October 19, 2020

CAJPA Members

RE: Update of Accreditation Standards

Upon the request of the CAJPA Board of Directors, the Accreditation Committee took a deep look into the standards. The attached standards and the accompanying accreditation worksheets that the consultants use and that help us better interpret the standards are also enclosed.

Overview:

The committee and the consultants went through all of the standards. We noted that almost all of the applicants have received accreditation with excellence. The typical reason a pool is not receiving the excellence designation is funding sufficiency.

Throughout these standards a number were moved from excellence to required based on committee discussion that concluded;

1. There has not been any significant issues in pools not meeting the standard and
2. The nature of the requirement should now be considered standard

<u>Accreditation Standards</u>

I. Governing Documents and Administrative Contracts

Added, Provision for the resolution of nonclaim disputes (Excellence only)

II. Government Rules

III Insurance and Coverages

Reformed section to more clearly address requirements of the pool to have sufficient coverage and separately evidence of the pool retaining the coverage for its members and programs.

IV Accounting and Finance

In light of many pools having rate setting and funding weaknesses we added:

G. Management provides those with governance a five-year summary of:
   a. The rate setting confidence level by policy year and program (Excellence)
   b. The equity targets by program and policy year (Excellence)

Recommend you show the targets to your equity and demonstrate strengthening or erosion. Show board progression overtime.

This standard is being added to help ensure the pool management highlight to their board and members the long-term funding and rate setting.

H. The JPA rate funding at the 80% confidence level or describes why this level is not needed; due to: (Excellence)

a. Nature of the program and retentions (explain)
b. Met or exceed target equity (explain)
c. Has a retrospective assessment process in place (explain)

In consultation with actuaries the 80% confidence level is a recommended level. If the pool doesn't fund to this level do, they have a good reason. It is okay not to fund to this level but they should have this discussion.

V. Investment of Funds

Moved section C to section A.4 to include all investment policy items together.

Treasurer report – added explanation of change in law.

VI. Actuarial Standards – Property / Liability / Workers' Compensation

B. The actuary provides claim funded factors or measures for the:

a. Expected level (Mandatory)
b. 70% confidence level (Mandatory)
c. 80% confidence level (Mandatory)
d. 90% confidence level (Mandatory)
e. At least one of the factors below or similar:
98% confidence level (1:50) (Excellence)
99% confidence level (1:100) (Excellence)
99.5% confidence level (1:200) (Excellence)
This information would be valuable for long-term risk financing and meeting forever pool benchmarks and goals.

This new standard helps provide those charged with governance the mid and long-term benchmarks from the actuary to for long-term risk financing. These bench marks at the upper end come from Solvency II ratios

VII Risk Control – no significant changes

VIII. Claims Management – no significant changes

IX. Underwriting - no significant changes

X. Operations and Administrative Management

Revised wording of requirement 3

The governing body members participate in training such as; governance training, pool management or risk management training.

XI. Enterprise Risk Management – New Section

After about one year of the committee reviewing standards and thinking what is missing or what higher level standard should be considered we arrived at Enterprise Risk Management. It is designed to ensure that the pool has a regular process of identifying member, financial and operational risks and developing appropriate responses.

Demonstrative for the first cycle to make this part of the conversation management has with the board. The goal would be to make this demonstrative for a three-year cycle beginning July 2020.

To determine that the JPA has an ongoing process to identify major overall risk areas for the JPA and a plan reduce these risks to a relatively low level.

The JPA leadership has identified the relevant; policies, procedures, people, systems, training and monitoring to address first level risks in each of these three areas. A plan should be developed to (*note they must have a plan in process it doesn't have to be fully implemented)* The plan must be in writing and approved by the proper level of governance (Excellence).

a. Identify the major risks
b. Develop a plan to reduce the risk to a "relatively low level."
c. Implement the plan
d. Monitor and develop plans to address next level risks.

The primary headings identified that must be addressed:

Identified Primary Risk Areas

I. Member Understanding and Value - Meeting member needs through various cycles
II. Funding, Capitalization and Risk Financing Structure - Board not adequately funding and capitalizing a program
III. Operations and Operational Interruption

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