MISC - Briefing Note

November 30, 2017

BC Poultry Infected Premises Cleaning and Disinfection Cost Recovery Fund ("Fund")

Issue:

- Defining the operational and funding details for the Fund.

Background:

- The Mandatory Notifiable Avian Influenza Insurance Review (the "Review") has recommended that the poultry boards and commission establish a collective fund to address the extraordinary costs of infected premises cleaning and disinfection to facilitate a timely return to a system of orderly marketing following a Notifiable Avian Influenza (NAI) discovery.
- The Review concluded that it would be in the interests of the poultry boards and commission to transfer the risk to ensure the availability of sufficient funds to cover the most extreme loss scenario and further recommended that a group funded deductible approach be initiated immediately following boards' and commission's decisions to establish the Fund.
- A Group Funded Deductible Plan (GFDP) is a simple and low cost form of non-traditional insurance structure to design, implement and manage. It is insurance with a deductible (first layer of loss incurred or "working layer") that is pre-funded by the participants. The pre-funded deductible is generally held in trust by a third party with experience in managing group loss funds. The deductible amount forms part of the policy limit and is reimbursed to the insurer once the insurer has paid a claim. Once the working layer has been exceeded, the insurer pays the balance of the claims for the policy period. There are no regulatory requirements to be met under the BC Insurance Act/Financial Institutions Act by the participants.

Discussion

Structure

- The proposed participants in the GFDP are:
  - British Columbia Broiler Hatching Egg Commission (BCBHEC)
  - British Columbia Chicken Marketing Board (BCCMB)
  - British Columbia Egg Marketing Board (BCEMB)
  - British Columbia Turkey Marketing Board (BCTMB)
- An independent third party with experience managing group loss funds as "trustee".
- A licenced insurance company to front the insurance.
- Reinsurance companies providing coverage in excess of the deductible limits.

Initial Capital Funding

- The JSCP actuarial assessment suggested $1 million initial insurance fund.
- The Province of BC has been asked to consider supporting an application to provide 50% of the capital (federal-provincial cost shared) under the AgriRisk Initiative Administrative Capacity Building.
  - If provided the initial capital from the four participants would be reduced to $500,000, but a sustainability load would need to be added to the annual premium to cover the potential repayment of the government contribution.

Annual Costs

- Based on the JSCP actuarial analysis, the annual costs of the GFDP would include:

Annual expected losses	$20,240
Claims adjusting	$500
Operating Expenses	$63,500
Premium tax (4%)	$7,903
Reinsurance	$105,428
Total	**$197,571**

- The JSCP estimated annual premium:
  - Does not reflect any Capital Fund growth or potential repayable government contribution allowances
  - Only estimates the reinsurance premium; actual reinsurance quotations may be up to 50% higher than estimated.
  - Does not include provision for reinsurance brokerage fees (10%).
- In the event that government agrees to provide 50% of the initial capital funding ($500,000) and to provide allowances for fund growth and probable reinsurance costs including brokerage fees, the revised annual premium structure would include a sustainability load $50,000:
  - Annual expected losses $25,000
  - Claims adjusting $500
  - Operating Expenses $63,500
  - Premium tax (4%) $11,000
  - Reinsurance $125,000
  - Sustainability Load $50,000
  - **Total** **$275,000**

Sharing the Costs

- The recommended sharing of the initial capital between four participants is 25% each.
  - If consensus on the equal share cannot be reached, the contribution should then be based on the share of risk as established by the actuarial assessment:
    - BCBHEC 10.8%
    - BCCMB 19.0%
    - BCEMB 57.5%
    - BCTMB 12.7%
- The recommended sharing of the annual costs between the four participants would be based on the share of risk as established by the actuarial assessment:
  - BCBHEC 10.8%
  - BCCMB 19.0%
  - BCEMB 57.5%
  - BCTMB 12.7%
- In the event that government agrees to share the administrative costs of the GFDP for the first 5 years, the excess premium would be added to the capital fund.
- A periodic actuarial assessment is required to maintain the insurance plan. This would provide the basis for a periodic review of participant share of costs.
- Accounting of contributions by sector would recorded and each participant's share of the collective fund known.

BCPA Cost Share Recommendation

- The BCPA has yet to reach consensus on a formula for cost sharing. As of December 5, 2017, three of the four associations support sharing the initial capital (25% each sector) and sharing the annual premium in accordance with the JSCP share of risk.

Summary

- The Review conclude that it was in keeping with sound marketing policy that the poultry boards and commission establish and maintain an Infected Premises Cleaning and Disinfection Cost Recovery Fund (the "Fund") to cover the extraordinary costs of C&D and facilitate a timely return to a system of orderly marketing.
- A Group Funded Deductible Plan for the Fund provides a simple and effective risk transfer mechanism to safeguard the Fund and to ensure that sufficient funds are available to cover a broad range of NAI events.
- The initial annual premium provided by JSCP did not include any provision for Fund growth or a potential government repayable contribution hence the boards and commission should consider $275,000 as opposed to $200,000 as the annual premium cost due to adding a sustainability load and the reinsurance brokerage fees.
- A cost share formula must be established and agreed to by the boards and commission. The formula would apply to both the initial capital and annual premiums but could differ in their application to the two cost streams. Irrespective of the formula(s) used, account of sector contributions would be maintained and reported annually.

- Costs by sector based on the various scenarios presented above:

	Equal Share of $1 million Capital	Risk Share of $1 million Capital	Equal Share of $500,000 Capital	Risk Share of $500,000 Capital	Risk Share of $275,000 Premium
BCBHEC	$250,000	$108,000	$125,000	$54,000	$29,700
BCCMB	$250,000	$190,000	$125,000	$95,000	$52,250
BCEMB	$250,000	$575,000	$125,000	$287,500	$158,125
BCTMB	$250,000	$127,000	$125,000	$63,500	$34,925

- Should the boards and commission agree to an equal share contribution to the initial $1 million capital, and use share of risk for the annual premiums the effective shares of risk will change as follows:

Sector	Sector Risk per JSCP	Effective sector risk with equal share of capital ($250,000 each) after 1 year	Effective sector risk with equal share of capital after 5 years	Increase/Decrease in sector contributions over 5 years with equal share of capital
Breeders	10.8%	21.9%	21.9%	$142,000 increase
Broilers	19.0%	23.7%	21.5%	$60,000 increase
Layers	57.5%	32.0%	43.8%	$325,000 decrease
Turkeys	12.7%	22.3%	17.9%	$123,000 increase