



**UNDERWRITING COMMITTEE MEETING
of
JANUARY 25, 2006**

MINUTES

The Underwriting Committee convened a meeting on Wednesday, January 25, 2006, at 9:30 A.M. at The Trust Offices.

In attendance were Committee Chair Ralph Malafronte and Committee members Stephen Alfred, John Mainville and Michael Petrarca. Committee member Cynthia Brown was absent. Also in attendance were Trust President and Executive Director Thomas Dwyer; Colleen Bodziony, Membership Services Manager; Ronald Slovak, Chief Financial and Administration Services Officer; and Michael Riccitelli, Underwriting Analyst.

1. ADOPTION OF MINUTES

Committee Chair Ralph Malafronte moved, and Stephen Alfred seconded, to adopt the Minutes of the June 27, 2005, meeting as presented; it was so voted unanimously.

2. MULTI-YEAR FUNDING OUTLOOK – 2006 TO 2010

Prior to the meeting Mr. Dwyer forwarded to the Committee via e-mail a memorandum dated January 22, 2006 describing management's expected Multi-Year Funding Outlook for the fiscal years 2006 through 2010. Accompanying that memo were various financial exhibits and analyses.

Mr. Dwyer reviewed and explained this memo and accompanying exhibits in detail.

Workers Compensation

Considerable discussion focused on the Funding Outlook for the Workers' Compensation Pool. Mr. Dwyer reviewed the premium and rate growth assumptions underlying the Outlook's projections for all fiscal years shown, but with emphasis on FY 2007. Mr. Dwyer explained the reasons he believed the FY 2007 projection was conservative.

For the current year 2006, Mr. Dwyer noted that the Loss Fund is lower than budgeted because a large Member is no longer participating in the Pool. At the time of the Budget's final adoption, it was not known that this Member would be departing the Pool.

Regarding the Prior Year Ultimate Loss Change, it was indicated that a modest favorable loss development is projected for the Outlook period.

Mr. Dwyer pointed out to the Committee that the Workers Compensation Pool Funding Outlook projects reinsurance costs to increase substantially in FY 2007 compared to current year levels. It was noted that this expected increase is not a direct reflection of the Trust's loss experience in the reinsurance layer; rather, the increase is caused by the reinsurer's deteriorating loss experience in its workers' compensation line and a general industry-wide substantial rise in the cost of workers' compensation reinsurance.

A discussion ensued regarding Beacon Mutual Insurance Company's proposed "rate" decrease. Mr. Dwyer distributed some National Council on Compensation Insurance charts showing that the size of workers' compensation premium discounts in Rhode Island and in the country has fallen sharply over the last six or seven years. That decrease in the applied discount counteracts "rate" decreases, meaning, he said, that a rate decrease does not necessarily translate into a premium decrease.

Mr. Dwyer also reported to the Committee that he had asked The Trust's independent actuary to review the Beacon's rate filing with the Department of Business Regulation to determine how it might impact The Trust. He said he would share the actuary's review with the Committee once it is complete.

After further discussion, Committee members indicated their concurrence with the premium and rate growth assumptions set forth for FY 2007 in the Multi-Year Funding Outlook, and directed management to proceed to develop Member specific *pro forma* estimates on that basis.

Property/Liability Pool

The rate of premium increase for Outlook fiscal years 2007 through 2010 was discussed. It was noted that almost half of the projected increase is based on exposure growth.

Regarding the Loss Fund projection, Mr. Dwyer explained that it is developed following the same approach used for the Workers' Compensation Loss Fund. Mr. Dwyer said that the Property/Liability Loss fund for FY 2007 projection is slightly less than in the current year due to the Pool's continuing favorable loss development trends.

Regarding Prior Year Ultimate Loss Change, Mr. Dwyer indicated that The Trust can expect substantial reserve reductions over the Outlook's projection period from two sources: 1) the transition to a recording of projected Ultimate Loss Levels/Reserves at the actuarial best estimate of the range rather than the 85% mark where reserves are now being recorded, and 2) favorable loss development trends which appear to be continuing.

Mr. Dwyer said that the cost of reinsurance for catastrophic property losses is highly uncertain at this time as a result of the record-breaking 2005 Atlantic hurricane season. He added that property coverage for Members whose properties are in flood zone areas may be restricted. It was noted that there are other options available such as the National Flood Insurance Program which might fill the gap if restrictions were imposed by the reinsurer.

Committee members indicated a concurrence with management's pricing and underwriting approach as outlined in the Multi-Year Funding Outlook for the Property/Liability Pool, and directed that management proceed accordingly to develop Member-specific *pro forma* estimates.

3. UNDERWRITING ISSUES AND OBJECTIVES FOR 2006-2007

Prior to the meeting, Mr. Dwyer had distributed to the Committee a set of Underwriting Issues and Objectives for 2006-2007. Many of these items had been addressed in the prior discussion about the Multi-Year Funding Outlook, but specific discussion ensued regarding the following topics:

- A question regarding the cost savings of eliminating the IOD (Injured-On-Duty) program was addressed by Mr. Dwyer, who stated that the savings to The Trust would be minimal in comparison to the value it provides to our Members. Whether the Members appreciate the value of the program, however, was further considered. There was a general consensus that more should be done to explain the program to our Members and promote its unique value.

The Committee also indicated that it wished to slate a thorough review of the IOD program for this time next year prior to 2007-2008 policy year incepting.

- Waiving the April 1st date by which Members must notify The Trust of a pending departure from either of our risk sharing pools. The Committee's consensus was to move the date to May 1st via a Bylaw change, and it asked Mr. Dwyer to forward that recommendation to the Board of Trustees for its consideration at its coming January meeting.
- Regarding obtaining reinsurance quotes for the coming policy year, Mr. Dwyer elaborated on the approach he envisioned for each of the lines. In response, the Committee indicated its concurrence with management's recommendation that The Trust solicit proposals from the market at large (including from the current reinsurer NLC Mutual Insurance Company [NLC-MIC]). The Committee also indicated its concurrence with management's recommendation that two alternatives be principally explored for liability and basic property coverage – either directly through NLC-MIC or through an NLC-MIC fronting arrangement with an "A" rated carrier. Lastly, the Committee indicated its concurrence with management's approach to securing catastrophic property reinsurance and equipment breakdown reinsurance.

4. ADJOURNMENT

Mr. Malafronte made a motion to adjourn the meeting, seconded by Mr. Mainville. It was so voted unanimously.

The Meeting stood adjourned about 12:00 P. M.

Respectfully Submitted,



THOMAS E. DWYER