

June 20, 2024

# Actuarial and Strategic Consulting Services – Status Report

**Created for:** Arkansas Bureau of Legislative Research

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## Status Report

The purpose of this document is to provide a report on the status of the consulting services as described in Appendix A of the Services Agreement between Perr & Knight and the Executive Subcommittee of the Arkansas Legislative Council (“the Subcommittee”) dated April 13, 2024. It should be noted that items listed as “Completed” may require additional review and / or services. Additionally, items listed as “In-Progress” or “Future Tasks” may not ultimately be completed, due to the relevancy of the information needed to complete the engagement. We will be available to discuss any such items at your convenience.

### **I. Data Review and Aggregation**

#### **A. Completed**

- a. Submitted a data request to the Subcommittee outlining the information required for the actuarial analysis and risk strategies and solutions (“RSS”) work.
- b. Aggregated and summarized the data in preparation of the actuarial analysis and RSS services.
- c. Review the data provided by the Subcommittee (and on behalf of the Subcommittee) for reasonableness and consistency.
- d. Ask questions arising from review of the data.

#### **B. In-Progress**

#### **C. Future Tasks**

- a. Request additional data/information as needed.

### **II. Actuarial Services**

#### **A. Completed**

- a. Gather relevant data from Insurance Services Office (“ISO”), the Bureau of Labor Statistics, Core Logic, and up to 10 of the top 10 commercial property insurers in Arkansas.
- b. Build models estimating ultimate loss and allocated loss adjustment expense (“ALAE”) excluding Earthquake losses. The models will estimate ultimate claim costs by historical policy period including periods with open claims and considering the current incomplete period. Historical claim costs will form the basis of claim cost estimates for the prospective period (July 1, 2024 to June 30, 2024). Estimates were made at several per-occurrence retentions, to allow for flexibility in modeling different program structures going forward (see item III. B. e. below).
- c. Perform trend analysis for AMAIT and ASPIT comparing fitted historical claim frequency, loss rates, and claim severities to industry benchmarks and make

selections of trend for use in the above actuarial models. The ASBA trend analysis will be added shortly.

- d. Perform claim diagnostics to test for changes in various claim indicators such as case reserve adequacy and claims disposal ratios. This information will guide the final choice of actuarial methodologies used in the above models.

**B. In-Progress**

- a. Continue to test assumptions in the models noted in 2.A.B in order to optimize accuracy. For example, test a bifurcated trend model (pre and post-COVID) to see if resulting on-level claim statistics show greater stability.
- b. Expand models above in 2.A.b. to include estimates by peril will be made by combining paid loss and ALAE with case loss and ALAE with allocations of incurred but not reported ("IBNR") losses to peril.
- c. Build simulation models to these the impact of per occurrence and aggregate retentions on total retained losses. The model is complete for AMAIT and 75% complete for both APSIT and ASBA.
- d. Using the combined projected loss and ALAE for each of the three programs, perform allocations of July 1, 2024 to June 30, 2025 claim costs to school system and agency. Need to analyze credibility of the data to determine if further allocation by peril and school system/agency can be reasonably estimated.

**C. Future Tasks**

- a. Review rating plans obtained from various industry sources and develop a rating mechanism that could be used to allocate costs to school system/agency.
- b. Compare the results of allocation of claim costs using historical data to allocations using industry rating variables.
- c. Test for dislocations in allocated cost to school system/agency and develop a protocol for minimizing any such location.

**III. Risk Strategies & Solutions**

**A. Completed**

- a. Researched current state of operations for property insurance for school systems and other public buildings in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas using publicly available information.
- b. Reviewed and summarized commercial property insurance contracts, including declarations pages, for the prior five years, for each named insured (i.e., the APSIT, AMAIT, and ASBA).

**B. In-Progress**

- a. Preparing a summary of the current state of the AR Public School Systems and Public Buildings' property insurance.
- b. Reaching out to risk managers in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas and request additional information regarding property insurance programs, including but not limited to: program structure; retained limits; pooling agreements (if any); reinsurance structure; etc.
- c. Reviewing and summarizing maintenance plans and risk management tools for each building
- d. Prepare side-by-side comparison of current program structures for each of the three programs with various potential future program structures.

C. Future Tasks

- a. Contact the AR Department of Finance / Comptroller's Office to get a better understanding of the financial impact of large changes in insurance premiums, as well as potential uninsured losses.
- b. Prepare a summary of the current state of operations for property insurance on other publicly owned buildings throughout the state of Arkansas.
- c. Prepare a summary of the current state of operations for property insurance for school systems in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas.
- d. Present the results of the assessment in a report that summarizes the Subcommittee's responses to key questions, identifies gaps and/or limitations in the current operations, and compares the AR Public School Systems & Public Buildings' current operations to other public buildings in Arkansas and to school districts in other states.
- e. Using the results of the Actuarial and RSS analyses, draft a written report which will outline our recommend next steps to the Subcommittee, which could include:
  - i. Maintaining the current property insurance structure;
  - ii. Creating a captive insurance entity to self-insure all or a portion of the AR Public School Systems & Public Buildings' property insurance; and/or
  - iii. Presenting other potential self-insurance options such as creating a Joint Powers Authority.
- f. Discuss the results and report with the Subcommittee.
- g. Issue final supporting exhibits and a report to the Subcommittee based on any revisions or changes that were discussed with the Subcommittee.