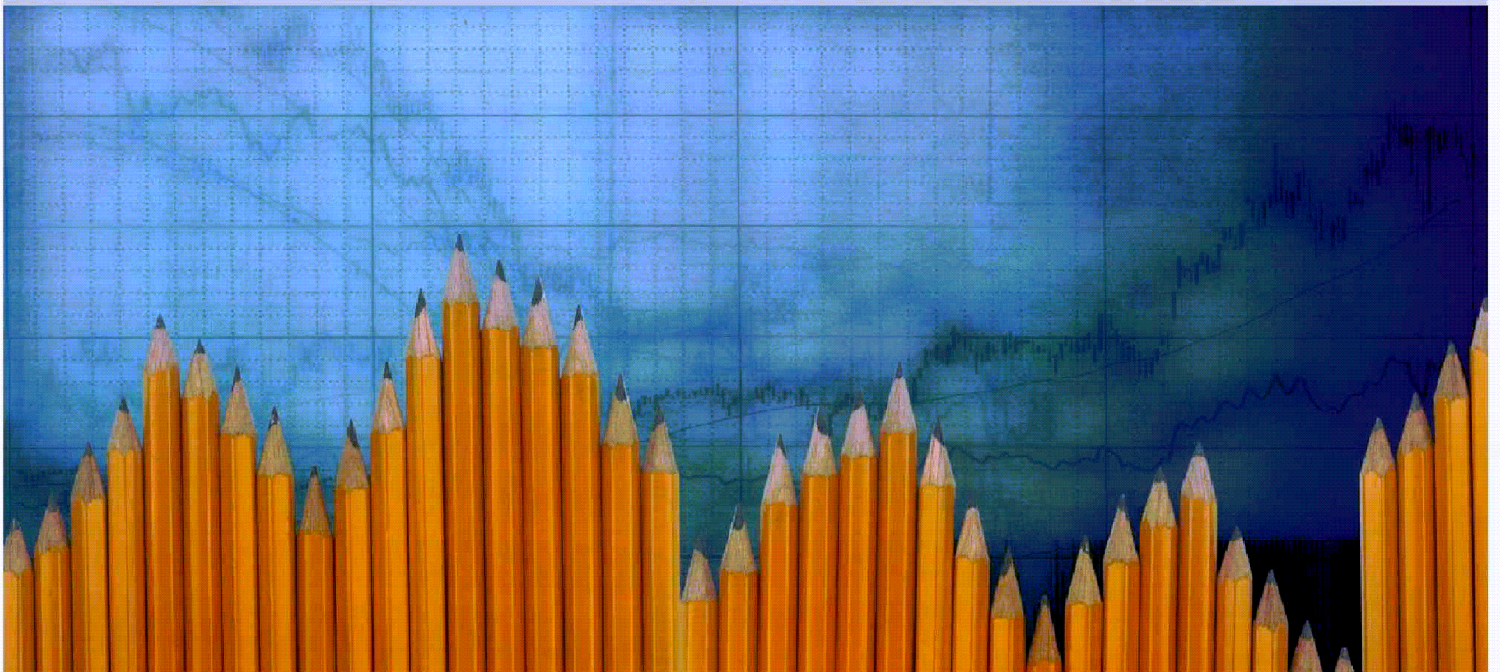


**New Jersey School Insurance Group**  
Board of Directors Meeting

September 20, 2017



© 2017 Willis Towers Watson. All rights reserved.

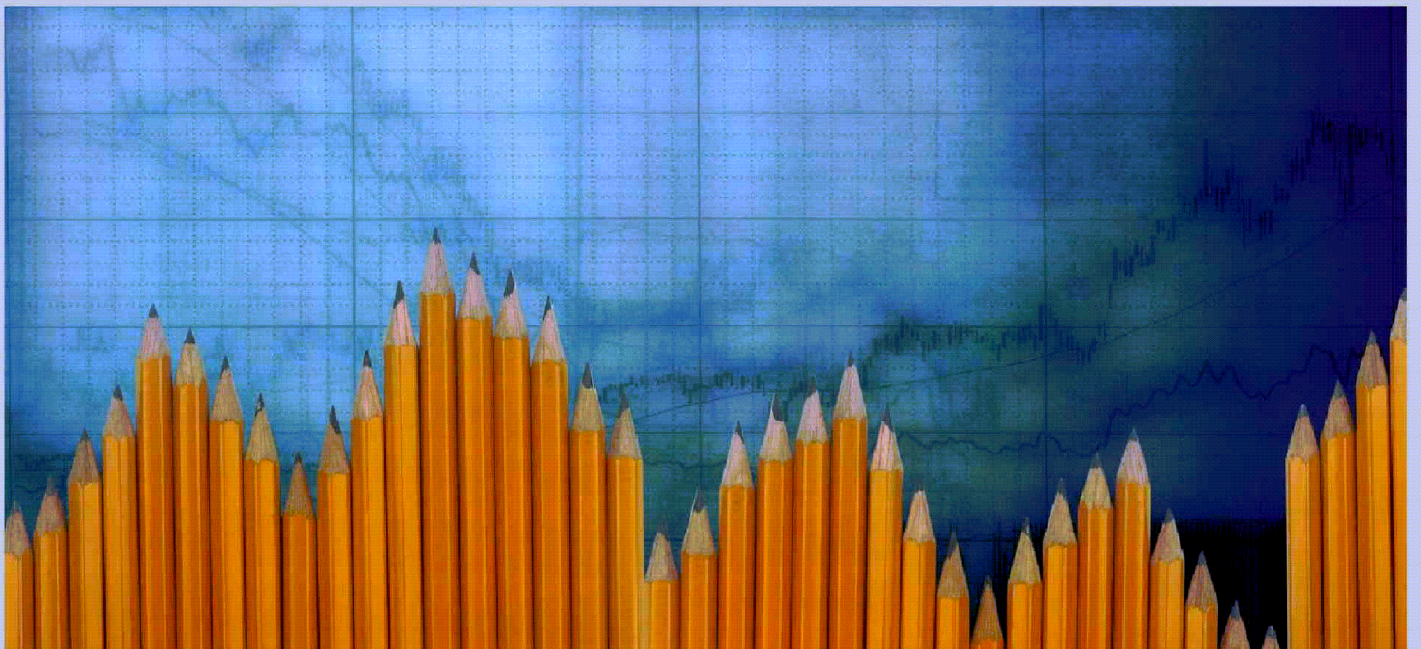
**Willis Towers Watson** 

## Agenda

- Scope and Distribution
- Indicated Loss & ALAE Liabilities as of June 30, 2017
- Potential Rate Implications for Program Year 2018-19
- Questions
- Appendix



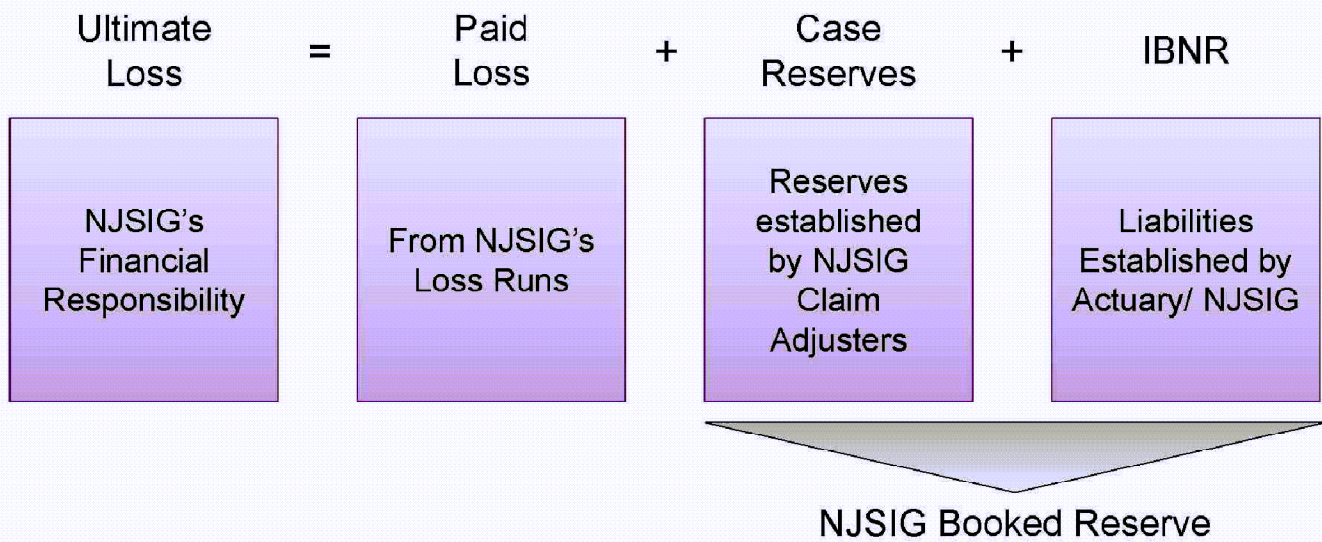
## Scope and Distribution



## Scope and Distribution

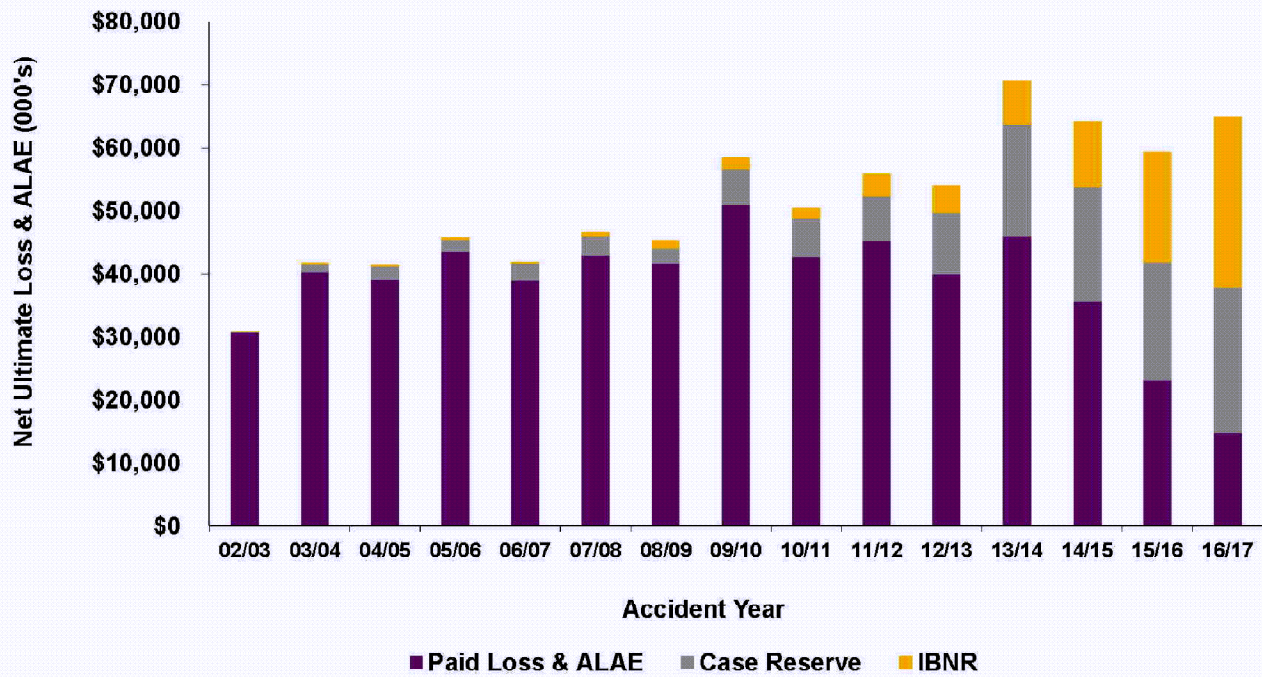
- NJSIG retained Willis Towers Watson to prepare an actuarial analysis of unpaid loss and ALAE as of June 30, 2017
- Willis Towers Watson presented the results of its review in a draft report dated September 5, 2017
- Estimates are produced on a net of reinsurance and salvage/subrogation basis
- The following slides provide a high-level summary of Willis Towers Watson's report
- Any conclusions drawn from these slides may be inappropriate and/or incomplete without a thorough reading of the full report
- The distribution of the slides contained herein is limited to the management of NJSIG and its Board of Trustees
- Stacy L.T. Mina is a member of the American Academy of Actuaries and meets its qualification standards to render the actuarial opinion contained herein

## Components of Ultimate Losses and Liabilities



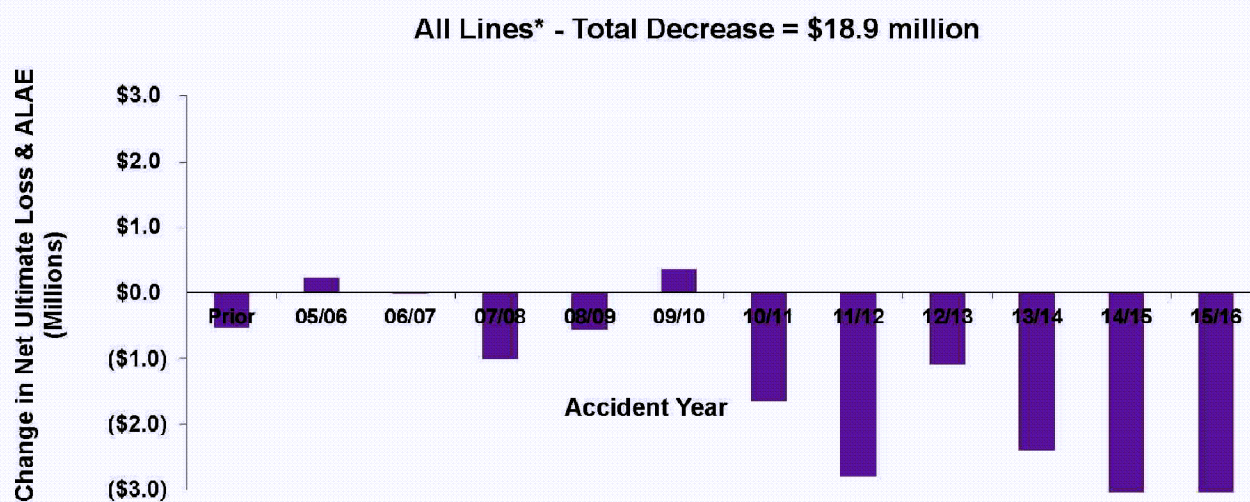
As an accident year ages, IBNR generally decreases and paid losses increase

Total Net Ultimate Loss & ALAE by Component  
Central Estimates (\$000s)





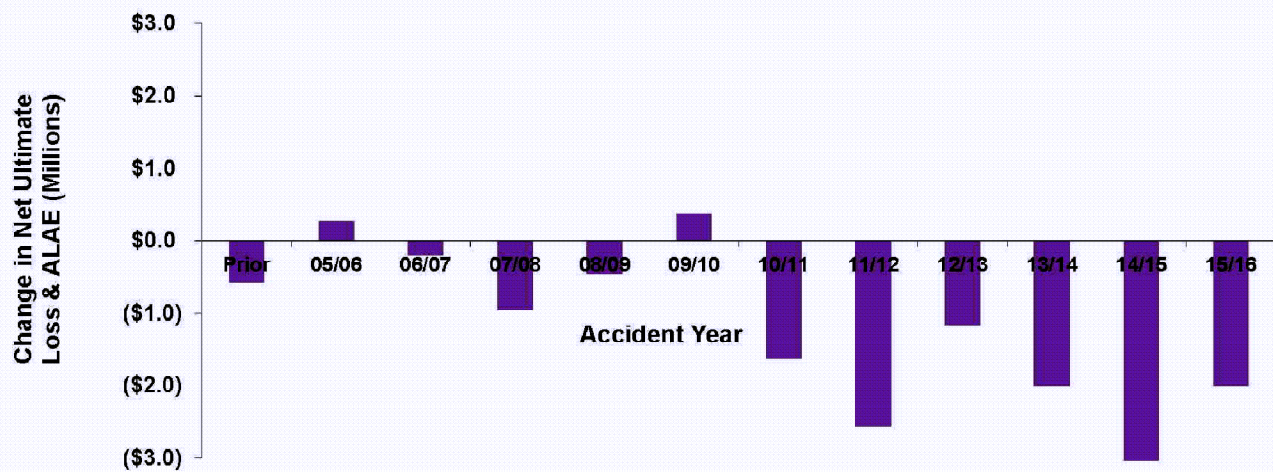
## Emergence during fiscal year 2016-2017 was favorable



- There was also overall improvement for each coverage

## Favorable workers compensation experience is severity-driven

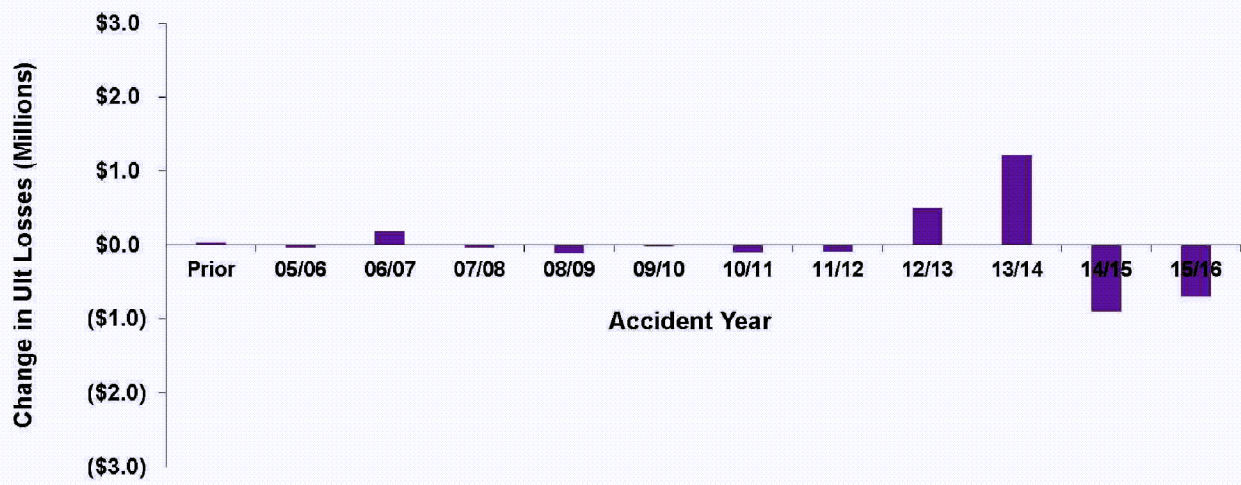
Workers Compensation - Total Decrease = \$14.3 million





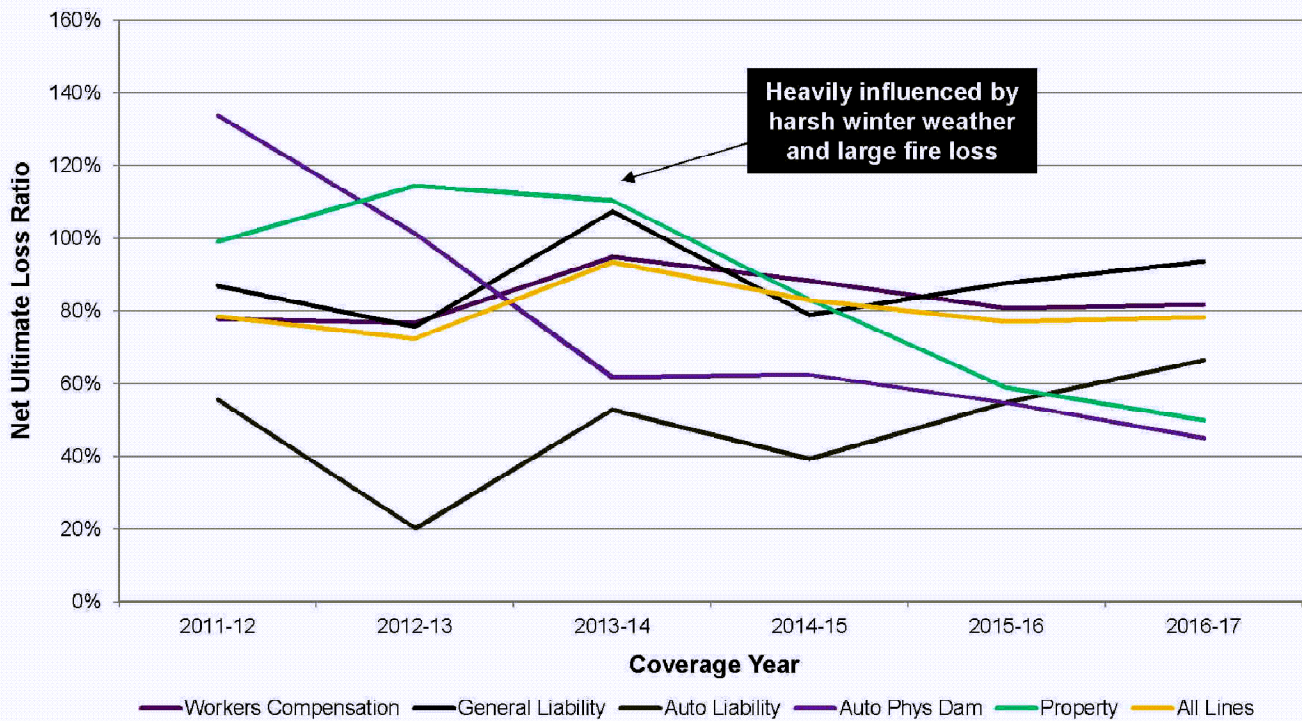
## General Liability emergence is slightly favorable

General Liability - Total Decrease = \$0.1 million



**The 2016-17 net loss and ALAE ratio is consistent with the prior year for all lines combined**

**Net Ultimate Loss Ratio as of June 30, 2017**



## Unallocated Loss Adjustment Expense Liability

- This is the first review we have performed of the unallocated loss adjustment expense (ULAE) liability
- Prior methodology was developed by the auditor
- Current approach reflects the multi-year nature of running-off claims
- We use a blend of NJSIG and insurance industry data
- Incorporating a longer term time horizon for claims run-off results in a significant increase in reserves (\$1.5 million to \$8.3 million on a central estimate basis)
- Booked reserves are \$8.8 million (65% confidence level)

## Loss and ALAE reserve variability can significantly impact surplus

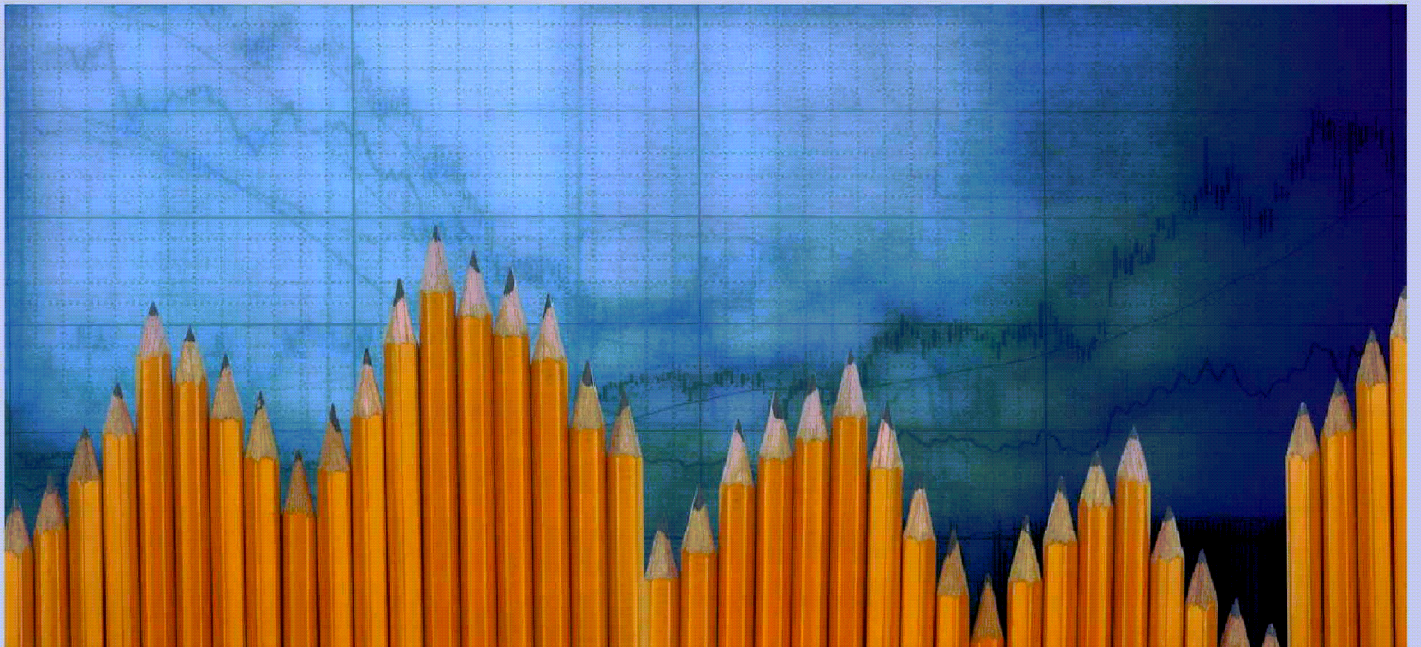
### Impact of Variability on Booked Loss and ALAE Reserves and Surplus (\$ Millions)

	Liabilities @6/30/2017	Difference versus Booked	Surplus
Booked*	\$210.1	\$—	\$87.2
Central Estimate	198.2	(12.0)	99.1
65% Percentile	210.1	0.0	87.2
75% Percentile	220.7	10.5	76.6
90% Percentile	243.4	33.3	53.9

\*Booked numbers are preliminary and prior to any safety grant declaration.



## Potential Rate Implications for Program Year 2018-19



## Preliminary Rate Indications

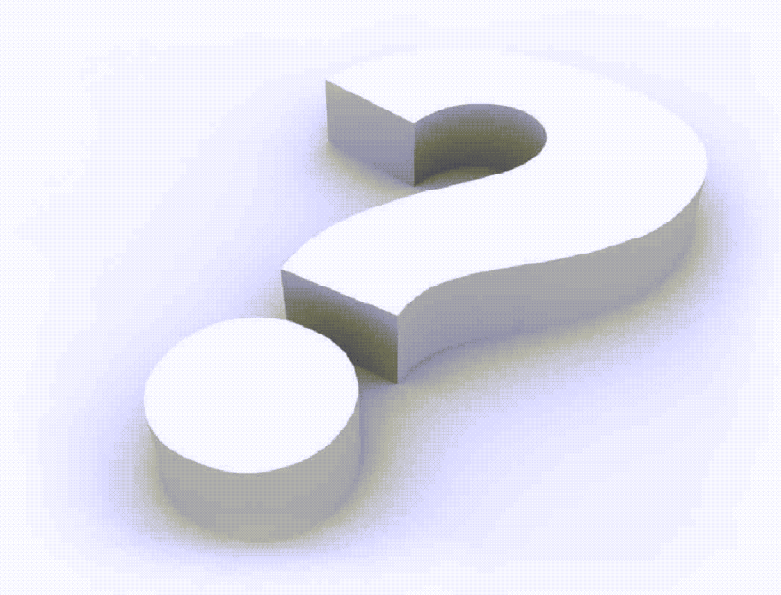
- The results that follow are based on our June 30, 2017 liability analysis; actual rate indications will be based on data evaluated as of September 30, 2017
- Willis Towers Watson has not performed an in-depth analysis of rates at this point

## July 1, 2018 Range of Rate Level Indications

Coverage	Initial Expected 2018-19 Rate Change	Direction of 2018-19 Rate Indication from Initial Expected
Workers Compensation	0.6%	Lower
General Liability	1.5%	Flat to Lower
Auto Liability	(15.7)%	Lower
Auto Physical Damage	26.5%	Lower
Property	(11.3)%	Lower
Total	(1.0)%	Lower

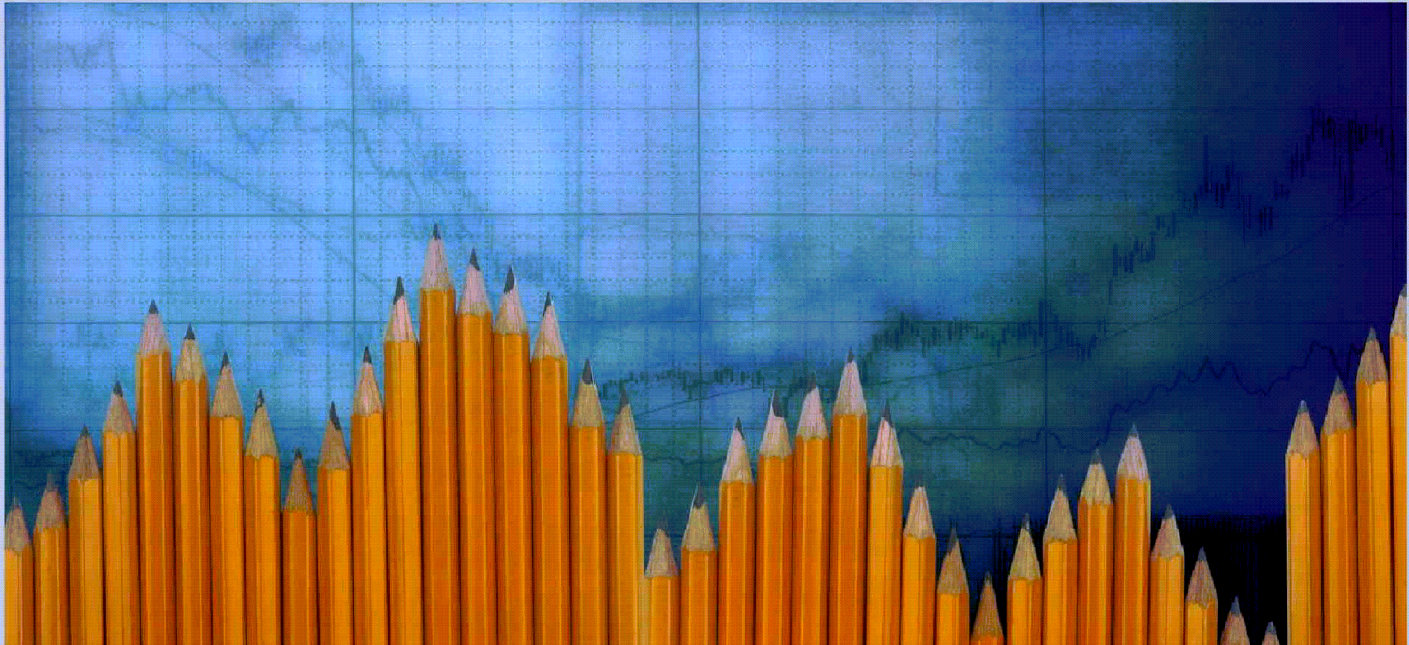
The most uncertainty relates to Property reinsurance markets

## Questions and Discussion





# Appendix



## **There is uncertainty inherent in the estimates of unpaid loss and ALAE (cont)**

- Our estimates are based on historical claim and loss information
- There is no guarantee that estimates will prove to be accurate, and will change with future updates as new data emerges
- Multiple projection techniques (methods and models) are used, which provide various indications of the ultimate loss and LAE
- The confidence levels provided here are not all inclusive
- These estimates are based on NJSIG's historical experience and do not reflect extreme events that have a remote possibility of occurring

## **There is uncertainty inherent in the estimates of unpaid loss and ALAE**

The inherent uncertainty associated with ultimate loss and LAE estimates is magnified in this case due to the following:

- NJSIG's mix of business is weighted toward coverages such as workers compensation and general liability for which the estimation of unpaid loss is more uncertain than for shorter-tailed property and casualty lines.
- NJSIG has relatively high per occurrence retentions, which increases the uncertainty associated with our liability estimates.
- The geographic (New Jersey) and industry (schools) concentration of NJSIG could cause adverse results due to legislative or judicial changes or catastrophic events (e.g., hurricanes).

## Glossary

**AL – Automobile liability**

**ALAE – Allocated loss adjustment expense**

**APD – Automobile physical damage**

**E&O – Errors and omissions**

**Frequency – Claims per unit of exposure**

**GL – General Liability**

**LAE – Loss adjustment expense (ALAE + ULAE)**

**Severity – Average loss per claim**

**ULAE – Unallocated loss adjustment expense**

**WC – Workers compensation**