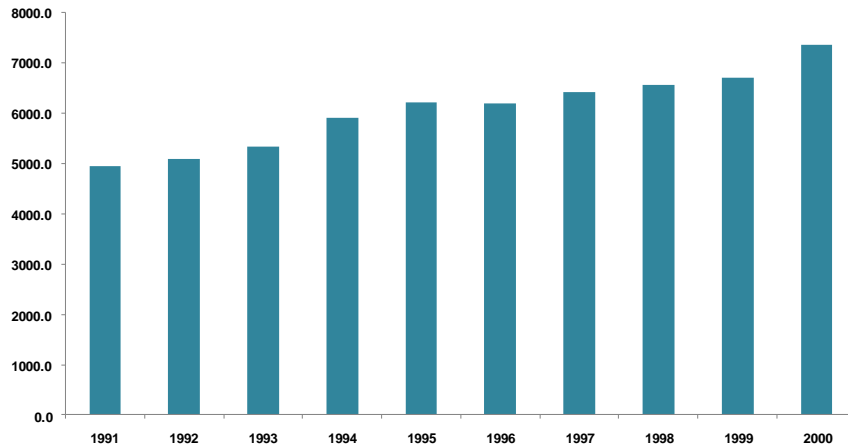
XYZ – Gross Earned Premiums (\$Mn)



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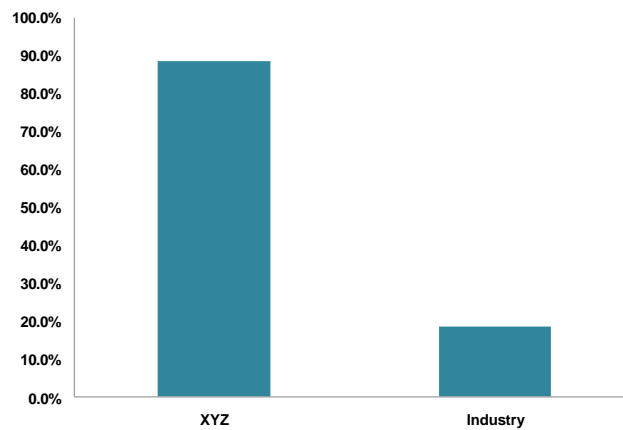
Industry – Gross Earned Premiums (\$Mn)



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Changes in Gross Earned Premiums (\$Mn) 1996–2000



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Where did XYZ Grow from 1996-2000?

State	1996 GWP (\$Mn)	State	2000 GWP (\$Mn)
PA	55.6	PA	53.4
IN	16.4	TX	18.1
NJ	9.8	FL	16.4
MD	8.5	IN	14.8
KS	6.8	NJ	14.7
DE	6.6	CA	14.5
IL	6.2	MO	8.1
MO	5.8	NH	7.0
VT	5.6	KS	6.4
TX	4.5	DE	6.0
NH	4.5		
FL	2.2		
CA	0.0		

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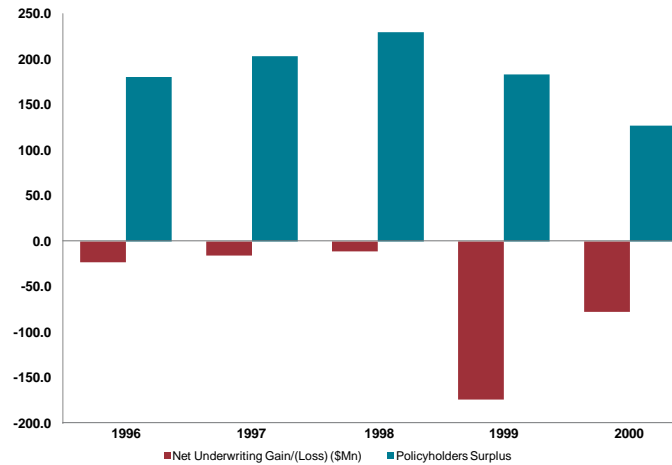
How Did XYZ Grow so Much?

- Underpriced the competition
 - New states (CA, FL)
 - Existing states (NJ, TX)
 - No changes to manual rates for several years
 - Continuous use of schedule credits
- Picked up business from carriers that had gone bankrupt and wrote it at expiring rates
- Focused on large accounts
 - National accounts (health care systems)
 - Physician groups

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How Did XYZ Perform During This Period of Rapid Growth?



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How did PHS not drop too much?

- In 1999 XYZ entered into a XOL reinsurance agreement
- Accounted for as retroactive reinsurance
- Initial PHS gain at 12/31/99 – \$86.3Mn
- PHS gain at 12/31/2000 – \$95.9Mn

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Timeline

- September 1996 – New president hired
- March 1999 – Carried reserves appear deficient
- September 1999 – Outside actuary retained to review reserves
- December 1999 – Finite reinsurance purchased
- November 2000 – New COO
- April 2001 – President replaced
- June 2001 – PHS drops to \$7 million
- August 2001 – Company placed into rehabilitation
- February 2002 – Company placed into liquidation

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Suggestions

- Document, Document, Document
 - Your findings
 - Your recommendations and proposed solutions
- Maintain an open mind but don't be afraid to fight the good fight
- Do quarterly reserve and rate reviews for the larger business segments
- Look for advice outside the company
 - Actuarial Board for Counseling and Discipline
 - Consultants
 - Legal

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