Key Components of a Retention Strategy

Patrick Priest, CIS Deputy Executive Director

20 years of retention strategies in Colorado

Now comparing to Oregon strategies
Retention is the assumption of the risk of loss by means of noninsurance, self-insurance or deductibles. Retention can be intentional, or when exposures are not identified, unintentional.

A retention strategy provides the direction and scope to achieve pool goals through its configuration of resources within a challenging environment.

Key components of a retention strategy
- Identification of risks
- Financial resources
- Governance and financial policies
- Loss experience
- Strong business partners
- Understanding of external factors

Some questions to ask
- How much equity does the pool have?
- Does your Board prefer distributing dividends?
- What excess coverage is available?
- Is there pressure to take a higher retention?
- What is your loss experience?
No one strategy is right for everyone

- Aggregate excess
- Per occurrence retention
- Shared limits
- Self insure at low limits
- Varies by pool
- Changes over time

Retention strategy as a new CFO

- Equity cap
- Years of member dividends
- Denied excess claims
- Depleted equity position
- Reduced retention
- Implemented ratio analysis
Retention Ratio
AGRIP Financial Benchmarking Initiative

Ratio analysis is not enough
- Actuarial data
- Loss experience
- CAT modeling
- Target capital model

Limit risk for new coverage
- Little loss experience
- New exposure
- Cyber
- No fault water/sewer
Designate equity as part of strategy

- Report funds separately
- Define use to align with strategy
- Excess Fund aka Rolling Fund
- Reinsurance Fund

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