

Memorandum

From: Div 66 Actuarial
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To: E. Allen, S. Leeret, B. Harris, S. Cook, J. Parker, T. Donnelly, R. Simmons, M. Curcio

CC: J. Johnson, J. Heaney, C. Steinbach, B. McCoy, J. Stracher, D. Venagas, D. Shafer, T. Peterson, J. Baier

Date: 12/14/2015

Re: Division 66 - 2015 RMS Nightclubs Profitability Study

I. Executive Summary

A. Introduction -

The RMS Nightclubs program contains GL, liquor liability, non-owned auto, Corporate Identity Protection (CIP) & Umbrella coverages for risks that own & operate pubs, taverns, sports bars, casual dining, family style dining, lounges, and nightclubs.

Last year's analysis resulted in an overall PY 2015 Ultimate Loss Ratio indication of 61.2% which yielded a RAP neutral rate need of -10.5% based on 2014 RAP values.

The year to date rate change for 2015 is -7.4% for all lines of business.

For purposes of this analysis we have used a 2015 forecasted rate change of -7.4% in total, varying by LOB.

B. Summary of Results

IL and LAE evaluated as of: 2nd Quarter 2015
Currency Employed: USD

Exhibit 1:

Line of Business	Sub-Segment	Policy Year	2015	Projected	RAP			
			Forecasted	Ultimate	Target	RAP Rate	Projected	
			GWP (000)	IL and LAE Ratio*	Combined Ratio*	Combined Ratio	Need	RAP \$ **
GL	N/A	2015	4,500	61.0%	90.3%	98.7%	-11.8%	248
Excess Liability	N/A	2015	25	58.6%	87.9%	98.7%	-15.2%	2
TOTAL			4,525	61.0%	90.3%	98.7%	-11.8%	250

* Includes PY 2015 rate change achieved

** Assumes a tax rate of 35%

- I. Discussion of Material Findings- This program began writing business with AIG in 2014. Prior to inception with AIG, this program's experience was reviewed and the results were used in deriving our Initial Expected Loss Ratios (IELR's). The IELR's, along with the 1.5 year(s) of actual experience and various Divisional factors, were used in deriving the results shown in this analysis. As the program matures and trends emerge, more weight will be given to program specific data which may shift the results of this analysis. Based on the emerged experience to date, the program is running as expected.

II. Assumptions/Limitations/Data Quality/Other

- A. Assumptions - For purposes of this analysis, the loss ratio indications are based on a 3.5% trend assumption for GL, 5% for XS. LDF selections were based on the historical experience, to the extent credible, and on the overall Division 66 factors. For the rate changes used in this analysis, we calculate a forecasted rate change by LOB using YTD rate changes and the original targeted rate changes. These two rate change estimates are weighted together to arrive at a forecasted annual rate change.
- B. Limitations/Weakness - The projected PY 2015 loss ratio shown in Exhibit 1 of this report assumes that the YTD rate change achieved in 2015 will be consistent throughout the remainder of the year. To the extent that the annual rate change does not equal the YTD rate change, then the results of this report will vary. Besides that, there are no significant limitations/weaknesses with regards to this study outside of standard actuarial caveats that normally apply to projecting future losses. These include, but are not limited to, actual emerged actuarial parameters (LDF's, ILFs, ELR's, trend, etc.) not being in line with selected parameters; miss-coding/inaccurate representation of the data relied upon in this analysis; and future regulatory/judicial changes affecting the frequency/severity of the results.
- Data Quality - The data for all lines of business in this analysis is pulled from Sandbox which aggregates the data from CRS. There have been no material adjustments made to the data.
- C. Other - NA

III. Methodology

Several methodologies have been used to project loss & legal expenses to ultimate. This includes the following: paid and incurred loss development and Bornhuetter-Ferguson methods (on a paid and incurred basis) all for losses uncapped and at varying capped levels.

The commissions and underwriting expenses are program specific. The RAP neutral ratio is calculated based program specific RAP profit loads. Rate need is based on a ratio of the ultimate ILAE ratio and the target ILAE ratio.

IV. Actuarial Next Steps - We will continue to monitor these results through quarterly actual versus expected analyses.

V. Underwriting Action Plans - Below is the response provided by M. Curcio.

Underwriting agrees with the 2015 profitability study for the RMS Nightclub program. We have worked with RMS to revise rates and rules to grow the program profitably. We have recently added property coverages to the program. It will be offered on a non-admitted basis. This will add depth to the portfolio and contribute to growth as well.

Appendix - Methodology:

Please note that the analysis has three sections:

Summary 1 - Program Summary by LOB - PY 2015

Summary 2 - Program Summary by LOB - PY 2016

Summary 3 - Program Summary by LOB

Section I - General Liability

Section V - Excess

Exhibit 1 - Summarizes calculations of PY 2015 ultimate ILAE ratios at each policy limit and the final selection.

Exhibit 2 - PY ULR calculation and selection for Incurred methods by policy limit.

Exhibit 3 - PY ULR calculation and selection for Paid methods by policy limit.

Please let me know if you have any questions or comments regarding this study.

Program Summary by LOB - PY 2015

(1) LOB	(2) PY 2015 Forecasted GWP	Direct	(3) Before 2015 Rate Change PY 2015 Ultimate ILAE Ratio
GL	4,500	1.7%	56.4%
Excess Liability	25	1.7%	72.6%
Total Casualty	4,525	1.7%	56.5%
All Lines Combined	4,525	1.7%	56.5%

RAP Neutral	
(4) Target Ratio	(5) Before 2015 Rate Change PY 2015 Rate Need
69.4%	-18.3%
69.4%	4.5%
69.4%	-18.2%
69.4%	-18.2%

(6) PY 2015 Rate Achieved	(7) After 2015 Rate Change PY 2015 Ultimate ILAE Ratio
-7.6%	61.0%
23.9%	58.6%
-7.4%	61.0%
-7.4%	61.0%

- (1) = Input
- (2) = Exhibit 2
- (3) = (7) * [1 + (6)]
- (4) = Exhibit 1
- (5) = [(3) + (Direct Expense)] / [(4) + (Direct Expense)] - 1
- (6) = Exhibit 1
- (7) = Exhibit 1

Program Summary by LOB - PY 2016

(1)	(2)	(3)	RAP Neutral	
			(4)	(5)
LOB	PY 2015 Forecasted GWP	Direct	Target Ratio	After 2015 Rate Change PY 2016 Ultimate ILAE Ratio Rate Need
GL	4,500	1.7%	69.4%	-8.8%
Excess Liability	25	1.7%	69.4%	-11.0%
Total Casualty	4,525	1.7%	69.4%	-8.8%
All Lines Combined	4,525	1.7%	69.4%	-8.8%

- (1) = Input
- (2) = Exhibit 2
- (3) = Exhibit 1
- (4) = Exhibit 1
- (5) = [(3) + (Direct Expense)] / [(4) + (Direct Expense)] - 1

Program Summary by LOB

PY	GL					Excess Liability					Total Casualty				
	GWP	Reported ILAE	Reported ILAE Ratio	Selected Ultimate ILAE	Ultimate ILAE Ratio	GWP	Reported ILAE	Reported ILAE Ratio	Selected Ultimate ILAE	Ultimate ILAE Ratio	GWP	Reported ILAE	Reported ILAE Ratio	Selected Ultimate ILAE	Ultimate ILAE Ratio
2005	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2006	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2007	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2008	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2009	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2010	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2011	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2012	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2013	0	0	-	0	0.0%	0	0	-	0	0.0%	0	0	-	0	0.0%
2014	1,987	53	2.7%	1,092	55.0%	21	0	0.0%	15	72.3%	3,996	53	1.3%	1,108	27.7%
2015	4,500	0	0.0%	2,700	60.0%	25	0	0.0%	18	72.0%	4,525	0	0.0%	2,718	60.1%

Program Summary by LOB - Prior Profitability Study Indications

PY	GL			XS			TOTAL		
	GWP	2014 Ultimate ILAE Ratio	2015 Ultimate ILAE Ratio	GWP	2014 Ultimate ILAE Ratio	2015 Ultimate ILAE Ratio	GWP	2014 Ultimate ILAE Ratio	2015 Ultimate ILAE Ratio
2005	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2006	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2007	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2008	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2009	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2010	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2011	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2012	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2013	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%
2014	1,987	58.0%	55.0%	21	68.0%	72.3%	2,008	58.1%	55.2%
2015	4,500		60.0%	25		72.0%	4,525		60.1%

Div 66 - Programs
RMS Nightclubs
As of 6/30/2015
General Liability

Section I
Exhibit I

2015 Ultimate Loss Ratio

	Incurred	Paid	Selected
Capped @ 100K & ILF	57.1%	60.2%	58.7%
Capped @ 250K & ILF	58.3%	60.6%	59.5%
Uncapped	59.6%	61.0%	60.3%

Selected 2015 Ult LR:

ULE:

Selected Ult ILAE LR:

Combined Ratio:

RAP BECR: 98.7%

<u>Expense Ratio calculated as follows:</u>	
Commission:	22.50%
Prem Tax:	0.00%
Other Acq:	0.90%
Direct:	1.70%
Indirect:	4.21%
Total:	29.31%

Div 66 - Programs
RMS Nightclubs
As of 6/30/2015
Excess Liability

Section V
Exhibit I

2015 Ultimate Loss Ratio

	Incurred	Paid	Selected
Capped @ 100K & ILF	65.9%	67.0%	66.4%
Capped @ 250K & ILF	66.4%	67.1%	66.8%
Uncapped	66.8%	67.3%	67.1%

Selected 2014 Ult LR:	67.0%
Catastrophe/Latency Load:	5.00%
ULE:	1.00%

Complement of Credibility: 57.6%
redibility Weighted PY 2015 Ultimate ILAE Ratio: 57.6%

Selected Ult ILAE LR: 58.6%

Combined Ratio: 87.9%
RAP BECR: 98.7%

Expense Ratio calculated as follows:	
Commission:	22.50%
Prem Tax:	0.00%
Other Acq:	0.90%
Direct:	1.70%
Indirect:	4.21%
Total:	29.31%