2024 Risk Retention Group Benchmarking Study

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Pinnacle Actuarial Resources, Inc.

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Commitment Beyond Numbers

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I. Executive Summary

Pinnacle Actuarial Resources, Inc. (Pinnacle) is pleased to present our seventh annual Risk Retention Group (RRG) Benchmarking Study. The purpose of this study is to examine publicly available RRG financial statement data and provide analysis of key financial metrics and industry trends. Key findings specific to this year's study are summarized below:

- The number of RRGs has been stable over the past 15 years. Vermont, South Carolina and the District of Columbia have the most domiciled RRGs. New York, Pennsylvania and California, however, rank highest in terms of the risk state for written premium.
- Overall, RRGs tend to be better capitalized than the overall industry. The ratio of net written premium (NWP) to surplus has been flat for RRGs over the past several years and the ratio for RRGs is substantially smaller when compared to the insurance industry.
    - MPLA affiliated RRGs are *substantially* more capitalized than that of their unaffiliated counterparts.
- Both RRGs and the industry continue to see premium growth across commercial auto liability (CAL), medical professional liability (MPL), and other liability (OL) lines of business. We continue to see new formations of CAL RRGs.
- Underwriting net income for RRGs has rebounded in 2023 after a drastic decrease in 2022. Many RRGs use Generally Accepted Accounting Principles (GAAP) as their accounting basis. The reductions in net income as bonds are marked to market caused a much bigger decrease compared to the industry which predominantly uses statutory accounting principles (SAP).
- The overall market share across all lines for RRGs has been about 0.5% of direct written premium (DWP). The market share for the MPL line of business has steadily increased from 14.3% in 2013 to 20.6% in 2023.
- RRGs have had higher accident-year loss and loss adjustment expense (LAE) ratios than the rest of the industry over the past 11 years.
    - Loss ratios for MPLA-affiliated companies have been superior to unaffiliated companies historically but are beginning to worsen in recent years.
- A comparison of reported incurred (paid amounts plus case reserves) loss and defense and cost containment expenses (DCC) development patterns reveal that aggregated RRG-incurred losses tend to develop differently than aggregated incurred losses for the industry for the MPL, CAL and OL lines of business.
- Overall expenses for RRGs vary by line of business written, with CAL having a higher and more variable expense ratio than RRGs writing OL or MPL.

II. Overview

One extremely useful aspect of state regulation of admitted insurance companies and RRGs is that insurers are required to annually provide significantly more financial information than other industries. The National Association of Insurance Commissioners (NAIC) prescribes a standardized format for annual statements required from property/casualty (P/C) insurance companies licensed in the United States. Under statutory accounting rules, the annual statement is supported with a detailed codification of the accounting rules that must be followed when producing the document. The annual statement contains such information as balance sheets, income statements, cash flow detail, premium breakdowns by line and state, reinsurance analysis, investment holdings (as well as sales and acquisitions), expense analyses, a wide variety of interrogatories related to matters that require additional description and documentation (e.g., accounting rules, asbestos claims liabilities, ownership structures) and a detailed analysis of paid and unpaid claims experience (Schedule P). Because of the annual statement's extensive data requirements, mandate and structure, it is a tremendous resource for analyzing insurance industry trends.

We have utilized RRG annual statement data from the following schedules:

- Income Statement – net income, net underwriting income, policyholder surplus
- Statement of Cash Flows – net investment income
- Statutory Page 14 – direct premium and loss data
- Schedule P – loss and expense data, net earned premiums, one- and two-year loss development values
- Underwriting and Investment Exhibit – net written premiums, investment data
- Insurance Expense Exhibit – premium and loss data, expense data
- A.M. Best General Information – state of domicile, Best's Financial Strength Rating
- Annual Statement Assets Page – asset data

Our analysis included calendar years 2013 through 2023 for most schedules.

The NAIC, the A.M. Best Company and other vendors have developed products that compile annual statement data and make it easy to aggregate and summarize. We have used A.M. Best's compilation of annual statement data for RRGs and for the broader insurance industry throughout this analysis. We have aggregated and performed extensive calculations of the annual statement data.

One of this data source's weaknesses is that detailed information by state is limited to premium, a portion of total underwriting expenses and loss and loss adjustment data. All by-state data is on a calendar-year basis. This information is contained in Statutory Page 14 and Schedule T. We used the annual statement data to examine calendar-year incurred losses and DCC expenses. Insurance company financial statements provide this data annually by line of coverage and state. We also

examined ratios of losses and DCC to earned premium as a measure of industry and company underwriting profitability.

The calendar-year data we have described thus far is particularly worthwhile because it allows a comparison to the total insurance industry. It also offers the benefit of examining claim payments and reserve changes actually made in a given calendar-year period. However, the calendar-year data contains loss payments from a number of different accident years in any given calendar year. For example, any general liability claim payment made in 2023 is assigned to calendar year 2023 regardless of whether the incident occurred in 2023 or in 2014. To remedy the disconnect between payment calendar year and claim-occurrence year, insurance companies also produce financial data on an accident-year basis for occurrence coverages and a report-year basis for claims made (CM) coverage that assigns claims to the year in which the claim occurred or was reported. The accident-year approach's main drawback is that insurance companies are not required to produce this data on a by-state basis.

Accident-year data is additionally complicated because companies are required to post incurred but not reported (IBNR) reserves as an estimate of future claims development beyond the current accident-year paid losses and case reserves. IBNR is also held for DCC and other loss adjustment expenses. These IBNR estimates are based on both the judgment of the insurer's appointed actuary and its management's best estimates. These estimates introduce an additional amount of uncertainty to the loss results, however. We have assumed management's current best estimate is reasonable and have not attempted to replace the companies' current held reserves with our own analysis.

Graphs are either based on "As-Was" data or "As-Is" data, as appropriate. "As-Is" data is defined as the data as of an accounting date, e.g., December 31, 2023, for active RRGs at that particular date. It includes historical information, but only for any RRG that is active in 2023. "As-Was" data is defined as the data as of each annual accounting date for any RRG that was active in that year. "As-Was" data can give a more accurate historical perspective of the RRG market for each prior year and will include RRGs that are inactive in 2023. The difference between the two is caused by RRGs active in the last 10 years shutting down due to insolvency, low premium or management decision. Where appropriate, "As-Was" data is used to more accurately represent the RRG market and changes over the years. In general, the graphs that use "As-Was" data capture calendar-year statistics.

We also reviewed the available information with respect to auditors and opining actuaries for RRGs. The dataset was incomplete as several of the smaller RRGs do not report this information to our data source, but the opining actuary and auditor was available for over 85% of RRGs. We can state affirmatively that there are over 10 actuarial and accounting firms that service five or more RRGs, demonstrating diversity in the industry's service providers.

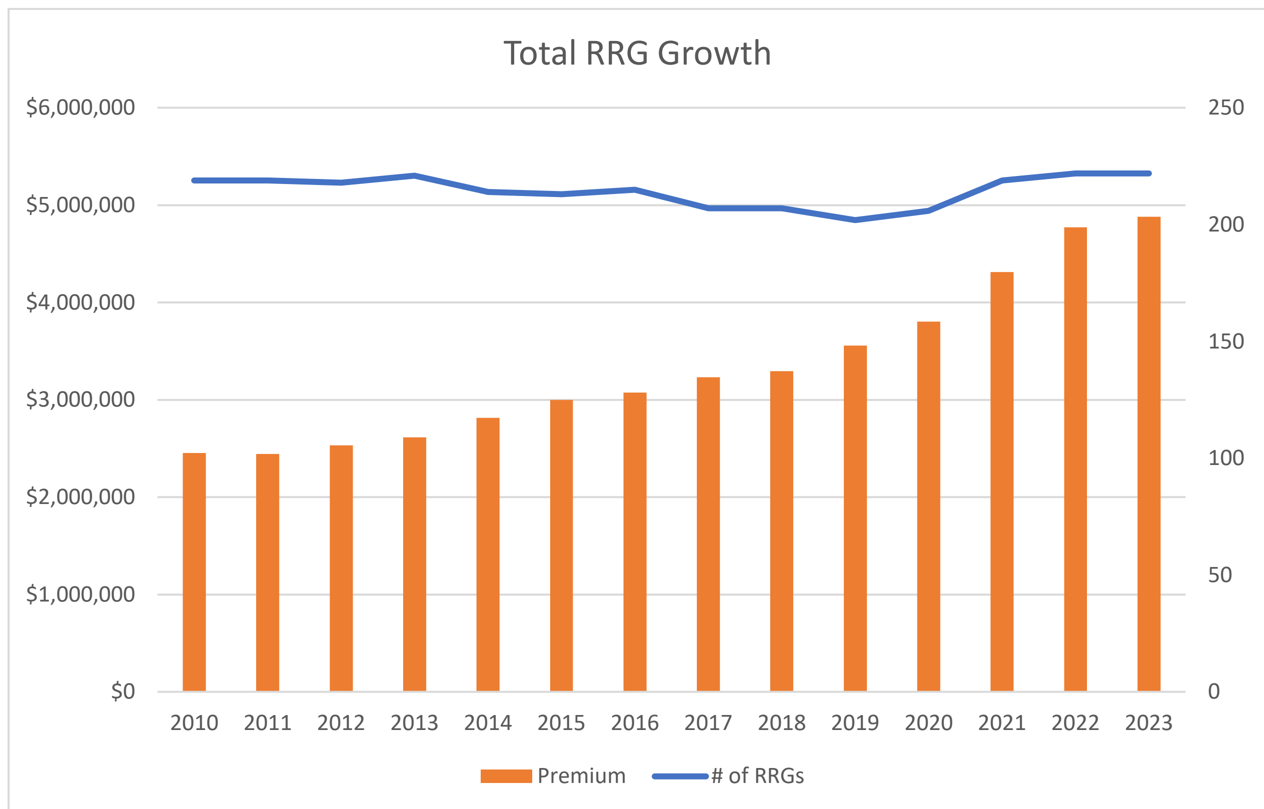
III. Overall RRG Demographics

This section provides a high-level overview of RRGs: the number and types of RRGs and how these demographics are changing. We find the number of RRGs has been relatively stable over the past 10 years despite slight reversals. Six states and districts have 10 or more domiciled RRGs. Vermont, South Carolina and the District of Columbia have the most, and are at the top in terms of written premium. The business mix for RRGs is focused on MPL, OL and CAL.

A. How Many RRGs Are There?

The amount of written premium insured by RRGs decreased between 2010 and 2011 before growing steadily since and approaching $5 billion. The number of RRGs with written premiums had been relatively stable from 2010 to 2013, averaging 219 per year. Between 2013 and 2019 the number of RRGs with positive written premium decreased from 221 RRGs in 2013 to 202 RRGs in 2019. This decrease was related primarily to small- and medium-sized MPL RRGs. In the past three years, the numbers of RRGs increased overall and currently sits at 222 RRGs with positive written premium in 2023, the same as last year.

Figure III.A – Total RRG Growth – Premium (000s) and Number

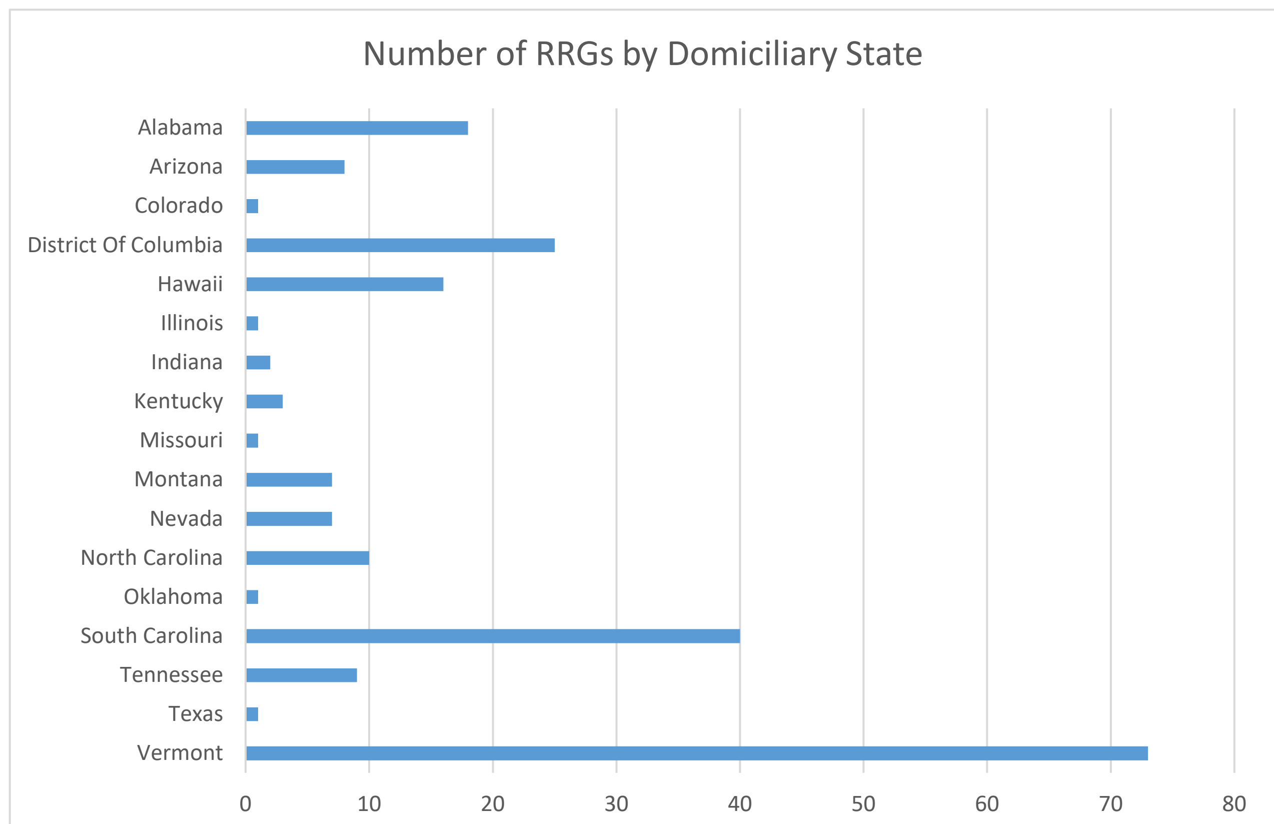


B. RRG Counts and Premiums by Domicile

There are 223 RRGs with positive premium identified in the A.M. Best database for 2023. Over 60% of them are domiciled within Vermont, South Carolina and the District of Columbia (D.C.). Over the last five years, these three domiciles have consistently had the largest percentage of RRGs. While Vermont, D.C., Arizona and Nevada have all seen the number of RRGs decrease over the last five years, South Carolina, Alabama, Hawaii, North Carolina and Tennessee have seen an increase in the number of RRGs. Alabama, in particular, has seen the largest increase in number of RRGs for the past five years, growing from only four in 2019 to 18 in 2023.

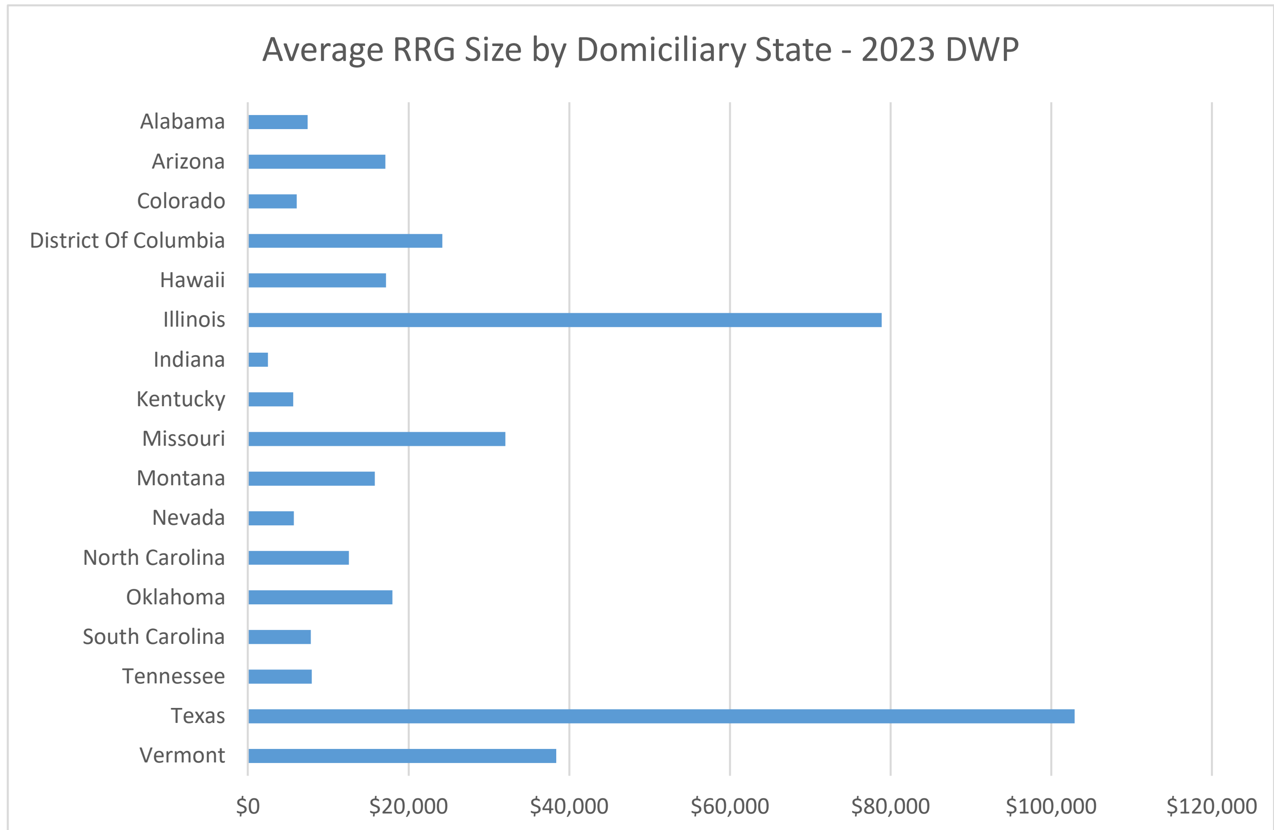
	Number of RRGs					Percent of Total				
State of Domicile	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Vermont	73	74	77	73	77	33%	33%	35%	36%	38%
South Carolina	40	41	37	29	27	18%	18%	17%	14%	13%
District Of Columbia	25	25	25	26	27	11%	11%	11%	13%	13%
Alabama	18	19	13	5	4	8%	8%	6%	2%	2%
Hawaii	16	16	15	14	14	7%	7%	7%	7%	7%
North Carolina	10	10	9	8	8	4%	4%	4%	4%	4%
Tennessee	9	10	10	9	8	4%	4%	5%	4%	4%
Arizona	8	8	9	10	10	4%	4%	4%	5%	5%
Nevada	7	7	8	9	10	3%	3%	4%	4%	5%
Montana	7	6	7	7	7	3%	3%	3%	3%	3%

Figure III.B.1 – Number of RRGs by Domiciliary State



As shown in Figure III.B.2, Texas has the largest average premium size per RRG based on DWP. It is worth noting though, that Texas, Missouri and Illinois only have one RRG domiciled in their respective state.

Figure III.B.2 – Average RRG Size by Domiciliary State – 2023 DWP (000s)

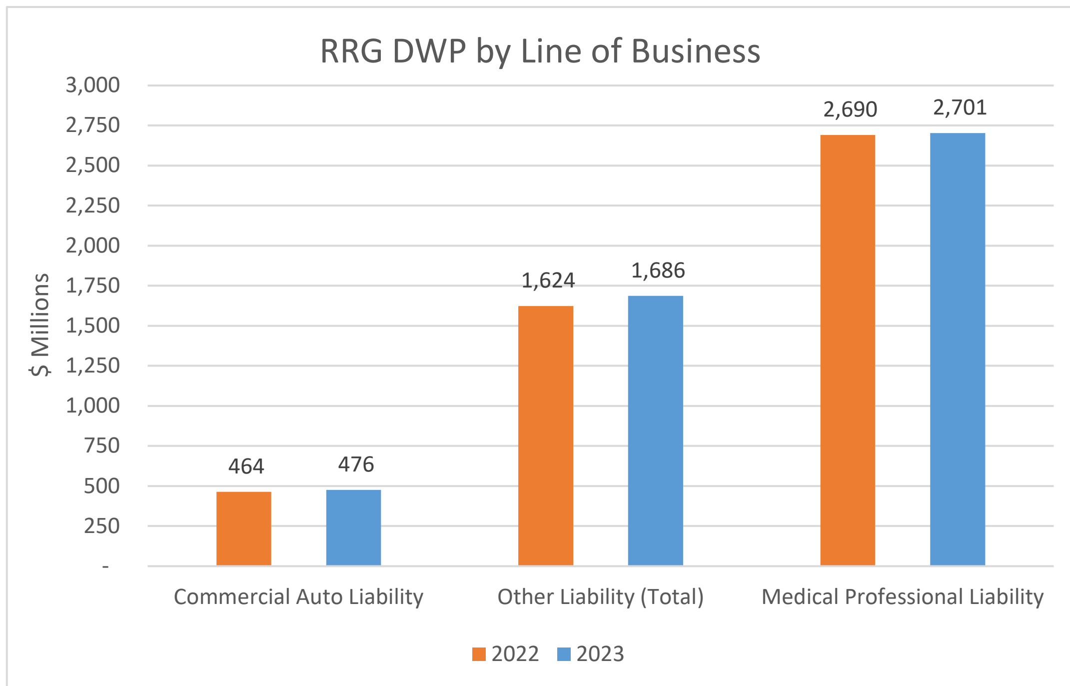


C. RRG Premiums by Line of Business and State

The mix of RRG premium by line and risk state provides insight into line and state combinations where RRGs are providing substantial market capacity. The following section looks at these differences.

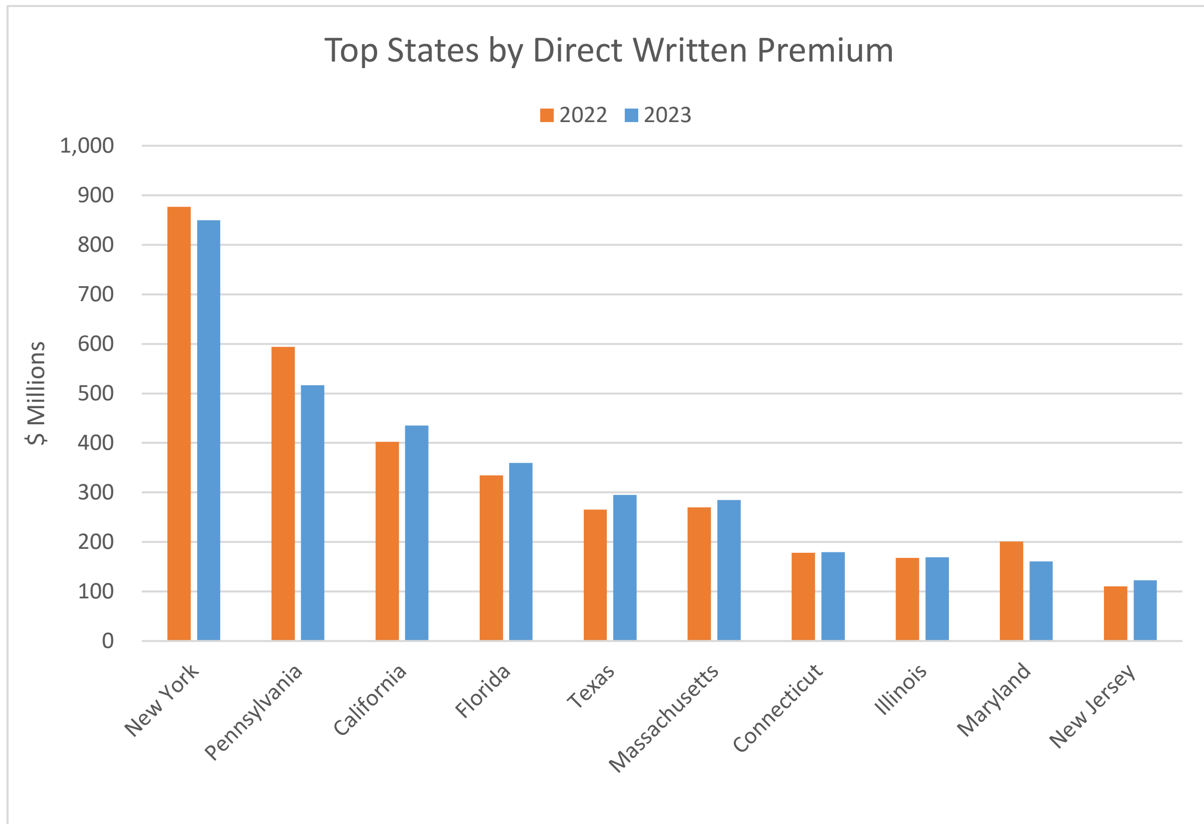
The following graph shows 2023 DWP by line of business for RRGs domiciled in the U.S. The largest written lines of business are CAL, OL and MPL, with MPL ranking highest. It should be noted that OL and MPL include both occurrence (OCC) and claims made (CM) forms.

Figure III.C.1 – RRG DWP by LOB ($millions)



In addition to the state of domicile, we also reviewed volume based on the state in which the insured risk was located. A physician group in New York insured by an RRG domiciled in Vermont is counted with Vermont (domicile) in the preceding figures but is included in New York (risk state) in Figure III.C.2. It summarizes the total RRG direct written premium for all lines combined by risk state. New York, Pennsylvania, California, Florida and Texas have the largest RRG premium volume. Premium volume by risk state also varies significantly by line of business. For more information, please see Section VI.

Figure III.C.2 – RRG Direct Written Premium (000s) by Risk State



In 2023, our study of MPL RRGs was extended further as we began to analyze affiliated members of the Medical Professional Liability Association (MPLA) separately. These members are often parent companies for multiple RRGs and make up roughly 51% of the direct premiums written in our database of MPL RRGs. Our analysis revealed numerous insights highlighted below.

For MPL RRGs, New York emerged as the top writing state for RRGs with an MPLA affiliation. Likewise, Pennsylvania is the respective top writing state for unaffiliated RRGs.

Figure III.C.3a –Top States by Direct Written Premium

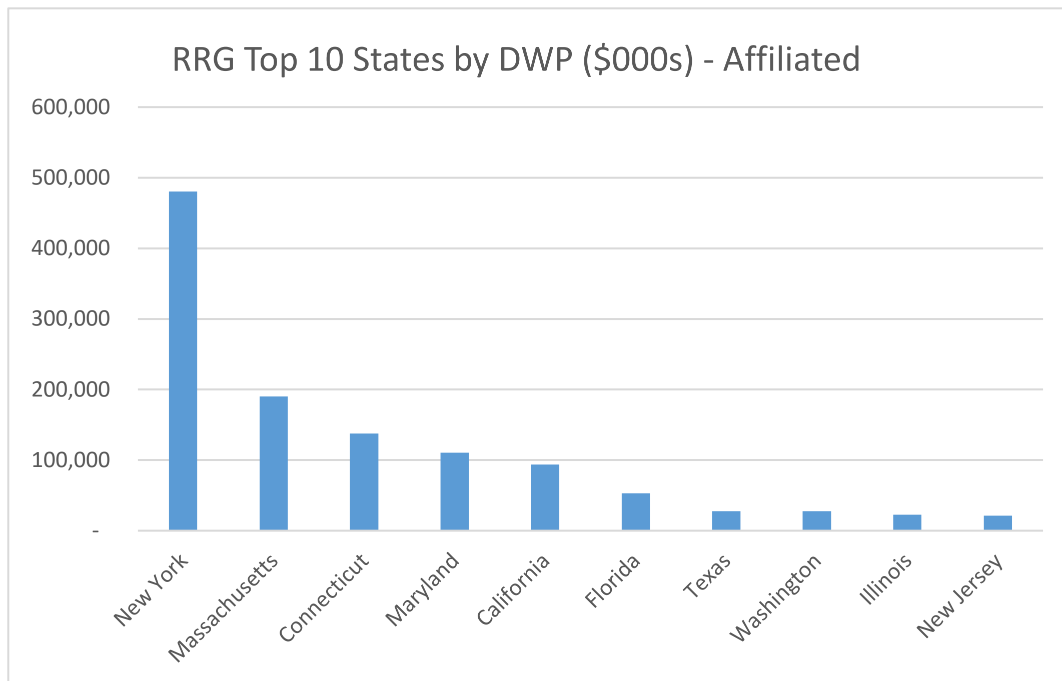
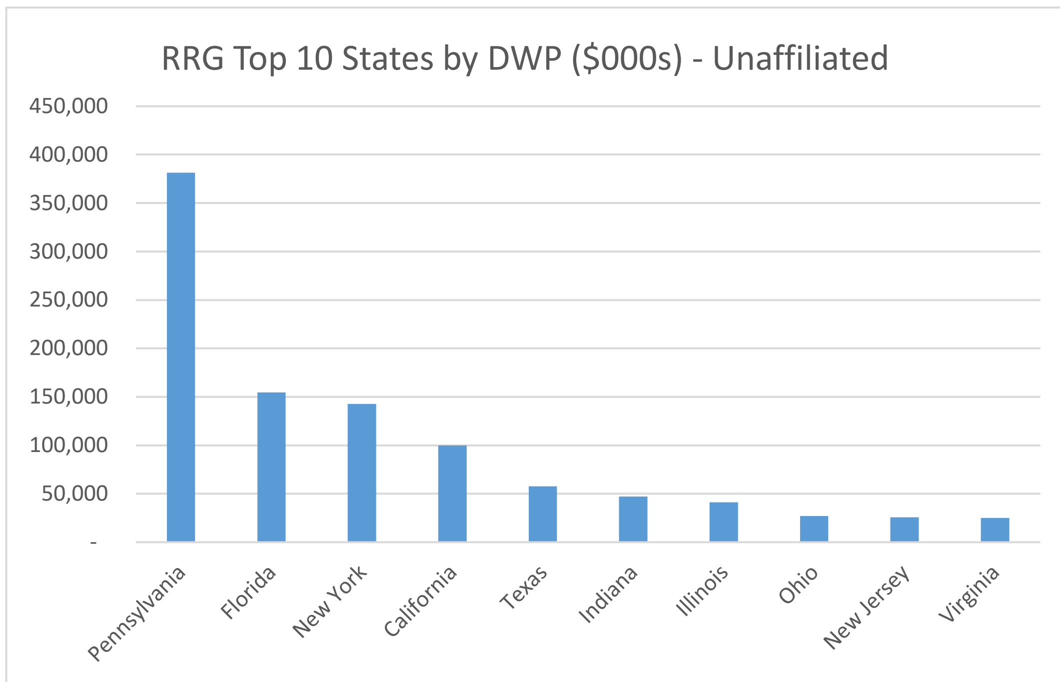


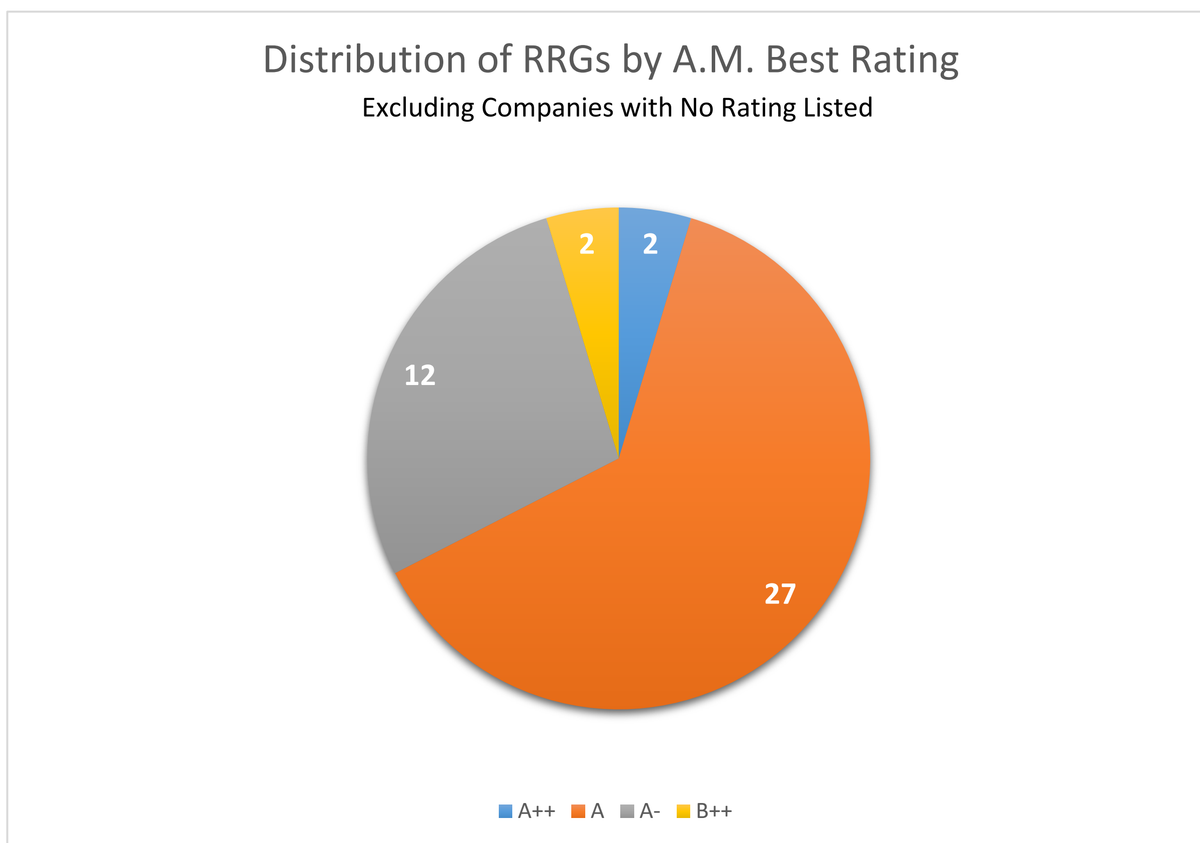
Figure III.C.3b – RRG Top 10 States by DWP – Unaffiliated RRGs



D. A.M. Best Rating

Of the 223 RRGs operating with positive written premium in 2023, only 43 were rated by A.M. Best, two more than last year's analysis. The distribution of those ratings appears below. A majority of the rated RRGs received an A- or better. Only two RRGs fell below an A- level rating, and those RRGs scored the next-highest rating of B++.

Figure III.E – Distribution of RRGs by A.M. Best Rating



E. Monoline RRG Writers

Of the 223 RRGs with positive written premium in 2023, 200 wrote over 90% of their premium in one line of business (LOB). We refer to these RRGs as Pure RRGs. Below is the percentage of monoline RRG writers by LOB. The number of MPL RRGs has increased from 90 RRGs in 2019 to 99 RRGs in 2022, while the number of RRGs specializing in CAL has increased from 30 to 47 over the same time period and those for OL has increased from 51 to 56.

Line of	Number of Monoline RRGs					Percent of Total RRGs				
Business	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
CAL	47	46	41	31	30	21%	20%	19%	15%	15%
OL	56	57	55	51	51	25%	25%	25%	25%	26%
MPL	99	97	96	95	90	44%	43%	44%	47%	45%
Mono Total	202	200	192	177	171	91%	88%	87%	88%	86%

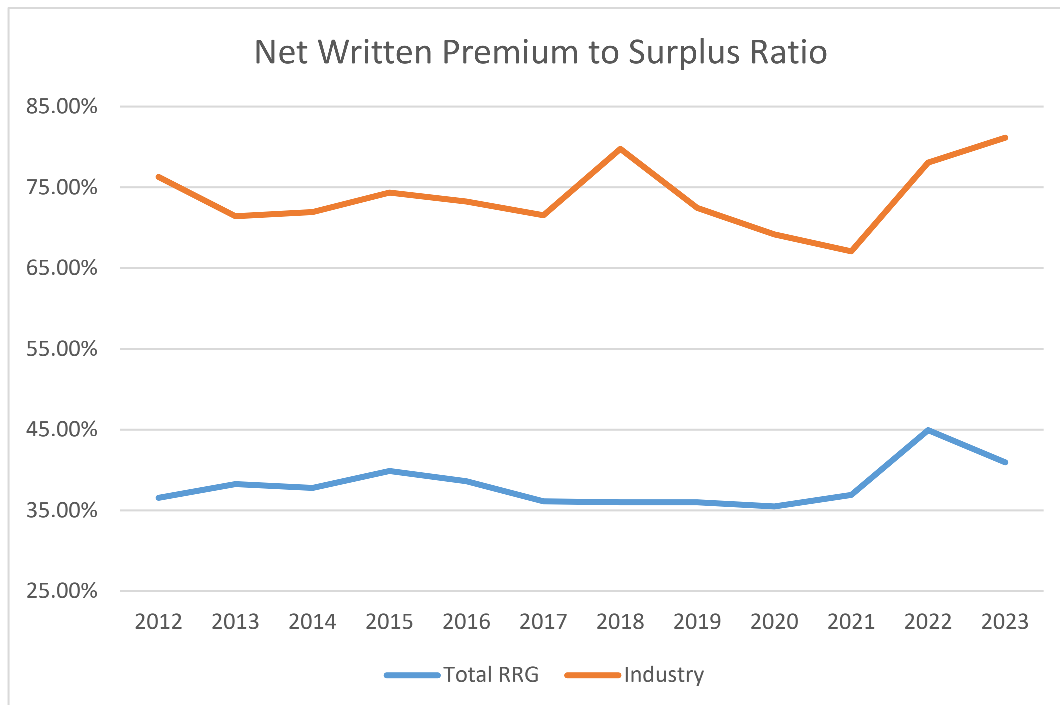
IV. Capitalization

This section will examine several of the key metrics for assessing the capitalization level of insurance companies, including RRGs. Up until the 2022 year, the ratio of NWP to surplus for the total U.S. P/C industry has been generally decreasing, suggesting stronger overall capitalization. The ratio for RRGs has been fairly flat over the same time period. In 2022, there was an increase in the ratios for both RRGs and the industry largely attributable to reductions in surplus. Ratios for the 2023 year are still higher than the long-term average but did not show a sharp increase. The ratio for RRGs is substantially smaller when compared to the total U.S. P/C industry. The ratio of adjusted capital to authorized control level RBC ratio has averaged about 4.40 for CAL writers for the past seven calendar years. MPL writers' RBC ratios have been steadily declining since the 2020 calendar year after increasing for several years. OL writers' RBC ratios increased between 2015 and 2021 and remained flat in 2022. This ratio decreased substantially in 2023. Leverage ratios for both the insurance industry and RRGs saw notable increases in 2022 with the insurance industry near 1.98 and RRGs at approximately 1.71. In 2023, the industry increased slightly and RRGs decreased to 1.58. Unlike in 2022 when overall surplus for both RRGs and the industry was declining, there were increases in surplus for the industry and RRGs, just not to as great of magnitude.

A. Premium to Surplus

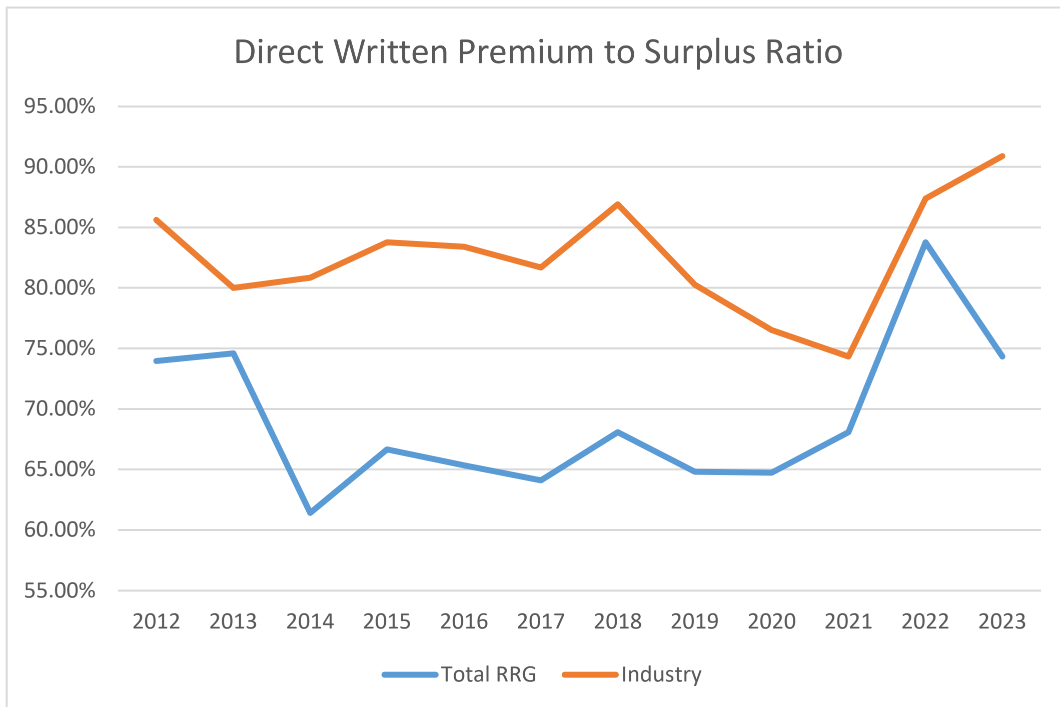
The ratio of NWP to surplus generally decreased between 2012 and 2021 with the exception of the 2018 calendar year. For RRGs, the ratio was fairly flat between 2012 and 2021 but like the industry, it saw a sharp increase in 2022. This was due to reductions in surplus across both the industry and RRGs alongside a continued increase in NWP. In 2023, the industry ratio for continued to increase to 81% (a decade high number) while the RRGs decreased to 41%.

Figure IV.A.1 – Net Written Premium to Surplus Ratio



The ratio of DWP to surplus generally decreased for the industry and RRGs up until 2021. We can see that industry and RRG writers have much closer ratios on a direct basis compared to net. The 2018 year shows an uptick for the industry on a direct and net basis, and on a direct basis for RRGs writers. For each, there was a decrease in surplus along with an increase in writings. The ratios between RRGs and the industry started to narrow, beginning in 2019. In 2022, as in 2018, the industry and RRGs both experienced a decrease in surplus and increased writing resulting in DWP to surplus ratios of more than 80%. In 2023, the industry ratio continued to increase as DWP increased by more than 10% while surplus increased by 6.3%. For RRGs, the ratio decreased as the 2.6% increase in DWP was substantially less than the 15.7% increase in surplus.

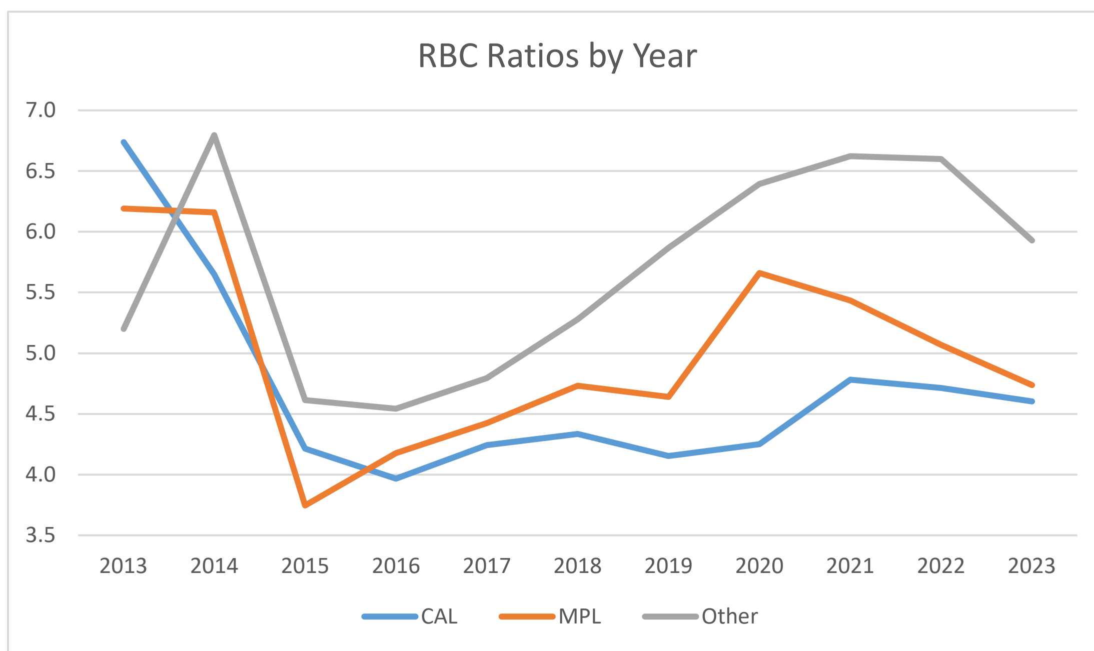
Figure IV.A.2 – Direct Written Premium to Surplus Ratio



B. Risk-Based Capital

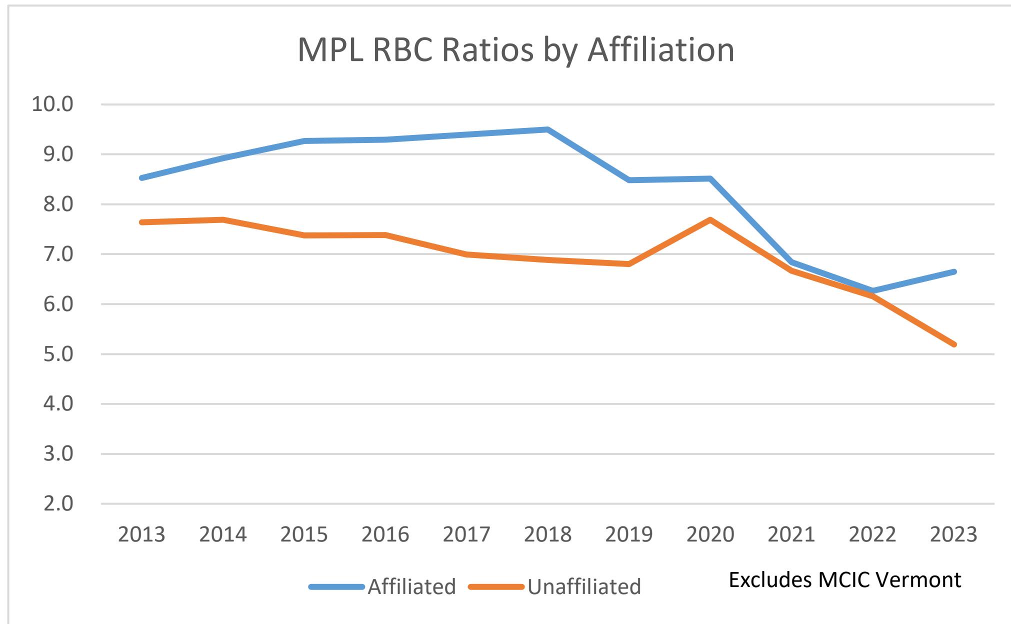
The ratio of adjusted capital to authorized control level (frequently known as RBC ratios) vary depending on the underlining line of business. MPL RRG writers saw their RBC ratios plummet in 2015 before slowly increasing until 2020. The ratio for MPL decreased from 5.7 to 4.7 over the three most recent years. RRGs that specialized in writing commercial auto liability saw their RBC ratios rapidly decrease between 2013 and 2016, as seen in Figure IV.B. Upon our inspection of the raw data, much of the CAL movement is due to new RRGs specializing in writing CAL. The RBC ratios for OL writers consistently increased between 2015 and 2021 before flattening in 2022. CAL ratios were fairly flat between 2015 and 2020 but have increased in the three most recent years. This is mainly due to strengthening of adjusted capital among some larger RRGs writing CAL. All three sublines had decreases in 2023.

Figure IV.B.1 – RBC Ratios by Year



Another item of interest for the MPLA affiliation study was capitalization. Our analysis revealed a pronounced difference in RBC ratios between MPLA-affiliated and unaffiliated companies from 2013-2019. The magnitude of this difference serves as confirmation, as these affiliated companies are largely owned by parent companies who have much more capital at their disposal. This gap has diminished in recent years, however. As seen below, the ratios of the two groups do appear to move in concert to one another, with exception of the latest year 2023.

Figure IV.B.2 – MPL RBC Ratios by Affiliation (excludes MCIC Vermont)



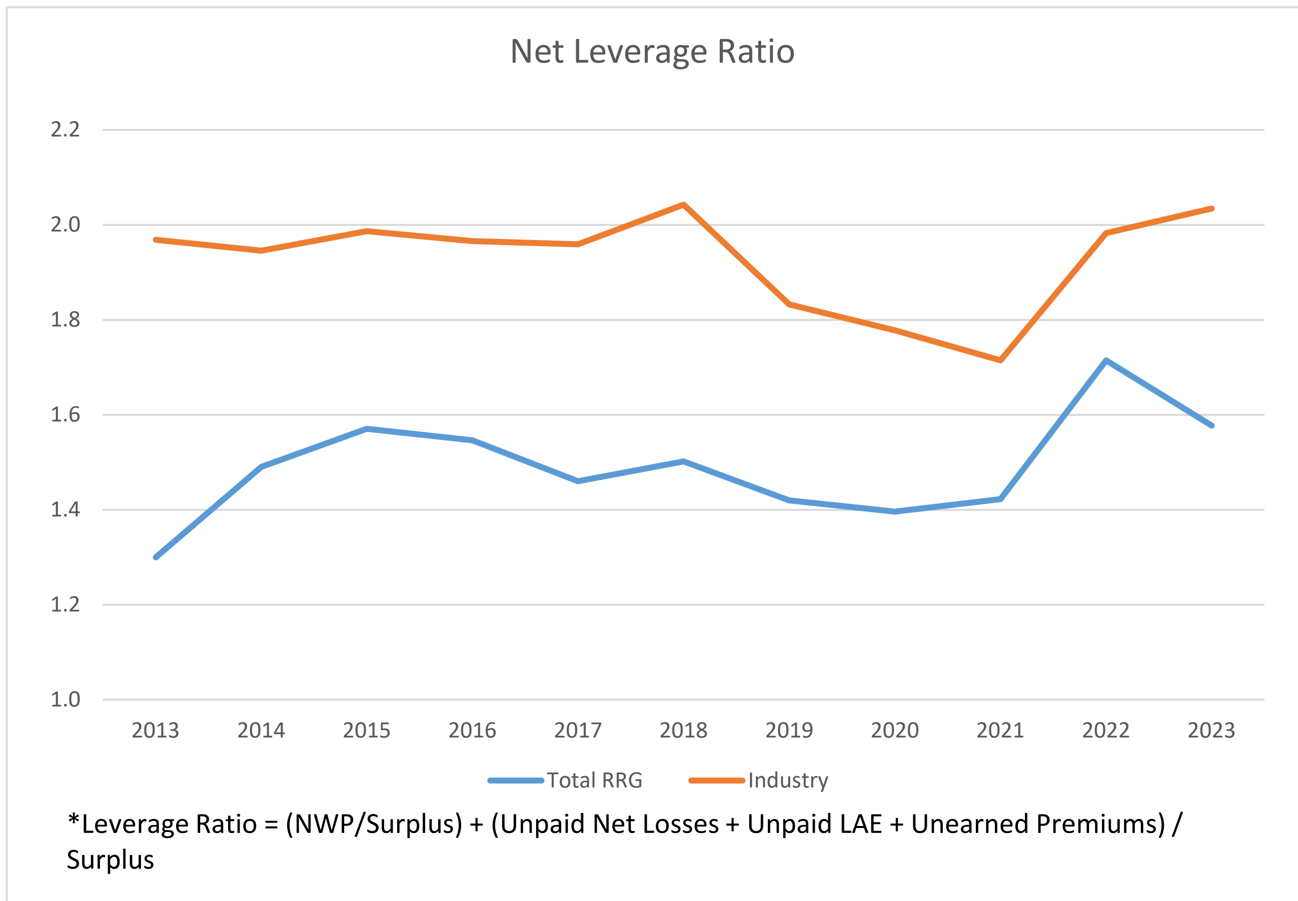
C. Leverage Ratio

The net leverage ratio is defined as the ratio of:

$$\frac{\text{(Net Written Premium + Net Unpaid Losses + Net Unpaid LAE + Unearned Premiums)}}{\text{Surplus}}$$

The net leverage ratio for the industry decreased between 2013 and 2021 while remaining relatively flat for RRGs. At the end of the 2013 calendar year, the ratio for RRGs was 1.30, while the industry ratio was 1.97. The 2023 observation has the ratio for RRGS at 1.58 and 2.03 for the industry. The increase in the net leverage ratios observed in 2022 for both RRGs and the industry relate to a decrease in surplus with increases in losses and net writings. The net leverage ratios for the industry have been higher for RRGs in the 11 years we observed. The increase in the ratio for RRGs between 2013 and 2015 was primarily driven by loss experience.

Figure IV.C – Net Leverage Ratio



*Leverage Ratio = (NWP/Surplus) + (Unpaid Net Losses + Unpaid LAE + Unearned Premiums) / Surplus

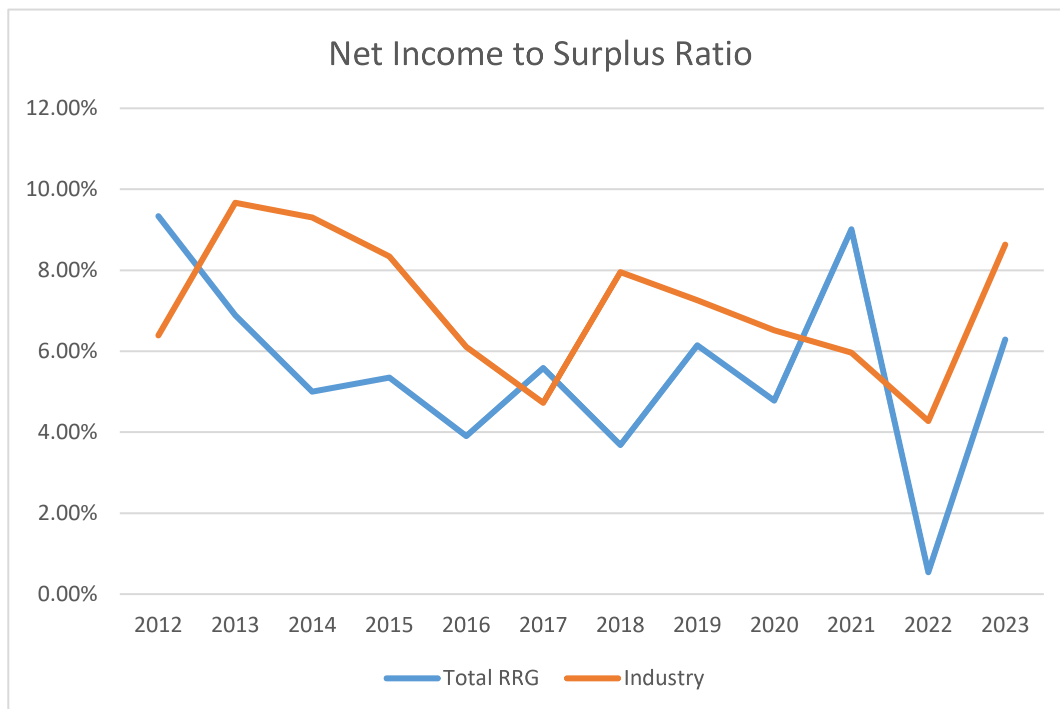
V. Overall Operating Results

A review of several overall operating measures reveals key findings. Net income has been positive for the 11 calendar years prior to 2023 for both the industry and RRGs. Underwriting net income decreased drastically in 2022 for RRGs but rebounded in 2023. Many RRGs use GAAP as their accounting basis. The reductions in net income as bonds marked to market caused a much bigger decrease compared to the industry, which predominantly uses SAP. The ratio of underwriting income to surplus has been cyclical in nature, with RRGs often running opposite of the industry. For RRGs, it is worth noting the underwriting loss in seven out of the last 11 years. RRGs accident year trade basis combined ratios have been equal to or over 100% since 2013. The industry accident year combined ratios have also been cyclical and slightly lower than the RRG accident year combined ratio since 2012 with 2022 as an exception. The calendar year combined ratios for RRGs have averaged 102% for the past seven calendar years.

A. Net Income

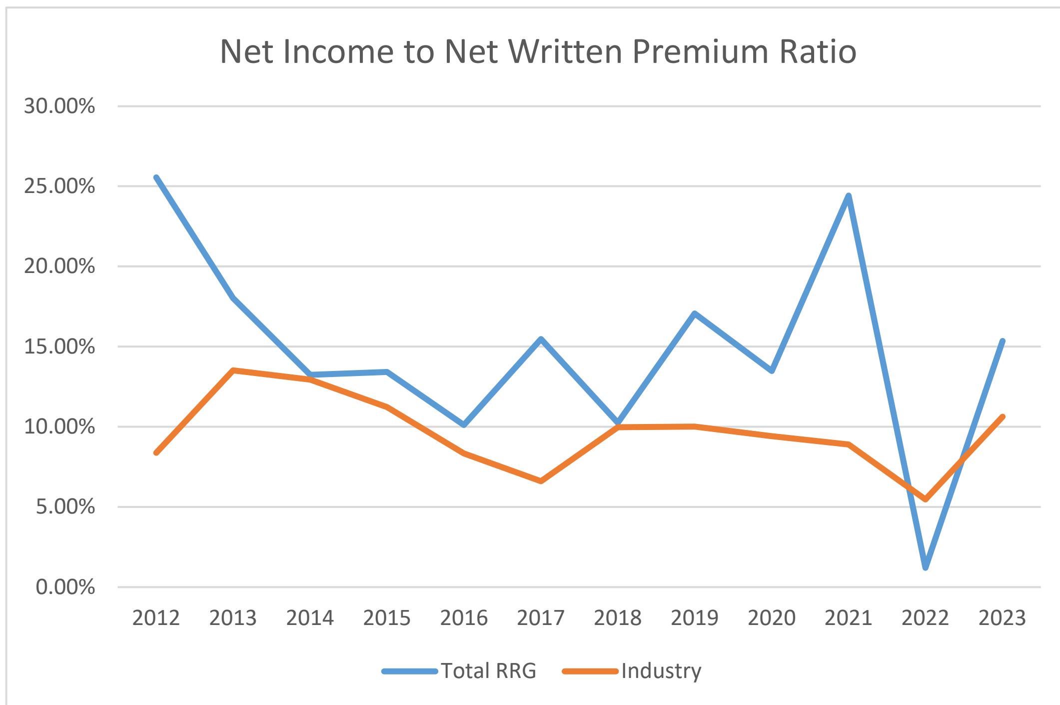
RRGs net income to surplus ratio steadily decreased between 2012 and 2016, showing volatility in more recent years, including a large increase in 2021. That increase is mainly attributable to one company, which saw a large change in net income in 2021. As seen in Figure V.A.1 below, the industry ratio was lower than RRGs in most cases since 2013. For the industry, changes in this ratio are largely driven by changes in net income. Overall, the ratio seems affected by the results in Section IV, as the net income to surplus ratio is lower for RRGs during the years in which RRGs are better capitalized. RRGs had little net income in 2022, with a ratio of net income to surplus under 1%. After further research, we found that more than 46% of RRGs had negative net income in 2022. Calendar year 2023 saw an uptick in net income to surplus ratio, with RRGs returning to 6.3%--comparable to their long-term average as seen in the chart below.

Figure V.A.1 – Net Income to Surplus Ratio



The net income to NWP ratio for RRGs steadily decreased between 2012 and 2016, with slight increases in 2017, 2019 and 2021. Similar to the section above, reduction in net income in 2022 substantially reduced this ratio in 2022. As seen in Figure V.A.2, the industry ratio remained lower than RRGs for the period reviewed--with the exception of 2022. The 2023 year saw both ratios increase with net income increasing substantially for the industry and RRGs. Between 2013 and 2016, the industry's decreased—similar to RRGs—but again started to diverge in 2017.

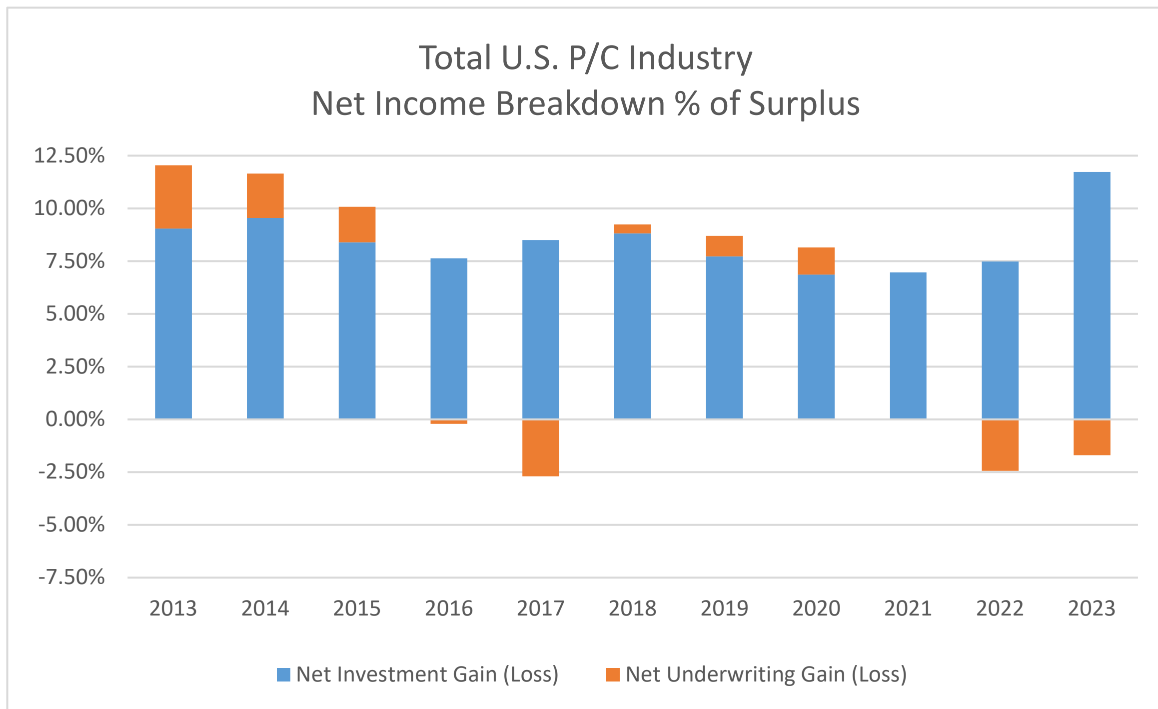
Figure V.A.2 - Net Income to Net Written Premium Ratio



B. Composition of Net Income – Underwriting vs. Investment Income

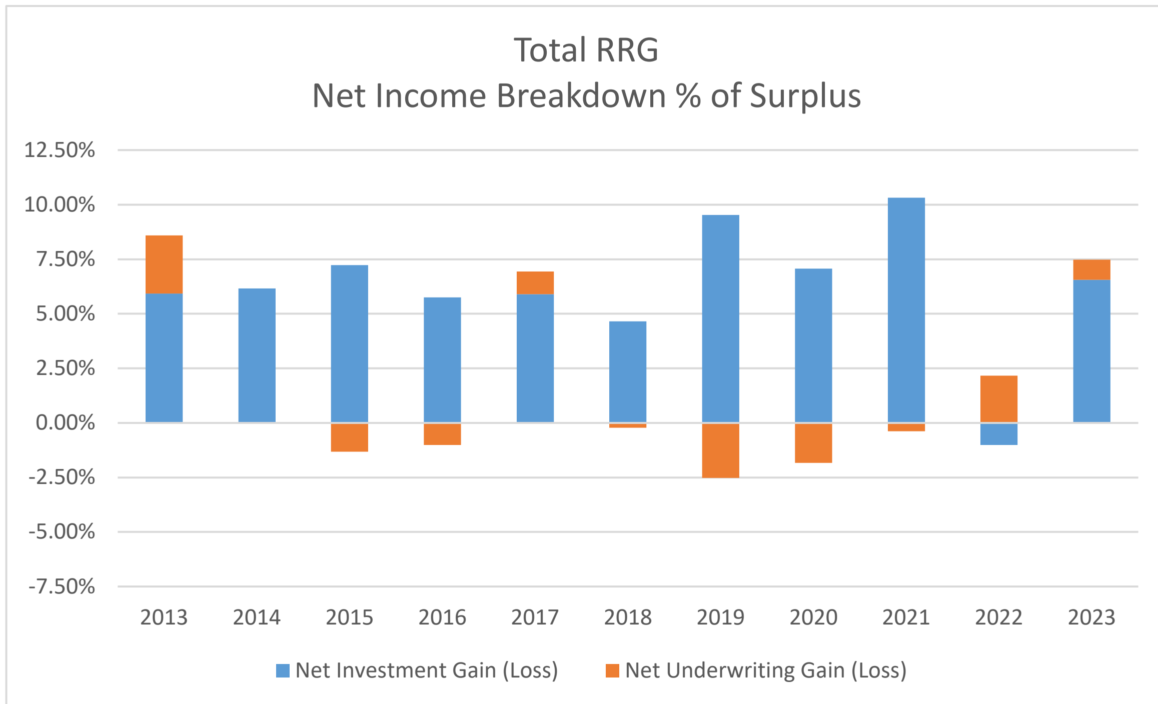
The industry's net investment gain (loss) remained steady at 7-10% of surplus between 2013 and 2022 before surpassing 11% in 2023. This is due to a substantial increase in investment income relative to the much smaller increase in surplus between 2022 and 2023. Net underwriting gain (loss) has cycled through highs and lows, as shown in Figure V.B.1.

Figure V.B.1 – Total U.S. P/C Industry Net Income Breakdown



RRG net investment gain (loss) was relatively steady between 4-7% as a percent of surplus between 2012 and 2018 but increased to between 7-10% from 2019 through 2021. For the first time in 10 years, RRGs had a net investment loss in 2022. The investment gain rebounded in 2023 at approximately 6.5% of surplus. Net underwriting gain (loss) continues to follow a cycle opposite to that of the industry. While the industry was experiencing negative net underwriting income, RRGs were positive, as shown in 2017, 2022, and 2023. A similar reversal of RRG results compared to industry results can be seen in 2014–15 and 2018–20.

Figure V.B.2 – Total RRG Net Income Breakdown



RRGs underwriting loss in seven of the last 11 years is worth noting. RRGs primarily writing CAL drive this result with significant negative underwriting income in several years since 2013. It is worth noting CAL has seen a significant improvement in underwriting loss starting in 2020 compared to the prior four years. For RRGs writing OL and MPL lines of business, fewer years experienced underwriting losses, and the investment income was always large enough to offset those losses.

Figure V.B.3 – OL RRGs Net Income Breakdown

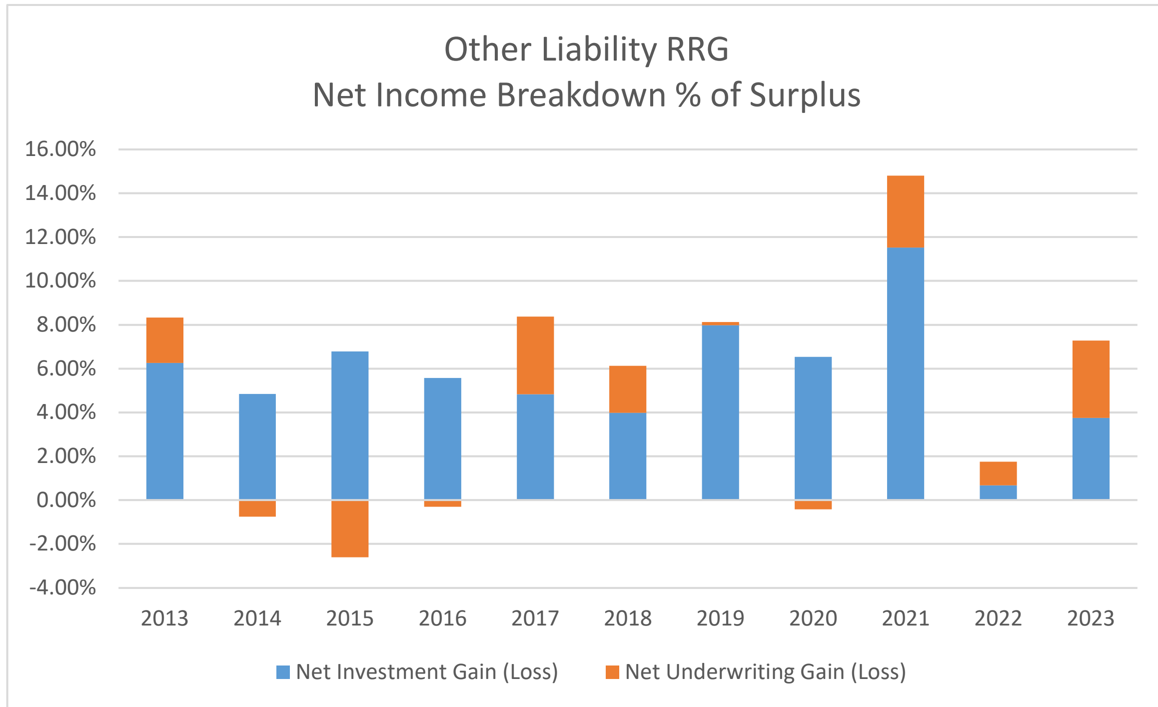


Figure V.B.4 – CAL RRGs Net Income Breakdown

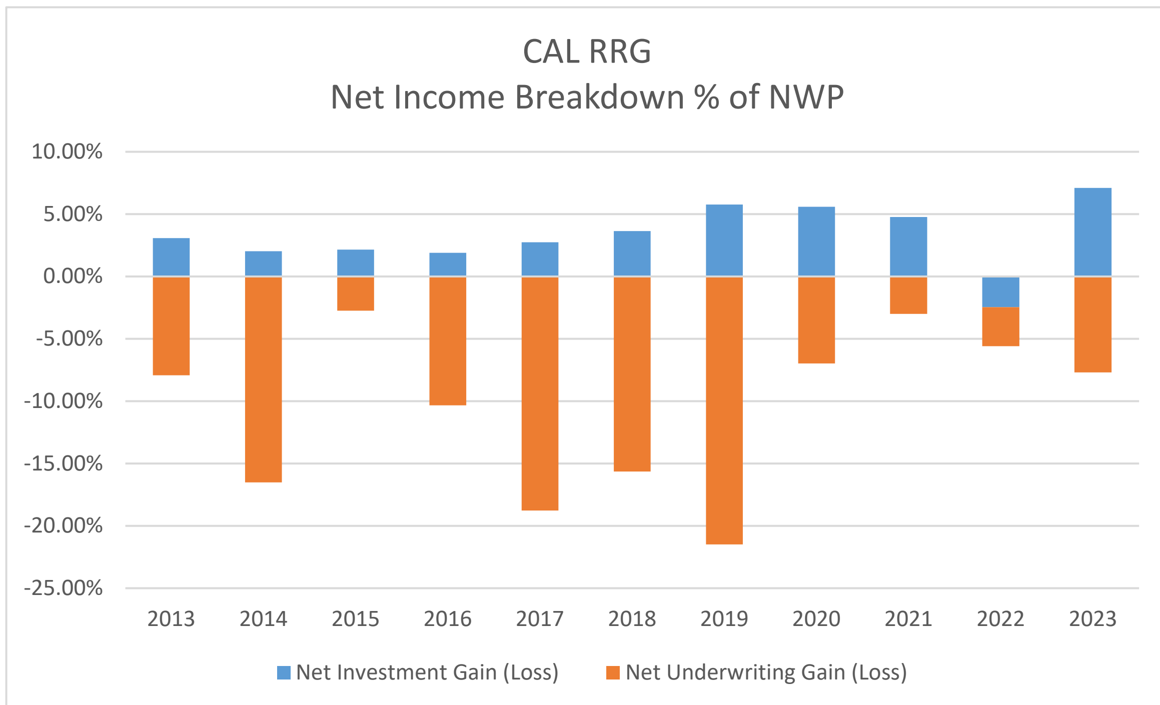
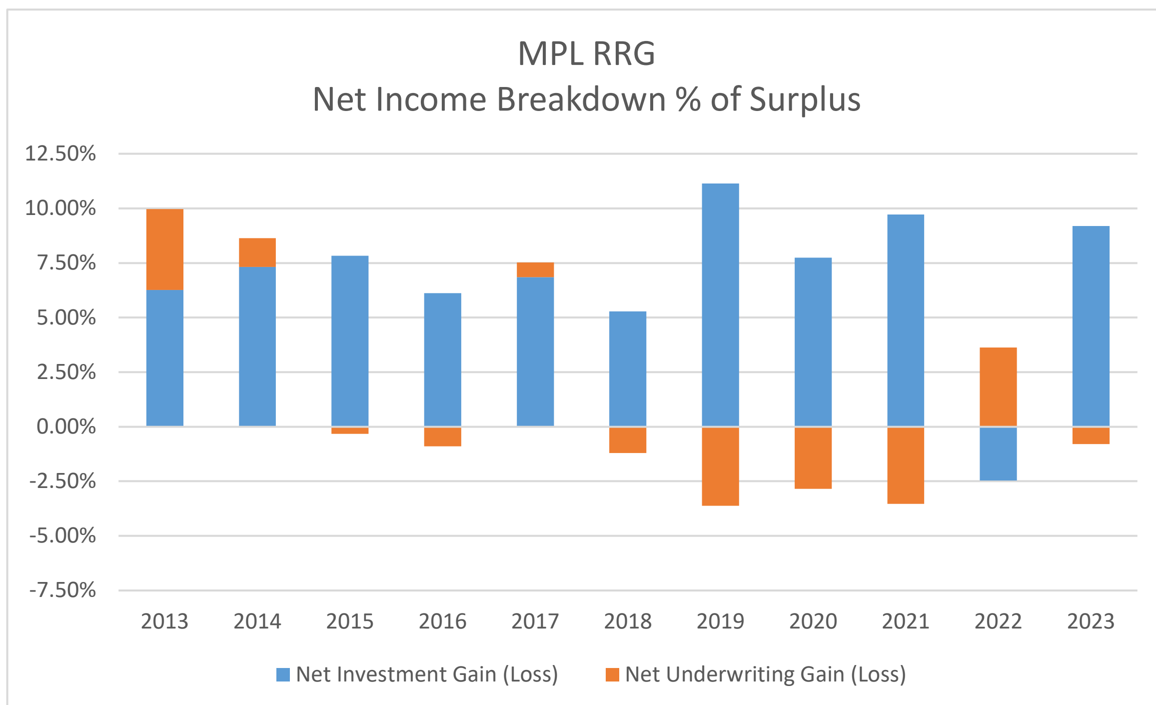


Figure V.B.5 – MPL RRGs Net Income Breakdown



We further analyzed net income and net underwriting results for MPL for the following policy types: physicians, hospitals, allied health professionals and other healthcare facilities (most notably senior care facilities) which are analyzed separately from hospitals. Physicians had negative underwriting results in 2019-21, as seen in Figure V.B.6. Meanwhile, hospitals had negative underwriting results in 2014-21, but with higher investment returns, as seen in Figure V.B.7. In 2022, both physicians and hospitals had positive underwriting gains offset by negative investment returns. In 2023, physicians experienced a positive return in both underwriting and investment while the returns for hospitals reverted to the same trend seen prior to 2019. Meanwhile, positive investment gains continued for allied health professionals for several years (as seen in Figure V.B.8), while underwriting returns for other healthcare facilities soared in 2023 (Figure. V.B.9).

Figure V.B.6 – Physicians MPL RRGs Net Income Breakdown

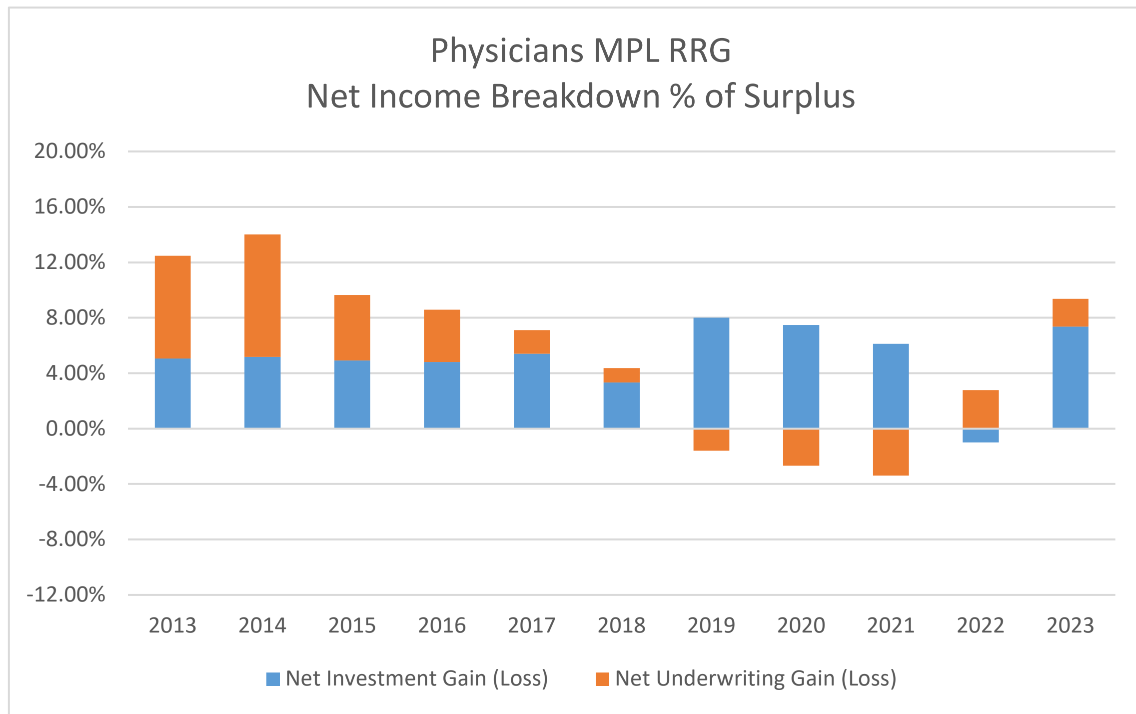


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Figure V.B.7 – Hospitals MPL RRGs Net Income Breakdown

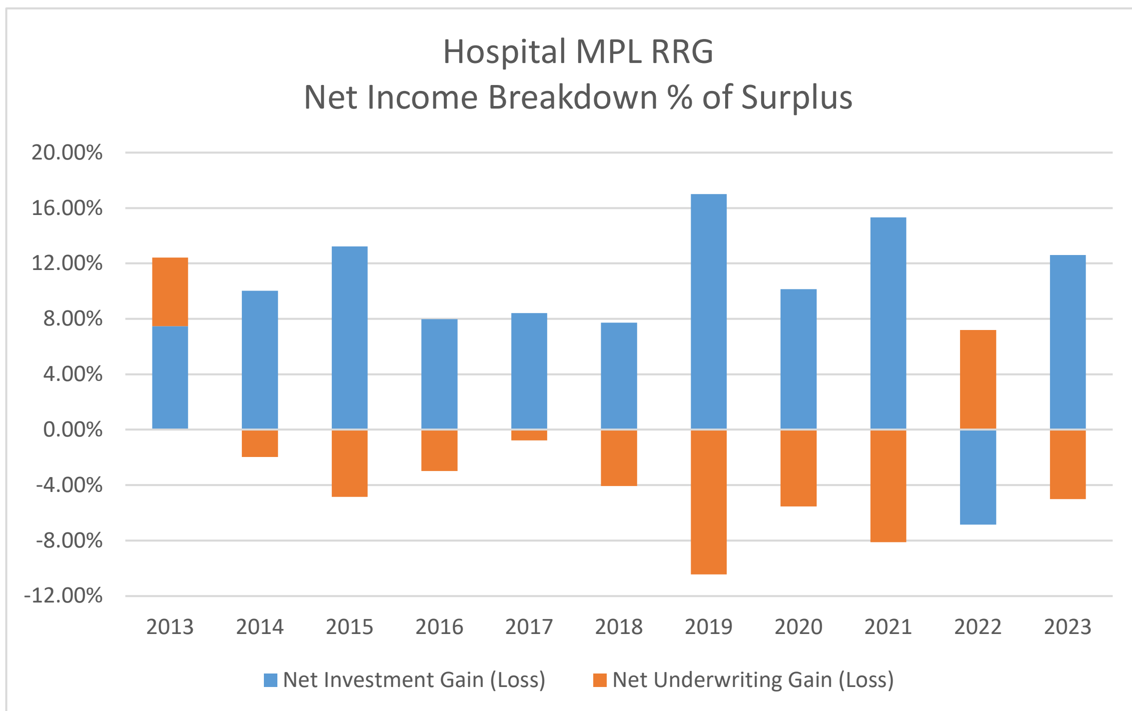


Figure V.B.8 – Allied Health Professionals MPL RRGs Net Income Breakdown

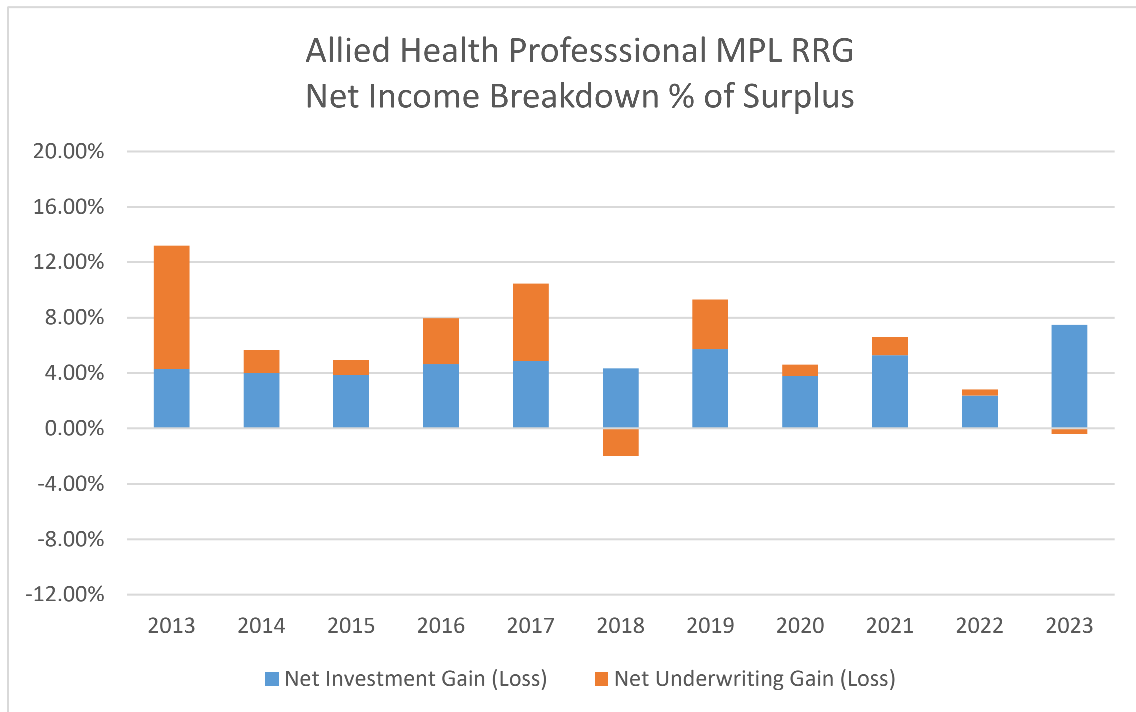
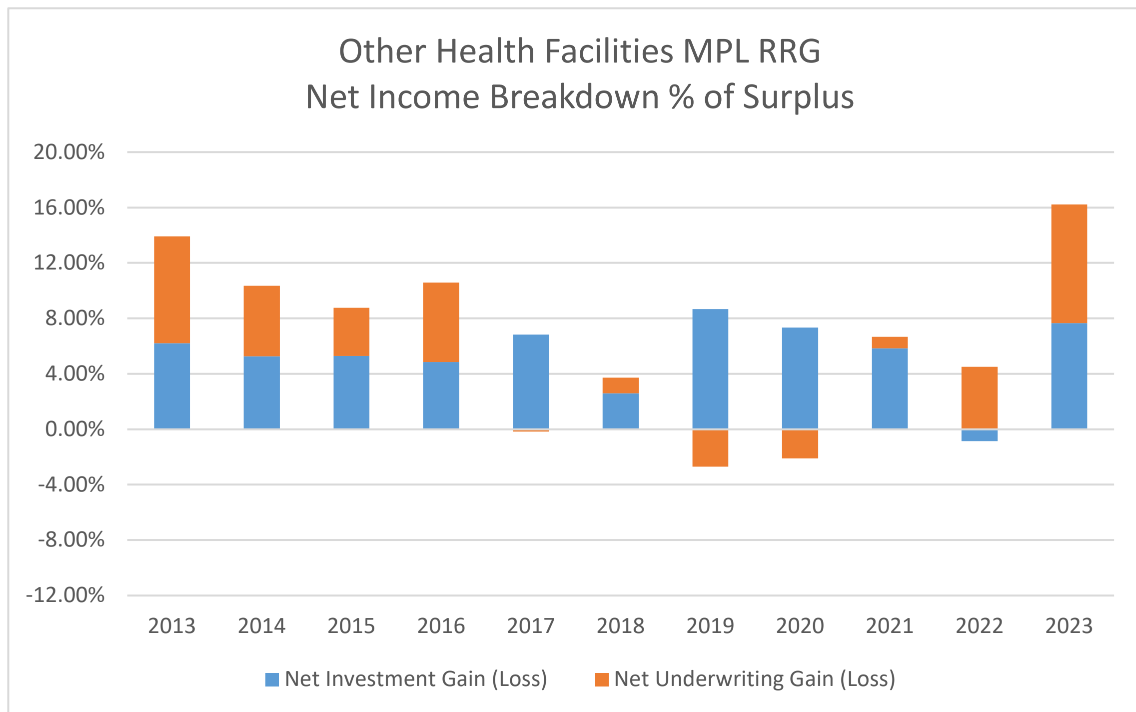


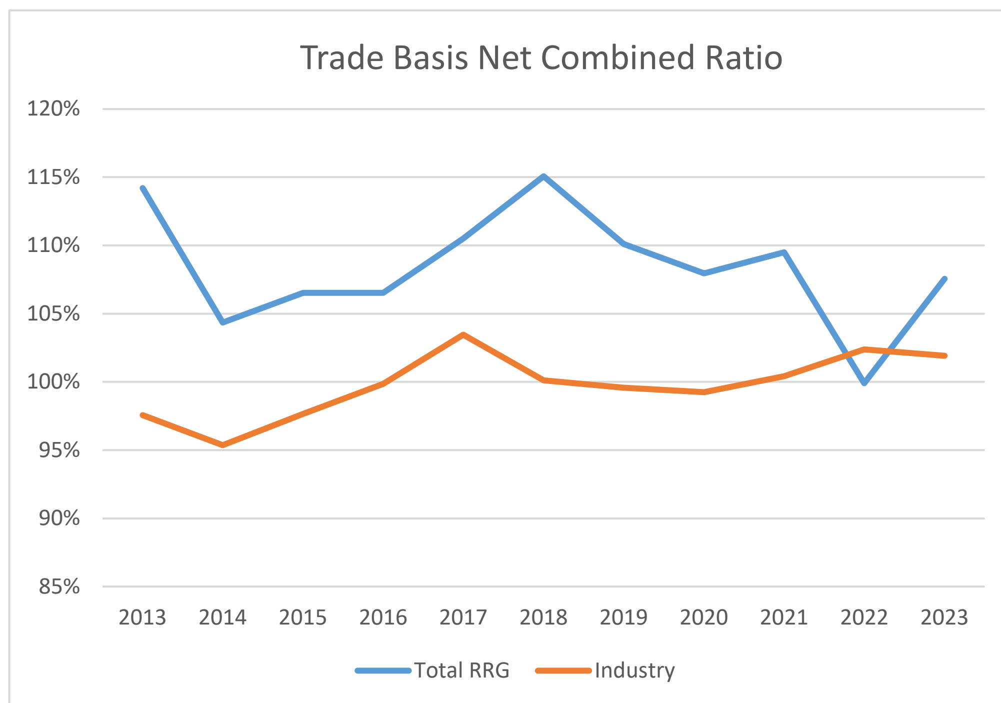
Figure V.B.9 – Other Healthcare Facilities MPL RRGs Net Income Breakdown



C. Accident-Year Combined Ratio

Trade basis net combined ratios were constructed using a ratio of net accident year loss and loss adjustment expense/net earned premium and adding underwriting expenses over net written premium for the applicable calendar year. This was done using A.M. Best's aggregate industry and RRG writers' data. The industry and RRG combined ratios demonstrate somewhat cyclical patterns. The industry accident year combined ratio was lower than RRG ratios in 2013-21 accident years but ended up lower than the U.S. P/C Industry in 2022. The RRG ratio was 114% in 2013 and has since remained between 104-115% with the exception of 2022.

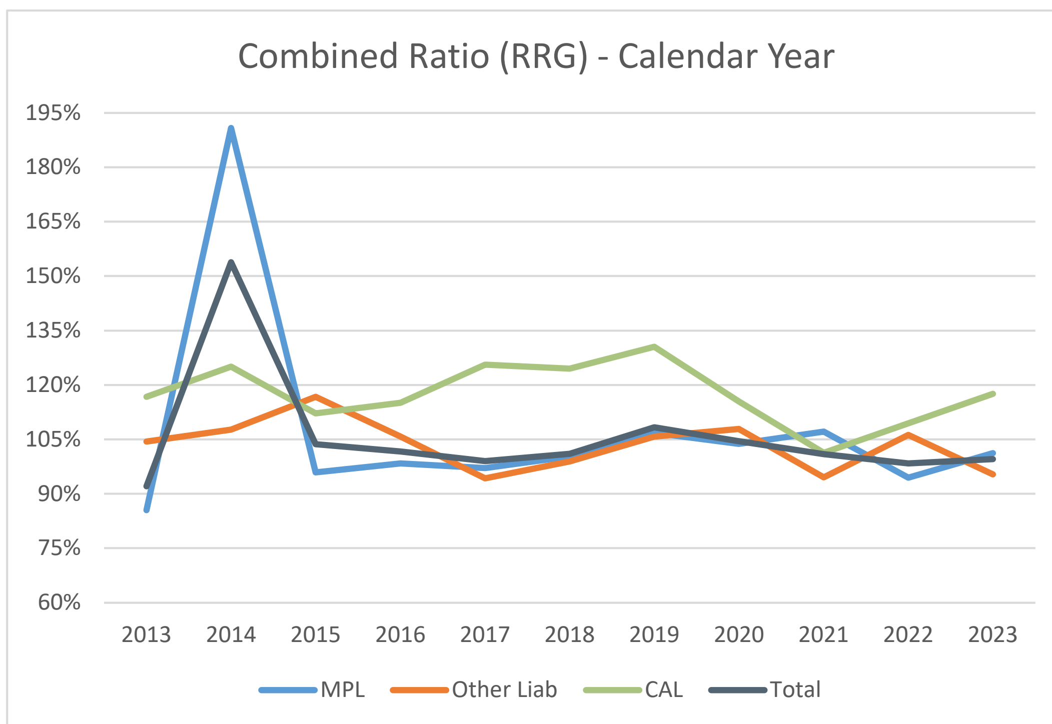
Figure V.C – Trade Basis Net Combined Ratio



D. Calendar-Year Combined Ratio

Trade basis net combined ratios were also constructed using a ratio of net calendar year loss and loss adjustment expense to net earned premium and adding a ratio of underwriting expenses to net written premium for the applicable calendar year. The total combined ratio for RRGs sharply increased in 2013-14 calendar years but decreased to approximately 100% in 2016-18. In 2019, the combined ratio increased to 108% with upticks in all three major lines of business. The total combined ratio decreased to approximately 100% in 2023. As seen in Figure V.D, MPL contributed to an increase in 2014, due to a substantial restatement of liabilities related to an RRG's merger with another insurer. The combined ratios for MPL, in general, increased 2013-21. The 2022 MPL combined ratios decreased to 98% and increased to 100% in 2023. CAL increased in 2012 and remained between 112% and 126% until 2019. The combined ratio in 2023 for CAL increased to 118%, after improving in 2021 and 2022 from the 130% combined ratio high in 2019. OL is also worth noting, as that combined ratio decreased to 95% in 2023.

Figure V.D – Combined Ratio (RRGs)



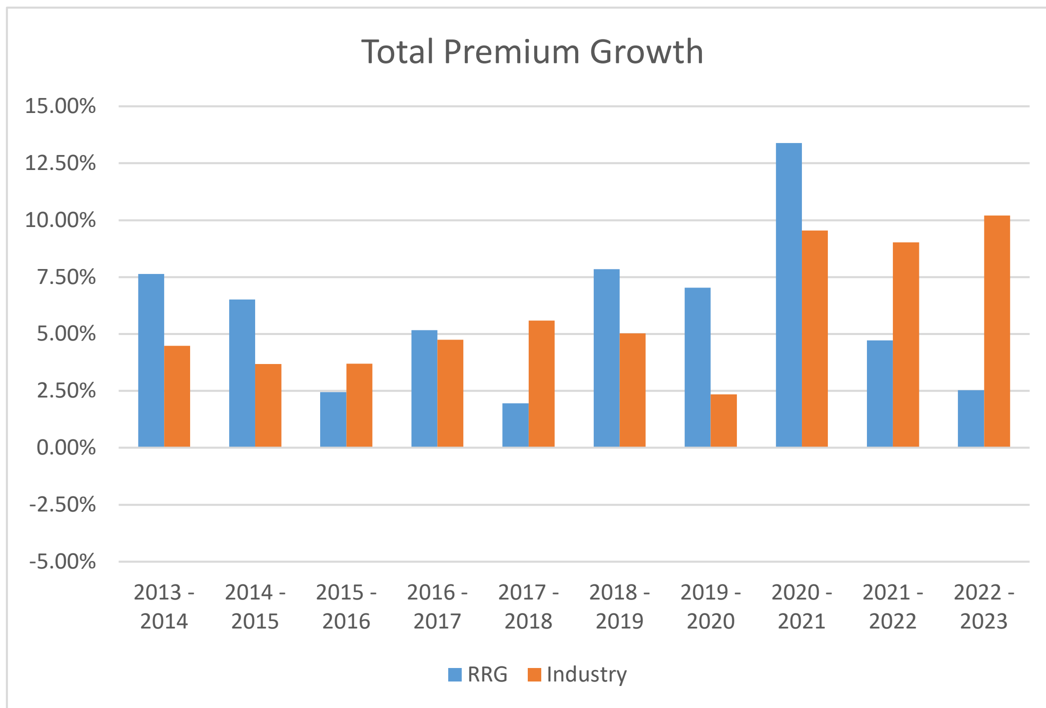
VI. Premium Trends and Benchmarks

Premiums are a primary measure of insurance companies top-line revenue. As such, premium trends are key financial indicators. A comparison of RRG writers to the insurance industry shows RRGs have had higher DWP growth in three of the past five calendar years. With the CAL line of business specifically, the industry has experienced growth for the last 10 calendar years, while RRGs have experienced growth in nine of the last 10 calendar years. The states with the highest amount of RRG DWP in calendar year 2022 are New York, Pennsylvania, California, Florida and Texas. The following analysis details the varying coverages by state. In the past several years, the industry has retained about 90% of its NWP as a percentage of DWP. RRGs have retained around 56% of their DWP. The magnitude of the differences between the industry and RRGs varies by line of coverage. The overall market share across all lines for RRGs has been about 0.5% of DWP in the observed periods. For the MPL line of business, its share has steadily increased from 14.3% in 2013 to 20.6% in 2023, down just slightly from 2022.

A. Premium Trends by Line

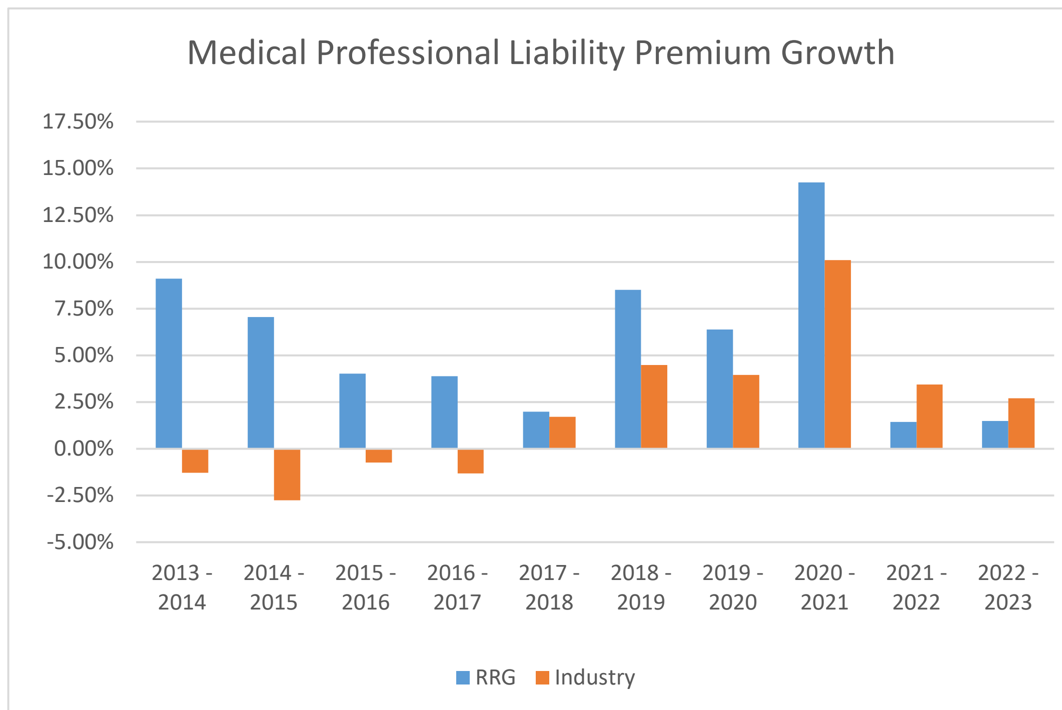
Total premium growth for the industry and RRGs has been positive since 2013-14, with RRGs growing faster than the industry in three out of the past five years, largely due to a CAL market rate correction and consistent growth in MPL premium.

Figure VI.A.1 – Total Premium Growth



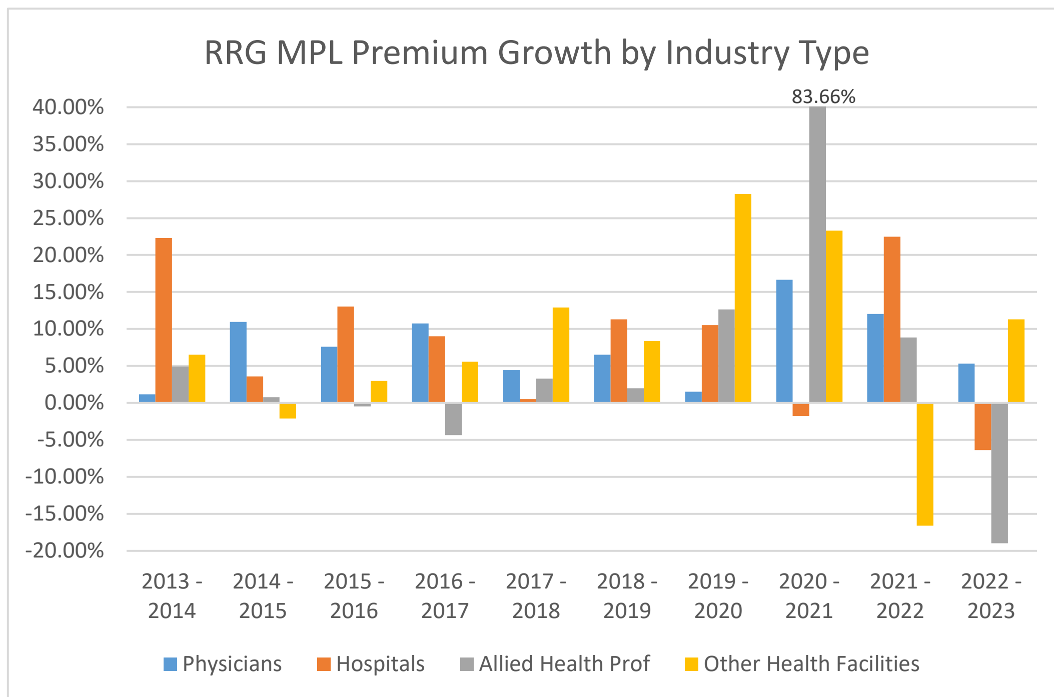
For the MPL line of business, premium growth for the industry was negative 2013-17, while RRGs experienced only positive growth during that same time period. During the past five years, both the industry and RRGs have had positive growth. Some of this growth is due to the hardening of the market; some of that reflects market trends related to senior care. We note that while the number of MPL RRGs has slightly decreased over the last five years (see Section III.F), the average direct written premium per MPL RRG decreased slightly from $26 to $24 million.

Figure VI.A.2a – MPL Premium Growth



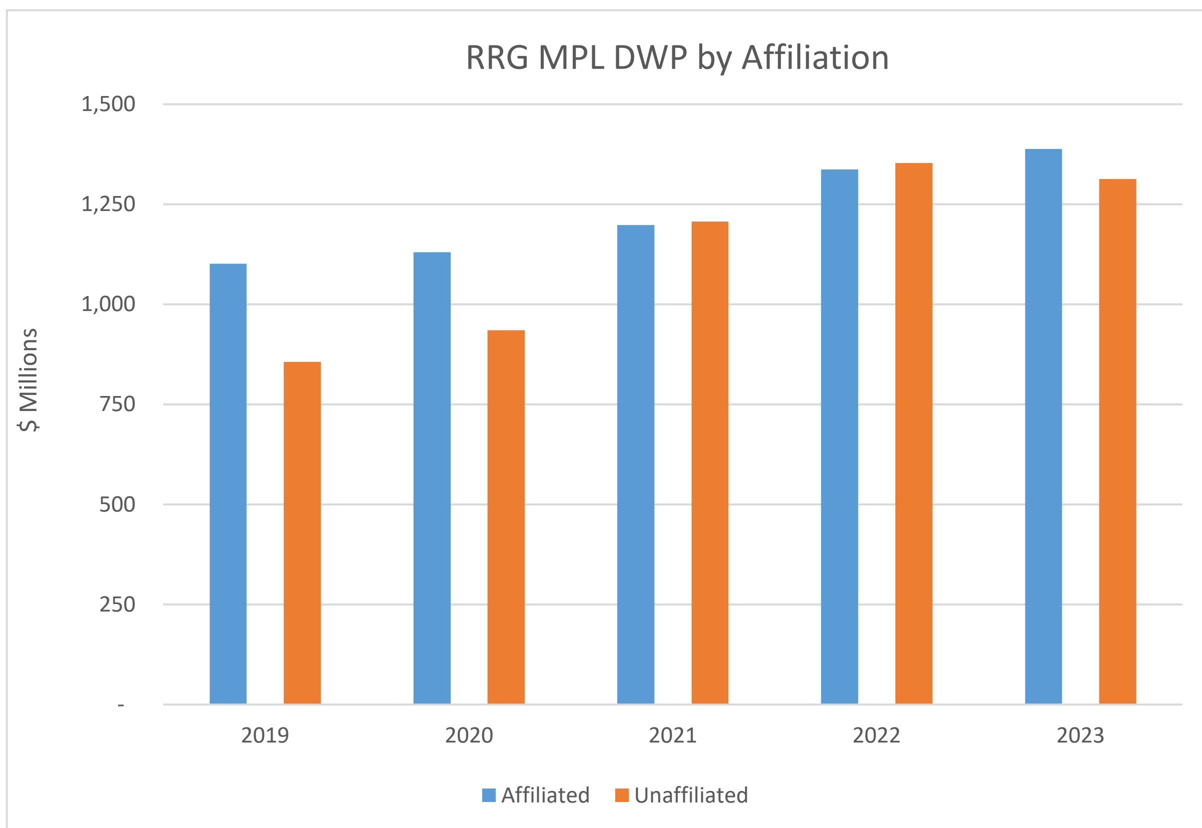
When reviewing changes in MPL growth by industry type, the historic growth in hospital and other healthcare facilities RRGs generally seems to be driving overall MPL results. In 2020-21, the large growth seemed to be mainly attributable to one allied health professional company, Emergency Capital Management, LLC. Hospitals and allied health sectors began to see decreases in the most recent year of our study.

Figure VI.A.2b – MPL Premium Growth by Industry Type



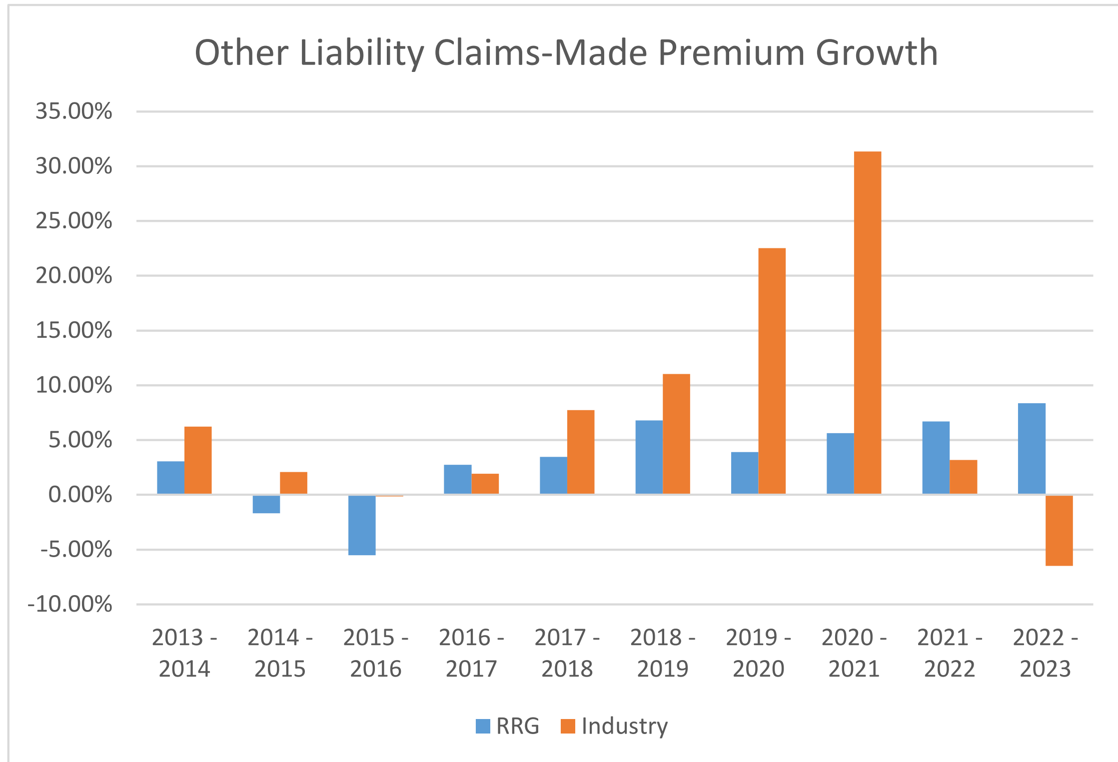
When reviewing change in MPL growth by MPLA affiliation, affiliated companies are growing faster than unaffiliated companies for four out of the past five years. This could be attributable to the overall rise in senior care exposure as well as Emergency Capital Management LLC emerging in 2020-21.

Figure VI.A.2c – MPL Premium Growth by Industry Type



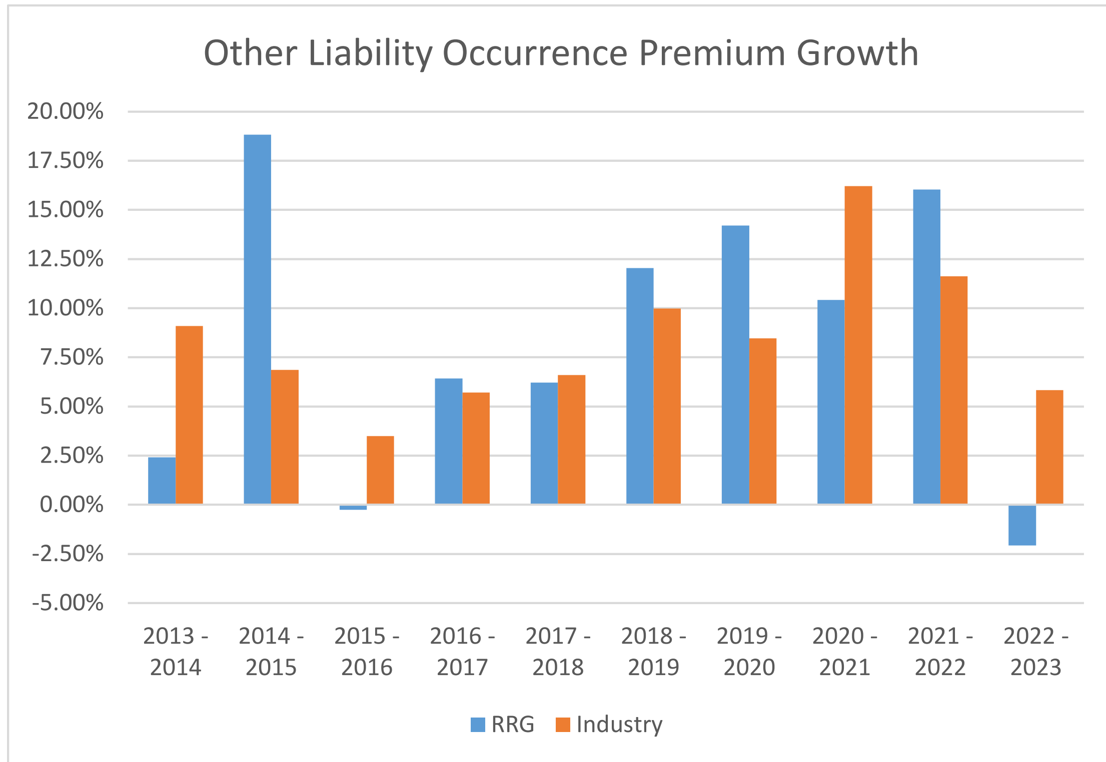
For the OL CM line of business, premium growth for the industry has generally been higher than RRGs, with exception of the last two years.

<u>Figure VI.A.3 – OL CM Premium Growth</u>



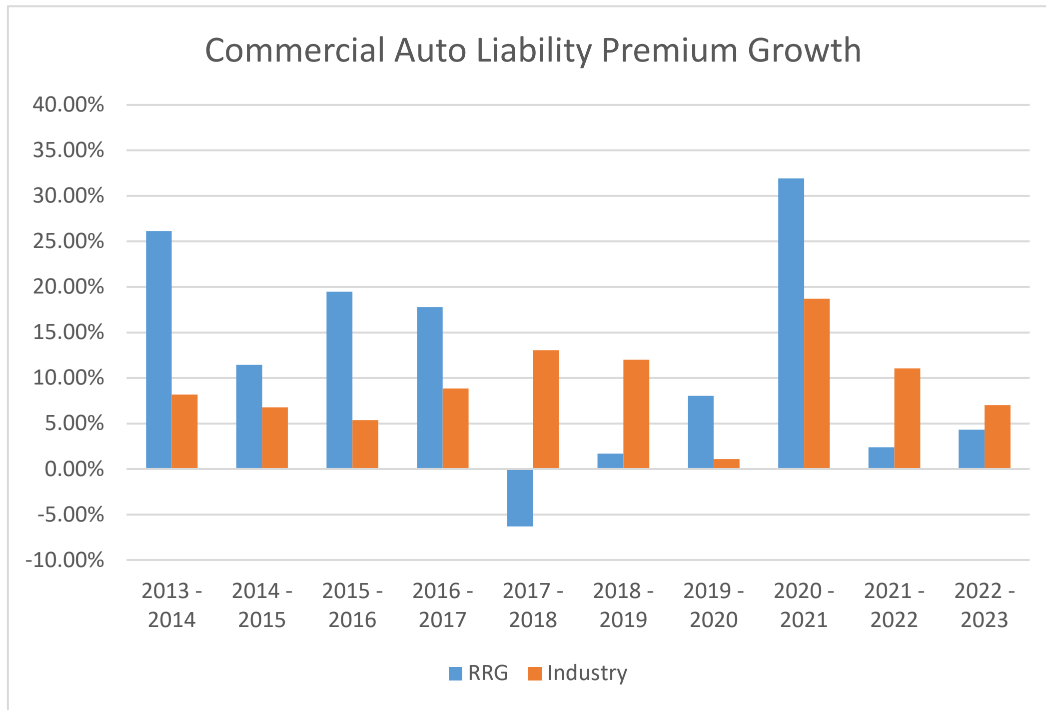
For the OL-OCC line of business, premium growth for the industry has been positive since the 2013 calendar year. RRGs have experienced positive growth for eight out of 10 observed policy periods, with five years having over 10% growth.

<u>Figure VI.A.4 – OL-OCC Premium Growth</u>



For the CAL line of business, premium growth for the industry has steadily increased since 2013. RRG premiums have had even larger increases from 2013-17, followed by a decrease in 2018. RRG premiums increased from 2019-23, though were still outpaced by industry growth in two of the most recent three years.

Figure VI.A.5 – CAL Premium Growth



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B. State Composition

As illustrated by the following graph of calendar year 2023, the five largest RRG DWP risk states are New York, Pennsylvania, California, Florida and Texas.

Figure VI.B.1 – DWP (000s) by State by Line of Business (Minimum $50,000)

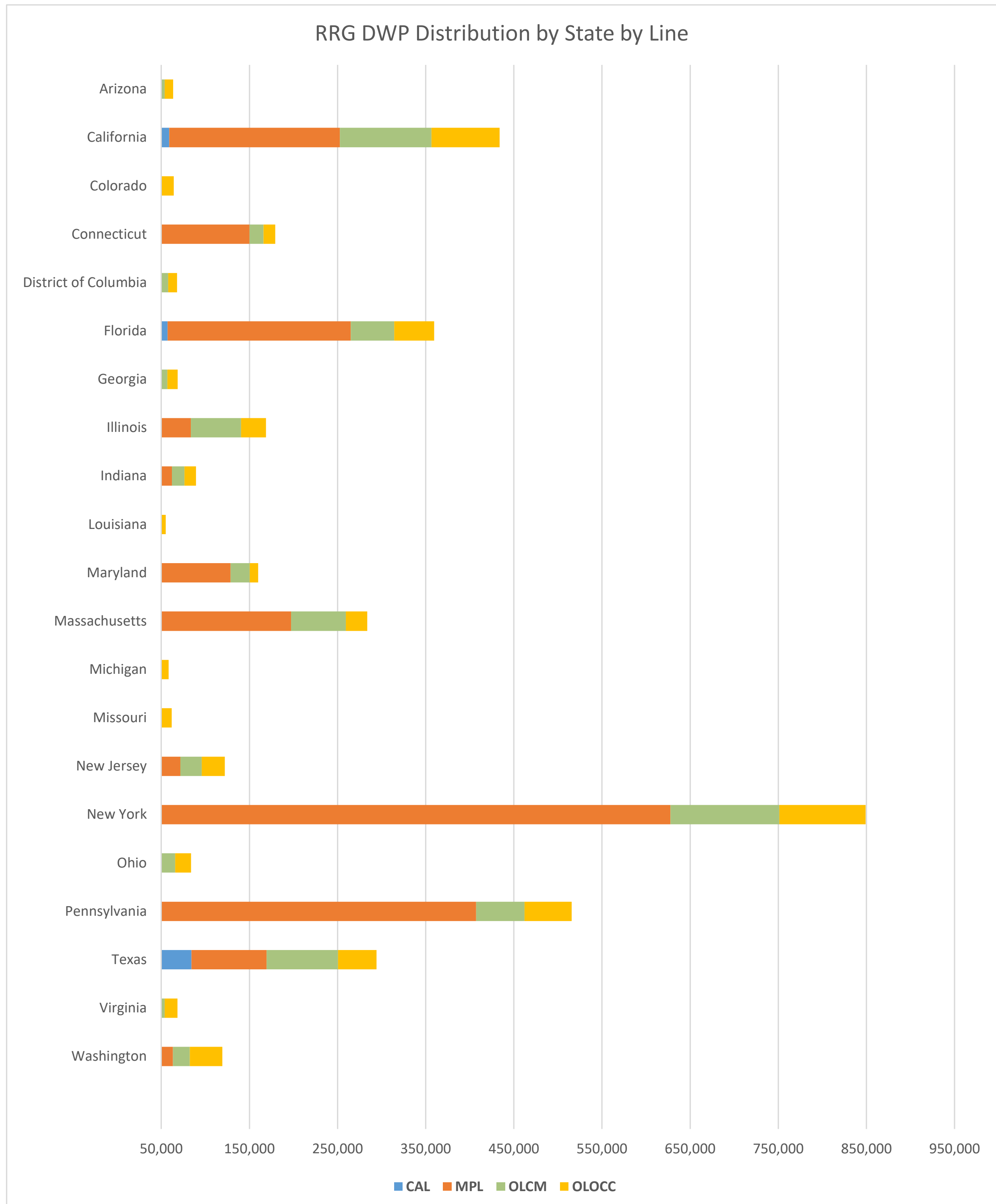
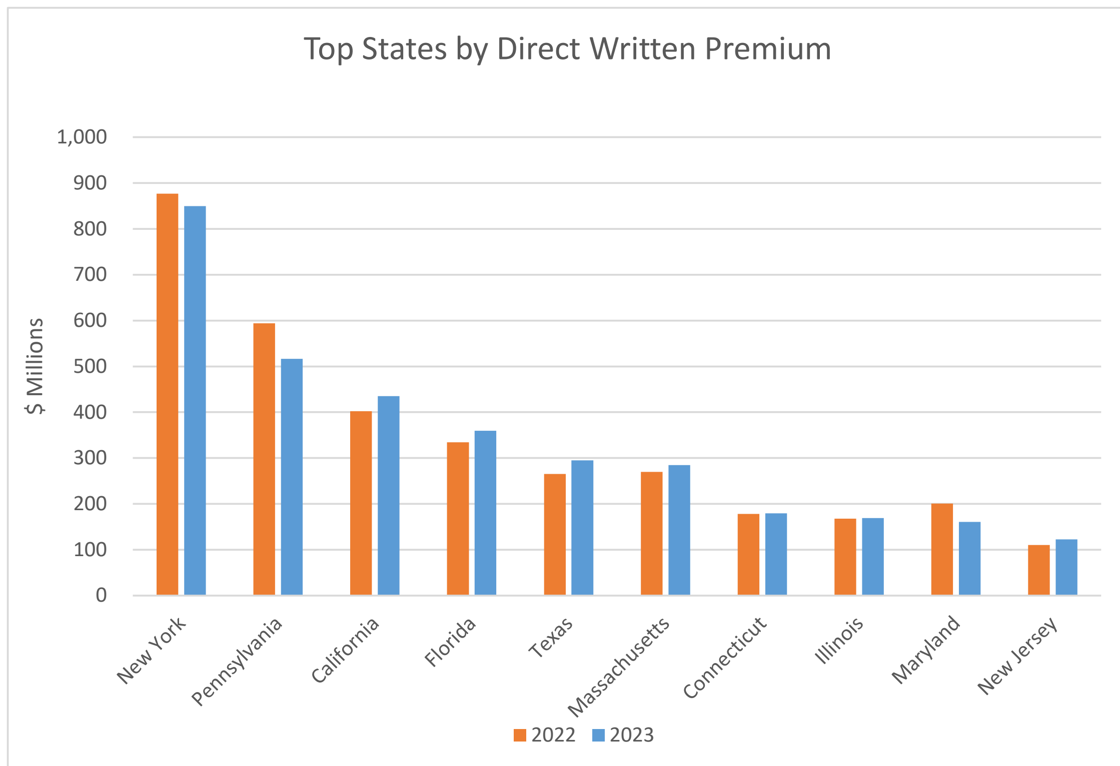


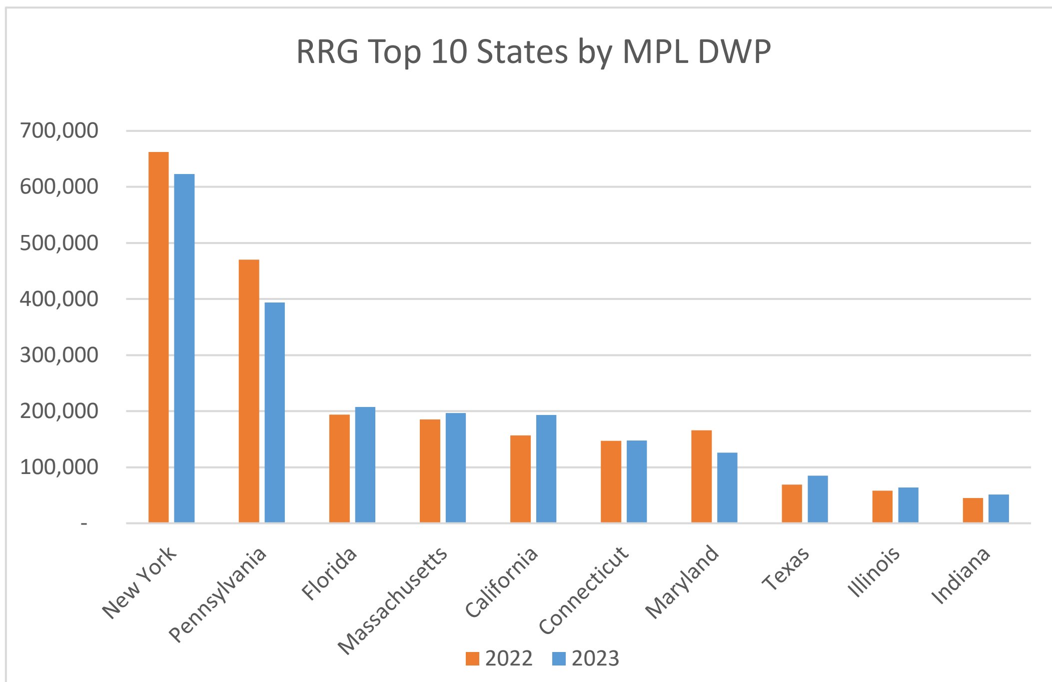
Figure VI.B.2 summarizes total RRG DWP for all lines combined by risk state for the top 10 states. New York, Pennsylvania, California, Florida and Texas have the most RRG premium.

Figure VI.B.2 – RRG Direct Written Premium (000s) by Risk State



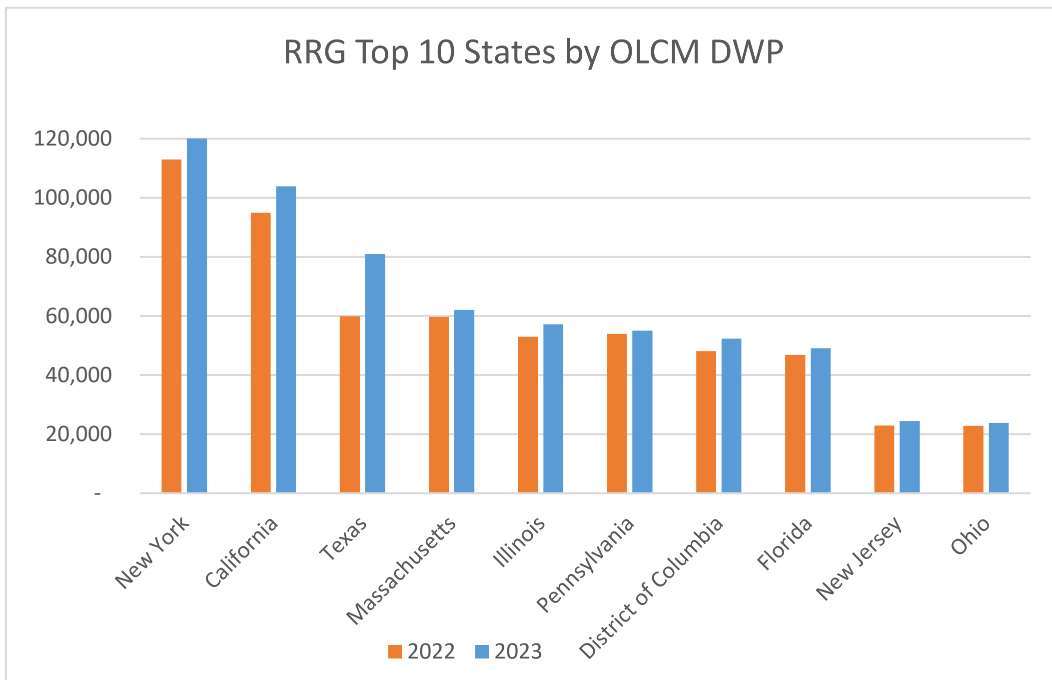
As shown in the following graphs, MPL is the largest line of business that RRGs write. The largest RRG DWP risk states for MPL are New York and Pennsylvania.

Figure VI.B.3 – MPL DWP by State



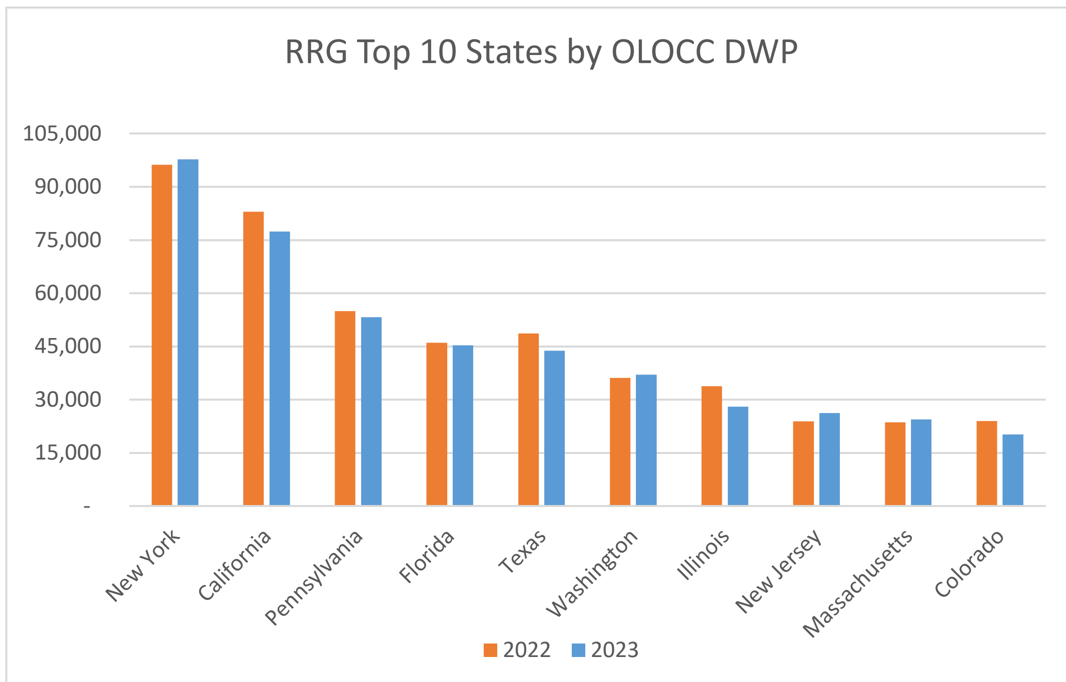
The largest RRG DWP risk states for OL CM are New York and California.

Figure VI.B.4 – OL CM DWP by State



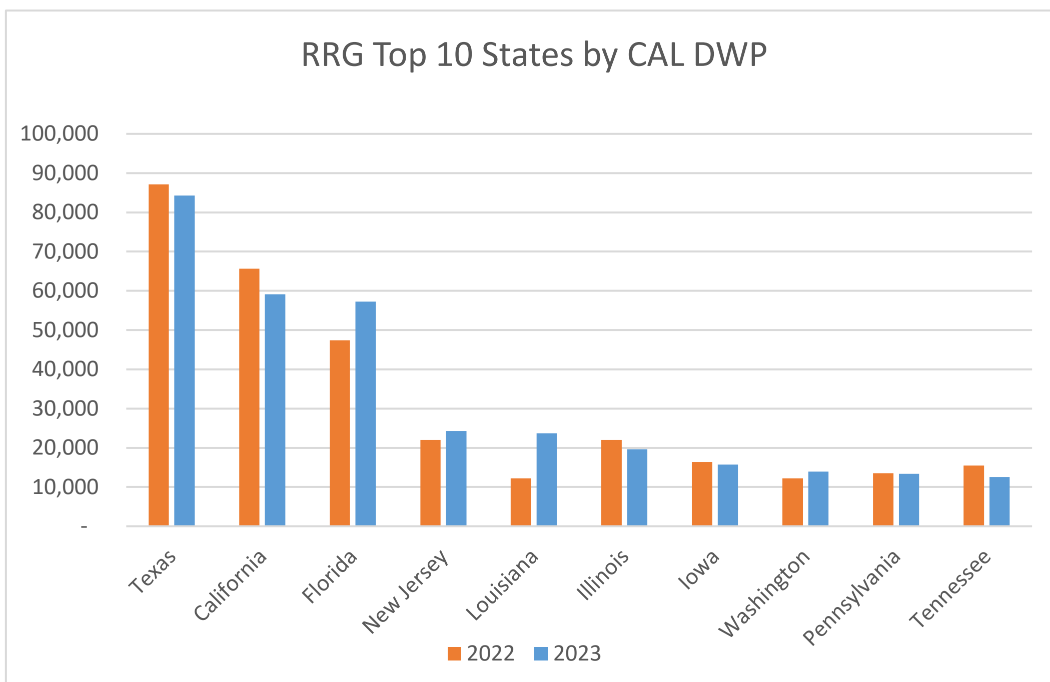
The largest RRG DWP risk states for OL OCC are New York and California. On a combined basis, premium volume for OL CM and OL OCC are significantly less than MPL.

Figure VI.B.5 – OL OCC DWP by State



The largest RRG DWP risk states for CAL are Texas, California and Florida. Based on premium volume, CAL is the smallest line of business RRGs write. In 2023, Florida had a large increase in DWP for RRGs compared to 2022.

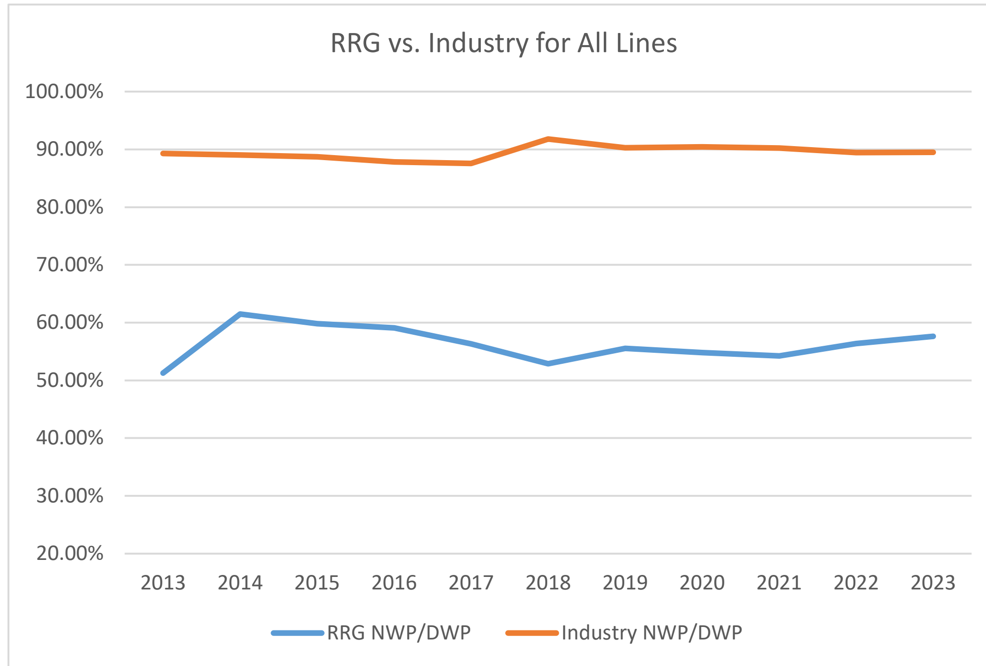
Figure VI.B.6 – CAL DWP by State



C. Direct, Ceded, Net

RRGs retain less risk, as measured by the ratio of NWP to DWP, than the industry on an all lines-combined basis.

Figure VI.C.1 – RRG vs. Industry NWP/DWP



RRGs retain less risk than the industry for MPL, but the percentages are relatively stable overall. However, when broken down by industry type, results are much more volatile, as seen in Figure VI.C.2b. Based on industry type, the category of other healthcare facilities have remained the most stable over the observation period and tend to rely most heavily on reinsurance compared to other MPL industry types.

Figure VI.C.2a MPL – RRG vs. Industry NWP/DWP

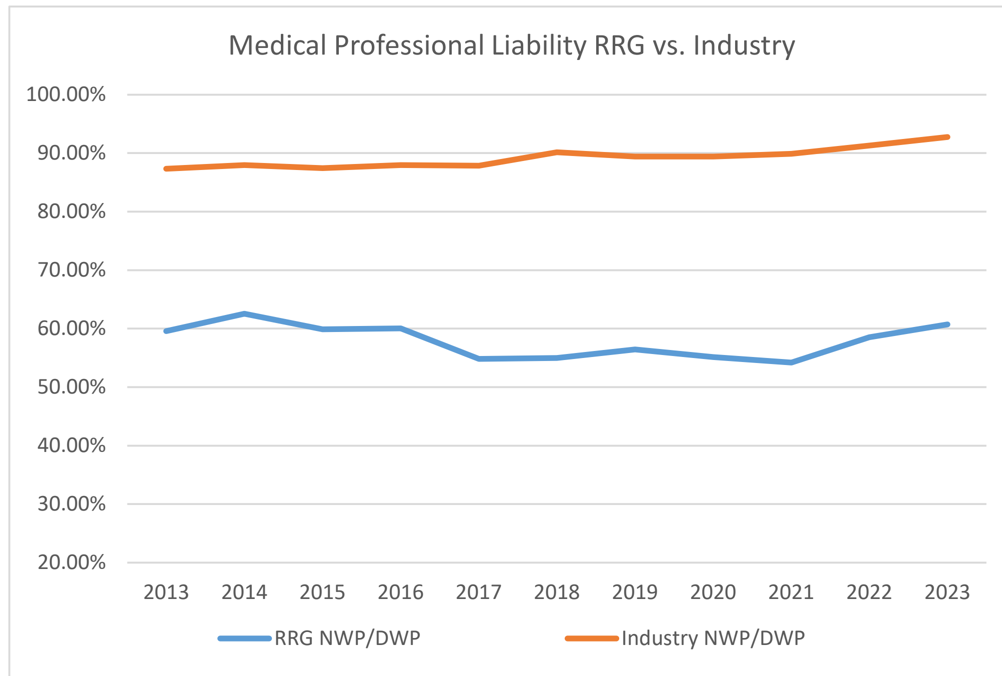
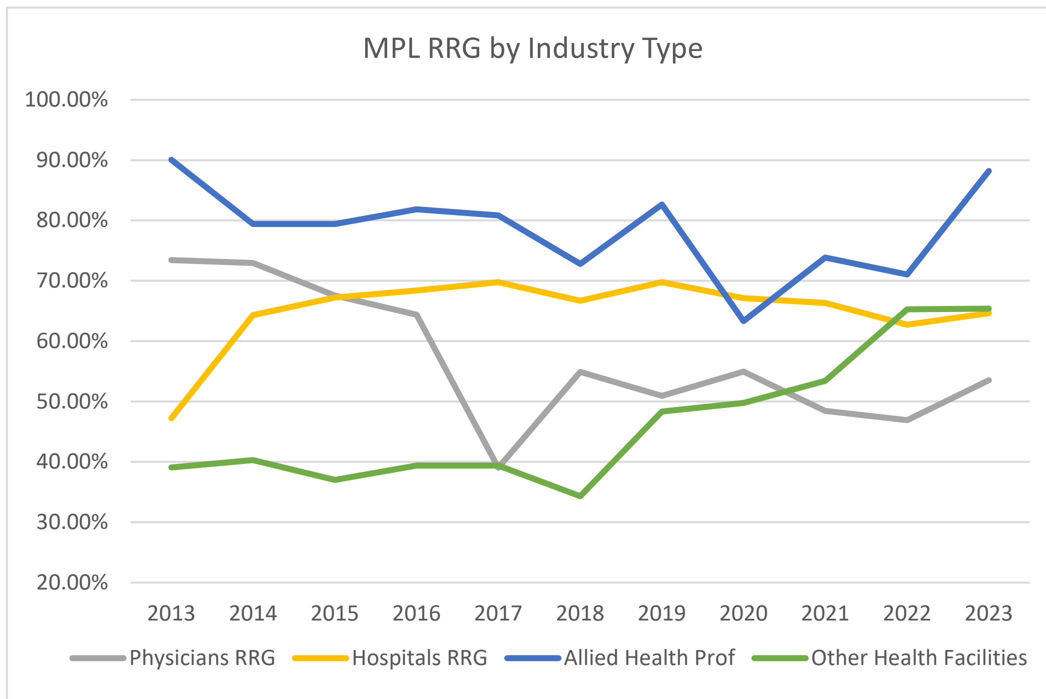
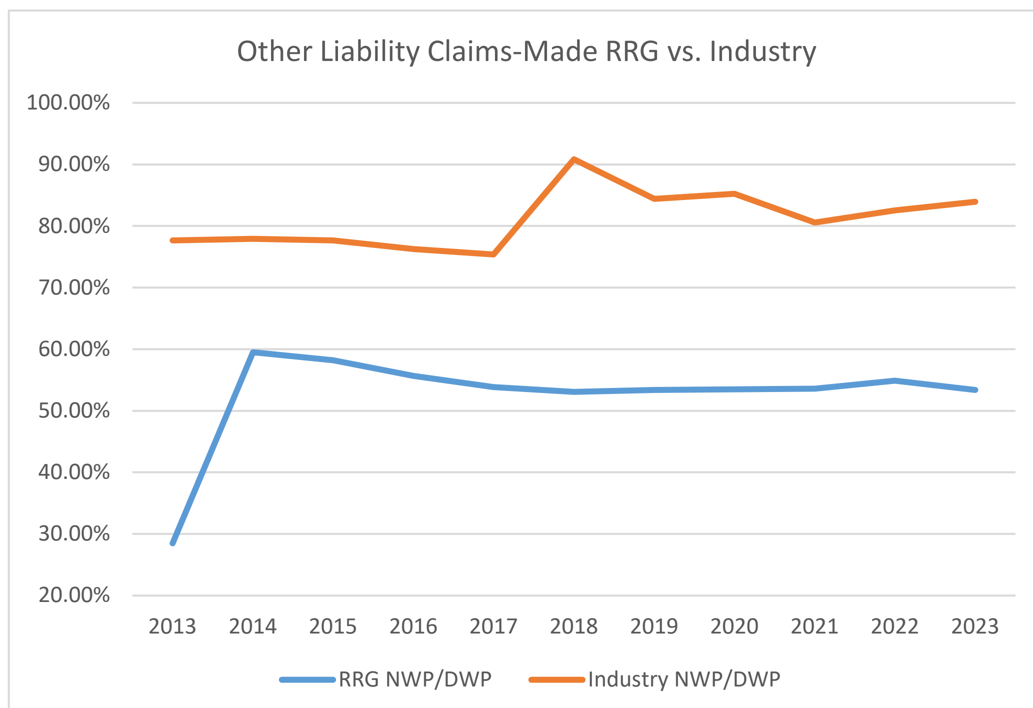


Figure VI.C.2b MPL – RRG by Industry Type NWP/DWP



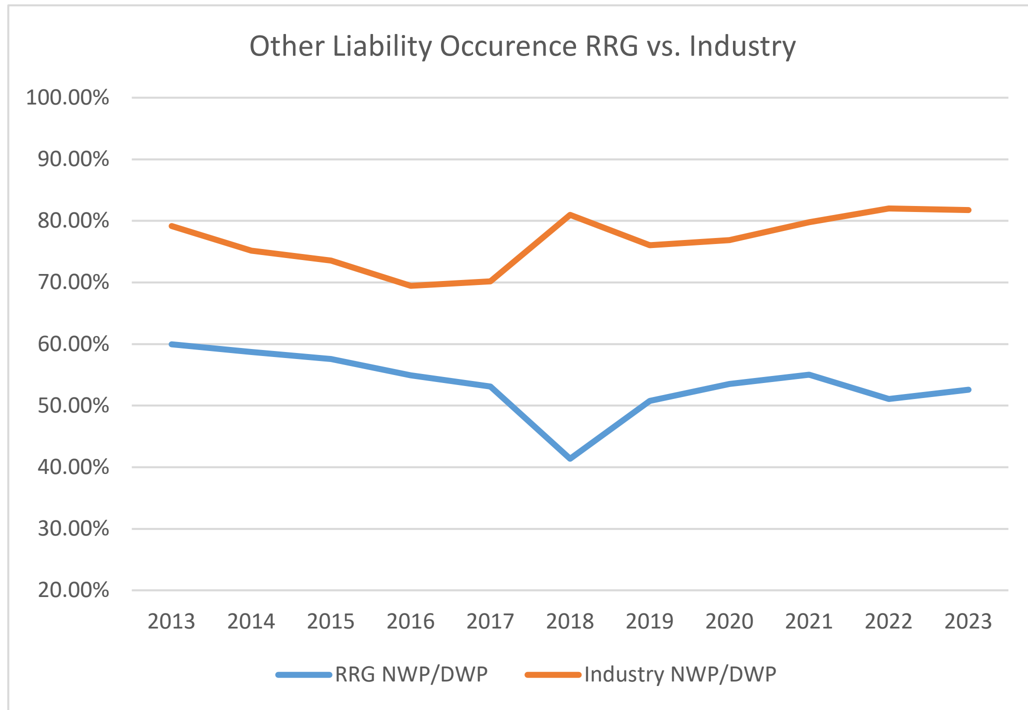
RRGs retain less risk than the industry for OL CM, but RRGs have started to retain more risk since 2014, and have stabilized around 54% in recent years. The industry retained risk remained relatively stable at 77% for 2013-17, but in 2018 there was more than a 10% increase in retained risk before decreasing back to around 84% in 2023.

Figure VI.C.3 – OL CM RRG vs. Industry NWP/DWP



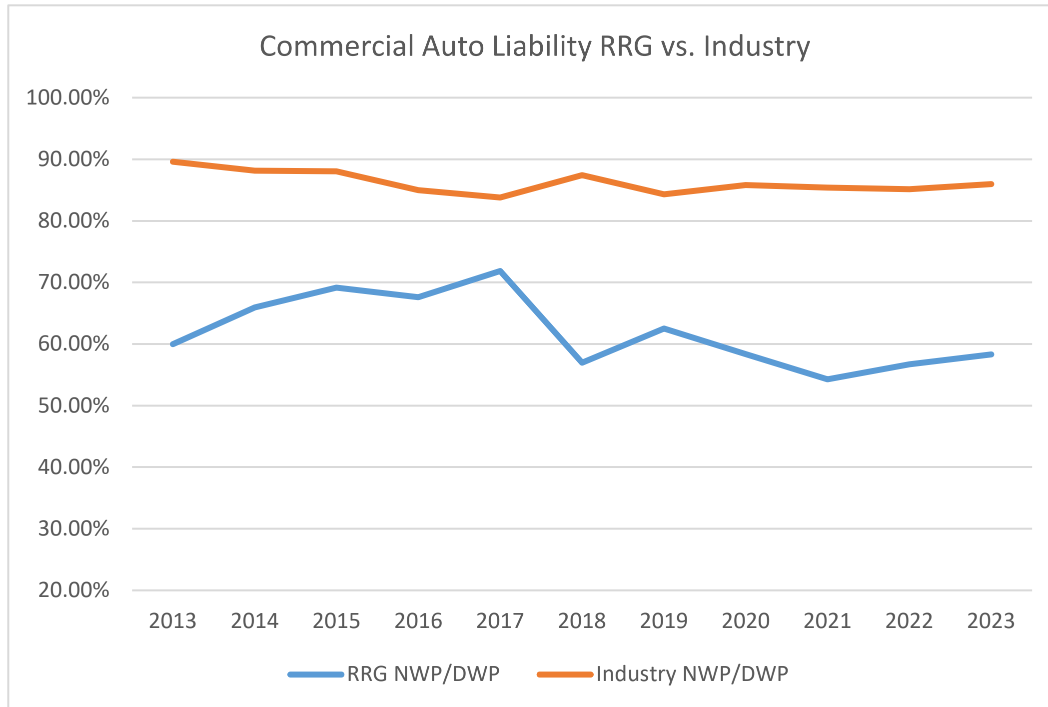
RRGs retain less risk than the industry for OL OCC. Both industry and RRGs decreased 2013-17. In 2018 and 2019, RRGs and the industry exhibited opposite trends. Both have slightly increased the past four years, however, apart from RRGs in 2022.

Figure VI.C.4 – OL-OCC RRG vs. Industry NWP/DWP



RRGs retain less risk than the industry for CAL. From 2013-17, the industry decreased its proportion of retained risk, while RRGs significantly increased theirs. From 2018 through 2023, there was a shift for both the industry and RRGs, with each exhibiting opposite trends.

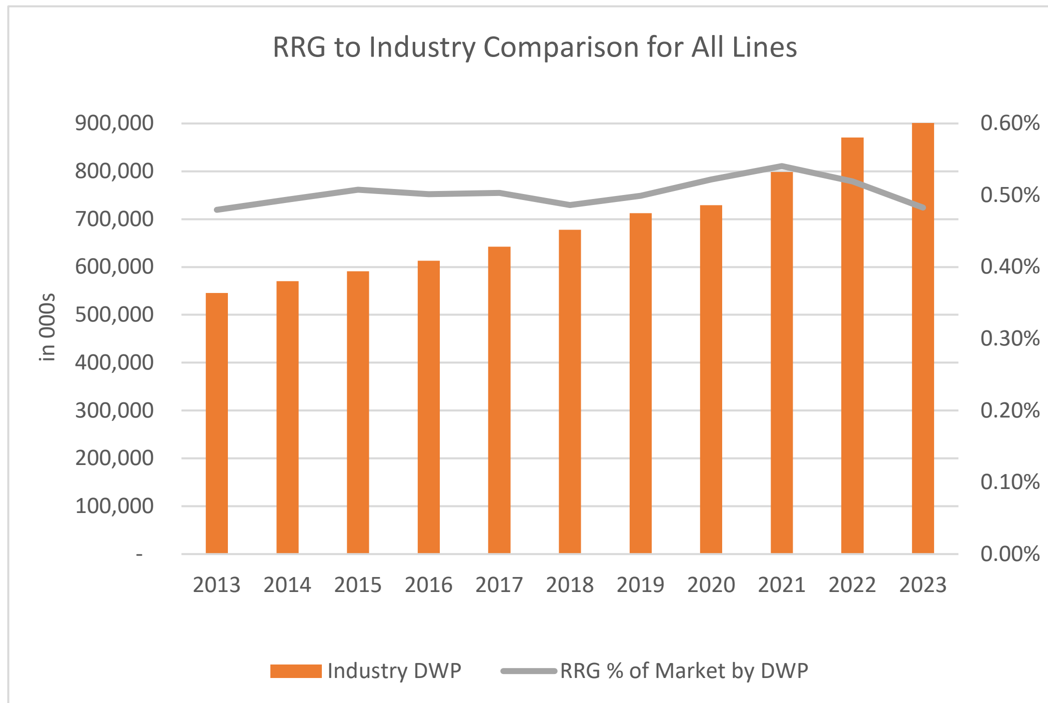
Figure VI.C.5 – CAL - RRG vs. Industry NWP/DWP



D. Overall Market Share (vs. Admitted)

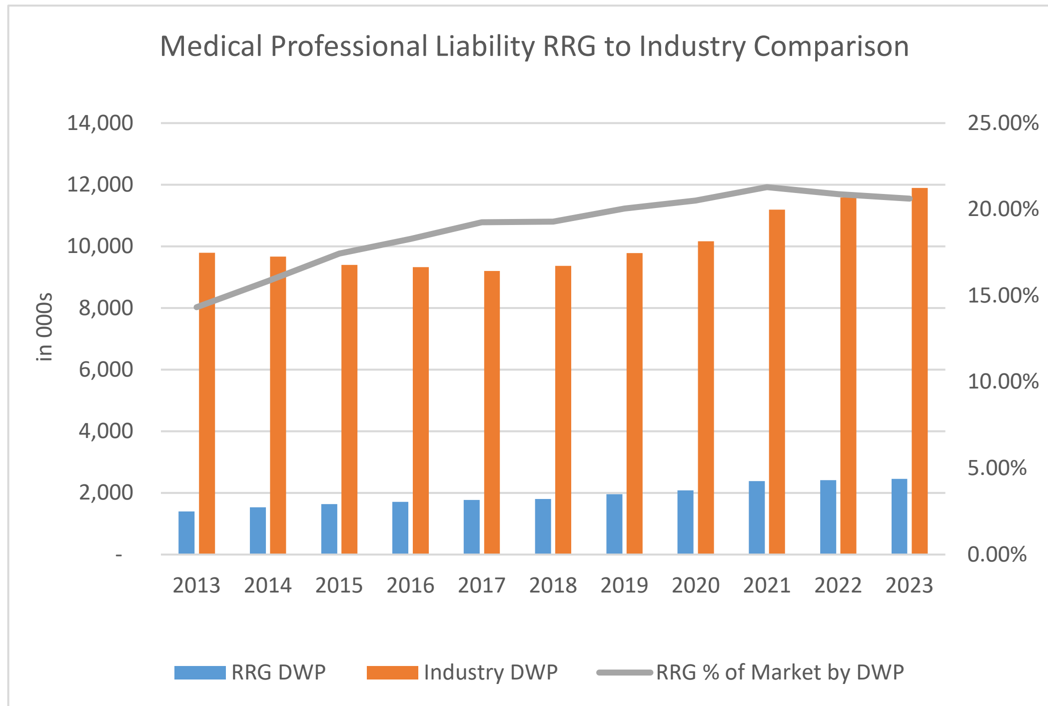
While industry premium has increased since 2012, RRGs have had a relatively steady market share on an all lines-combined basis, with a downtick in the most recent two years.

Figure VI.D.1 – RRG vs. Industry Market Share – DWP (000s)



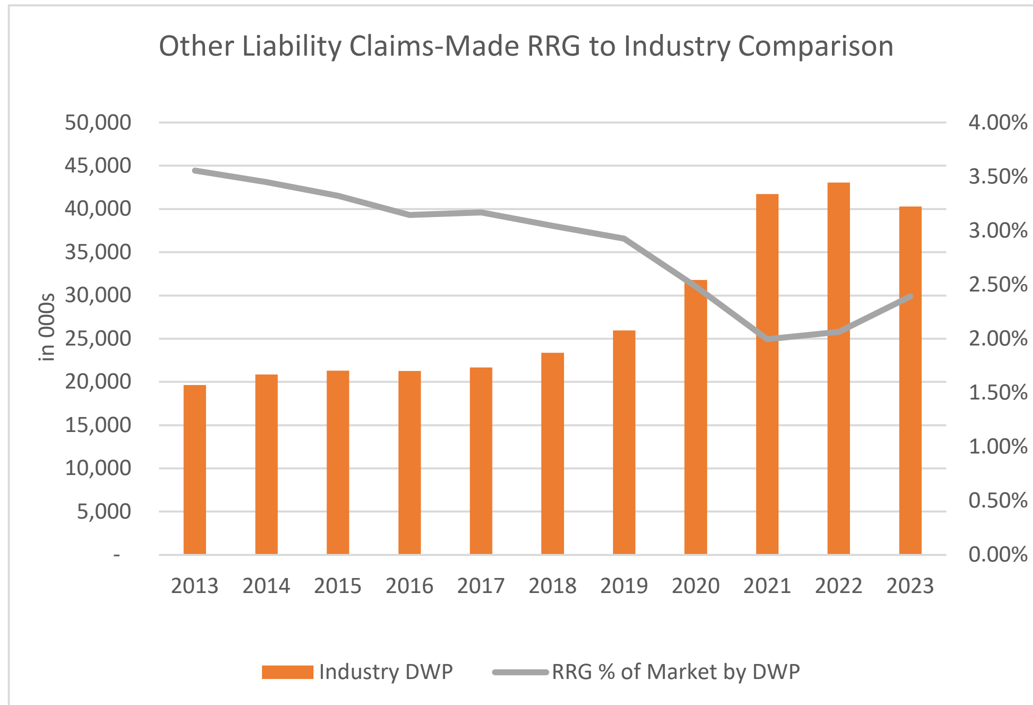
Industry MPL DWP saw premium increase for the sixth year in a row, while RRG MPL DWP has been increasing for a decade. RRGs have increased their MPL market share since 2013. In terms of market share, MPL is by far the largest line of business for RRGs. As the MPL market begins hardening, we would expect RRG premium and market share to continue to increase as 1) admitted carriers use their company-owned RRGs as a tool to keep market share while maintaining adequate rates; and, 2) insureds move to RRGs in response to premium increases.

<u>Figure VI.D.2 – MPL – RRG vs. Industry Market Share</u>



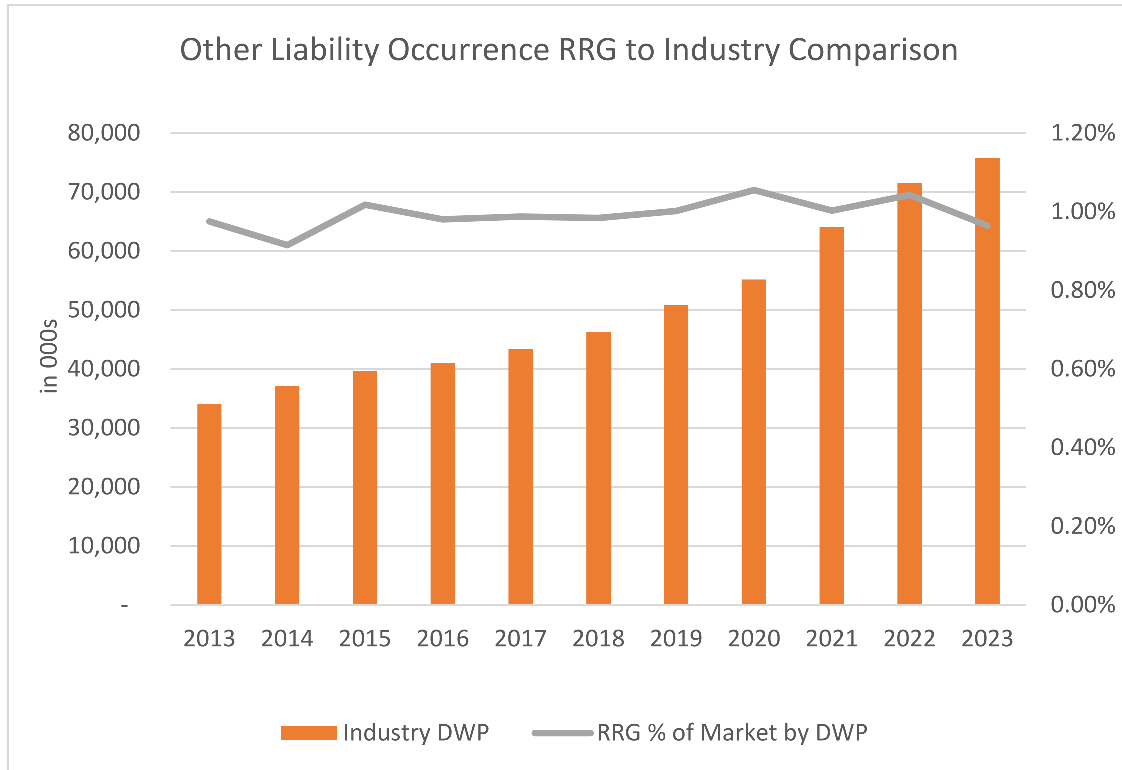
OL CM DWP for the industry has been generally increasing since 2013, while OL CM DWP for RRGs has been increasing since 2016—albeit at a much slower pace. This results in decreasing OL CM market share for RRGs.

Figure VI.D.3 – OL CM - RRG vs. Industry Market Share



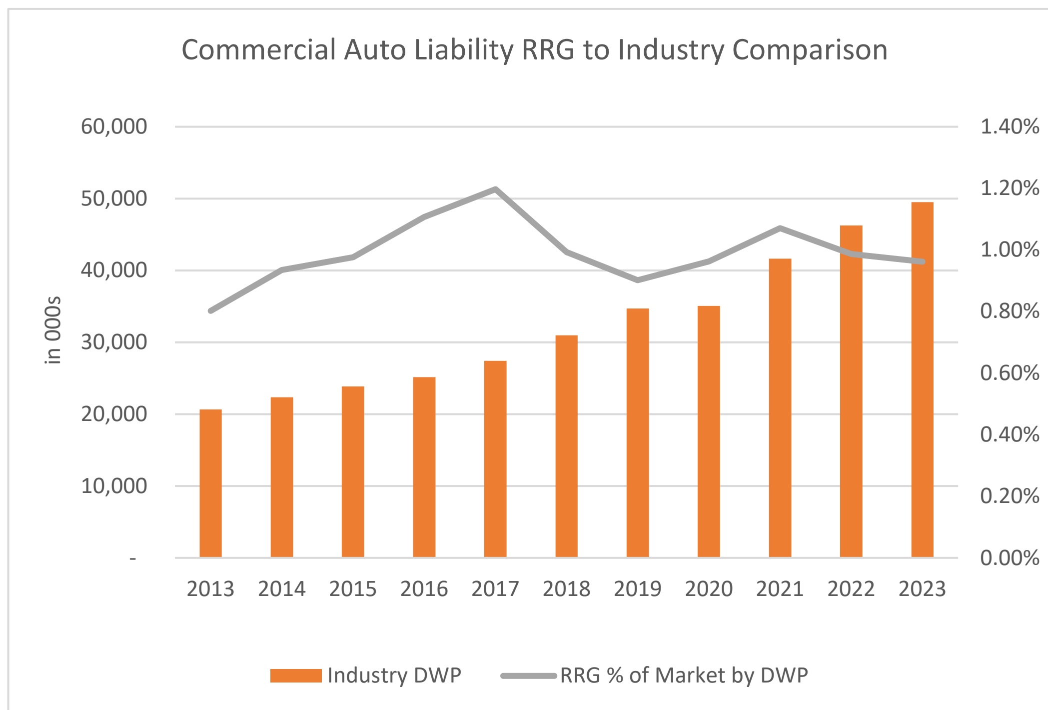
OL OCC DWP for the industry has been increasing since 2013, while OL OCC DWP for RRGs has generally increased since 2013, with exception to the most recent year in our study. The market share for RRGs has been fairly stable over the observation period between 0.90-1.10%.

Figure VI.D.4 – OL-OCC - RRG vs. Industry Market Share



CAL DWP for the industry has been increasing since 2013. Meanwhile, the CAL DWP and market share for RRGs has seen some oscillation the past 11 years. Both CAL DWP and market share for RRGs increased from 2013 until 2017. A decrease in CAL DWP in 2018 led to a decrease in market share for RRGs in 2018 and 2019. However, 2020-21 again saw an increase in both CAL DWP and market share for RRGs. This cycle is largely due to high-profile insolvencies, rate increases taken by the market, the pandemic's effects in 2020 and additional RRGs formed in 2021-22. While both RRGs and the industry saw premium increases in 2022 and 2023, the industry outpaced RRGs leading to a decrease in market share for RRGs during this time.

Figure VI.D.5 – CAL - RRG vs. Industry Market Share



VII. Loss and Loss Adjustment Expense Trends and Benchmarks

Most insurers' primary expenditures are loss and loss adjustment expenses. So, they are also the primary drivers of insurer profitability. This section examines key loss and LAE experience measures.

RRGs have had higher accident-year loss and LAE ratios than the industry over the past 11 years. Calendar year loss and LAE ratios for the industry have been between 68-78% in the past 11 years, with RRGs showing a bit more volatility and being generally higher in recent years. The calendar year loss and LAE ratios for RRGs have been between 74-84% for the past nine years.

The ratio of loss adjustment expenses to NWP for RRGs has decreased to 25% or lower in seven of the most recent calendar years. The ratio of net DCC to NWP for RRGs has been between 15-26% for the last 11 years, with substantial differences between lines. The ratio of net adjusting and other expense (A&O) to NWP has been between 2.3 and 4% over the past 11 years, with OL and CAL demonstrating substantial variability.

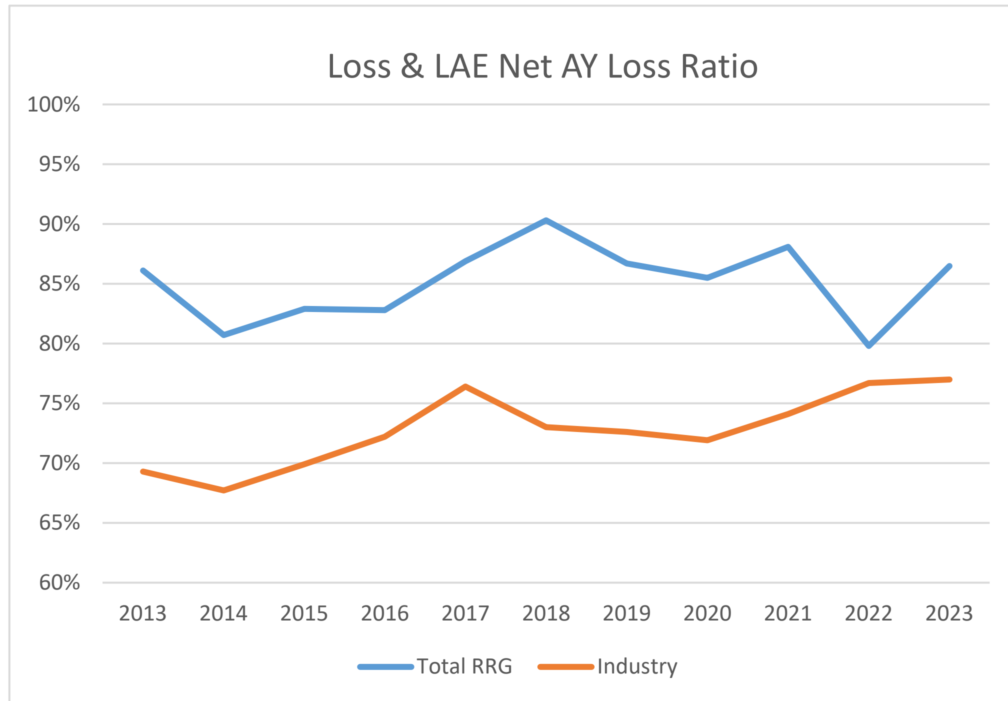
Another key measure of insurance company volatility is the development on held loss and LAE reserves from one year-end evaluation to the next. The ratio of one-year loss and DCC development each calendar year as a percentage of prior year's surplus is generally favorable for both the industry and RRG writers. The two exceptions to this are the RRGs' calendar year for 2014, during which one company had enough development to substantially influence the aggregated industry numbers, and 2020.

RRG incurred losses tend to develop more slowly than the admitted market for the MPL CM line of business. RRGs specializing in CAL and OL occurrence have reported incurred loss development factors that are slower than the industry at early maturities, but then become comparable, if not faster, than the industry.

A. Loss and Loss Adjustment Expense Ratios

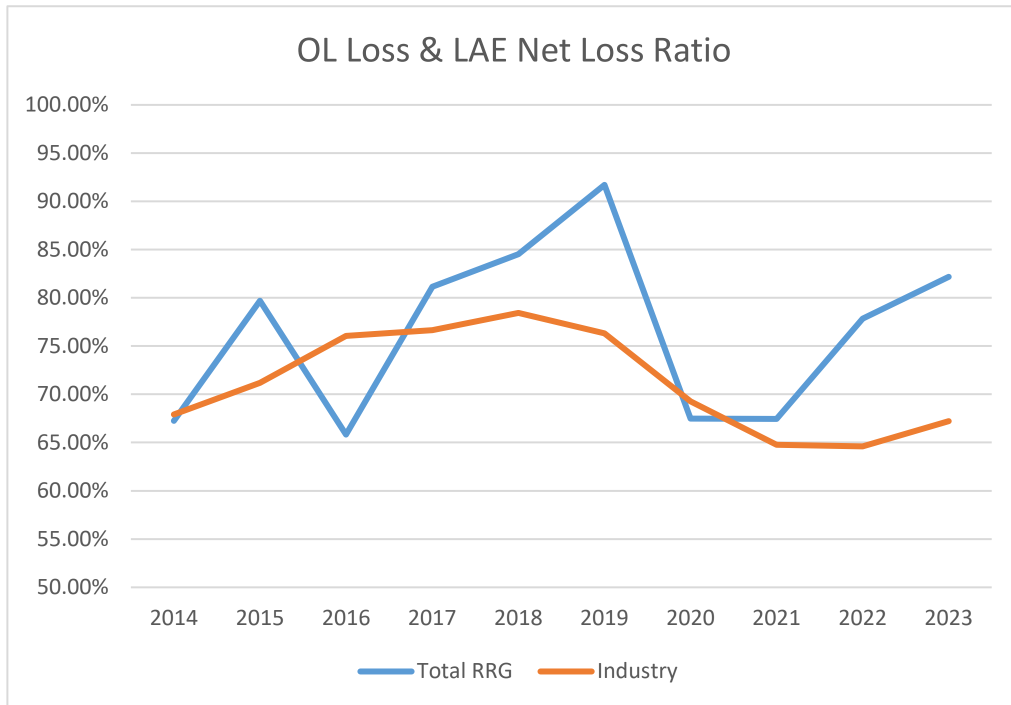
As a percentage of net premium earned (NPE), the all lines-combined, accident year, loss and LAE ratios for the industry have been consistently between 68-78% for the last 11 years. RRG loss and LAE ratios have been higher over the past 11 years but have followed a similar trend to the industry. The loss ratios have been over between 80-90% for the last 11 years.

Figure VII.A.1 – Total Loss & LAE Net AY Loss Ratio



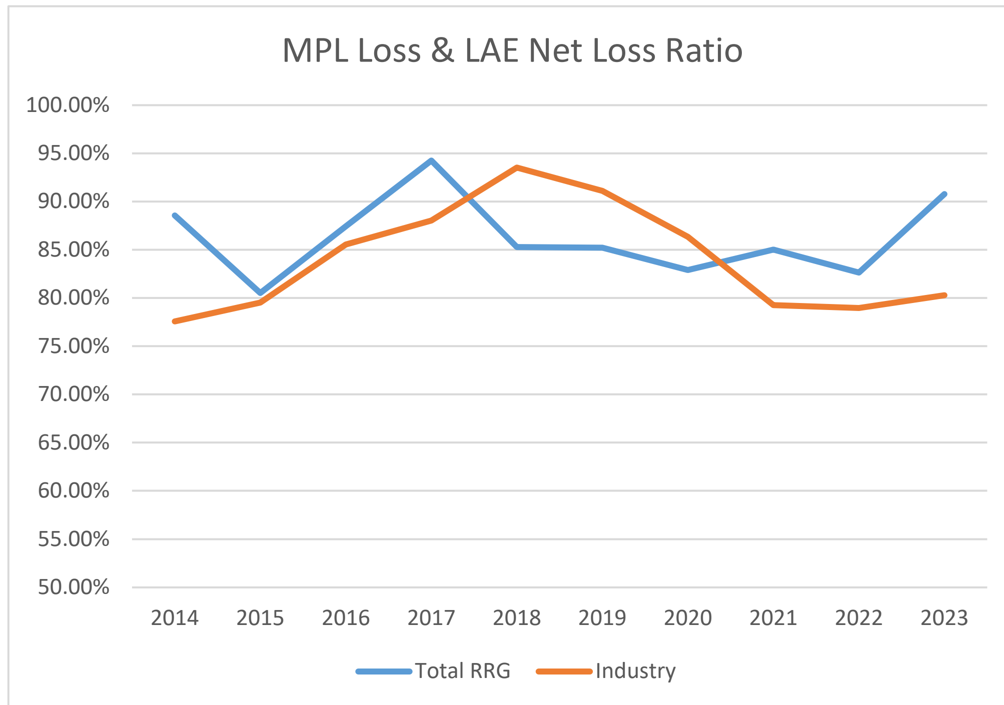
The by-coverage detail is more informative when comparing industry to RRG loss ratios. The OL industry loss ratios generally decreased between accident years 2016-22, while the RRG loss ratios were quite volatile, ranging from a low of 65% in 2016 to over 90% in 2019. Both the industry and RRGs saw an uptick in their 2023 loss ratios.

Figure VII.A.2 – OL Loss & LAE Net AY Loss Ratio



MPL loss ratios for the industry increased between 2014-18 and have been decreasing since. The MPL loss ratios for RRGs have experienced some volatility, peaking at 94% in 2017 and falling to 83% in 2022. In the 2015-22 period, the loss ratios for RRGs were within 8% of the industry loss ratio. However, this difference reached over 10% in 2023.

Figure VII.A.3a – MPL Loss & LAE Net AY Loss Ratio



When MPL RRG loss ratios were broken down further by industry type, results were much more volatile. For hospitals, one company in particular, MCIC Vermont, drove the large loss ratios in 2014 (Figure VIII.A.3b.) Consequently, we reviewed a separate graph to show loss ratios when MCIC Vermont is excluded as well. Overall, allied health professional RRGs have seen the largest increase in loss ratios over the 10-year observation period.

Figure VII.A.3b – MPL Loss & LAE Net AY Loss Ratio (includes MCIC Vermont)

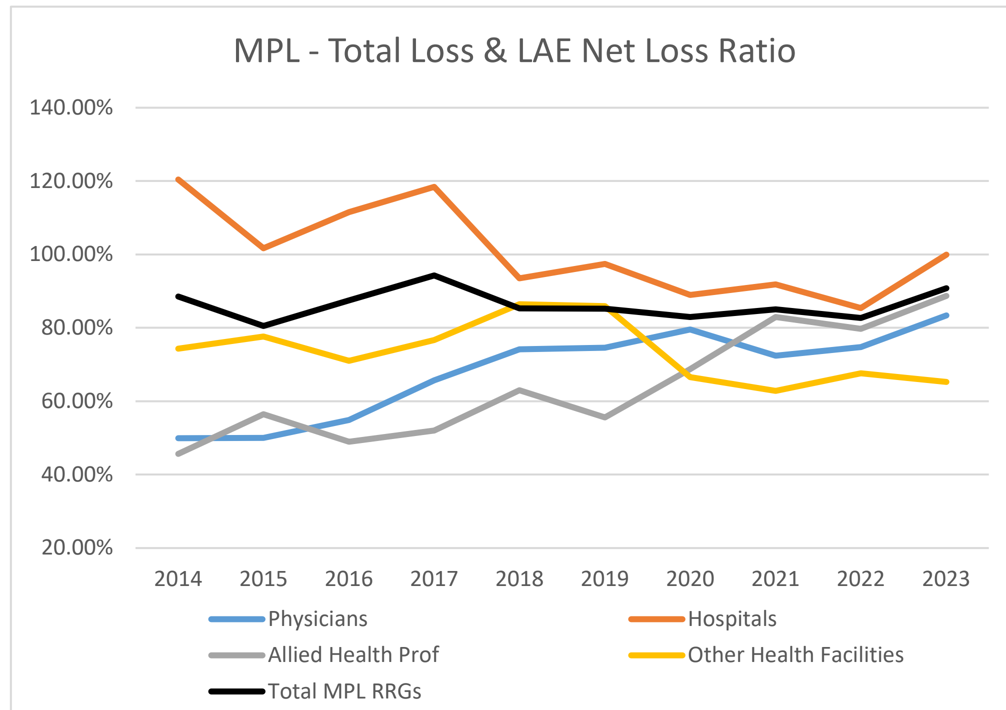


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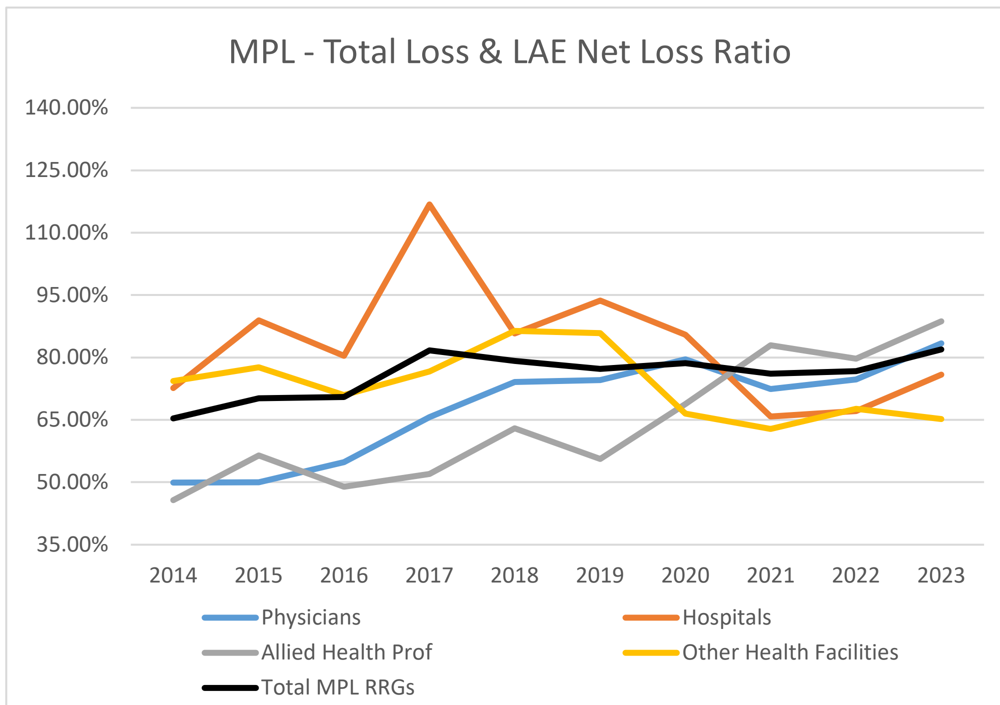
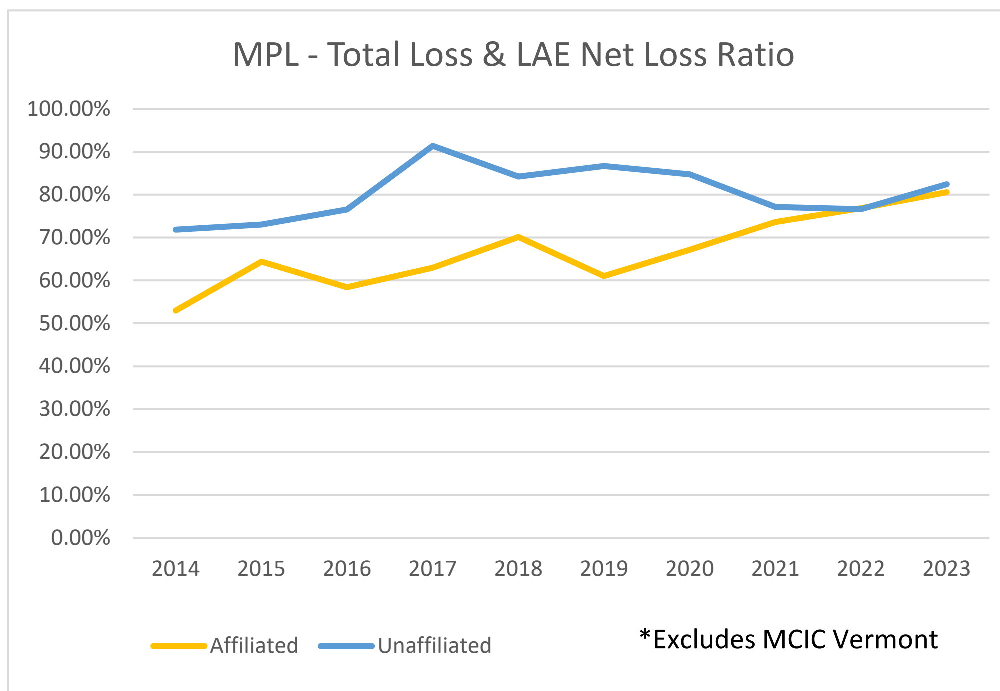
Figure VII.A.3c – MPL Loss & LAE Net AY Loss Ratio (excludes MCIC Vermont)



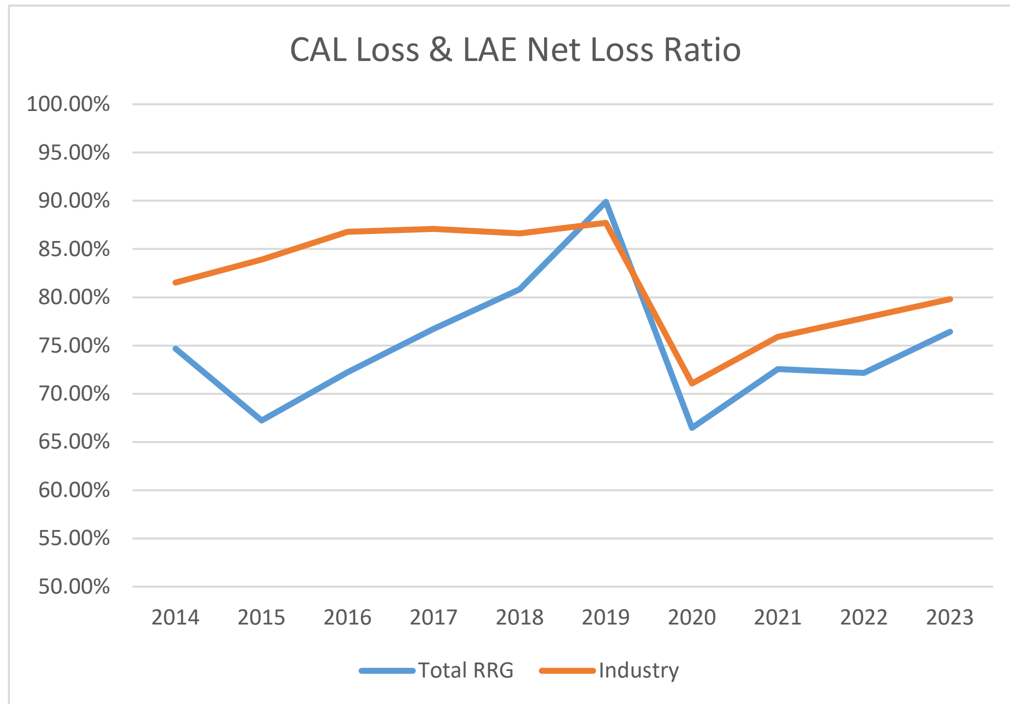
An analysis of net accident year loss ratios shows that MPLA affiliated members have historically had lower loss ratios than their counterparts. However, that difference has diminished in recent years.

Figure VII.A.3d – MPL Loss & LAE Net AY Loss Ratio (excludes MCIC Vermont)



For CAL, the industry loss ratios generally increased 2014-19. This was followed by a decrease of over 16 points to approximately 71% in 2020. The 2020 year for both the industries and RRGs is abnormally low, perhaps due to the influence of the COVID-19 pandemic. The loss ratio has increased since then, reaching 80% in 2023. For RRGs, the loss ratios have been quite erratic, ranging from a low of 67% in 2015 to a high of 90% in 2019. Rate increases obtained by both the admitted market and RRGs may be serving to drive down loss ratios in the most recent years.

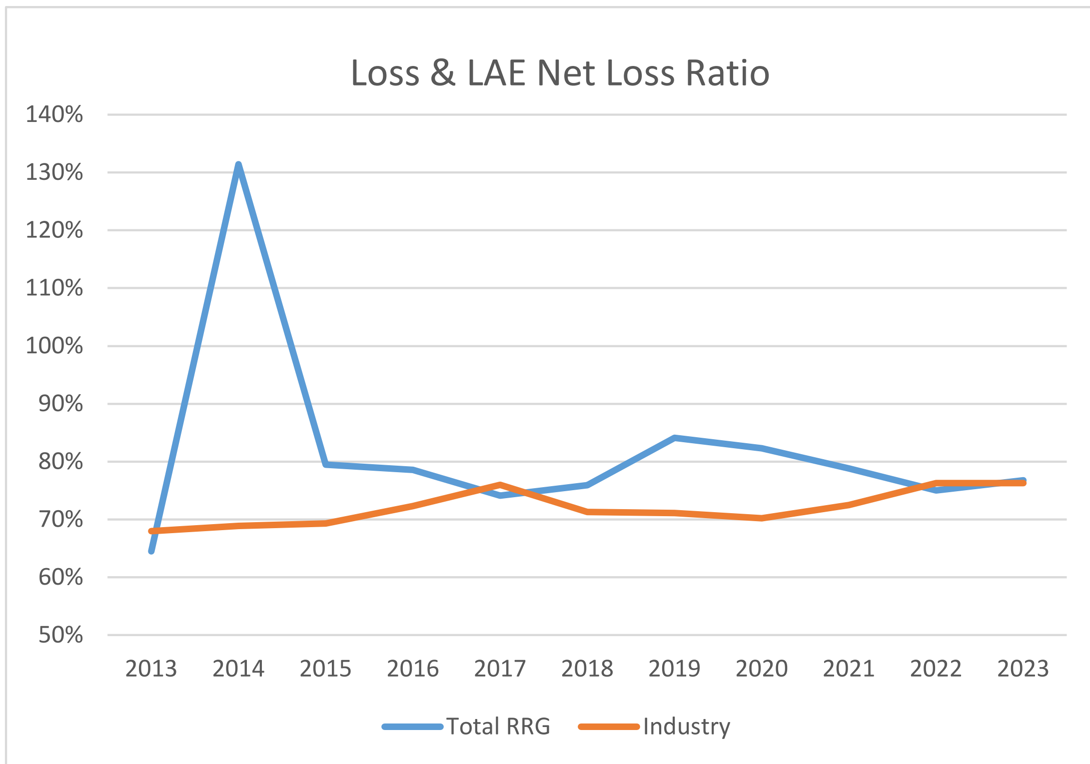
Figure VII.A.4 – CAL Loss & LAE Net AY Loss Ratio



B. Calendar-Year Loss and Loss Adjustment Expense Ratios

As a percentage of NPE, the industry's all lines-combined, calendar-year, loss and LAE ratios have consistently been between 68-76% for 11 years. RRG loss and LAE ratios steadily increased from 2013 to 2019, with a spike in 2014. That is attributable to one RRG with over $1 billion in loss and LAE development and a greater than 500% loss and LAE ratio related to a merger with another insurer. Loss ratios for RRGs have decreased between 2019-23, while the industry loss ratios have been begun to increase since 2020.

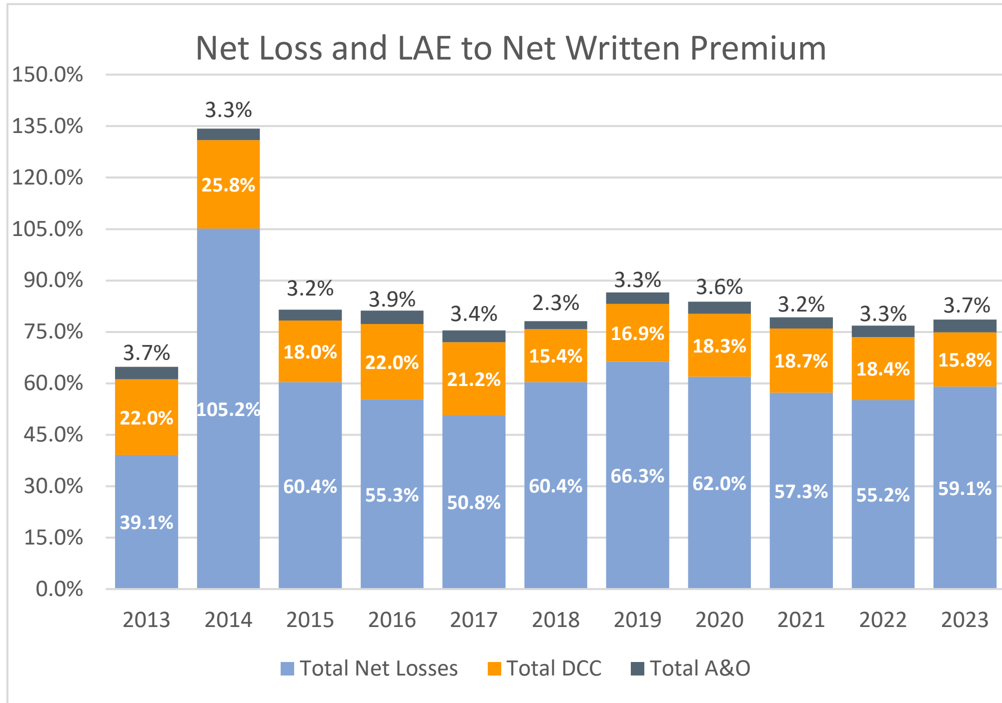
Figure VII.B – Loss & LAE Net CY Loss Ratio



C. Loss and Loss Adjustment Expense Composition

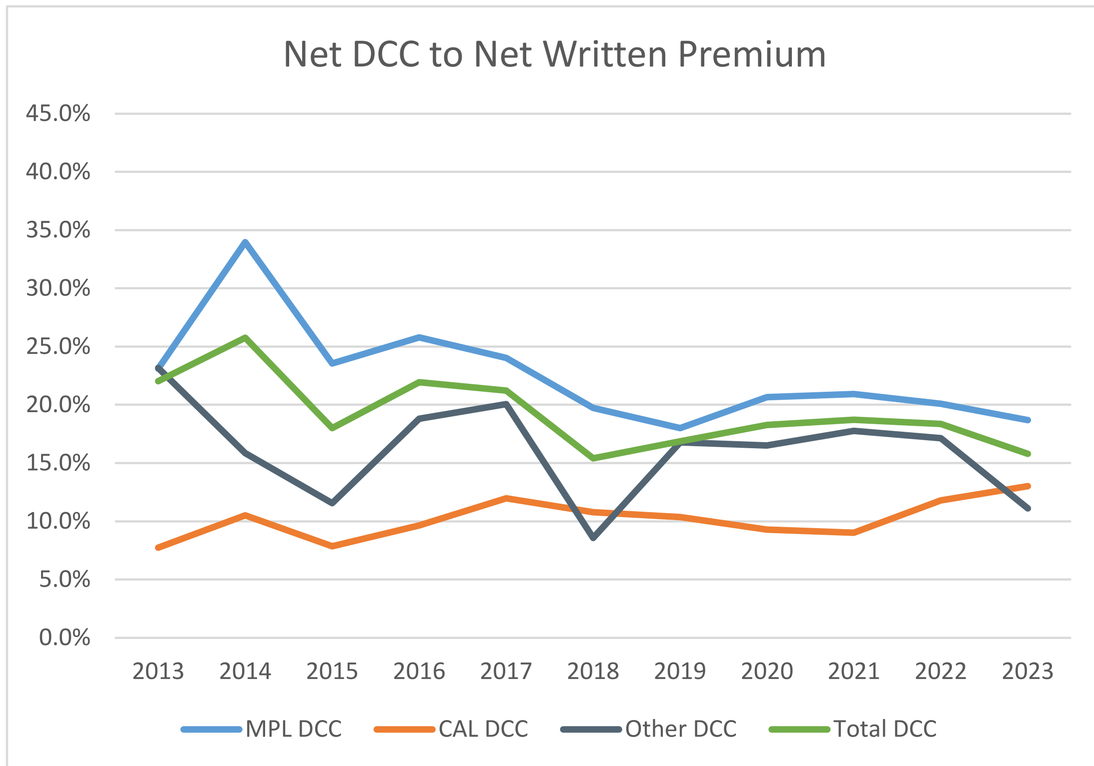
As a percentage of NWP, loss and LAE ratios for RRGs show a small increasing trend between 2013-19 (Figure VII.C.1), with an exceptional peak in the 2014 calendar year, previously described. Since 2019, this ratio has started to decrease incrementally. It is worth noting that ratios for DCC and A&O combined over NWP have decreased to 25% or lower in the past seven calendar years.

Figure VII.C.1 – Net Loss and LAE to NWP



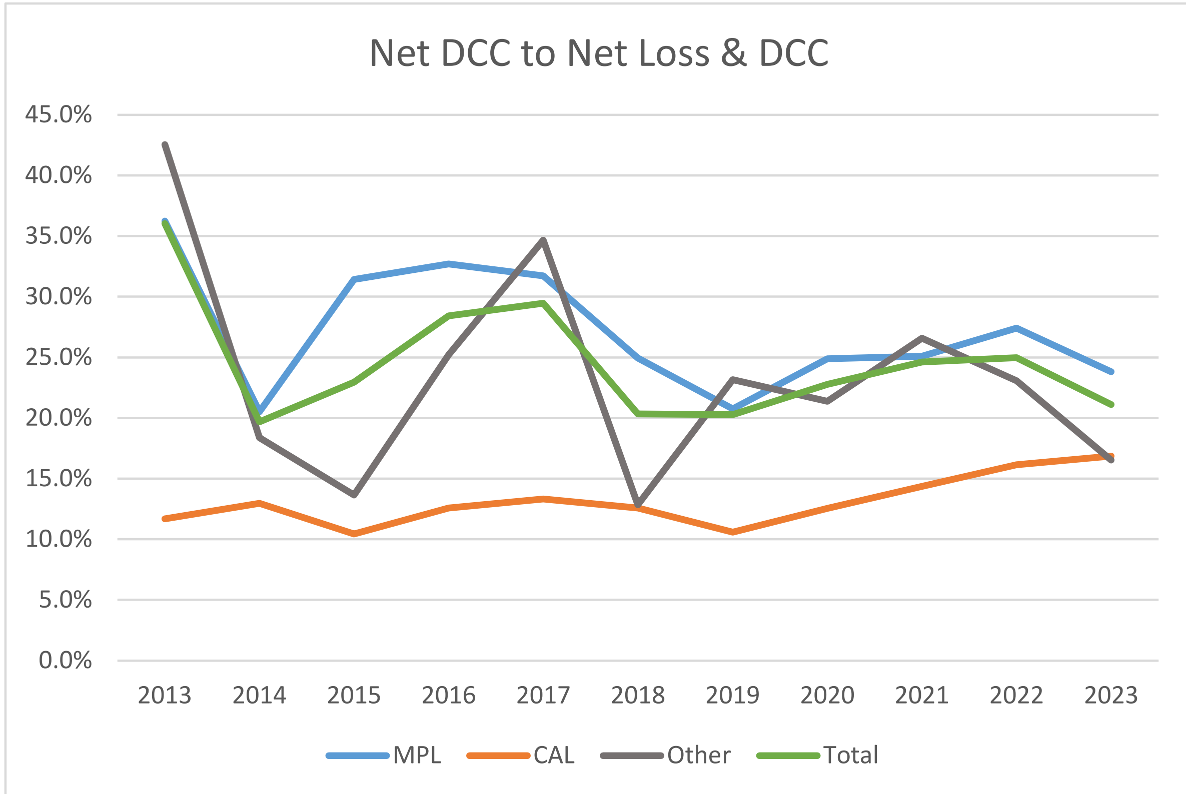
The overall DCC to NWP ratio is generally between 15-30%, but it varies substantially by line. The ratio appears to be declining in recent years, with the 2018 to 2023 total ratios all below 20%. The CAL ratio is generally lower than the other two lines and has increased incrementally since 2020. OL indicates substantial variability.

Figure VII.C.2 – Net DCC to NWP



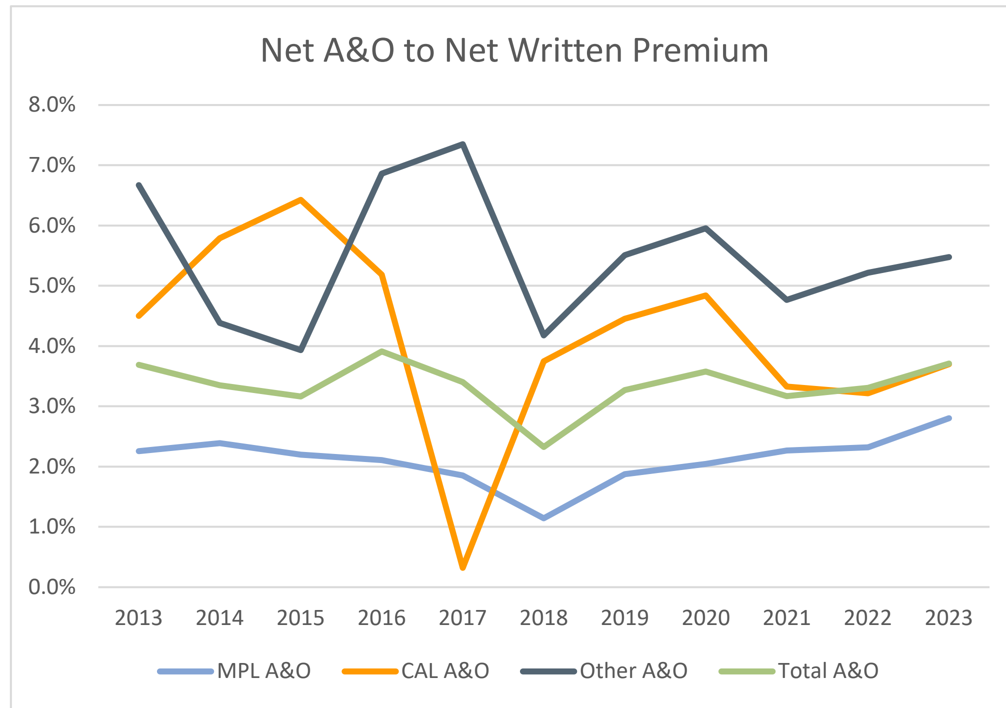
The overall DCC to Loss and DCC ratio has been between 20-30% since 2014, but it varies substantially by line. The CAL ratio is lower than the other two lines and has been between 10-20% since 2013. OL again indicates substantial variability.

Figure VII.C.3 – Net DCC to Net Loss & DCC



Aside from a low observation in 2018, the overall ratio of A&O to NWP has been between 3.0% and 4.0% for the past nine calendar years. The MPL ratio is lower than either of the other two lines. The OL and CAL ratios have demonstrated volatility, while the MPL ratio is more stable. The decrease in 2017 for CAL can be attributed to one RRG.

Figure VII.C.4 – Net A&O to NWP



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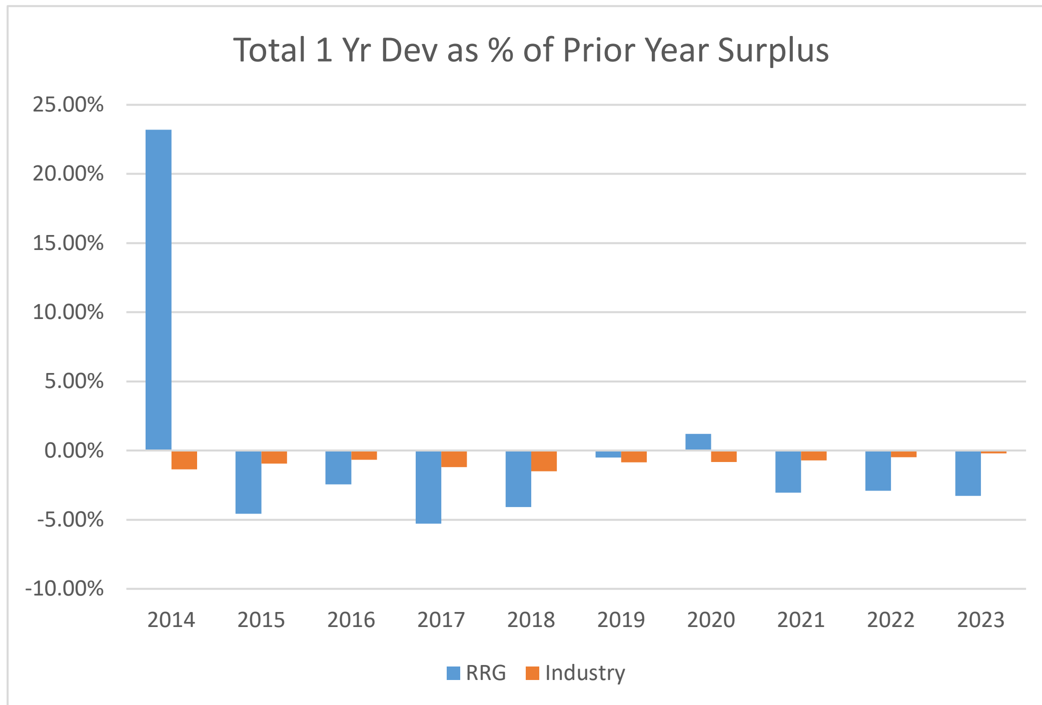
D. Adverse Development

The following charts present the aggregated one-year loss and DCC development in prior accident years for calendar years 2014-23, divided by the surplus at the end of the prior calendar year. Development in prior years has been favorable overall for the industry and RRGs, with the exception of the previously discussed 2014 policy period and 2020 for RRGs. The magnitude of favorable development has been greater for RRGs.

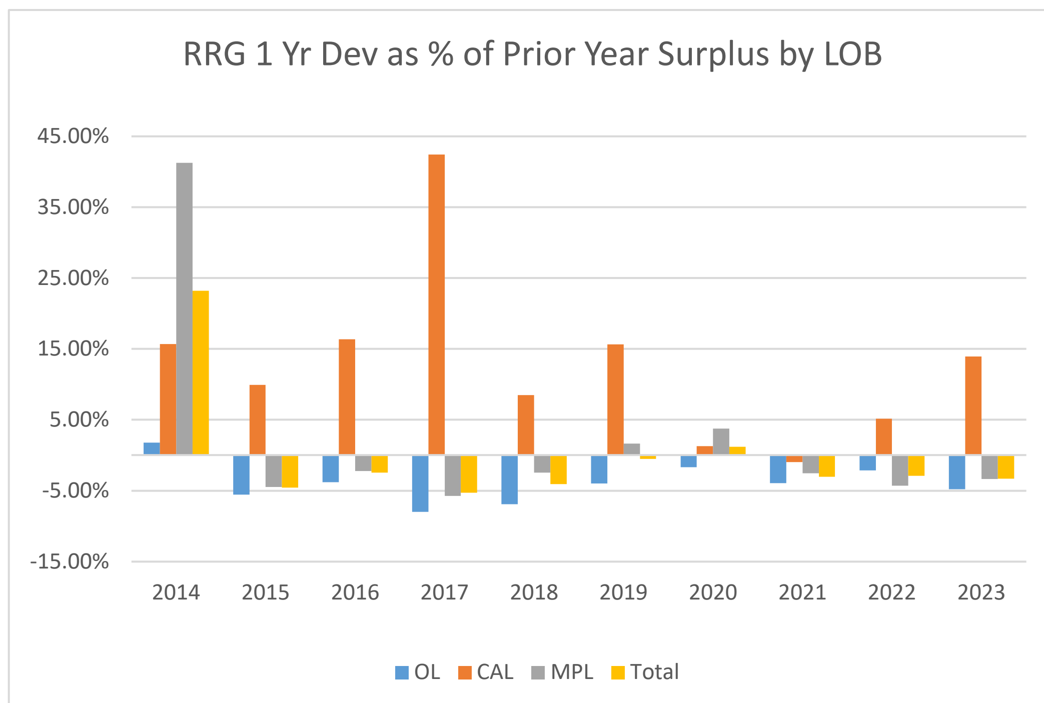
Figure VII.D.1 – Total RRG to Industry Comparison



For RRGs, prior reserves for OL are generally showing favorable development. For CAL, reserves had favorable development in 2021 after having seen adverse development in the prior seven calendar years. CAL has returned to showing adverse development in 2022 and 2023.

MPL overall reserve development has been favorable across most accident years except for 2014 and 2019-20. The 2014 adverse deviation was isolated to a single RRG, as previously described. In 2019, adverse development in prior reserves led to a net loss for MPL RRGs for the first time in a decade.

Figure VII.D.2 – RRG 1 Yr Dev as % of Prior Year Surplus by LOB

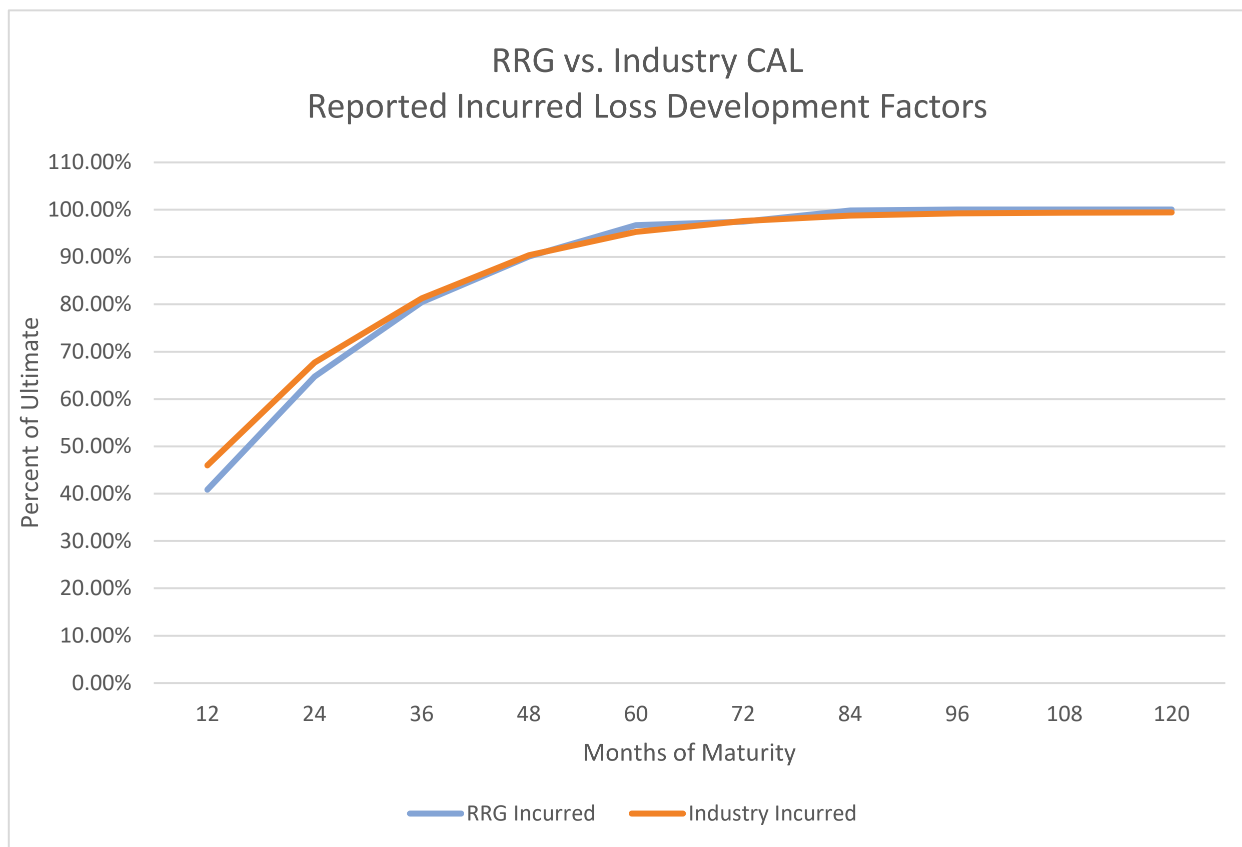


E. Loss Development Patterns

Using our grouping of RRGs specializing in particular coverage lines, we ran data from their annual statements Schedule P – Part 2 analyses and compared their loss development to the industry by line of business. The following incurred loss development patterns are calculated from Schedule P Loss and DCC development triangles.

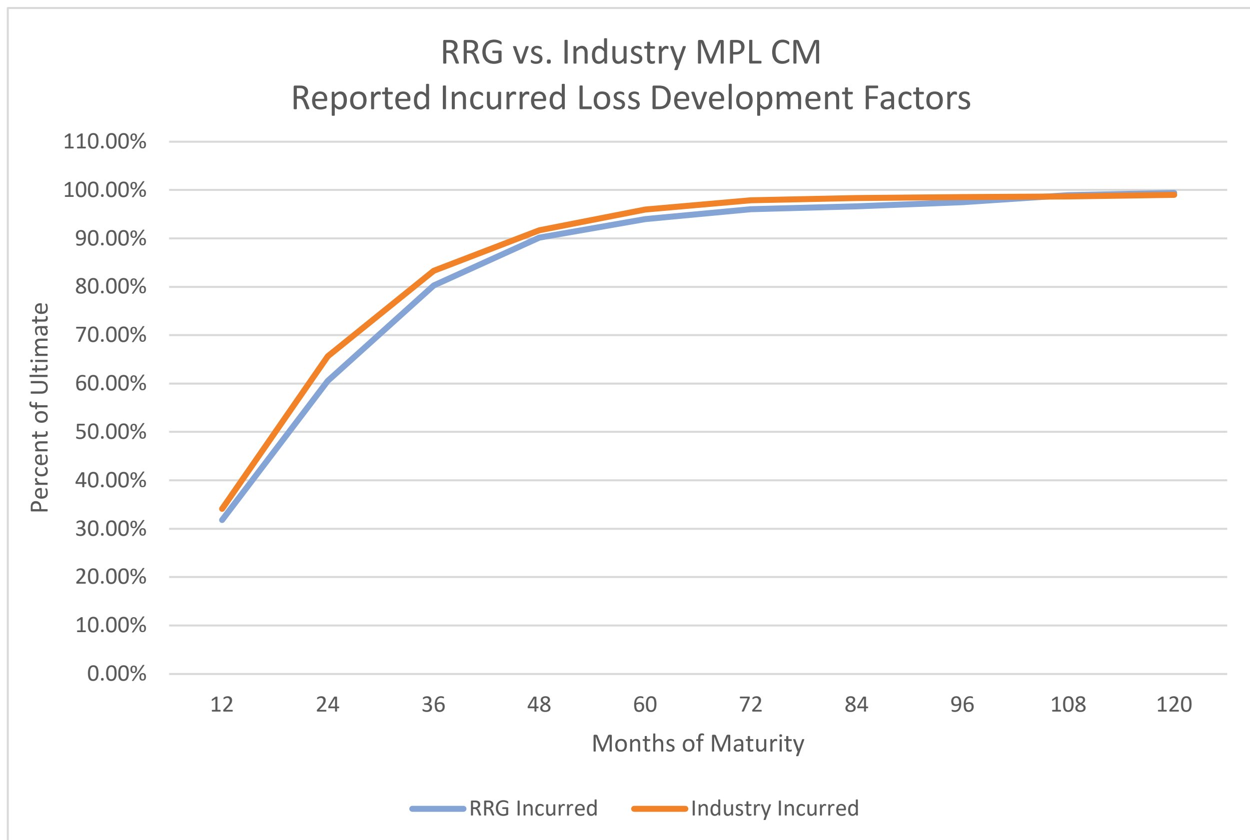
For RRGs specializing in CAL, their reported incurred loss development is slower than the industry, up to 24 months of maturity. Their development patterns are quite close for accident years 48 months mature or greater.

Figure VII.E.1 – RRG vs. Industry CAL



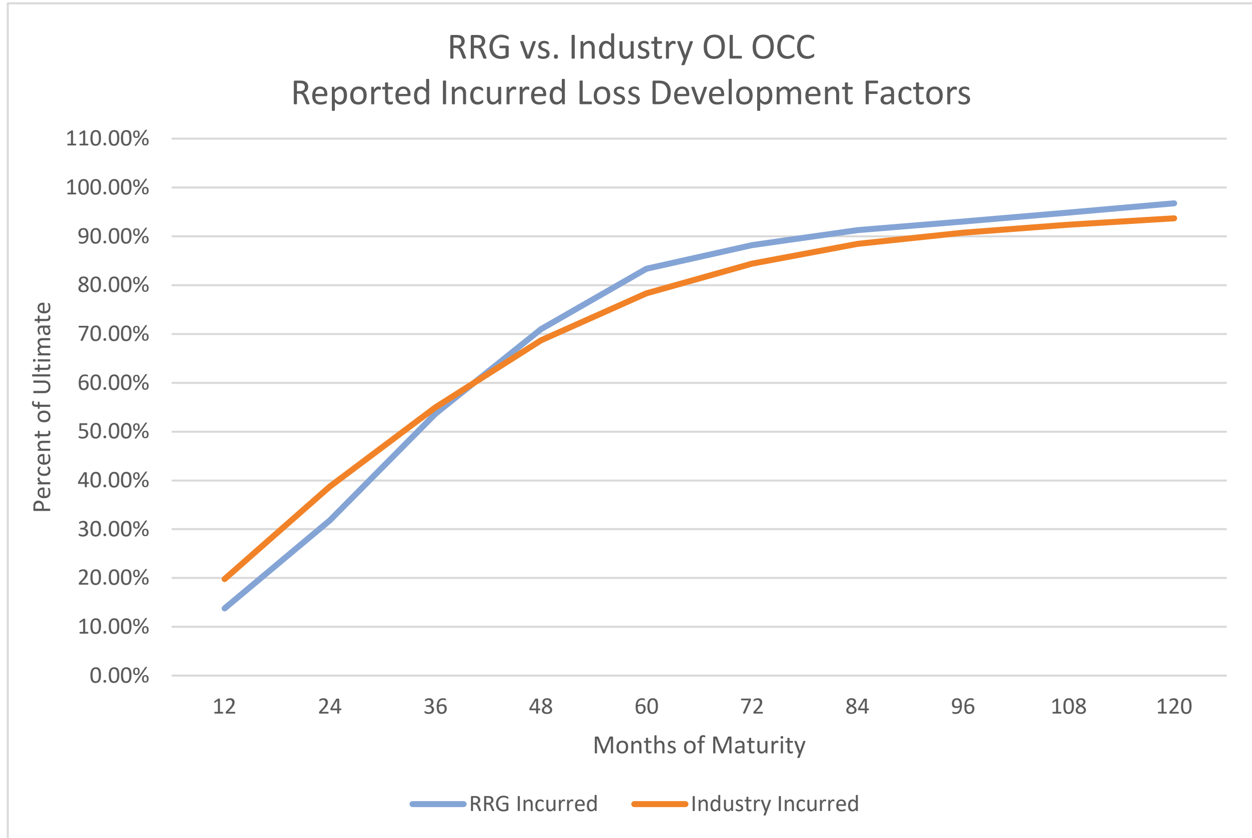
For RRGs specializing in MPL CM, reported incurred loss development is slower than the industry, even up to 108 months of maturity. Based on bulk and IBNR reserves, the total P/C industry has an implied tail factor under 1.0%, whereas the RRG cohort has an implied tail factor around 0.6%. This means that after 120 months of maturity, the RRGs financial statements budget IBNR reserves of about 0.6% of their reported incurred losses. We continue to see reserve strengthening in some of the more mature development intervals.

Figure VII.E.2 – RRG vs. Industry MPL CM



RRGs specializing in OL OCC have reported incurred loss development factors that are slower than the industry until 48 months of maturity, after which they begin to develop faster than the industry. The implied tail factors based on annual statement are a little bit faster for RRGs.

Figure VII.E.3 – RRG vs. Industry OL OCC



VIII. Underwriting Expenses

In addition to expenses associated with claims settlement, RRGs have expenses related to insurance policy underwriting. The categories listed in Section A (commissions), Section B (taxes, licenses and fees) and Section C (general and other acquisition expenses) below are standard expense categories prescribed by the statutory annual statement. These expenses can affect an RRG's profitability to the extent that they are increasing over time (commissions) or vary above industry norm for a single RRG. This section examines several key underwriting expense measures and explores the differences by state for the financial exam fees embedded in the numbers.

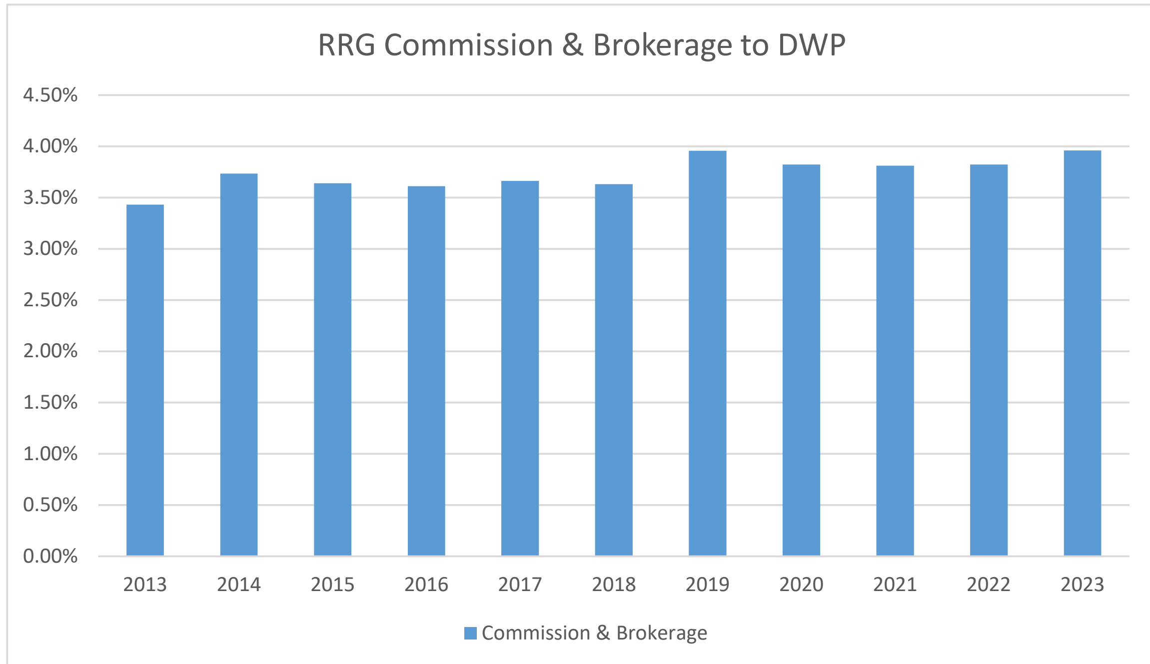
Commission and brokerage expenses for RRGs as a ratio of DWP have seen a slight overall increase over the years of analysis while taxes, licenses and fees have been relatively stable, with exception of 2014. Other acquisition expenses have generally been approximately 1.2 to 1.4% of written premium, while general expenses have been decreasing from approximately 7.0 to 5.0% in 2023 but vary considerably when split by line of business. Overall expenses for RRGs vary by line of business, with CAL having a higher and more variable expense ratio than RRGs writing OL or MPL.

Another significant consideration related to expenses is the state of domicile and the impact of state-specific regulatory fees. Among the domiciliary fees we examined were those for required financial exams every three years within a company's domiciliary state. We have found that these financial exam fees can vary widely across states. This is an important consideration when selecting a domicile. Based on our analysis, average financial exam fees for RRGs in 2023 were $29,815. These exam fees as a percentage of held loss and LAE reserves is 0.09%, up from .06% in last year's study. Exam fees as a percentage of surplus also amounted to 0.09%.

A. Commissions

Commission and brokerage expenses as a percentage of DWP increased 2013-14, then remained at about 3.6% between 2015-18 before increasing to between 3.8-4.0% over the last five calendar years.

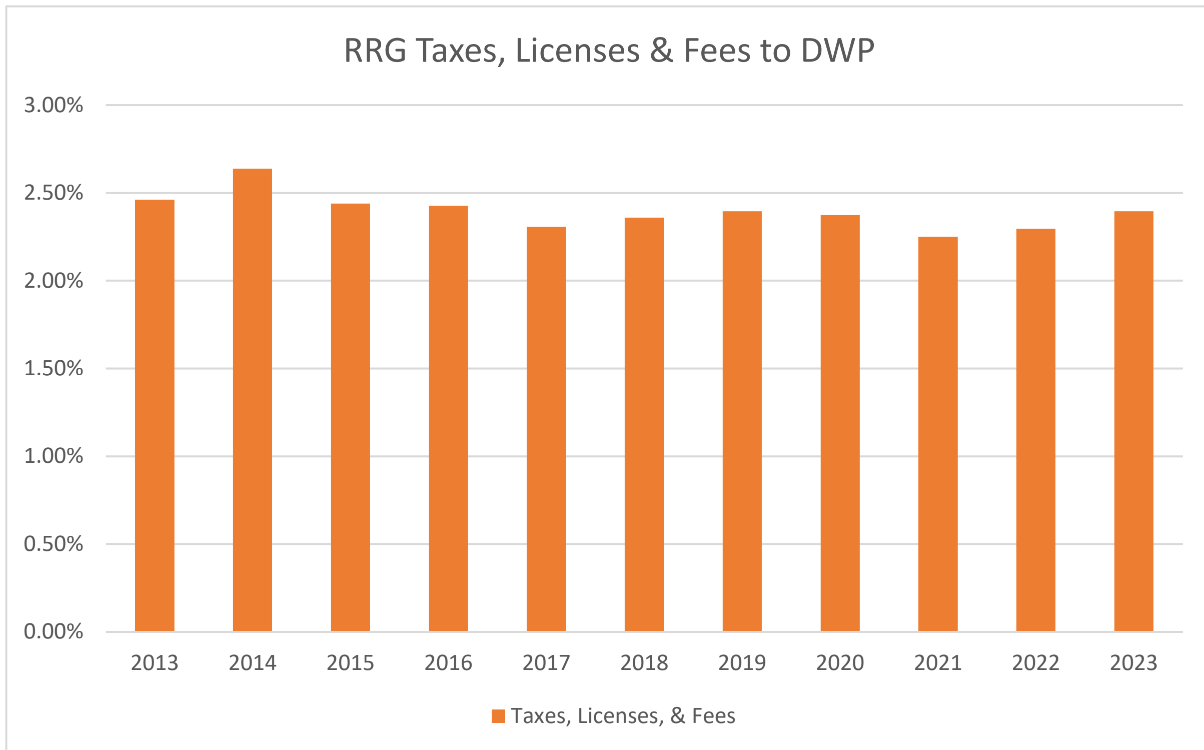
Figure VIII.A – RRG Commission & Brokerage to DWP



B. Taxes, Licenses and Fees

Taxes, licenses and fees for RRGs have been relatively stable for the past 11 years. With the exception of 2014, they have remained between 2.25-2.45%.

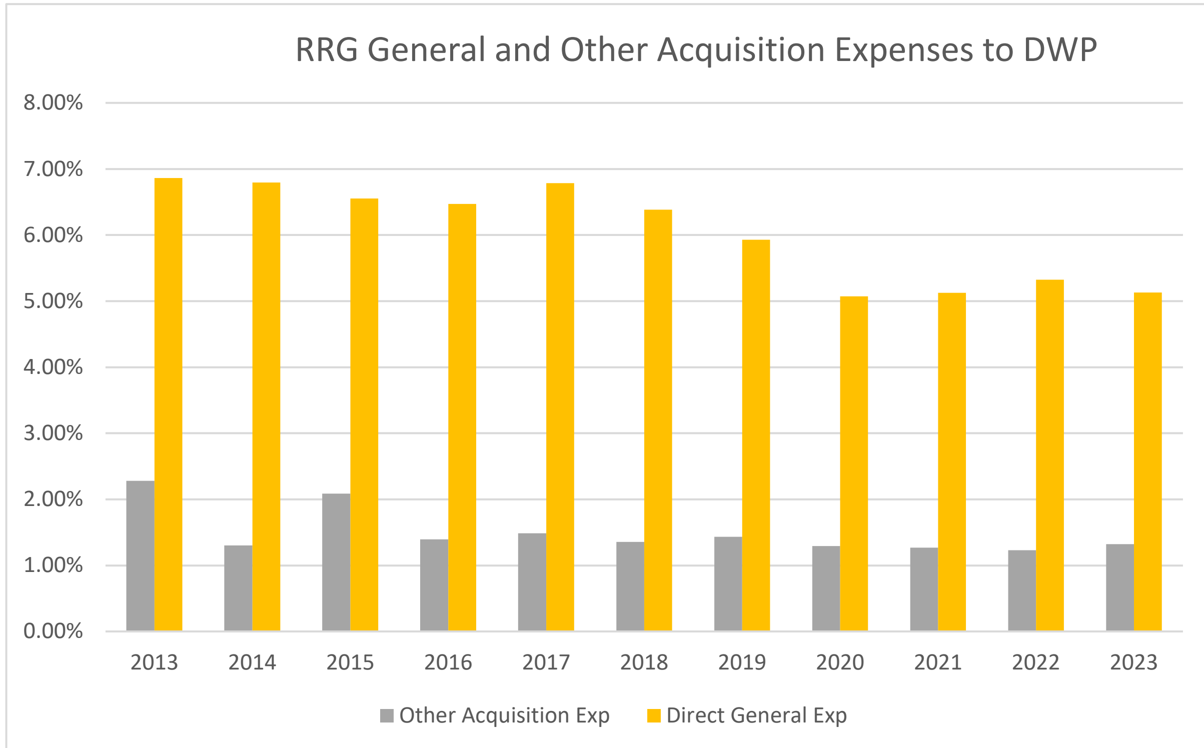
Figure VIII.B – RRG Taxes, Licenses & Fees to DWP



C. General and Other Acquisition Expenses

RRG general and other acquisition expenses have shown variability over the last 11 calendar years. General expenses have seen an overall decreasing trend from 6.9% in 2013 to 5.1% in 2023. It is worth noting these expenses vary considerably when split by line of business. Meanwhile, other acquisition expenses have generally been around 1.2% to 1.5% of written premium but have been as high as 2.3% in 2013.

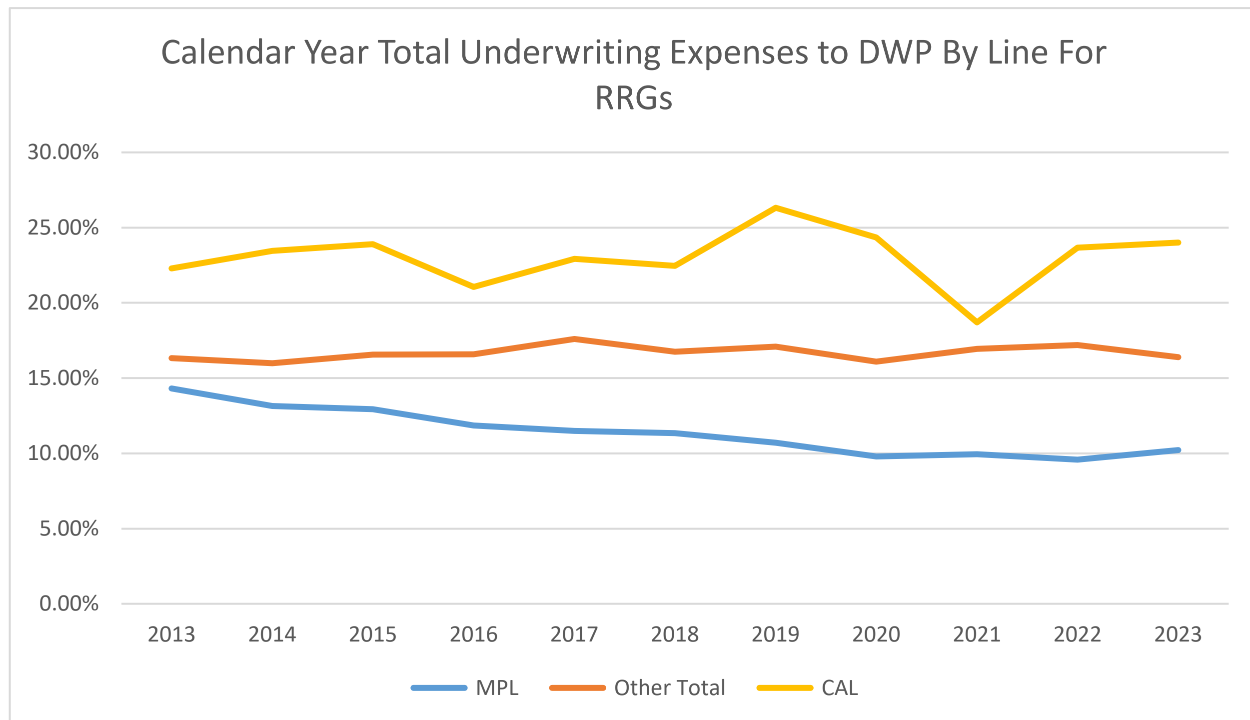
Figure VIII.C – RRG General and Other Acquisition Expenses to DWP



D. Overall Underwriting Expense Ratio Trends

The overall expense ratios for MPL RRGs have been between 10-15% of DWP for 11 calendar years but have been generally decreasing since 2013. The expense ratios for RRGs writing OL have been very steady between approximately 16-18% of DWP. RRGs specializing in CAL have much more observed variability and higher expense costs relative to the other lines ranging from around 19-26% depending on the year chosen.

Figure VIII.D – RRG CY Total Underwriting Expenses to DWP



E. Financial Exam Costs

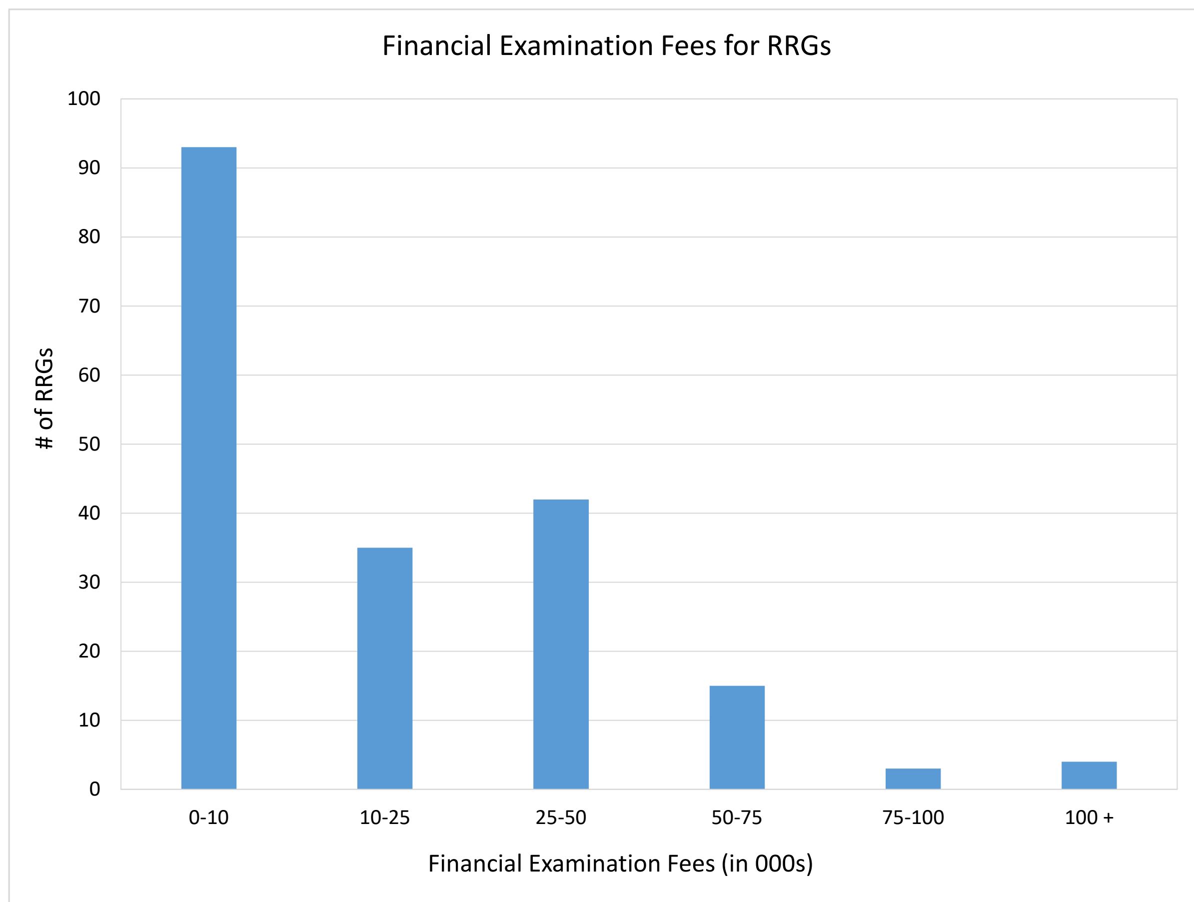
The NAIC requires that RRGs file financial statements in a highly detailed format. One element of the format is an itemized expense breakdown, including data that nearly isolates financial examination costs.

To compile financial examination costs, Pinnacle gathered data from the "Total Insurance Department Licenses and Fees" category of Part 3 of the Underwriting and Investment Exhibit by RRG, along with domiciliary state. In addition to financial examinations, this expense category also includes other smaller expense items, such as agents' licenses, certificates of authority, compliance deposits and filing fees, which tend to remain relatively constant year-to-year. We analyzed 11 years of financial statement data from 2013-23 to isolate financial examination costs, which only affect one or two years from the discrete, smaller, ongoing annual fees. We

removed some RRGs that had not had exams during this time to normalize the data. We also captured current year written premium, net held loss and LAE reserves and surplus to normalize the results to reflect that there are some very large RRGs with understandably larger financial examination costs. In the final data, 192 RRGs remained. We also excluded domiciles with a single RRG from the by-domicile analysis to prevent sharing company-specific data.

The average estimated fees associated with the financial examinations of the RRGs included in our analysis were around $29,815, compared to $23,390 in a similar study Pinnacle conducted in 2023. The largest financial examination fee cost identified was about $1,561,000, up from $126,000 in 2023. On average, financial exam costs represented approximately 0.09% of surplus (up from 0.07% in 2023) and 0.09% of held loss and LAE reserves (up from 0.06%). There was a significant dispersion in the financial exam costs by RRG. Fewer than half (48.4%) of RRGs had financial exam costs of less than $10,000, while 18.2% had costs between $10,000-25,000. Another 21.9% had financial exams that cost $25,000-50,000. Twenty-two of the selected RRGs had financial exams that cost more than $50,000, up from 20 in 2023. This information is summarized in Figure VIII.E.1.

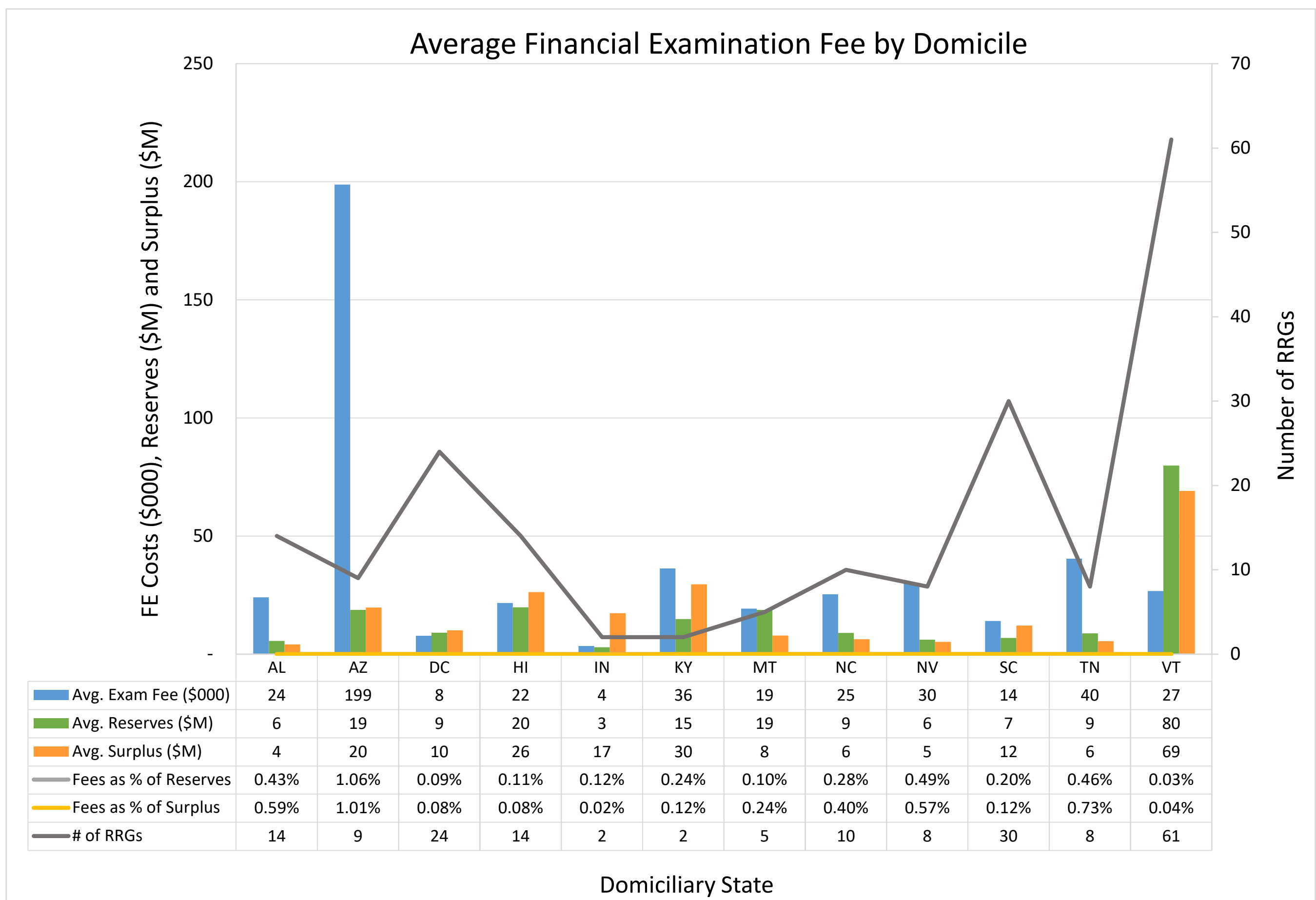
Figure VIII.E.1 – Financial Examination Fees for RRGs



Additional analysis by state of domicile reveals interesting insights. Vermont remains the largest RRG domicile, with 61 RRGs included in our analysis. South Carolina, D.C., Alabama and Hawaii complete the top five with more than 10 RRGs each. Excluding states with one RRG, Vermont is also the domicile with the largest RRGs, with average written premium, loss reserves and surplus per RRG typically more than double any other domicile.

There are also substantial differences in average financial examination costs by domicile. Arizona, Tennessee and Kentucky have the highest average financial exam costs for RRGs. Arizona has two RRGs with financial exam costs over $100,000, and Nevada and Vermont each have one RRG with financial exam costs over $100,000. Indiana, South Carolina and D.C. have the lowest average exam costs. Vermont's costs were consistent with the overall average, which is remarkable given its much larger than average RRG size. As a result, Vermont's average exam costs (as a percentage of surplus and reserves) are among the lowest of any domicile. The following chart illustrates the variability in average exam fees, and as a percentage of both policyholder surplus and held loss and LAE reserves by domicile.

Figure VIII.E.2 – Average Financial Examination Fees by Domicile



	AL	AZ	DC	HI	IN	KY	MT	NC	NV	SC	TN	VT
Avg. Exam Fee ($000)	24	199	8	22	4	36	19	25	30	14	40	27
Avg. Reserves ($M)	6	19	9	20	3	15	19	9	6	7	9	80
Avg. Surplus ($M)	4	20	10	26	17	30	8	6	5	12	6	69
Fees as % of Reserves	0.43%	1.06%	0.09%	0.11%	0.12%	0.24%	0.10%	0.28%	0.49%	0.20%	0.46%	0.03%
Fees as % of Surplus	0.59%	1.01%	0.08%	0.08%	0.02%	0.12%	0.24%	0.40%	0.57%	0.12%	0.73%	0.04%
# of RRGs	14	9	24	14	2	2	5	10	8	30	8	61

Many (but not all) states use a variety of approaches to balance appropriate cost controls and regulatory rigor. These procedures include:

- Allowing actuarial peer reviews rather than full independent actuarial analyses, in some instances
- Setting up competitive bid processes to establish a pool of financial examination service providers, rather than relying on a single provider
- Using staff examiners instead of independent contractors
- Establishing financial examination fee parameters, budgets and caps prior to the beginning of an examination

This review of RRG financial examination costs highlights that there are material differences by domicile and should be considered when choosing a domicile.

In the insurance industry, there have been whispered rumors and anecdotes of instances in which specific financial examination costs were unreasonable at face value. The data in this analysis suggests these rumors may have some factual support. There are four RRGs in our data

with financial exam costs of over $100,000, three of the four with less than $10 million in annual premium.

One of the important ways an RRG passes savings on to its owners is by controlling expenses. This opportunity can turn into a material risk in domiciles where financial examination fees do not have a clear link to an RRG's size and complexity. Competitive bidding processes for service providers, use of state staff and project budgets can also provide owners with the confidence that financial exam costs will be reasonable and reflected in company budgets. To avoid the risk of unanticipated regulatory costs, owners should ensure they understand how their selected domicile deals with financial examination fees.

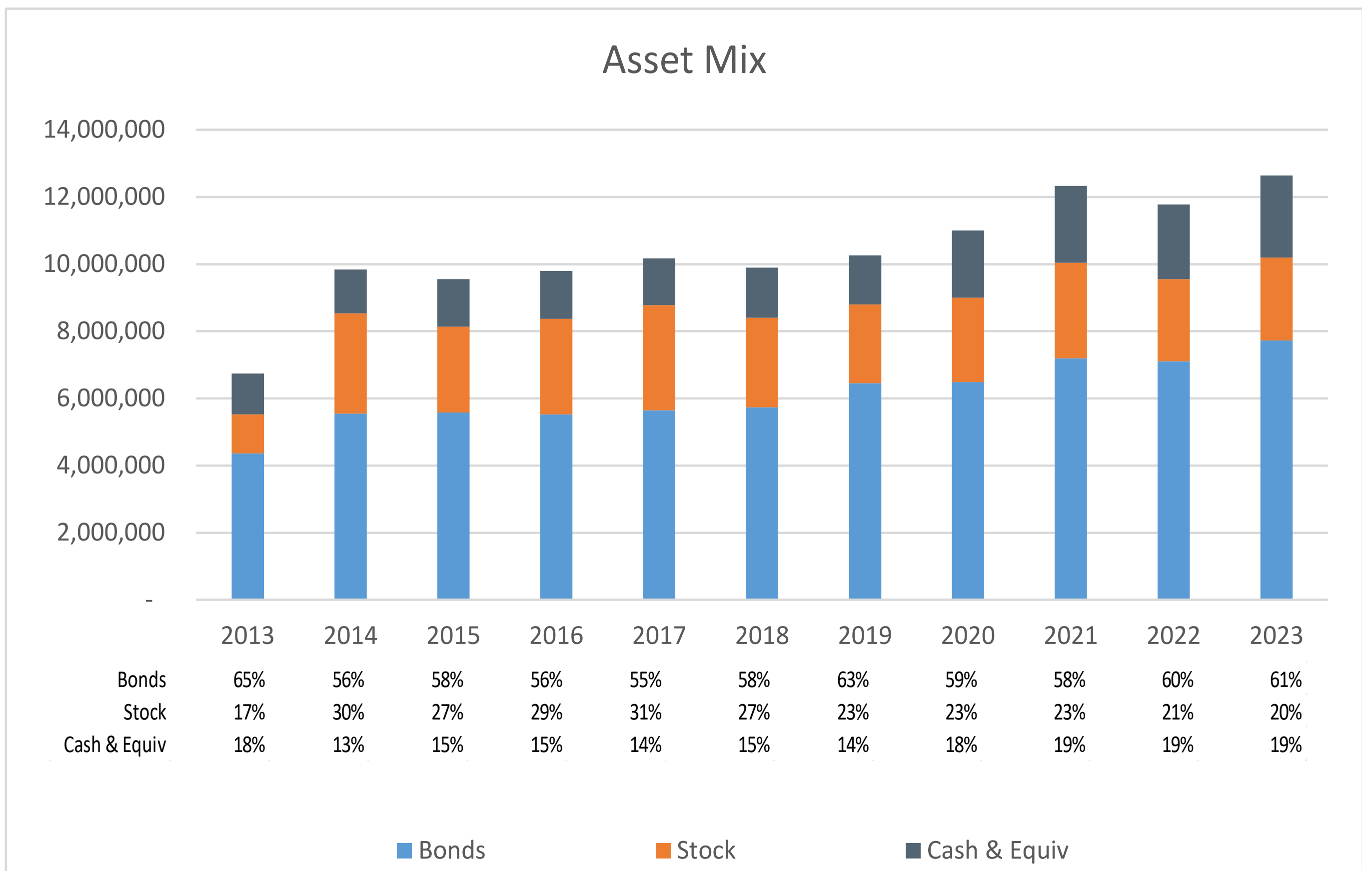
IX. Investment Results

Beyond underwriting operations and income, investments and investment income are important secondary components of insurance company operations. This section examines RRG asset mix and operating results. There has been noticeable growth in RRGs since 2014. This is apparent in premium and asset growth. With additional assets, there has been an increase in the amount invested in common stocks, thus generating an increase in investment income.

A. Asset Composition

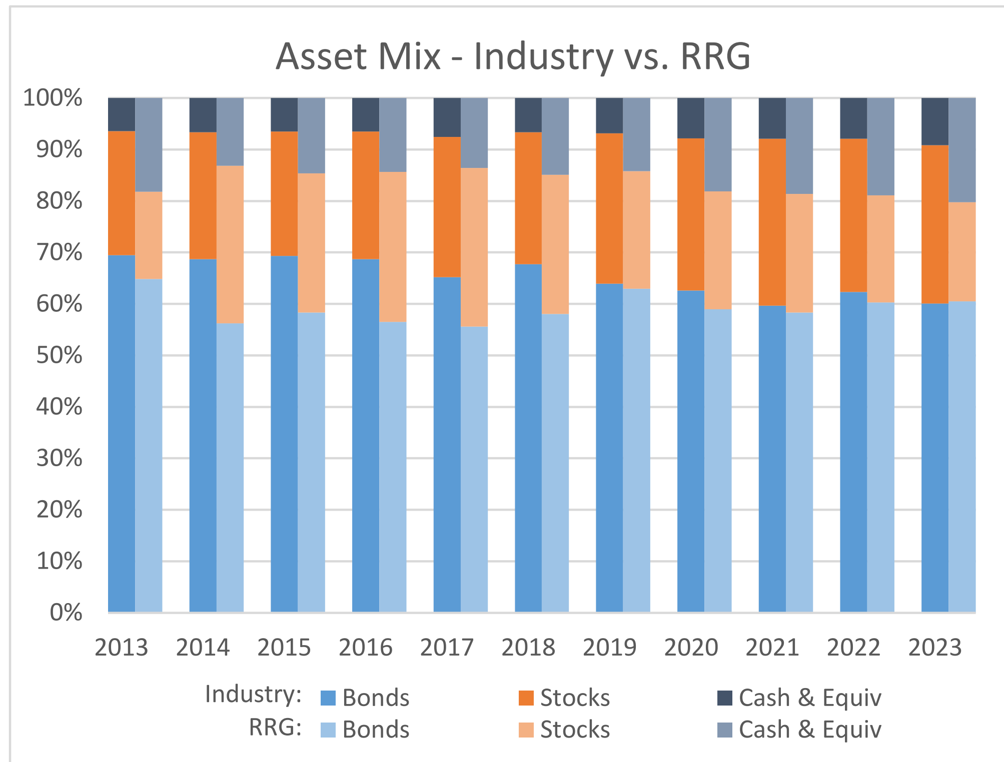
The asset mix for RRGs is primarily in bonds, but from 2014-23, there was a noticeable increase in the share invested in stocks. Stocks comprised roughly 15% of the overall asset in 2013 but increased to approximately 30% starting in 2015. This ratio has since decreased to 21% for 2023. It is also worth noting that the overall amount of assets for RRGs continues to increase over the analyzed time period.

Figure IX.A.1 – RRG Asset Mix



The asset mix for the industry is primarily in bonds, but that ratio has been decreasing since 2013. There has been a gradual increase in the industry's share invested in stocks. Notable is the difference between the industry and RRGs in the percentage in cash and equivalents. RRGs are roughly double the percentage for the industry.

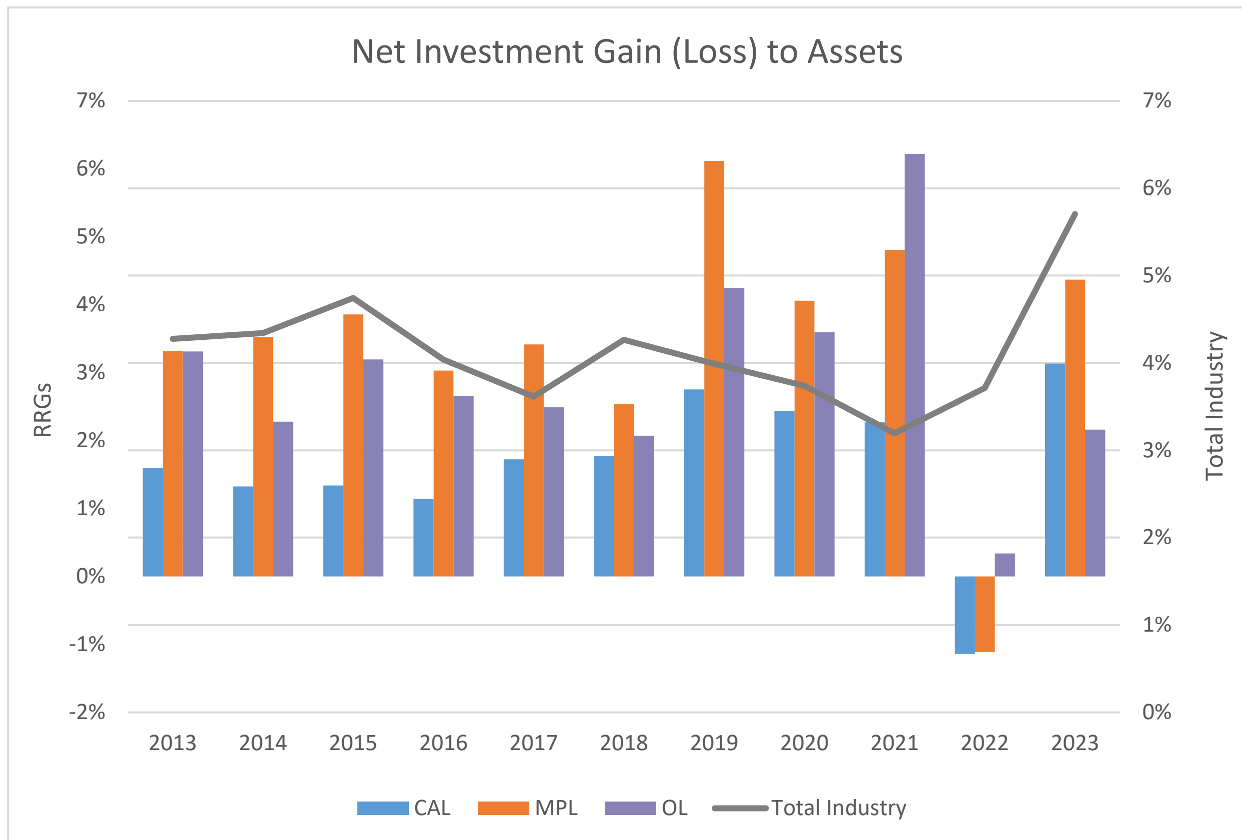
Figure IX.A.2 – Asset Mix – Industry vs. RRGs



B. Investment Gain (Loss)

RRGs writing primarily MPL have had the largest investment gains. Those writing CAL have seen investment gains, though they are small and relatively flat. When compared to the industry, RRGs writing primarily MPL follow a similar pattern, with the exception of 2019-21, which posted significant gains for both MPL and OL. For 2022, RRGs primarily writing CAL and MPL had investment losses, while OL had slight gains. The industry on the other hand experienced a slight increase in investment gains for 2022 relative to both 2020 and 2021. All three major RRG lines as well as the industry saw positive returns in 2023.

Figure IX.B – Investment Gain/Loss to Assets for RRGs CAL, MPL, OL vs. Total U.S. P/C Industry



X. Reliances and Limitations

Throughout our analysis, we have relied on industry annual statement data, using data products from the A.M. Best Company.

We have employed techniques and assumptions that we believe are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognized that future loss emergence might deviate, perhaps substantially, from our estimates.

A substantial source of uncertainty relates to the emergence of the COVID-19 pandemic and its ongoing impact. This uncertainty could impact the projection of unpaid claim estimates in several different ways including, but not limited to:

- Claim reporting patterns and the risk of longer claim durations as claims handling and settlement are impacted
- Changes in exposure to specific coverages
- Material changes in underlying loss exposures as COVID-19 impacts businesses
- Potential legal disputes regarding the applicability of specific coverages to COVID-19-related claims, and
- Changes associated with ongoing medical care of current claimants due to the virus for lines of business with a medical coverage component.

Some of these uncertainties may affect the settlement of claims that had occurred prior to COVID-19 being declared a pandemic. The COVID-19 pandemic may have a material impact on our reserve estimates as its effects emerge over time.

This report does not express any opinions or recommendations with respect to accounting, legal, taxation, or any items reported in any statements filed and/or representations made by A.M. Best. The sole purpose of this report is to present information with respect to RRGs as of December 31, 2023.

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