REINSURANCE AND TWCARMF

Reinsurance is an extremely important part of the Fund's structure as an insurance program for its members. Although the Fund is financially very strong, it may not have enough assets to pay for several large claims in any one year. The Fund buys reinsurance that sits atop a retention (like a large deductible). The Fund pays large claims out of its accumulated contributions and investments up to the retention amount. Above that, the reinsurance company pays the rest of the claim, or actually reimburses the Fund for payments it makes. For instance, Hurricane Harvey caused $1,628,159 in three claims where the total loss exceeded the retention. When the three claims were closed, the reinsurance company paid $1,028,159 to reimburse amounts that exceeded their Property retention of $200,000 per claim. (Losses valued as of December 31, 2020).

The chart below shows the current retentions by line of coverage for Workers' Compensation, Liability, and Property. Any one of these coverages can be affected by losses that cause reinsurance companies to raise premiums and retentions, restrict coverage, or reduce the overall limit of liability it accepts. The Fund's reinsurance renewals this year gave us examples of all of these situations as the reinsurance market reacted to large losses all over the world, large losses in Texas, and large losses from Fund members.

TWCARMF Reinsurance Protection 2019 - 2020			
Coverage Program	Fund Retention	Reinsurer Limit of Liability	Maximum
Workers' Compensation	$300,000	$1,500,000	Statutory*
Liability	$400,000	$9,600,000	$10,000,000
Property	$250,000	$500,000,000	$500,000,000

**Statutory limits mean that there is no maximum limit on medical benefits available to injured workers.*

The retention level prevents a lot of claims from ever reaching the reinsurance company, but if they do, you can see how much the reinsurance carrier may have at stake. Especially in Property, there is a huge potential exposure for them.

The other major factor in what is happening to reinsurance pricing is the impact of large property losses in the United States and all over the world. In the next chart, Munich RE, a large international reinsurance company, lists losses by category in the United States for 2019. These losses, coupled with reduced investment earnings due partially to lower interest rates, have caused premiums to rise. As carriers restrict the amount of reinsurance they write through larger retentions, withdrawal from some classes of business (like property insurance along the Gulf coast), and reduced total amount of coverage, supply diminishes in the face of increased demand prices go up.

Natural Catastrophe Losses in the United States, 2019 (1)
($ millions)

Event	Number of events (2)	Fatalities	Overall losses	Insured losses (3)
Severe thunderstorm	49	70	$27,000	$20,300
Winter storms and cold waves	16	73	7,400	2,100
Tropical cyclone	5	16	3,900	1,900
Wildfire, heat waves, and drought	9	11	1,300	830
Flood, flash flood	9	7	10,100	200
Earthquake and geophysical	2	3	180	50
Total	**90**	**180**	**$49,900**	**$25,500**

(1) As of May 2020.
(2) Events that have caused at least one fatality or losses of $3 million or more.
(3) Sourced from Property Claim Services based on property losses including agricultural, offshore, marine, aviation, and National Flood Insurance Program losses, and may differ from data shown elsewhere.

Source: © 2020 Munich Re, NatCatSERVICE, Property Claim Services®, a unit of ISO®, a Verisk Analytics® business.

Out of the almost $50 billion in total losses, a little over half were insured. In 2019, the Fund had losses from wind, a tornado, thunderstorms, and tropical storms, all insured. The chart from Munich Re indicates the impact of these large losses on reinsurance companies and the impetus to raise rates.

The outlook for property reinsurance rates for the next few years is bleak. According to an article in Business Insurance written by Risk Placement Service, rates for property insurance should continue to increase up to 15% each year with continuing restrictions on the amount of insurance provided, more extensive exclusions, and withdrawals from some markets like fire prone areas of California, Oregon, and Washington. Continuing losses are forcing increased rates from reinsurance companies that “trickle down” to the primary property insurance companies.

As a result of all these factors affecting the reinsurance companies the Fund does business with, during the most recent reinsurance renewals the Fund's premiums for Property Reinsurance went up over $370,000, an increase of 16%.

What can the Fund members do to counter this continuing increase in reinsurance contributions? Continued efforts to reduce the impact of natural disasters and prevent the manmade ones can help. Proactive measures could include:

- Where possible, move vehicles from flood prone areas or under shelter from hailstorms.
- Repair hail damage to roofs when it occurs so roofs don't leak years later because repairs were not made.
- Make sure gutters, downspouts, and roof drains are clear of debris and in good repair.
- Comply with new building codes with new construction, repairs, or remodeling.
- Consult with and rely on the Fund's Loss Control Consultants for their advice and recommendations.

Raising the Fund's retention even higher could help (and it may not be our choice). The reinsurance renewal season will be here soon, and the Fund will be affected by all the factors mentioned that are affecting insurance companies all over the world.