

## *Testing Capital Adequacy in Today's Environment*

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## Overview

- COVID-19 is a living example of an unplanned financial stress
- Gain insight into how one pool has worked for years on a multi-pronged approach to increase financial stability and rates
- Take a look at the bumps along the way
- Pooling promise: Stable predictable rates and comprehensive coverage



# Washington Counties Risk Pool

- “Created by Counties for Counties” in 1988
- Membership: 26 out of Washington’s 39 counties
- 26 member Board of Directors
- 12 member staff:
  - Admin/Finance
  - Member Services
  - Risk Management
  - Claims
- Property, liability and cyber coverage



# Long-term financial strategic planning

- Conducted in 2013
- Focus on capital adequacy: “How much is enough?”
- Financial situation at that time
  - \$100k SIR since 2000
  - Net position of \$13 million
  - Conservative investment restrictions
  - Highly rated reinsurer(s)
- Capital adequacy assessment performed by PwC – New approach
- Result of study:
  - Informed and thoughtful target capital policy
  - Pool should prepare for increase in SIR
  - More capital will be needed



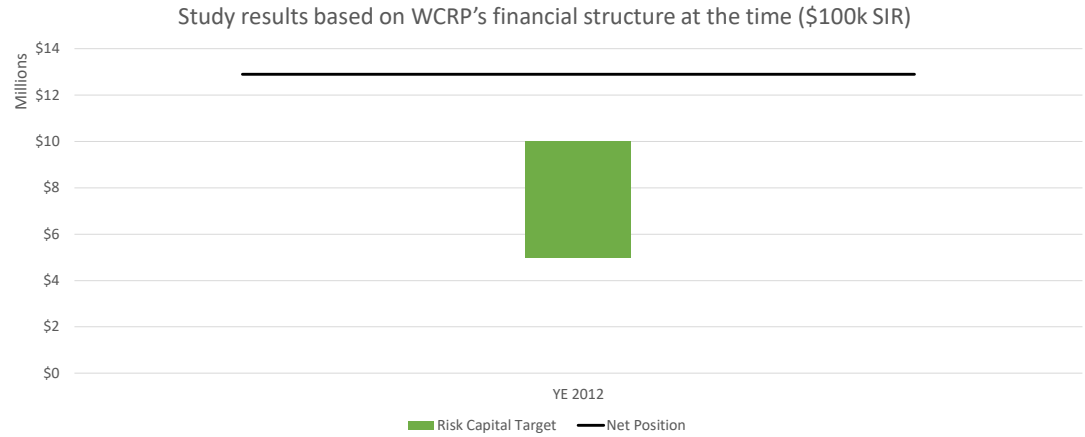
# Capital Adequacy Assessments

- Comprehensive framework for evaluating the capital requirements

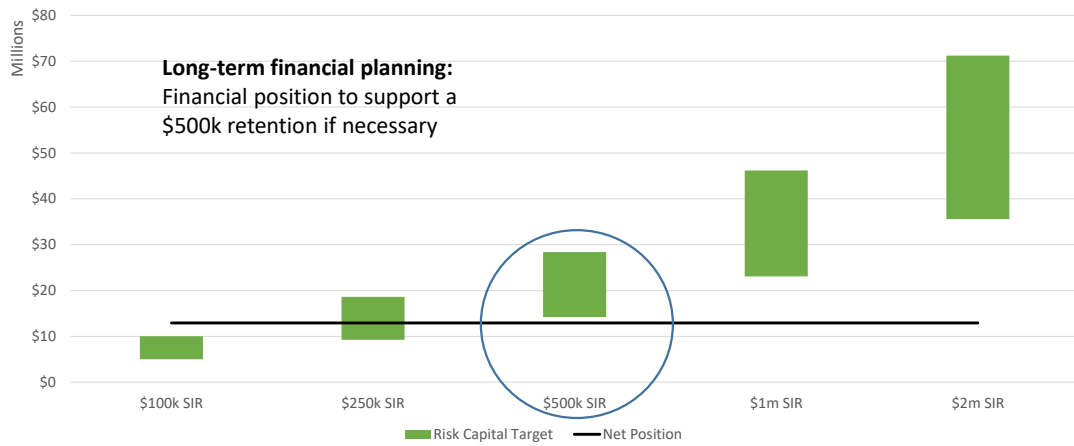


- Recently implemented (2019) actuarial standard requires these more robust reviews for public entity pools
- Approach replaces old “rules of thumb”, financial ratios, reserve confidence levels, etc.

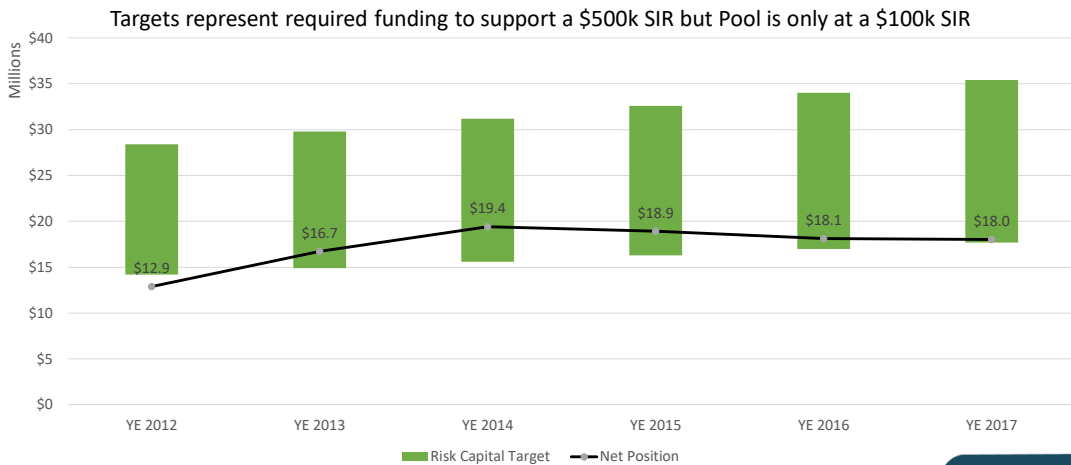
# 2013 WCRP Capital Adequacy Assessment



## What happens if the SIR increases?



## SIR remained at \$100k during this time

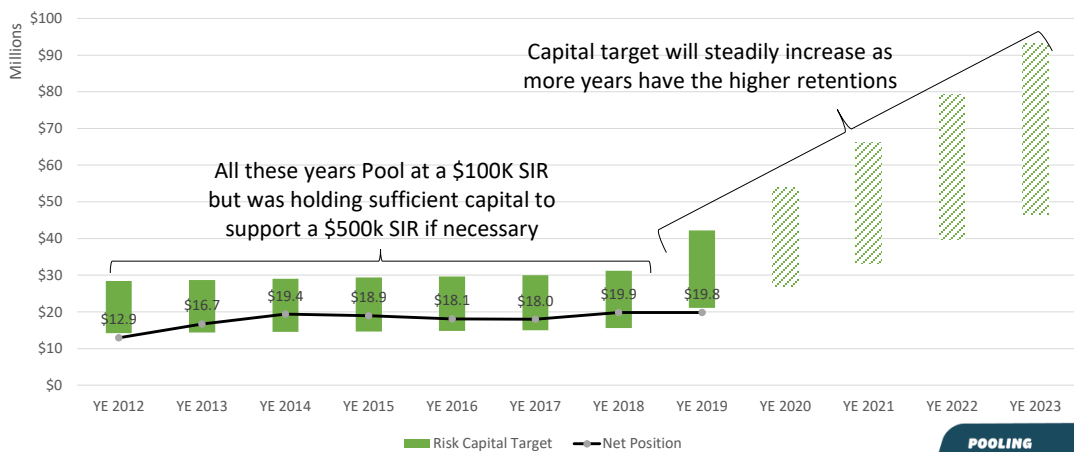




## 2019 & 2020 budgeting & renewals

- Pool Year 2019
  - \$100k SIR not available despite being at \$100k for 18 years
  - Strategic planning had prepared us to move up to \$500k SIR
  - Lowest available was \$1m
- Pool Year 2020
  - SIR increased from \$1m to \$2m due to cost of staying \$1m
- Board uneasy about the new level of financial uncertainty – most had only known a \$100k retention
- Wanted to understand what this will do for us financially

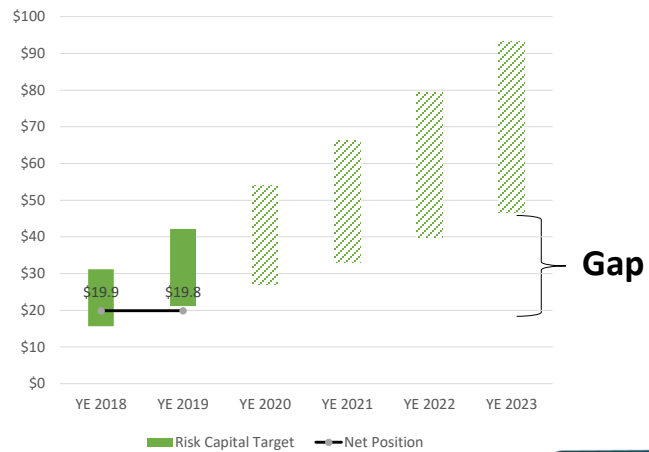
## Model: How capital requirements increase



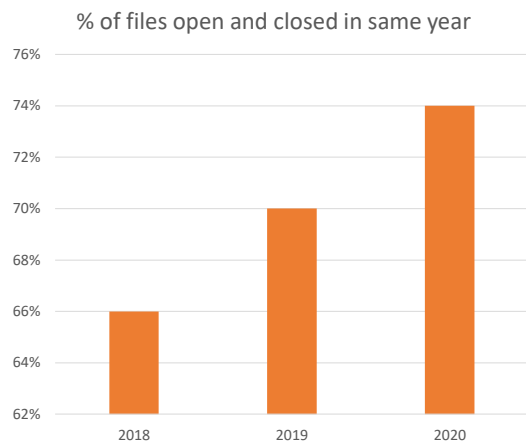
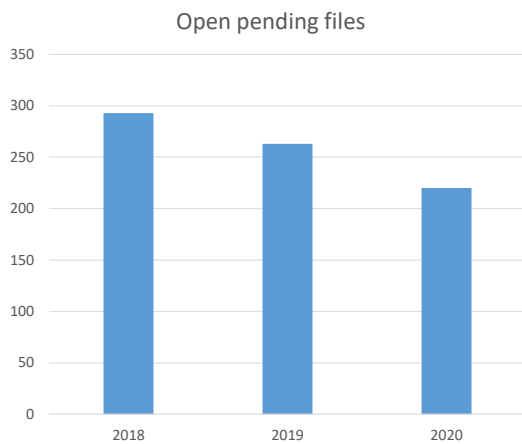
# Closing the gap

## Options

1. Raise rates
2. Operate with less financial strength
3. Improve loss experience

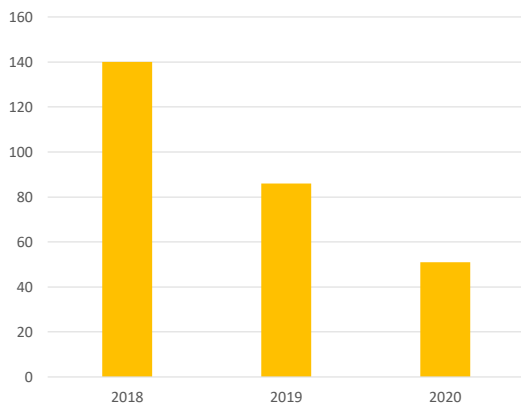


# Improve loss experience

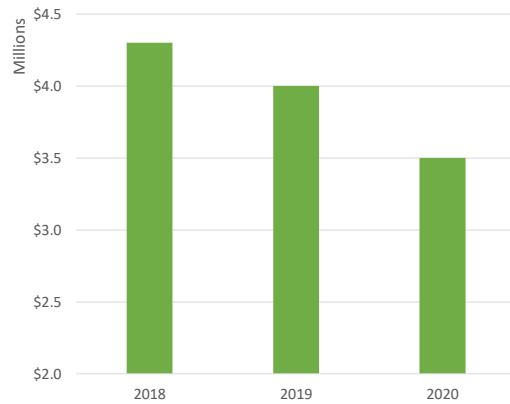


## Improve loss experience (continued)

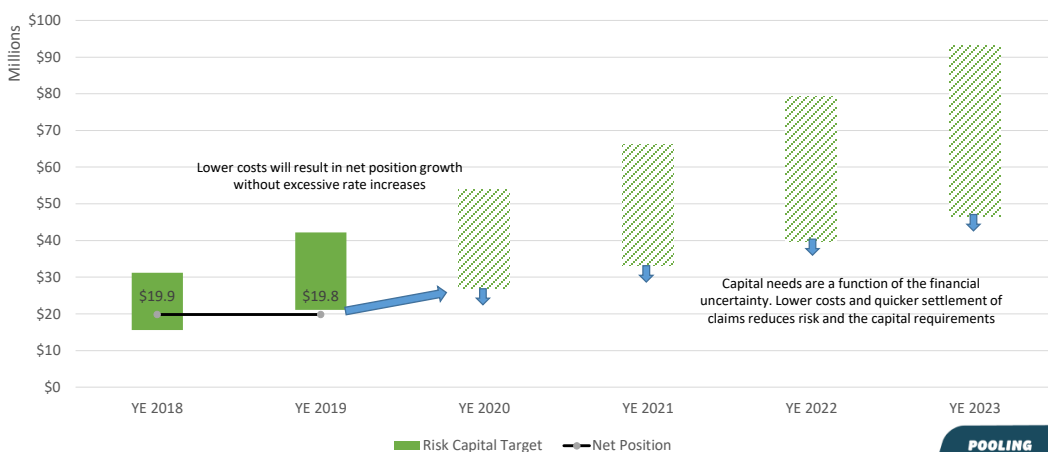
# of days average file cycle (open to close)



Annual \$ paid to defense attorneys



## Capital adequacy impact of improved loss experience



## Last thoughts

- Recent events have shifted the conversation
  - “Why do we have so much capital?” to “Thank goodness we are adequately capitalized”
- Governing body should be engaged and informed in discussions about capital adequacy
  - Fiduciary responsibility requires comprehensive, accurate information and data, presented and explained in simple terms
- Multi-pronged stress testing gives insight into resiliency
- Is your pool positioned to provide stable, predictable rates and comprehensive coverage into the future?



# Thank you!

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