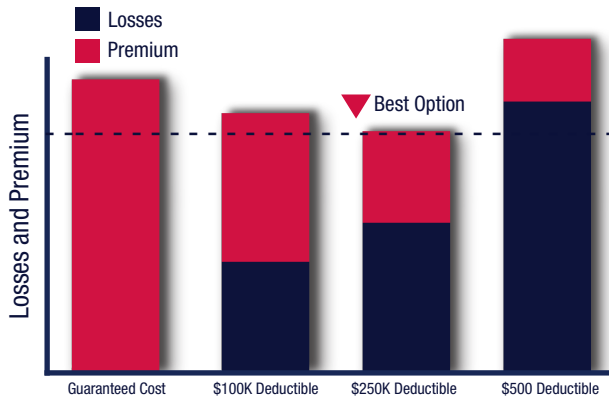




# Large Deductible: SIGMA's Analysis

## 1. Comparing Guaranteed Cost to Deductible Option

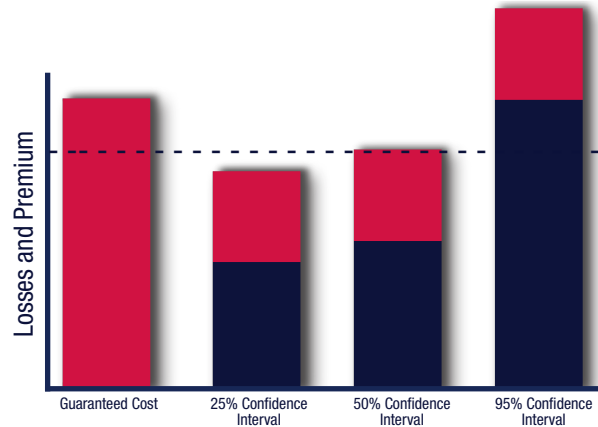


Supporting Analysis

SIGMA computes expected losses at each retention level

## 2. Appetite for Risk

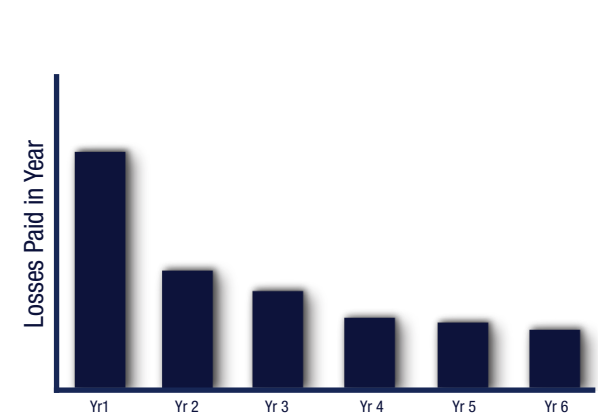
\$250,000 deductible various confidence intervals



Supporting Analysis

SIGMA computes the confidence interval showing the likely distribution of losses for the selected retention level

## 3. Planning for Payments

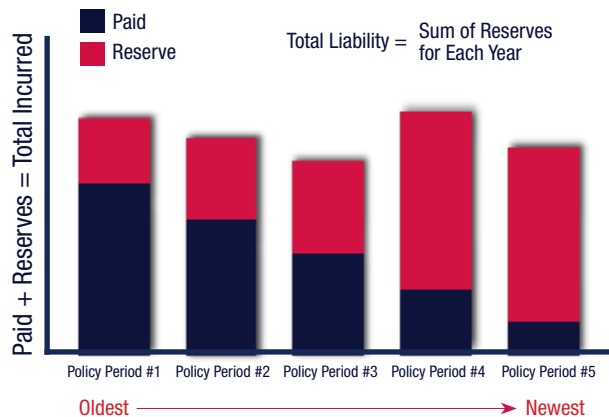


Supporting Analysis

SIGMA's cash flow analysis estimates claim payouts by year for the selected retention level

## 4. Reserving & Collateral Analysis

Assuming five years of deductible programs



## Discussion

From an actuarial perspective, the process of selecting an appropriate loss retention for a deductible program has several components. 1) Sum expected loss totals in each retention level with the premiums for their associated deductible policy to determine the total cost. Compare these amounts across all retention levels considered. 2) Based on that information, determine a policy that is most cost-efficient at the expected level. 3) Estimate the timing of claim payments for losses that are incurred in the chosen deductible layer. 4) As the deductible program is in place over time, estimate the outstanding reserves for each year to determine a fully funded liability estimate for financial statement purposes.

Key things to note: A) While the deductible level may be selected based on projected expected losses, these losses may vary considerably from expected. B) When representing your client, be sure to define the collateral requirement mechanism with the insurance company before finalizing the program.

