



**UNDERWRITING COMMITTEE MEETING
of
January 24, 2007**

MINUTES

The Underwriting Committee convened a meeting on Wednesday, January 24, 2007 at 12:00 Noon at The Trust Offices, 501 Wampanoag Trail, East Providence, RI 02915.

In attendance were Committee Chair Michael Petrarca and Committee members Stephen Alfred and John Mainville. Also in attendance were Trust President and Executive Director Thomas Dwyer; Colleen Bodziony, Membership Services Manager; Michael Riccitelli, Underwriting Analyst; and Jeffrey Kadison, of Practical Actuarial Actuarial Solutions, Inc., The Trust's independent actuarial consultant.

1. ADOPTION OF MINUTES

Mr. Petrarca moved, seconded by John Mainville, to adopt the Minutes of the June 22, 2006, meeting as presented; it was so voted unanimously.

2. MULTI-YEAR FUNDING OUTLOOK - 2007 to 2011

Prior to the meeting Mr. Dwyer forwarded to the Committee via e-mail a memorandum dated January 20, 2007 describing the Multi-Year Funding Outlook - 2007 to 2011. Accompanying the memo were various financial exhibits and analyses.

Mr. Dwyer stated that Multi-Year Funding Outlook covering the five year period ending June 30, 2011 contains positive news for both Pools. For the first time in recent years, the Workers' Compensation Pool may end the current year in positive territory, Mr. Dwyer observed. With respect to the Property/Liability Pool, he advised that loss trends continue to remain favorable with the result that expected losses (the Loss Fund) in the coming fiscal year are estimated at less than in the current year.

Workers' Compensation Pool

Mr. Dwyer reviewed the process that management followed in estimating expected losses for both Pools, illustrating the methodology in detail with regard to the Workers Compensation program. Mr. Dwyer noted that Outlook projection is based on the assumption that workers' compensation premiums will remain level this coming year. He also commented that key assumptions used in projecting losses for the coming policy year have been reviewed by Jeffrey Kadison, The Trust's independent actuarial consultant.

Considerable Committee discussion ensued regarding the Outlook's projection that shows workers compensation premiums leveling out when prior Outlooks had projected continuing significant increases. Mr. Kadison advised that there are several factors contributing to the leveling of the workers' compensation premium including the fact that claim frequency is 14% less than expected compared to last year. He also noted that the claim closing rate has improved over the last several years. Mr. Kadison pointed out that the current trend that The Trust is experiencing is more in line with the national trends. Mr. Dwyer added that the very conservative rate increases of the last several years coupled with stabilizing loss trends appears to have brought about a quicker restoration of premium adequacy than expected.

Further discussion ensued regarding The Trust's competitive market situation in the workers compensation line in light of one reduced payroll rate filing by the National Council on Compensation Insurance (NCCI) that has already been approved by the State Department of Business Regulation (DBR) and another one that is pending.

Next, Mr. Dwyer briefly reviewed other elements of the Outlook's financial projection with the Committee, including the costs of reinsurance, the estimate of Prior Year Ultimate Loss Change, and investment returns.

Property Liability Pool

Mr. Dwyer indicated that the targeted premium for Policy Year 2008 represents a modest increase over the current Policy Year with Member exposure growth accounting for the majority of the change.

Mr. Alfred questioned whether it was equitable to continue to develop individual Member premiums using an assumed value of \$15,000 per insured Member vehicle. In response, Mr. Dwyer reviewed the pros and cons of different underwriting approaches to generating Member specific premiums. He said The Trust uses 3 Member specific measures – total insured value, net operating expenditure level, and number of on and off-road vehicles – to generate a Member specific premium. These measures are multiplied by Member specific rates. In turn, the rates reflect a Member's loss experience, credibility, and an allocation of certain overhead and reinsurance costs. Underwriting systems used by other pools and private sector companies, he said, will be more complex or simpler, and each has its advantages and disadvantages. Mr. Dwyer commented that he did not believe that changing the valuation methodology for Member vehicles would have a material impact on Member premiums and would also present significant data management challenges at this point in the underwriting cycle.

The Committee concurred that a change was not advisable for the coming year, but encouraged management to continue to look at other alternative approaches that might help refine The Trust's underwriting system in terms of Member equity without introducing undue complexity. Mr. Dwyer said he would consult further with Mr. Kadison and other consultants and underwriters about possible changes to incorporate into the system in the 2009 or later underwriting years.

Mr. Dwyer next reviewed other key elements of the Outlook projection for the Property/Liability Pool with the Committee.

Mr. Alfred then moved, seconded by Mr. Petrarca, to accept management's recommendations for target premium levels for both Pools for the coming policy year 2008

as set forth in the Multi-Year Outlook and to develop underwriting *pro forma* scenarios on that basis. It was so voted unanimously.

3. UNDERWRITING ISSUES AND OBJECTIVES FOR 2007-2008

Prior to the meeting Mr. Dwyer forwarded to the Committee via email a memorandum dated January 22, 2007 identifying three underwriting issues and objectives for Policy Year 2007-2008 meriting Committee attention.

➤ Payroll Rates for the Workers' Compensation Pool

Mr. Dwyer pointed out that, per The Trust's Underwriting Manual, payroll rates by worker classification code would be reduced to reflect the new NCCI payroll rates filed and approved by the State Department of Business Regulation, as adjusted by the expense factor on file for The Trust's primary competitor. He reviewed the implications of this change on Member pricing with the Committee.

The Committee concurred that this change, as required by the Underwriting Manual, should be made.

➤ Flood Zone A and V Surcharge in the Property Liability Pool

Explaining that The Trust's catastrophic reinsurer was now imposing a special surcharge based on the value of Member property located in Flood Zone A and V, Mr. Dwyer raised the question of how this cost should be allocated in the underwriting model. He recommended that all Members absorb the charge in the coming underwriting year.

The Committee discussed at length the option of allocating this cost only to those Members with properties in Flood Zone A and V. Unable to reach a consensus on the approach, the Committee directed management to develop projections based on each approach for its further consideration at a later meeting.

➤ Rate Relief in the Workers' Compensation Pool and Property Liability Pool

The Committee briefly discussed options to reduce premium levels in the coming year using other techniques, such as the Members' Equity Fund Balance. Given uncertainty in loss trends, especially in the Workers' Compensation Pool, the Committee reached a consensus that such a strategy was not advisable at this point.

4. LIABILITY COVERAGE FOR GOVERNMENTAL HEALTH GROUP OF RHODE ISLAND

Prior to the meeting Mr. Dwyer forwarded to the Committee via e-mail a memorandum dated January 20, 2007 describing a request that The Trust had received for public officials' liability coverage (errors and omissions) for the Governmental Health Group of RI (GHGRI). Accompanying the memo was related correspondence between Mr. Dwyer and GHGRI.

Mr. Dwyer explained the management had declined to provide this coverage, and he explained his rationale for that decision. He said the GHGRI was now appealing that declination to the Committee.

A general discussion ensued about the history of GHGRI, its current work and risk exposure, and the advisability and practicality of The Trust providing the requested coverage. Mr. Dwyer noted that he had just received written confirmation from The Trust's reinsurer that it would not provide reinsurance support for GHGRI should The Trust decide to offer insurance coverage.

The Underwriting Committee indicated that it, too, was reluctant to authorize coverage through The Trust. However, the Committee by consensus directed Mr. Dwyer to learn more about the operations of the GHGRI and to further investigate the possibility of The Trust providing coverage, and then to report back to it with his findings and observations.

5. NEW MEMBER ENDORSEMENT: STONE BRIDGE FIRE DISTRICT

Prior to the meeting Mr. Dwyer forwarded to the Committee via e-mail a memorandum dated January 19, 2007 seeking Committee endorsement, as required by The Trust's Underwriting Policy, of the membership of the Stone Bridge Fire District.

Mr. Dwyer stated that the Stone Bridge Fire District wishes to join The Trust's Property/Liability Pool effective January 22, 2007. It was noted that the District's insurance coverage for all lines of coverage expire at varying points over the next several months and that The Trust agreed to provide only Public Officials Liability coverage on this date. It was further agreed that coverage for the additional lines will be phased in as they expire.

Mr. Alfred then moved, seconded by Mr. Petrarca, to endorse the membership application of the Stone Bridge Fire District and to recommend this entity as a new Trust Member to the full Board. It was so voted unanimously.

6. ADJOURNMENT

Mr. Alfred moved, seconded by Mr. Mainville, to adjourn the meeting. It was so voted unanimously.

The meeting stood adjourned about 2:15 P.M.

Respectfully Submitted,



THOMAS E. DWYER