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

XYZ – Gross Earned Premiums ($Mn)
Industry – Gross Earned Premiums ($Mn)

Changes in Gross Earned Premiums ($Mn)
1996–2000
Where did XYZ Grow from 1996-2000?

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<th>State</th>
<th>1996 GWP ($Mn)</th>
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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
How Did XYZ Perform During This Period of Rapid Growth?

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
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

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