



## **T. PROCESS FOR EVALUATING EXCESS INSURERS, EXCESS RISK POOLS AND REINSURERS**

JPAs should evaluate their insurers, excess insurers, and reinsurers for quality, stability, and financial solvency. As part of this process, the following considerations should be discussed with and/or disclosed to the governing board of the JPA.

### **TRADITIONAL INSURANCE/REINSURANCE CONSIDERATIONS:**

- Is the Best or S&P rating acceptable? (See A.M. Best Rating Code, Attached)  
If there is no Best or S&P rating, the reason for absence of such a rating should be determined. Typically, new captives will not have such ratings. In such cases, the pro forma filing with the captive's domicile should be obtained and the financial capitalization of the captive should be reviewed. An independent insurance consultant's advice may be appropriate in evaluating surplus levels, and the carrier's/captive's book of business.
- Is the carrier admitted to do business in the State of California? The risk of insolvency of an admitted carrier is mitigated by the California Insurance Guaranty Association (CIGA), which provides some coverage in the event of such insolvency. CIGA coverage does not apply to non-admitted carriers or reinsurance.
- Are there aggregate limits? What are the attachment points? If aggregate limits apply, the likelihood of reaching the limits should be evaluated. It should be understood who retains the risk of loss in the event of aggregate exhaustion and whether this is an acceptable risk.

### **EXCESS RISK POOL CONSIDERATIONS:**

Before committing to membership in a risk pool, a thorough review of the pool's governing documents is essential. Special attention should be directed to:

- Voting – How are members of the governing body determined? Who has voting rights?
- Participation – Do pool participants have risks similar to your own? What is the minimum participation required to make the pool viable?
- Withdrawal procedures – What are the provisions for termination of the pool or member withdrawal? Are penalties involved? Is there a commitment for a minimum number of years?



- Is the pool assessable? In the event of insufficient funds to pay claims, can the pool assess its members? If not, what are your financial risks?
- Rights and Responsibilities: What are the rights and responsibilities of the pool and each of its members?
- Memorandum of Coverage (MOC): Does coverage provided by the pool address the risks of your organization?
- Is the pool accredited by CAJPA? Accreditation provides assurances that pool governance and fiscal practices conform to standards promulgated by CAJPA.
- Self-Insured Retention (SIR) and deductibles: What deductibles apply to individual members? What is the level of risk retained by the pool? How is it structured? Are there any aggregate retentions? If so, what are the attachment points?
- Pool funding: Obtain a copy of the pool's latest audited financial statement. Is funding sufficient to cover claims, ALAE, and IBNR with a comfortable margin?
- How is the risk excess of the SIR covered? If by commercial excess or reinsurance, evaluate as in "Traditional Insurance/Reinsurance Considerations", above. If by another excess risk pool, evaluate as in this section.



## A.M. Best Rating Code

### I. Letter Grade

#### Secure

A++, A+ = Superior

A, A- = Excellent

B++, B+ = Very Good

Letter grades below these are not recommended

### II. Financial Size Designation Based on Policyholders Surplus

I	Less than \$1
II	\$1 to \$2
III	\$2 to \$5
IV	\$5 to \$10
V	\$10 to \$25
VI	\$25 to \$50
VII	\$50 to \$100
VIII	\$100 to \$250
IX	\$250 to \$ 500
X	\$500 to \$750
XI	\$750 to \$1,000
XII	\$1,000 to \$1,250
XIII	\$1,250 to \$1,500
XIV	\$1,500 to \$2,000
XV	Greater than \$2,000

**Note:** Ranges are in millions of U.S. dollars