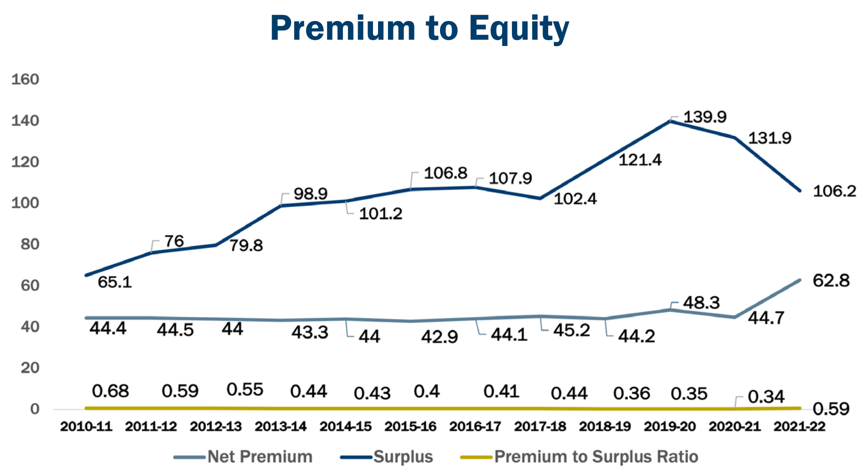
Financial Strength Equals Stables Rates and Dependable Coverages

The Virginia Risk Sharing Association (VRSA) is here to protect our members and their employees so they can effectively serve their communities. Our financial strength eases our members' worries with stable rates and dependable coverages in the best interest of our members and their governing bodies.

Members' equity provides protection against:

- Adverse claims development;
- Continued liberalization of the Virginia Workers' Compensation Commission and Courts;
- Continued expansion of Workers' Compensation presumptions and LODA benefits;
- Reinsurance market instability;
- Investment losses; and
- Catastrophic claims such as hurricanes, tornados, or a reinsurer failure.



Members equity also provides:

- Investment income to offset a substantial portion of operational costs;
- The ability to add and expand coverages at little additional cost to members; and
- The ability for the pool to take on additional risk.

VRSA
Virginia Risk Sharing Association

Target Equity Study

The VRSA Members' Supervisory Board completes this study annually to consider the appropriate level of risk tolerance and the corresponding range of members' equity to hold. There are two main parameters in determining adequate funding levels:

1. **Board's risk appetite/tolerance** - The board's desired level of protection helps define its target funding strategy.
2. **Risk profile of the program** – Utilization of an economic capital modeling approach that reflects the pool's own risk profile and includes:

Underwriting Risk	also known as pricing risk, represents risk that the actual outcome for the next year will deviate from the budgeted amount. Typical sources of this are volatility in the frequency or severity of claims and unexpected levels of catastrophic claims.
Reserving Risk	measures the potential for actual claims settlement costs deviating unfavorably from current booked reserves. Combined with underwriting risk, this represents more than 90 percent of the total funding need.
Asset and Credit Risk	reflects the risk that the value of investment and credit assets may deteriorate due to changes in macroeconomic financial conditions or a decline in the financial strength of debtors.
Operational Risk	captures potential for fund deterioration arising from off-balance sheet or unplanned items.

Result - As a result, the board adopted a members' equity policy that establishes a current target equity range of **1 x 1-in-200 year event** and **2 x 1-in-200-year event**. This translates to a current range of \$67M - \$134M with current members' equity at approximately **\$91.8M.**

Maintaining surplus adequacy to handle a 1-in-200 year event is fast becoming a global standard for insurance companies.