**Happyland P&C Insurance Pool**

Insures property and liability risks for public entities exclusively in one state. You are a new board member for this pool and the pool administrator Nigh Eve has brought two action items up for a vote:

* Maintain $100 million of property reinsurance coverage for 2024 period.
* Increase assets that are invested in equities from $10 million to $20 million.

Based on the information below about your pool, what are the factors you would consider when looking at each of these decisions? What might be some questions you would pose to your pool administrator?

**Financial Statement as of December 31, 2022**

Assets: $120 million

Liability (Reserves): $20 million

Equity/Surplus: $100 million

**Projections for the 2023 Underwriting Policy Period January 1 through December 31**

Premium: $25 million

Projected Losses: $18 million

Expenses: $5 million

Expected Profit Load: $2 million

**2023 Investment Projections**

$110 million investment in risk free bonds that generate 3% annual rate of return.

$10 million investment in equities that have an expected 8% rate of return.

There is a 1% chance that these equities lose 30% of their value in a year.

**Reinsurance**

Happyland currently maintains a per occurrence retention of $2 million on its liability risks and purchases reinsurance on top of this.

ABC has a $2 million per occurrence retention on its property program and currently purchases $100 million of reinsurance coverage on top of this retention. While your state has not historically had catastrophe losses, your broker has recently completed modeling on your property book and determined that there is a 1% chance that a volcano will erupt over the next year that would cause $125 million of property claims to Happyland. Given the hard property reinsurance market, it will cost at least an additional $3 million in premium to increase your reinsurance coverage to $150 million. Mr. Eve advocates to keep coverage at $100 million to avoid a significant rate increase for members.

**Happyland Health Insurance Pool**

Insures health risks for public entities exclusively in one state. You are a new board member for this pool and the pool administrator Gully Bull has brought two action items up for a vote:

* Increase pool’s retention from $1 million to $2 million in the 2024 renewal period, which would increase the attachment point of your commercial Medical Stop Loss coverage. The pool administrator cites higher prices for this commercial coverage as a reason to increase the pool’s retention.
* Increase amount of assets that are invested in equities from $5 million to $10 million.

Based on the information below about your pool, what are the factors you would consider when looking at each of these decisions? What might be some questions you would pose to your pool administrator?

**Financial Statement as of December 31, 2022**

Assets: $45 million

Liability (Reserves): $5 million

Equity/Surplus: $40 million

**Projections for the 2023 Underwriting Policy Period January 1 through December 31**

Premium: $30 million

Projected Losses: $24 million

Expenses: $4 million

Expected Profit Load: $2 million

**2023 Investment Projections**

Happyland invests $25 million in risk free bonds that generate 3% annual rate of return.

It invests $5 million in equities that have an expected 8% rate of return. There is a 1% chance that these equities lose 30% of their value in a year.

**Reinsurance**

Happyland maintains a per occurrence retention of $1 million and purchases medical stop loss coverage on top of this. There is is a 1% chance that the pool could have 5 claims greater than $2 million in a single year. Mr. Bull advocates for increasing the retention, due to hard reinsurance market, as Happyland’s MSL rates will go up by 25% if the retention remains at $1 million.

It also purchases aggregate coverage if losses within the retention exceed $30 million in a year. There is a 5% chance that this coverage will be triggered.