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PINNACLE ISSUES NEW THOUGHT LEADERSHIP ON EXPECTED ADVERSE DEVIATION (EAD) METHODOLOGY AND STATE OF RISK RETENTION GROUP (RRG) MARKET

Deep dive analyses of Expected Adverse Deviation (EAD) case studies and Risk Retention Group (RRG) market now available on firm's website.

BLOOMINGTON, III. – Pinnacle Actuarial Resources, Inc. (Pinnacle) has announced the publication of two reports—its annual study of the RRG market and a new white paper titled *Risk Distribution – Expected Adverse Deviation (EAD) Case Studies*.

“Pinnacle is committed to enriching the property and casualty industry and the actuarial profession with the most up to date, salient, innovative and insightful research and analysis,” Pinnacle Managing Principal Roosevelt Mosley said. “These two new reports are great additions to our ever-growing body of thought leadership.”

New White Paper Analyzing Expected Adverse Deviation Case Studies

Developed by Pinnacle, EAD is the average amount of loss that an insurance company will incur in excess of its expected losses. That value, in turn, is divided by expected losses to produce an EAD ratio. The EAD ratio is a simple and easy-to-communicate measurement of risk distribution or diversification of an insurer's loss exposures.

Authored by Principals and Consulting Actuaries Derek Freihaut and Robert Walling, Director and Consulting Actuary Gregory Fears and Consulting Actuary Nick Gurgone, the recently published white paper presents a series of real-world case studies that illustrate the effectiveness of EAD analysis in quantifying and demonstrating risk distribution. It also discusses the evolving landscape of captive insurance and how helpful EAD can be in shaping risk management strategies.

By examining different insurance structures, from single-parent captives to group and enterprise risk captives, Pinnacle's authors highlight how EAD modeling can assess the sufficiency of risk distribution—a critical factor for captive insurance programs to meet regulatory and tax qualifications.

The paper explains that “from illustrating the right types and amounts of coverage to retain to determining the necessary amount of capital, a risk distribution analysis can tell an insurer a lot about the risk they are underwriting.” The paper underscores the importance of a multi-faceted approach to risk management, where EAD plays a crucial role in optimizing insurance program structures.

“EAD can also be a risk management tool well beyond assessing risk distribution. By measuring volatility in retained losses, EAD can inform an insurance company's management and ownership about the potential variability in loss results they can expect,” Freihaut said. “This can inform decisions including reinsurance purchasing and coverage terms and capitalization.”

Risk Distribution – Expected Adverse Deviation (EAD) Case Studies is available for download via Pinnacle's website pinnacleactuarial.com.

2024 Risk Retention Group Benchmarking Study

RRGs are state-regulated, member-owned risk transfer organizations that provide liability insurance coverages to a variety of insureds and policyholders. There are over 200 RRGs in the United States, covering hospitals, healthcare provider practices, senior care facilities, dentists, HMOs, educational institutions and others. It's a

dynamic sector of the insurance industry providing risk management for a number of different commercial enterprises.

By analyzing industry financial statement data, Pinnacle's RRG research team of Walling, Fears, Senior Consulting Actuary Erich A. Brandt, Consulting Actuary Brittany L. Henrich and Associate Actuary Steve Jagodzinski identified key trends and developments in the market including capital positions, growth in new formations and what else may have changed in the past year for RRGs.

“RRGs, like captives, meet coverage needs for entities in a variety of sectors and industries,” Walling said. “Our research indicates that for areas like medical professional liability, RRGs play an essential role in risk management strategy and help keep these organizations financially and operationally sound.”

It is a comprehensive study that Pinnacle makes available for free and available now on pinnacleactuaries.com, where you can also view a recent Pinnacle APEX webinar that discussed the results of the RRG report.

Pinnacle is an independent, full-service actuarial firm focused on the property/casualty insurance industry. With its home office in Bloomington, Ill., the firm also has offices in Atlanta, Chicago and San Francisco. Pinnacle is owned by its professional staff and ranks among the largest property/casualty actuarial firms in the United States.

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