



**SIGMA** ACTUARIAL CONSULTING GROUP, INC.

# **2023 Collateral Survey Results and Analysis**

by

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# Opening Remarks

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In the first half of 2023, SIGMA Actuarial Consulting Group, Inc. invited a group of insurance brokers, risk management consultants, and risk management staff of self-funded concerns to participate in a survey regarding collateral. SIGMA first conducted this survey in 2009 because of the preceding financial crisis and continued with annual iterations of the survey through 2014. The collateral survey was discontinued after 2014 because collateral market trends, from our perspective, stabilized. Due to the hardening market and uncertainties surrounding the pandemic, SIGMA conducted the collateral survey again in 2020. The 2023 survey is similar in content to the prior surveys conducted by SIGMA.

The goal of the survey was to assess, on a national basis, trends in collateral negotiations, exposures, reviews, arbitration, litigation, and other factors that SIGMA actuaries have seen with our own clients. Collateral issues vary significantly based on the line of coverage, the number of years collateral has been posted, the type of industry, and most importantly, the carrier. It is important to recognize that this survey does not constitute in-depth statistical research. However, we believe the results provide valuable perspective on the current state of collateral. Since 2009, we have collected almost 800 total responses to various questions. Some of the results have shown little movement over time, while others have showed trends to reflect new economic situations, collateral procedures, and collateral products.

Keep in mind that this is a broad survey, and your specific situation could vary from our results. SIGMA works with clients and brokers in a wide range of industries and geographies. However, the sample of our clients may not fully reflect or capture national trends.



# Highlights

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## Highlights of the 23 question survey, which received 49 respondents, show:

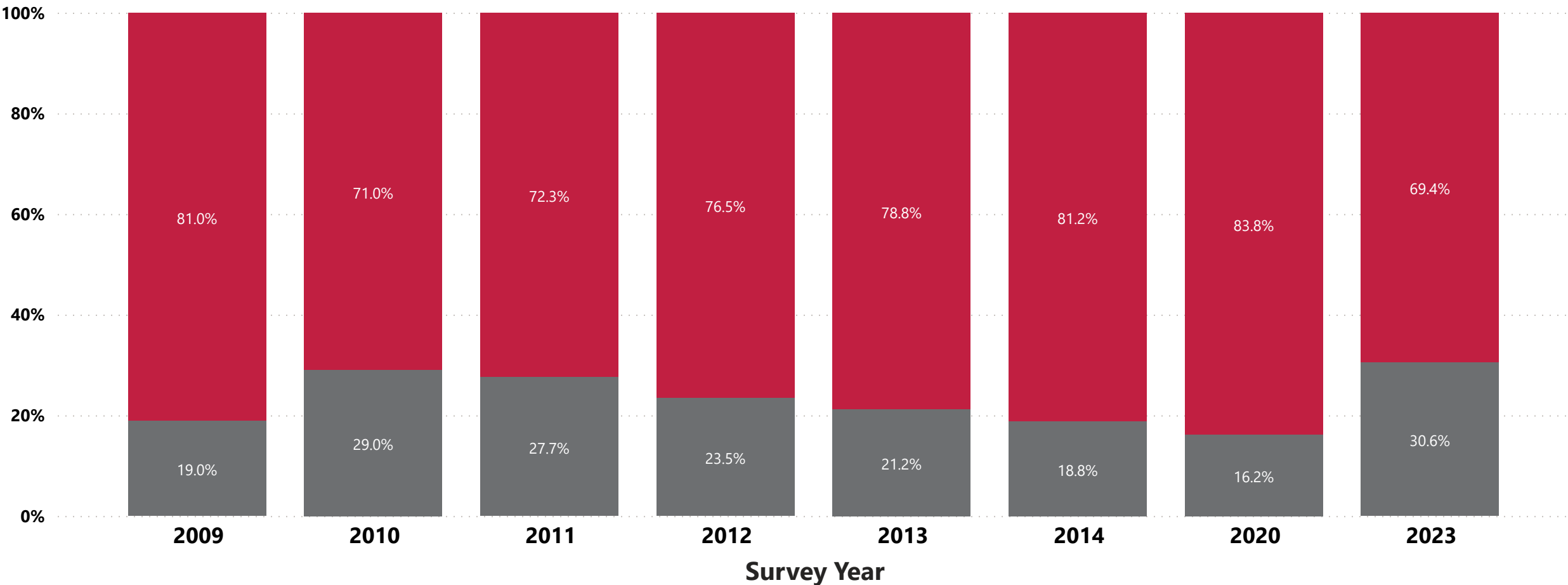
1. Overall, responses in the 2023 survey were largely consistent with the results seen in 2020.
2. In 2020, approximately 15% of respondents indicated that collateral had increased due to the COVID-19 pandemic. That result dropped to 0% in 2023.
3. Approximately 12% of respondents indicated that their carrier had requested collateral be shifted to a different banking institution as a result of the early 2023 banking crisis.
4. There was a significant increase in the number of respondents who have posted collateral for more than eight years. This category represented approximately 88% of the respondents for the 2023 survey.
5. The percentage of respondents who experienced difficulty securing collateral for workers compensation due to market credit dropped from 10.3% in 2020 to 4.1% in 2023.
6. 75% of respondents had carriers complete a scheduled collateral review in 2023. This is the highest percentage since the first survey in 2009.
7. The percentage of respondents who used actuarial consultation or analysis to support collateral strategies is consistent with the results seen in prior surveys. Based on nearly 800 responses from all survey iterations, approximately 67% of respondents used actuarial consultation.
8. Workers compensation continues to be the primary risk for collateral posted.

Details of the survey, including commentary for each question, follow. At the end of this report, we present recommendations for improving an entity's collateral picture and a list for further reading.



# 1. Which best describes your professional role in collateral issues?

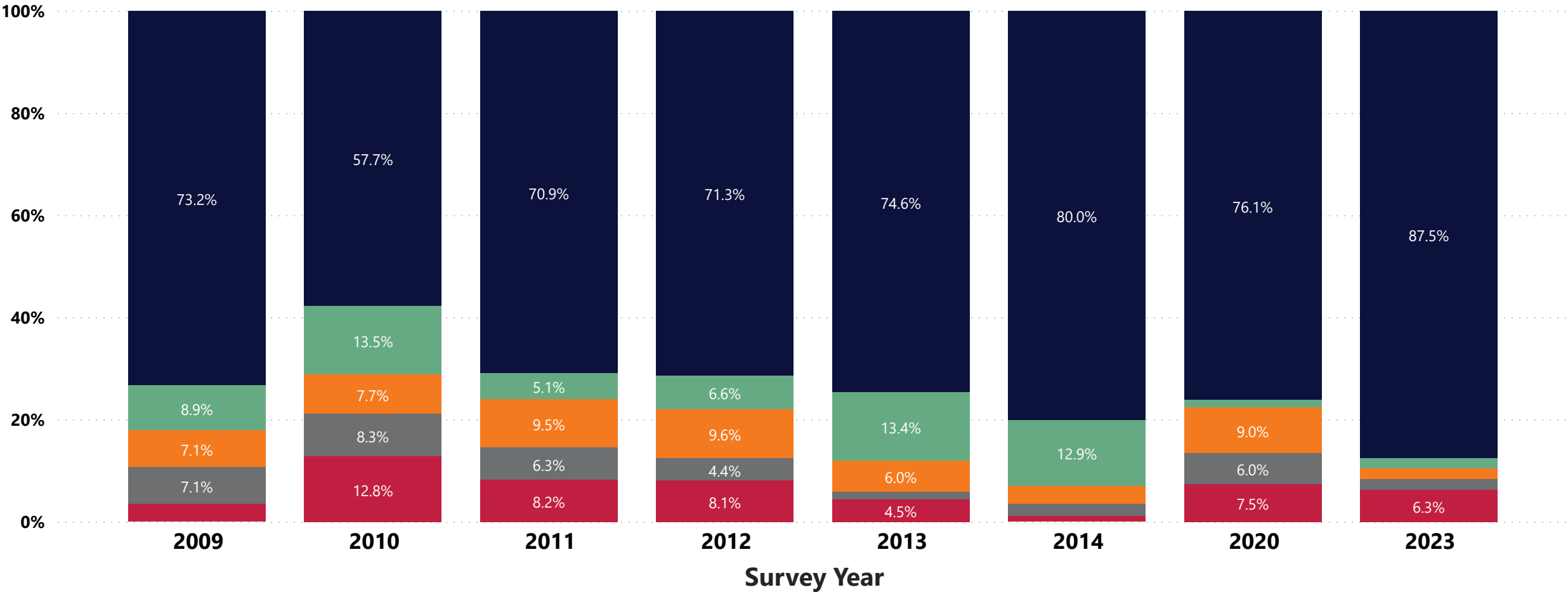
Answer ● I work directly for a company or entity with self-funded concerns ● I am an insurance broker or risk management consultant to a client with self-funded concerns



The first survey question addressed the professional role of the respondent. In 2023, approximately 69% of the respondents represented a client as a broker or risk management consultant, and approximately 31% worked directly for a company with collateral concerns. This is a shift toward survey respondents who work directly for a company with collateral concerns (16% in 2020). Survey instructions guided risk managers and brokers to respond to the survey multiple times if they wished to respond on behalf of multiple clients. Therefore, each survey response should reflect the collateral situation for a single entity.

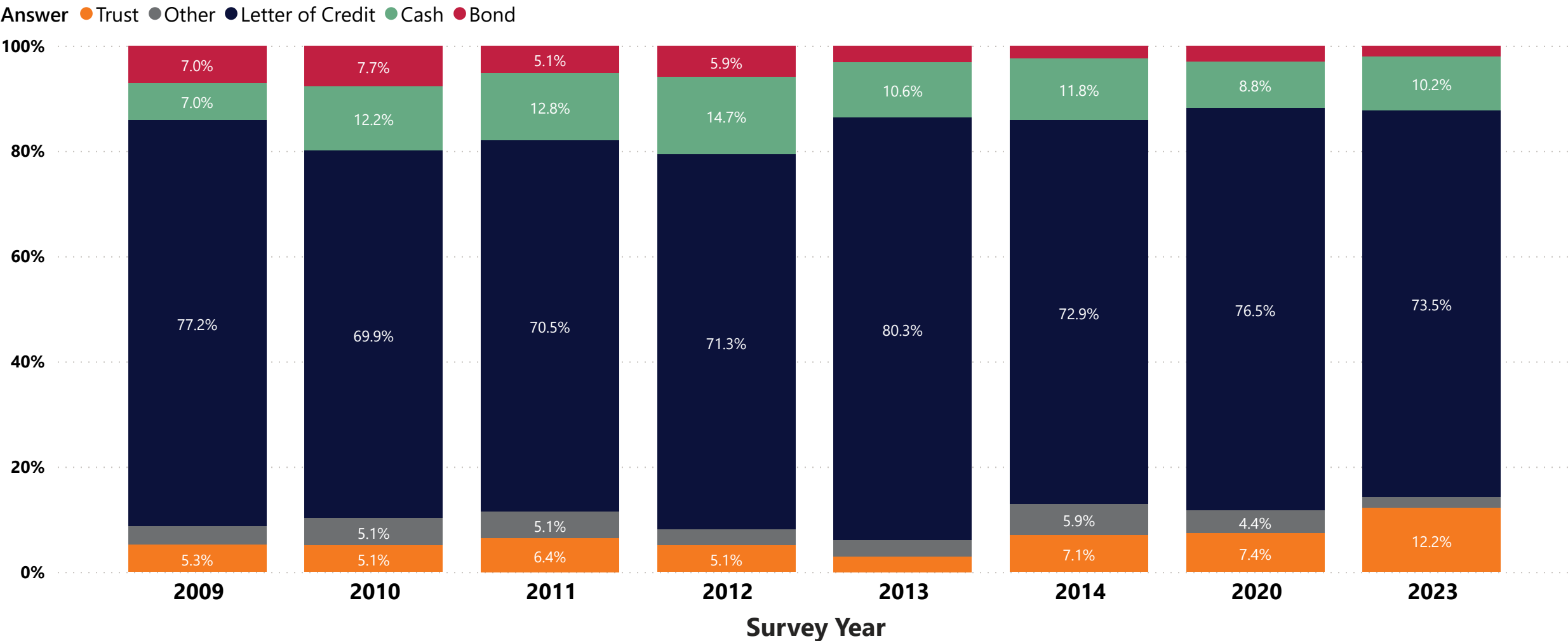
## 2. Which category best represents the number of years you have posted collateral for self-funded liabilities?

Answer ● 0-2 years ● 2-4 years ● 4-6 years ● 6-8 years ● More than 8 years



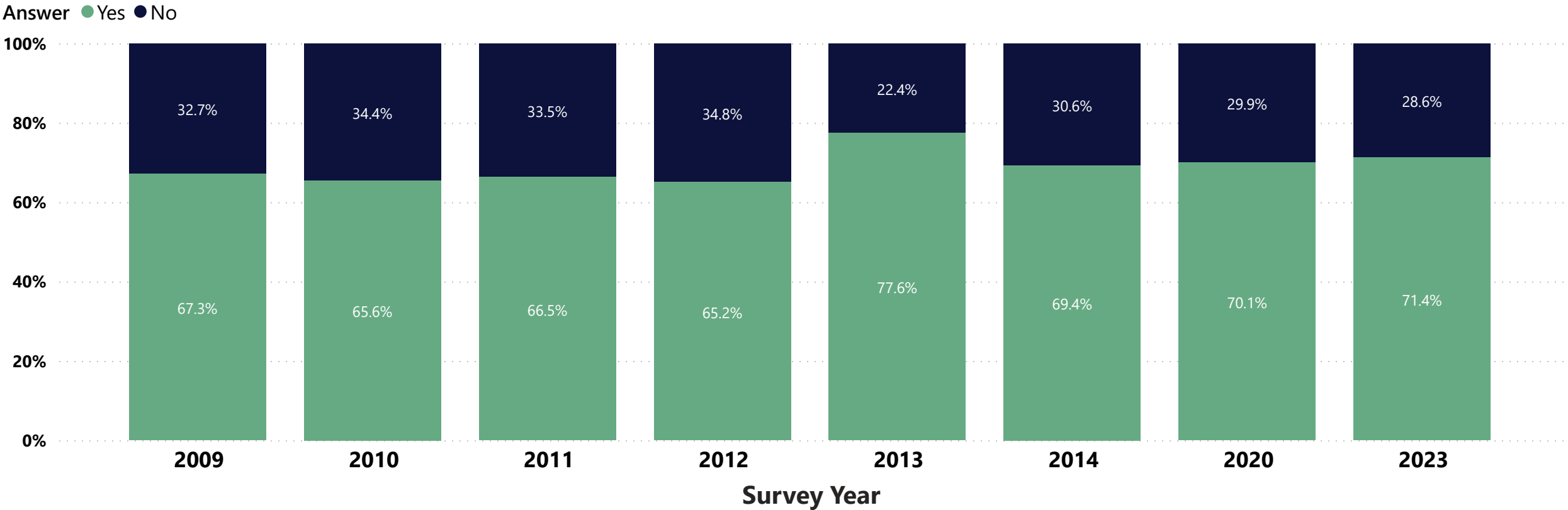
The results from the 2023 survey indicated a significant increase in the number of companies posting collateral for more than 8 years. (76% to 88%). As noted in our prior collateral reports, companies that have posted collateral for several years have a greater likelihood of being in a stable position. In other words, the “add-on” collateral related to exposures for the upcoming year is generally offset by payments made on more mature policy periods. Companies that have only recently started posting collateral can often see significant increases in required collateral as new years are added. This is especially true for workers compensation, general liability, and other long-tailed coverages due to their long payout patterns (losses paid out over an extended number of years).

### 3. Which instrument best describes the type of collateral instrument used for your self-funded liabilities?



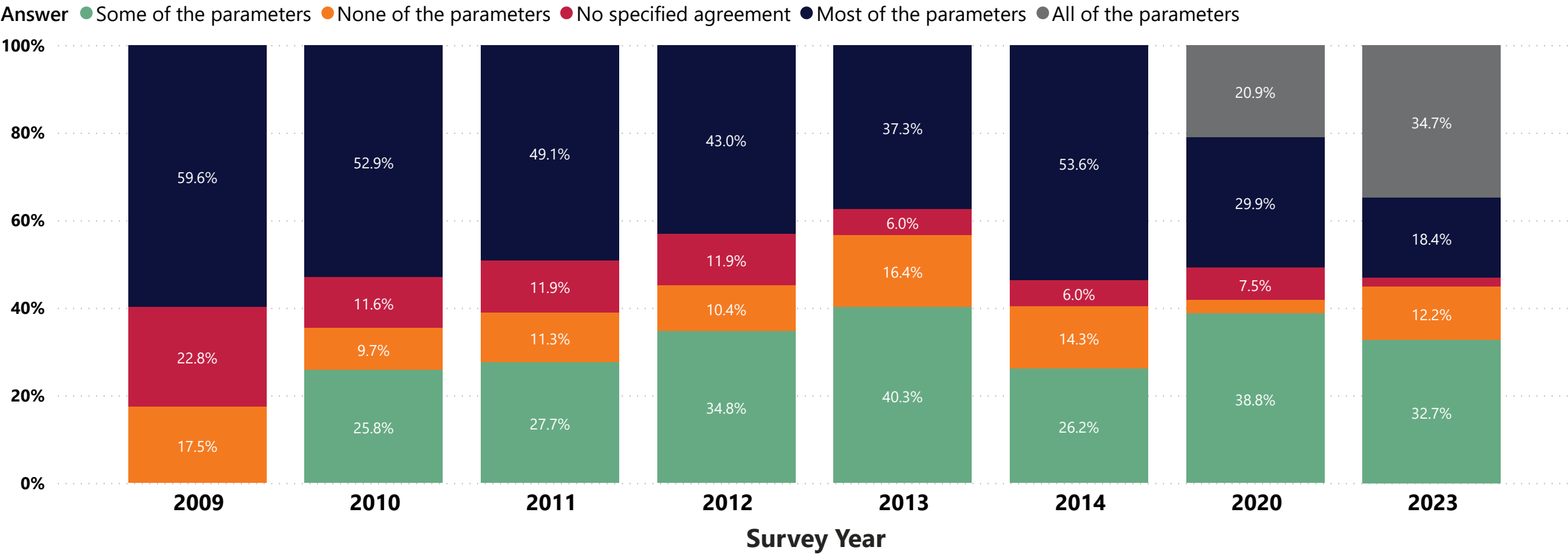
The third question addressed the type of collateral instrument used. Since the collateral survey’s inception, over 70% of respondents have indicated the use of a letter of credit. The range for letter of credit usage has been between 70% and 80% for each survey since inception. It is important to note that in 2023 there was a significant increase in the percentage of respondents indicating that a trust was used (7% to 12%).

## 4. Did you have actuarial consultation or analysis in support of collateral issues?



Question 4 addressed the use of actuarial services. The number of respondents using actuarial support ranged from 65% to 78% in 2009 through 2023. The overall response in 2023 was consistent with the responses from the previous surveys and may indicate a slight upward trend in the use of actuarial support. It is important to note that the question did not delineate between using an annual actuarial report versus engaging actuarial consultation and analysis specifically related to collateral concerns. Annual actuarial reports often contain a significant amount of information that could be useful in collateral negotiations. However, the evaluation date of an actuarial report may differ from the evaluation date used by a carrier for collateral calculations and reviews. Normally, actuarial support involves calculating the required reserves for specified collateral years. Required reserves are determined by calculating estimated ultimate losses and subtracting the paid losses as of the evaluation date. If a carrier provides work papers for their collateral analysis, it can be compared to a company's independent actuarial analysis to determine key differences. These are often related to loss development factors or methodology related to risk margins.

## 5. To what degree were the parameters negotiated prior to the policy inception?



In our consultative practice, SIGMA's support for collateral negotiations is typically not requested until collateral has been posted for one or more years. Frequently, these negotiations are hindered due to a lack of a front-end collateral agreement. Question 5 of the 2023 survey attempted to gauge the percentage of companies that establish an agreement prior to entering a collateral partnership.

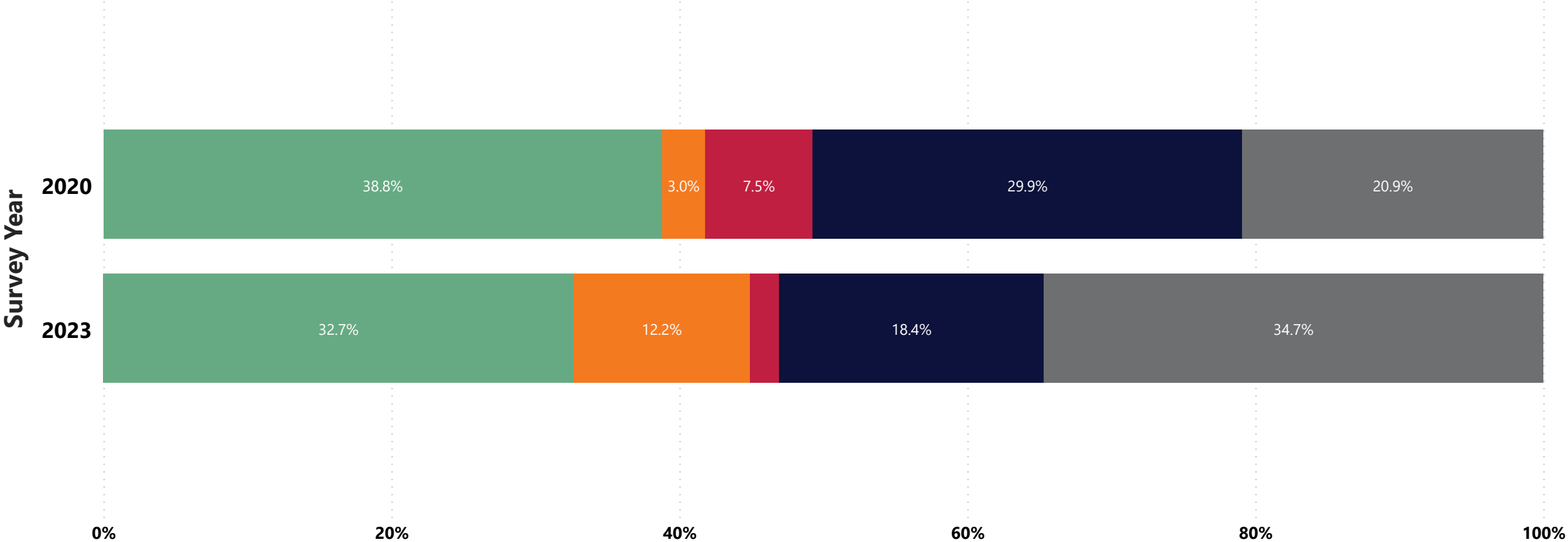
Based on the 2009 responses, many companies had secured an agreement and negotiated at least some of the parameters of the agreement. As a result, the following response option was added to the 2010 survey: "Some of the parameters."



## 5. To what degree were the parameters negotiated prior to the policy inception?

### Comparison of the two most recent survey years

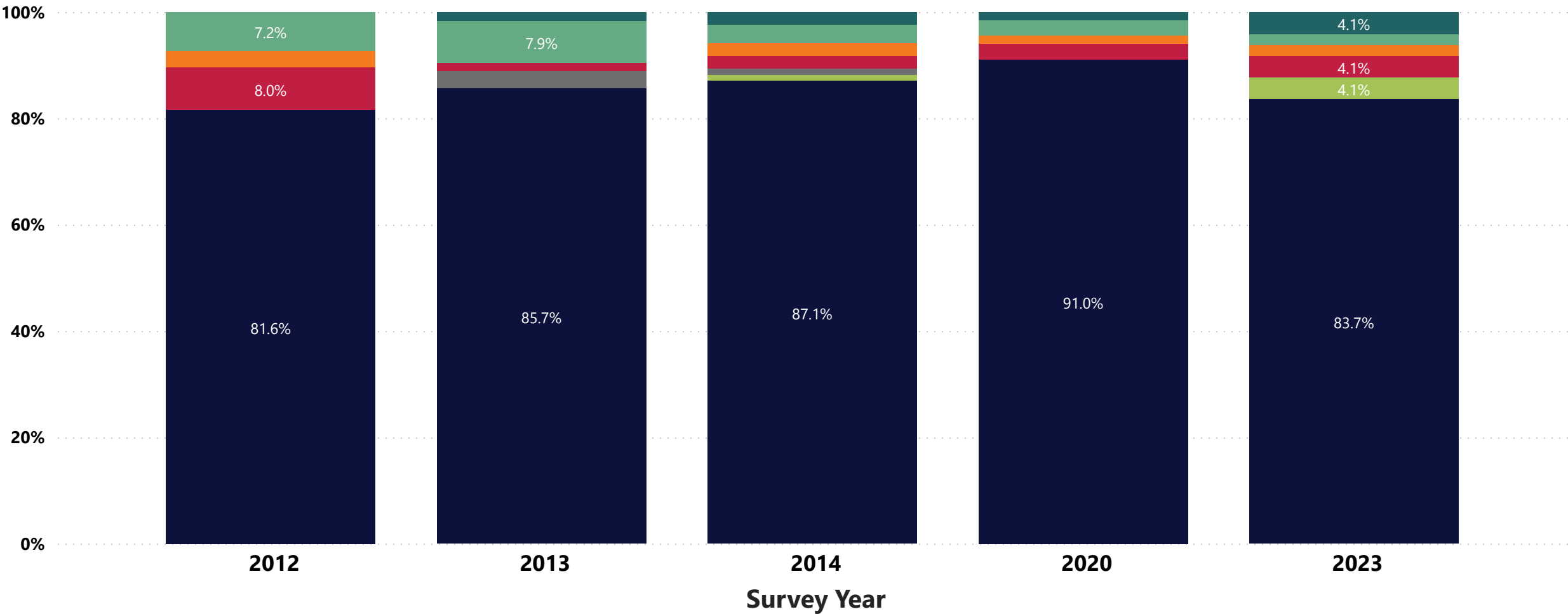
Answer Some of the parameters None of the parameters No specified agreement Most of the parameters All of the parameters



In 2020, we added an additional response option: "All of the parameters." There was a significant increase in the number of respondents selecting this new option in 2023 (rising from 21% to 35%).

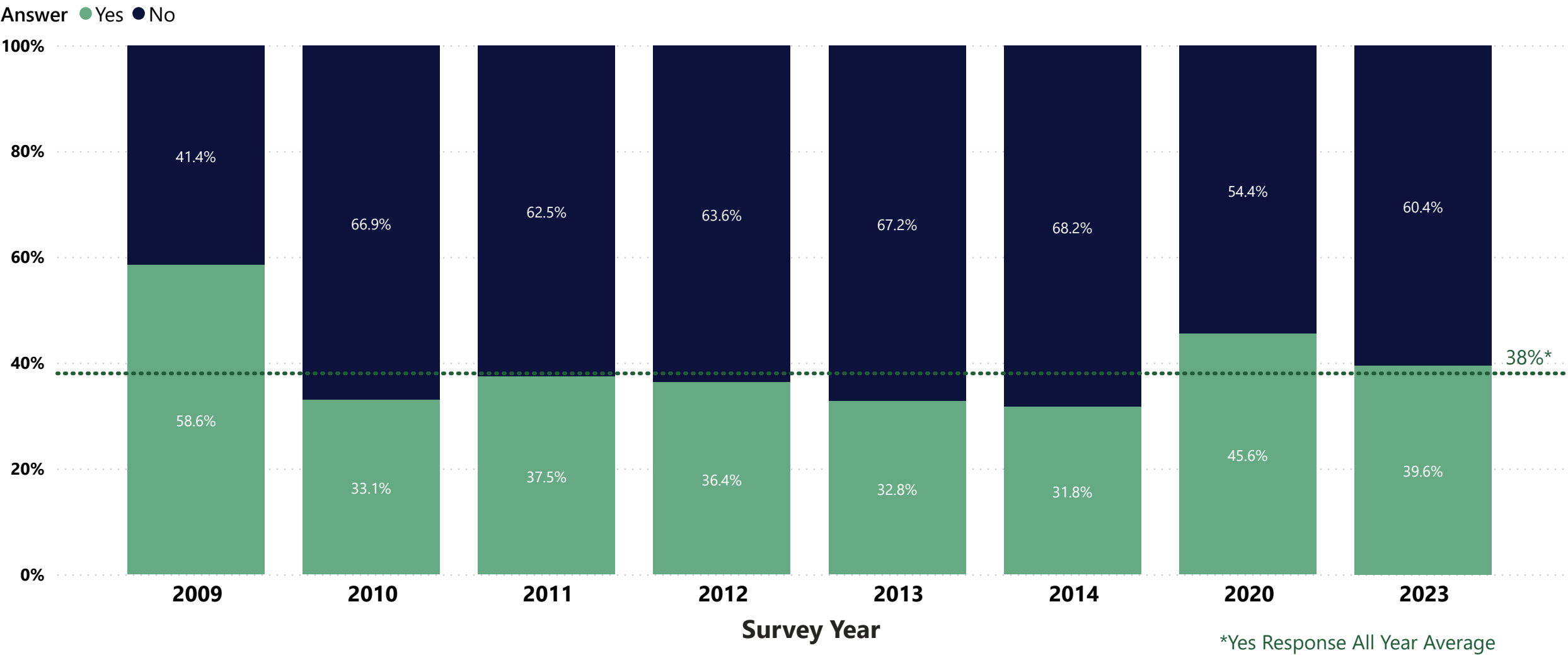
## 6. What is the primary risk for which collateral is posted?

Answer ● Workers Compensation ● Property ● Products Liability ● Other ● Medical Professional Liability ● General Liability ● Automobile Liability



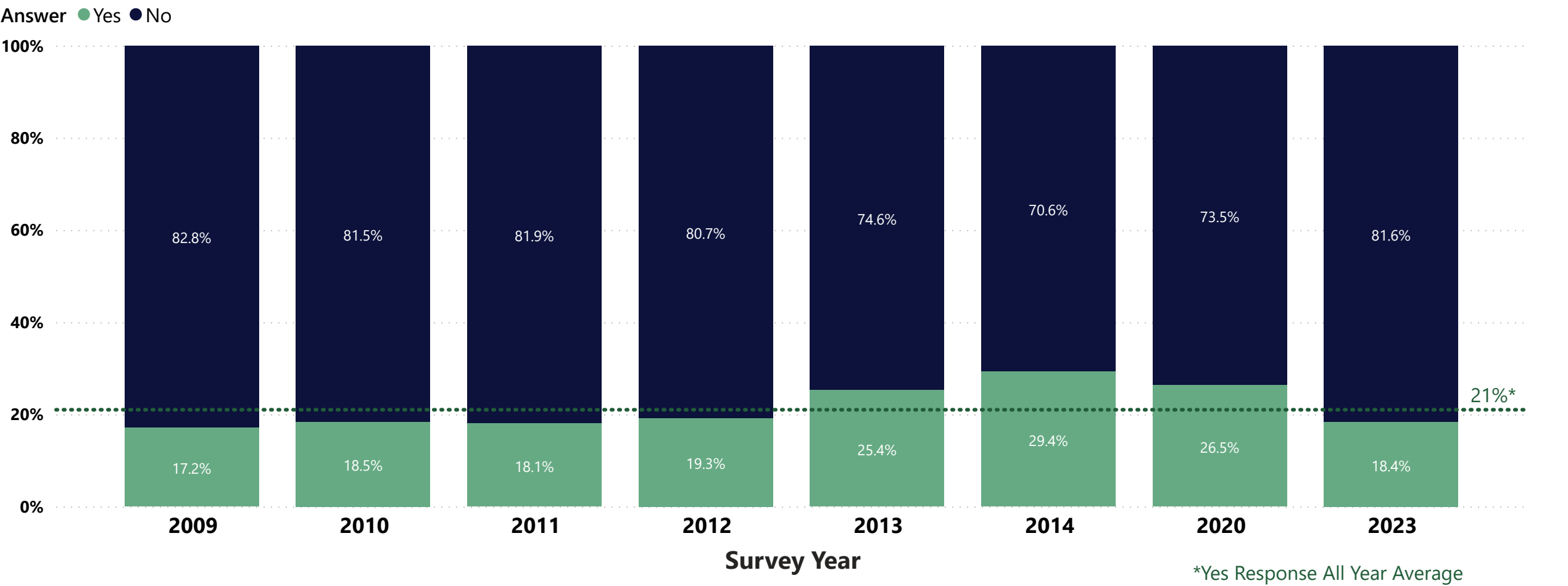
Question 6 attempted to monitor the primary risks related to the survey responses. Since 2012, workers compensation has been the primary risk for collateral posted. In 2023, workers compensation represented 84% of the primary risk. It should be noted that “products liability” and “automobile liability” options were not available to respondents in 2012.

## 7. In regards to collateral posted for workers compensation self-funded liabilities, did you experience increased cost of collateral instrument?



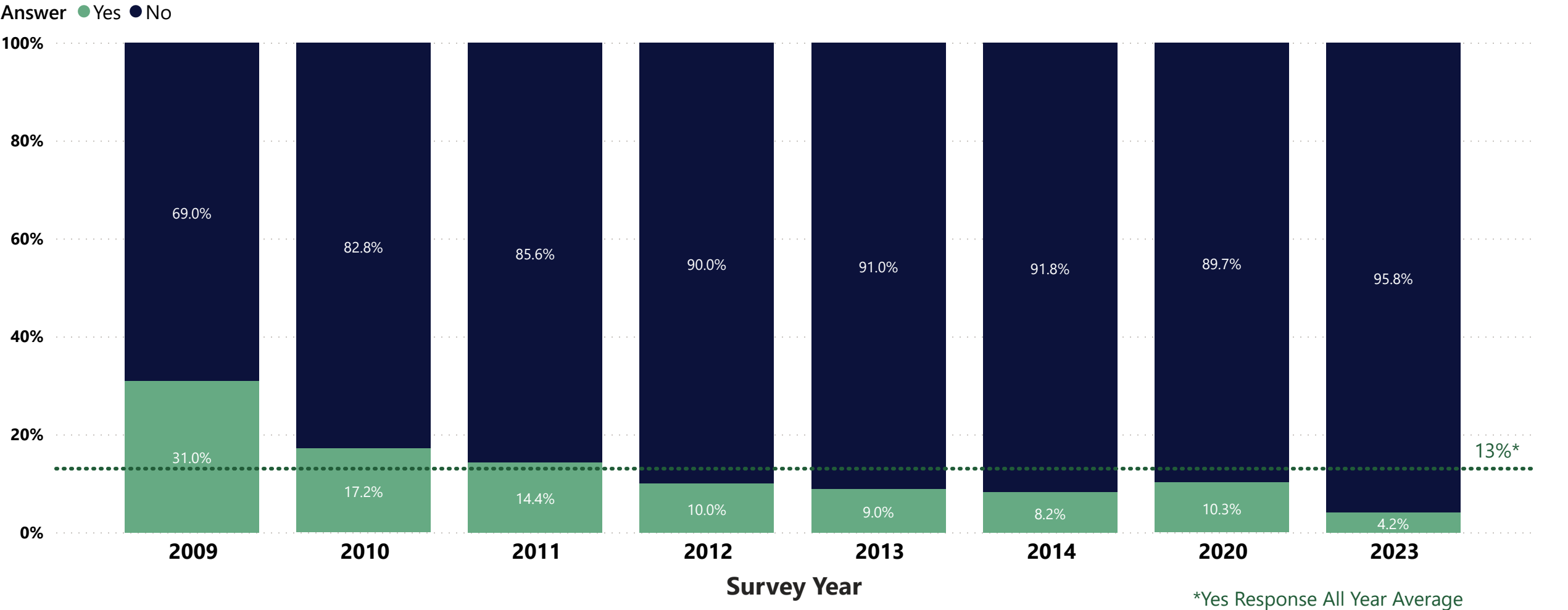
Question 7 focused on changes occurring in a company’s workers compensation collateral situation related to its cost. This particular question showed the biggest movement in responses from 2009 to 2010. The responses stabilized between 2010 to 2014. In 2020, the portion of respondents indicating an increased cost related to the collateral instrument grew from approximately 32% to 46% and in 2023 decreased to approximately 40%.

## 8. In regards to collateral posted for workers compensation self-funded liabilities, did you experience rapidly changing exposures that significantly affected collateral?



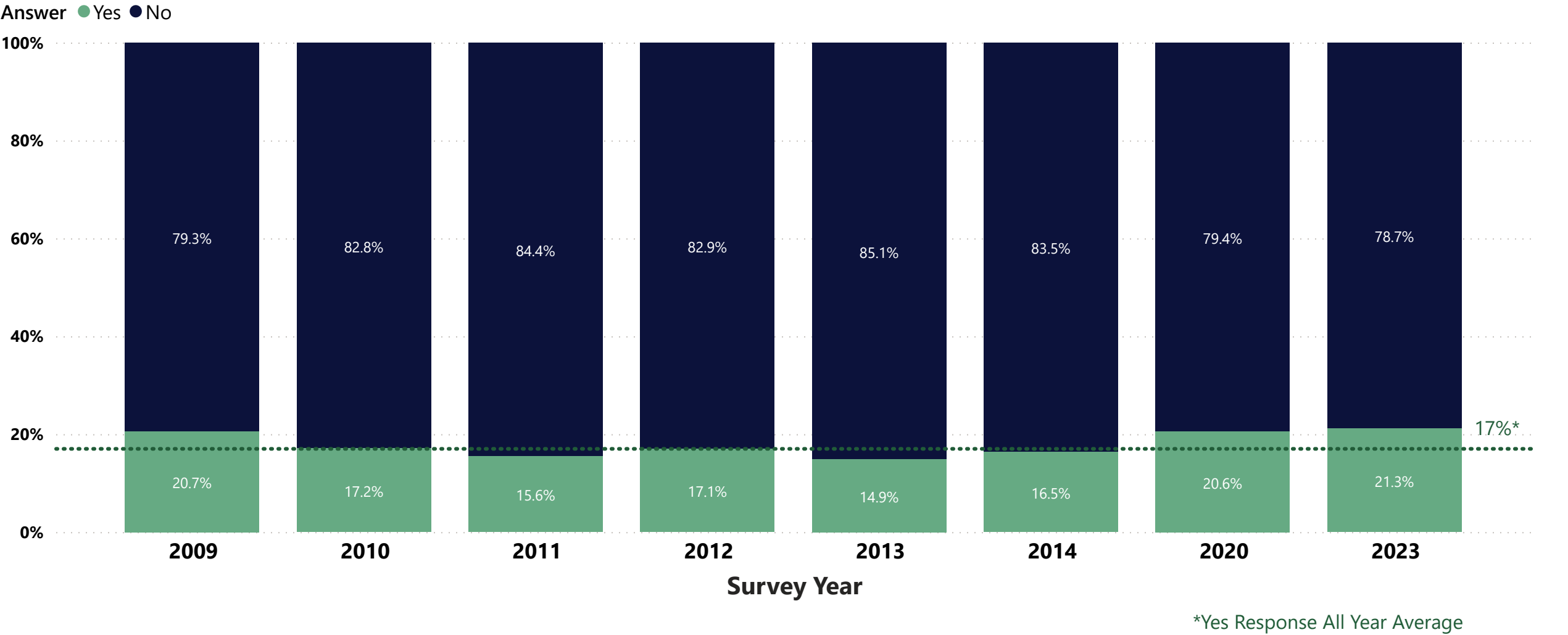
This question focused on changes occurring in a company’s workers compensation collateral situation related to exposures. During 2020-2021, some companies experienced significant exposure changes as a result of the pandemic. Plant shutdowns and restaurants closing during the pandemic caused decreases in exposures, while similar increases were seen in delivery service industries and grocery stores. This is important to keep in mind for ongoing collateral relationships because requirements for the add-on year could change significantly due to exposure changes. In 2023, the percentage (18%) of companies experiencing significant exposure changes dropped to levels more consistent with the 2009-2012 surveys.

## 9. In regards to collateral posted for workers compensation self-funded liabilities, did you experience difficulty securing collateral due to market credit capacity?



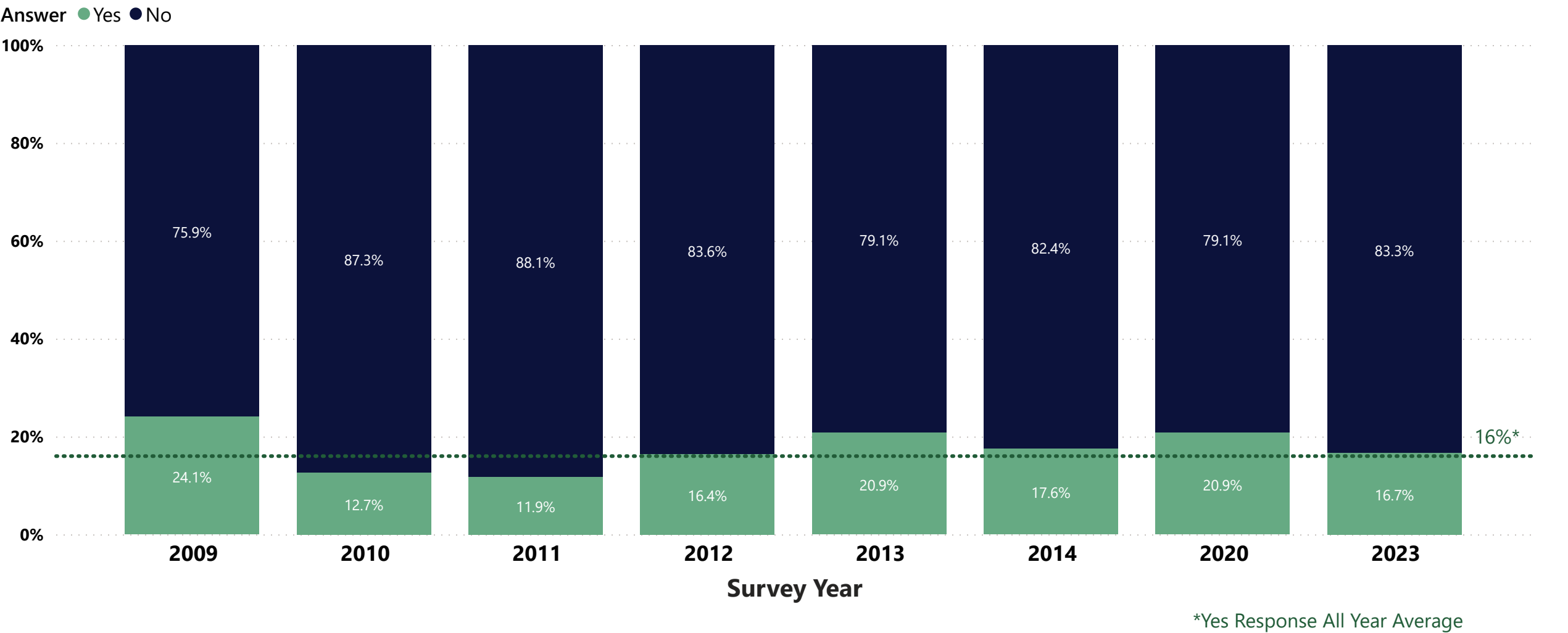
Question 9 focused on changes occurring in a company’s workers compensation collateral situation regarding market credit capacity. In general, the number of respondents indicating difficulty in securing collateral due to market credit capacity stabilized and has primarily shown a downward trend since 2010. Approximately 96% of the respondents did not experience any difficulty securing collateral due to market capacity during 2023.

10. In regards to collateral posted for workers compensation self-funded liabilities, did you experience a carrier-requested change in collateral instrument (either type or issuing institution)?



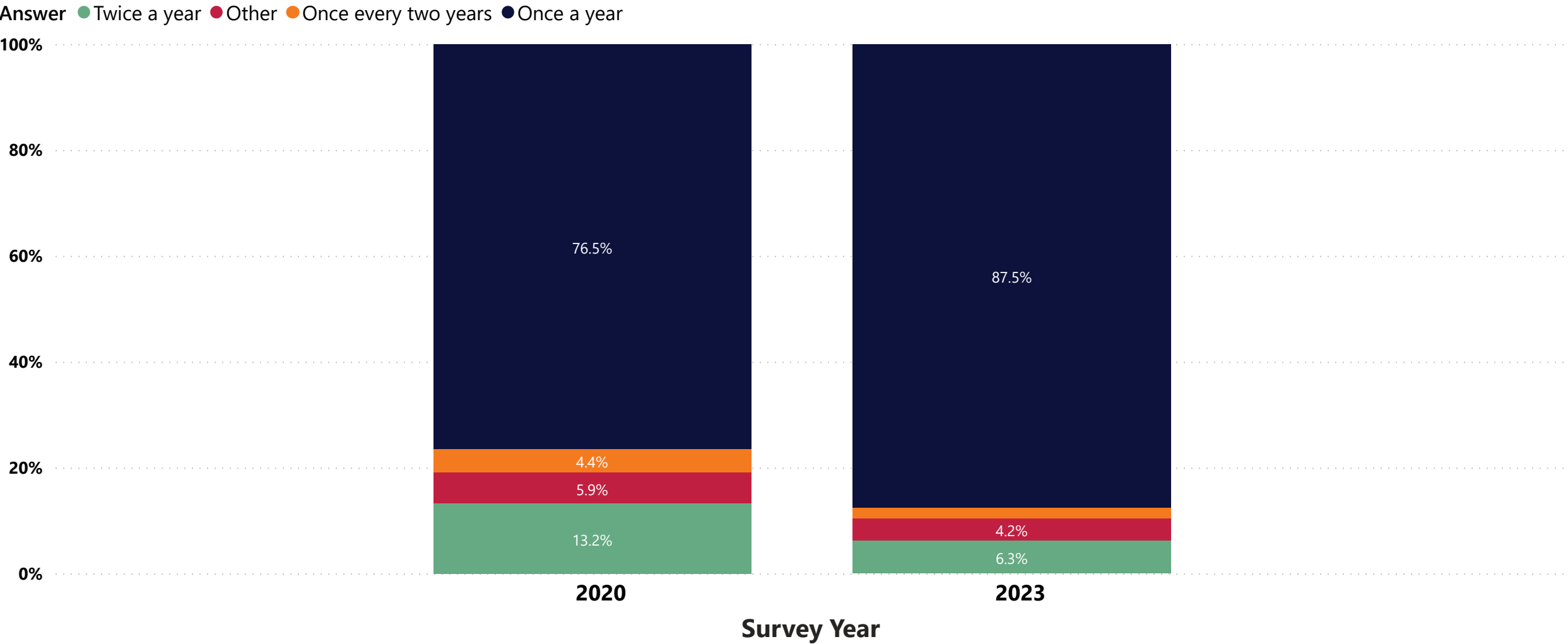
Question 10 focused on changes occurring in a company's workers compensation collateral situation related to carrier requests. Responses were stable over the years, with around 80% of respondents indicating they did not experience a request from carriers to change the collateral instrument (either type or issuing institution). See question 22 for requested changes relating to the banking crisis.

11. In regards to collateral posted for workers compensation self-funded liabilities, did you experience changes in terms and conditions of collateral agreement or requested increases in collateral amount without discussion or negotiation?



Question 11 focused on changes occurring in a company’s workers compensation collateral situation related to changes in terms, conditions, or collateral amounts. The number of “Yes” responses in 2023 is in line with the overall historical average.

## 12. How often is your collateral reviewed?

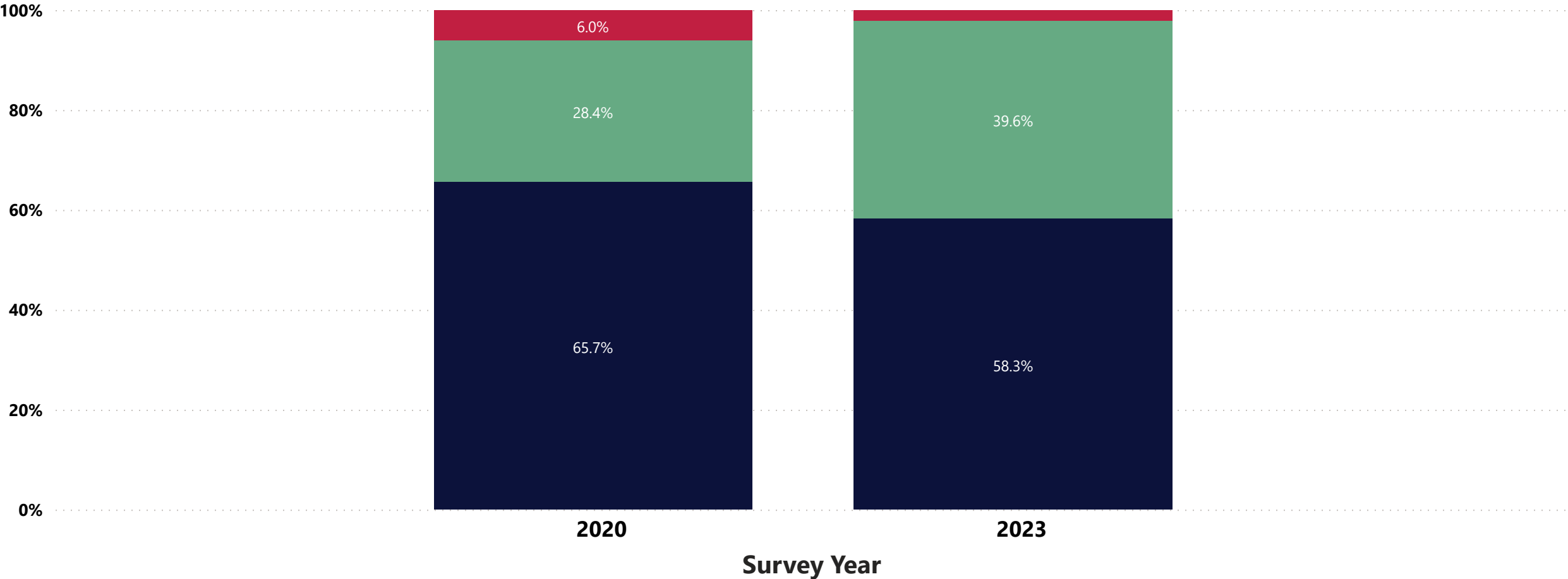


Question 12 attempts to monitor how often collateral is reviewed during the year. The most common response continues to be that collateral is reviewed once a year.



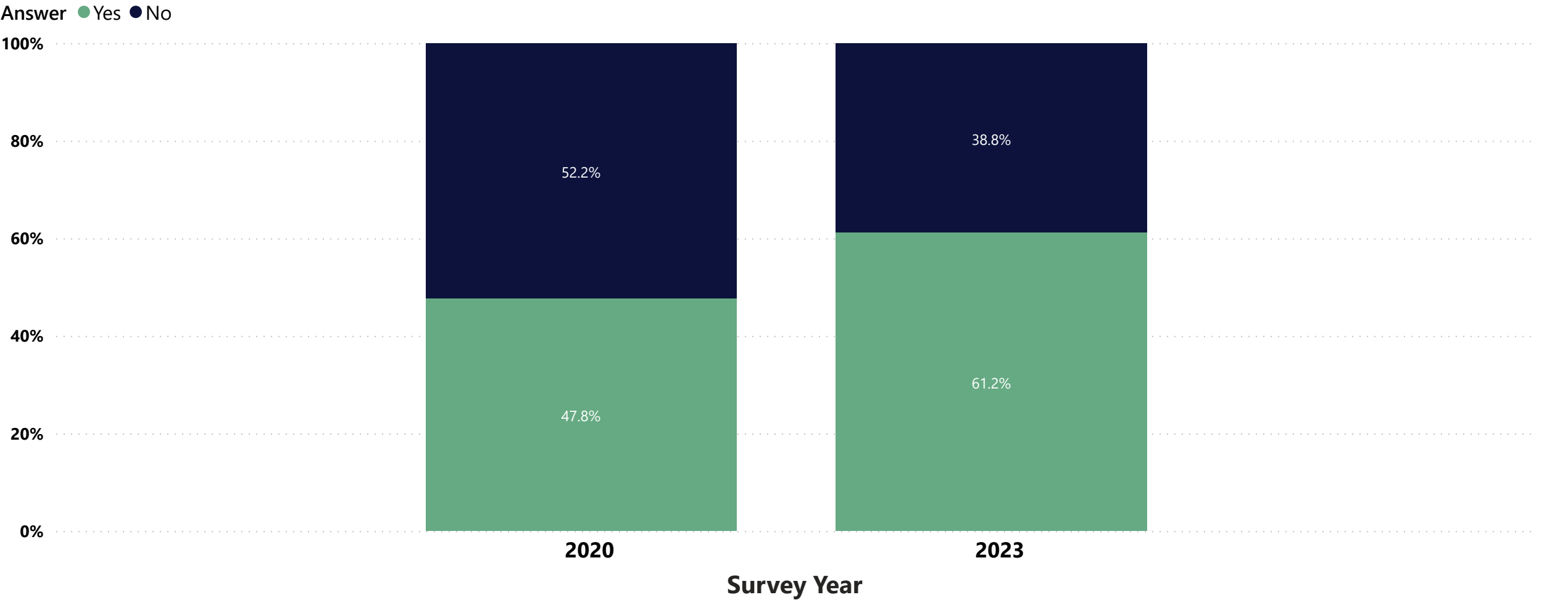
### 13. Which of the following describes how collateral is posted?

Answer ● Aggregated for all liabilities across all years ● By liability and policy year ● Other



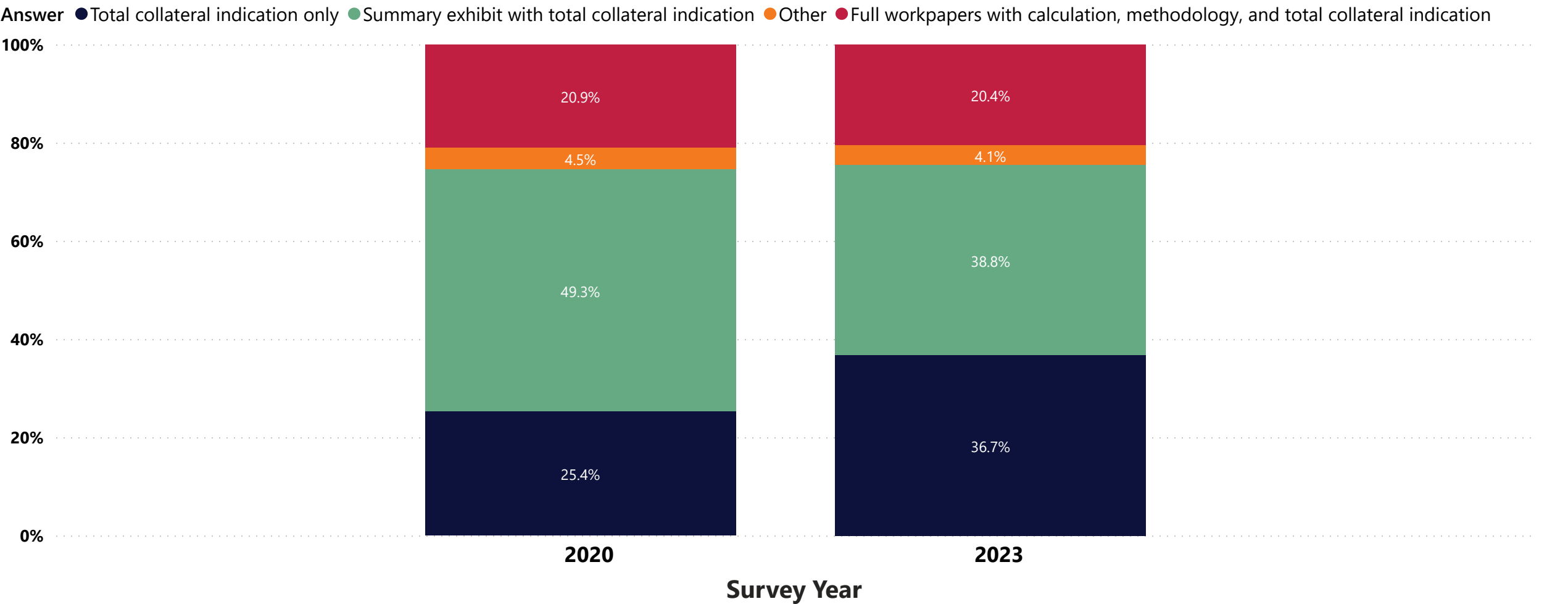
Question 13 is attempts to monitor how collateral is posted. Around 66% of the respondents indicated that collateral is aggregated for liabilities across all years in 2020 and that decreased to 58% in 2023.

# 14. Is collateral being held for any year(s) with no open claims?



Question 14 attempted to monitor collateral for years without any open claims. The response for this question was fairly evenly split between “Yes” and “No” in 2020. Slightly over half of the respondents indicated no collateral is held for years with all claims closed. There was a noticeable shift in 2023, with 61% of respondents indicating “Yes”.

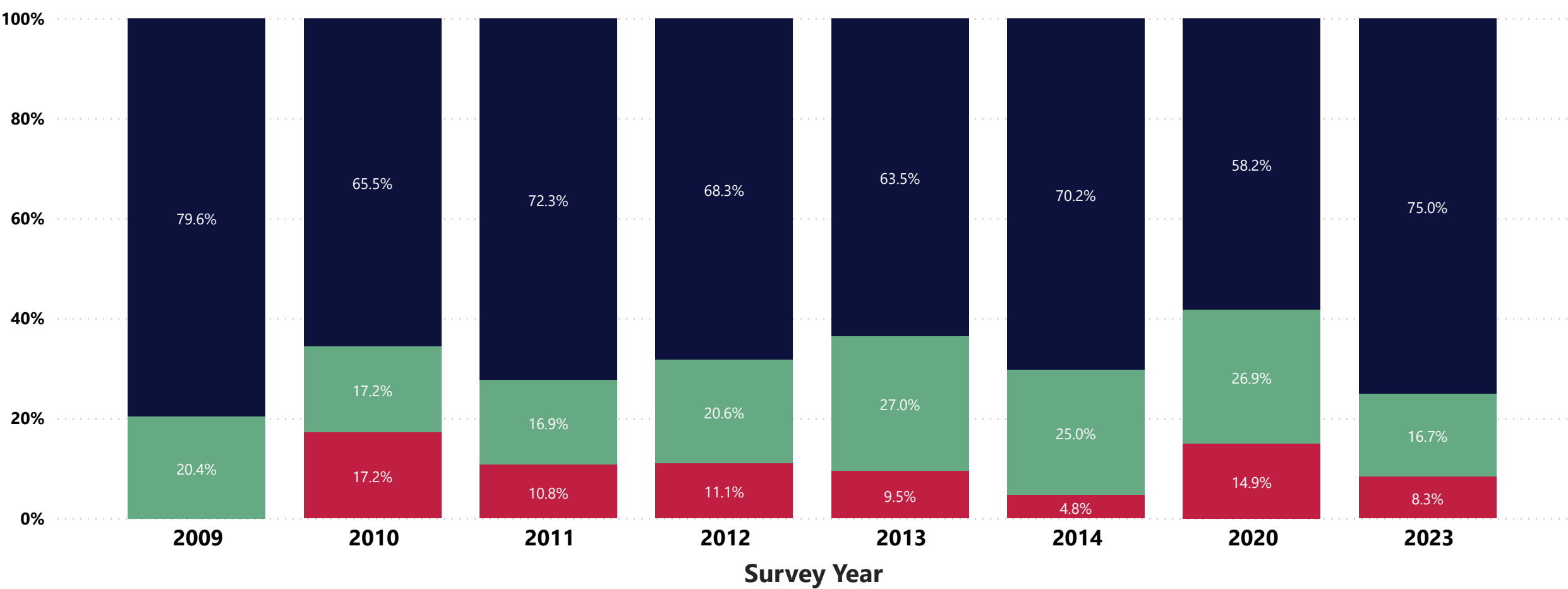
# 15. Which of the following best summarizes the documentation you received related to your carrier's collateral review?



This question attempted to monitor the type of documentation respondents received related to their carrier’s collateral review. As the methodologies used for calculating collateral vary significantly from one carrier to the next, it can be difficult to reconcile to the carrier’s numbers if full workpapers are not released. Around 20%-21% received full workpapers with calculation, methodology, and total collateral indication in both 2020 and 2023.

## 16. Which of the following best describes how your carrier reviewed the collateral held in the year?

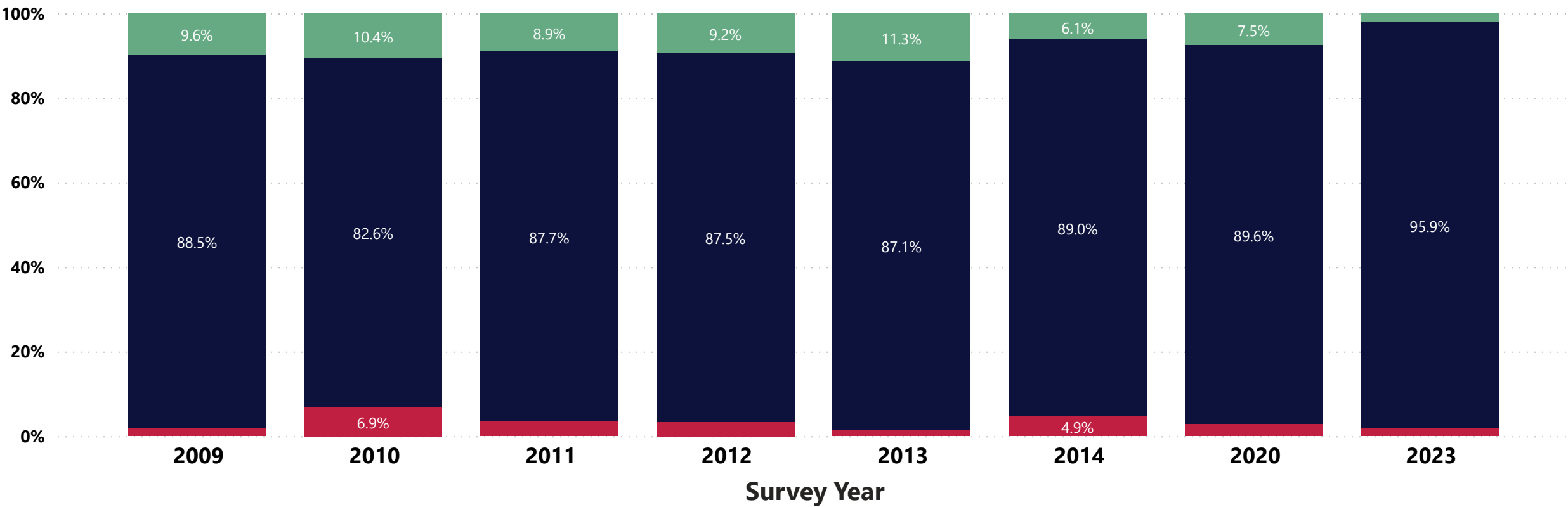
Answer ● My carrier did not complete a review ● My carrier completed a review that was delayed from the scheduled time ● My carrier completed a review as scheduled



Question 16 focused on carrier collateral reviews. The response “my carrier completed a review as scheduled” has varied from 58% to 79% between 2009 to 2020. In 2023, there was a notable increase (from the prior survey) to 75% for “my carrier completed a review as scheduled.”

## 17. Which of the following best describes your collateral situation?

Answer ● We were involved in arbitration or litigation ● We did not consider arbitration or litigation ● We considered arbitration or litigation



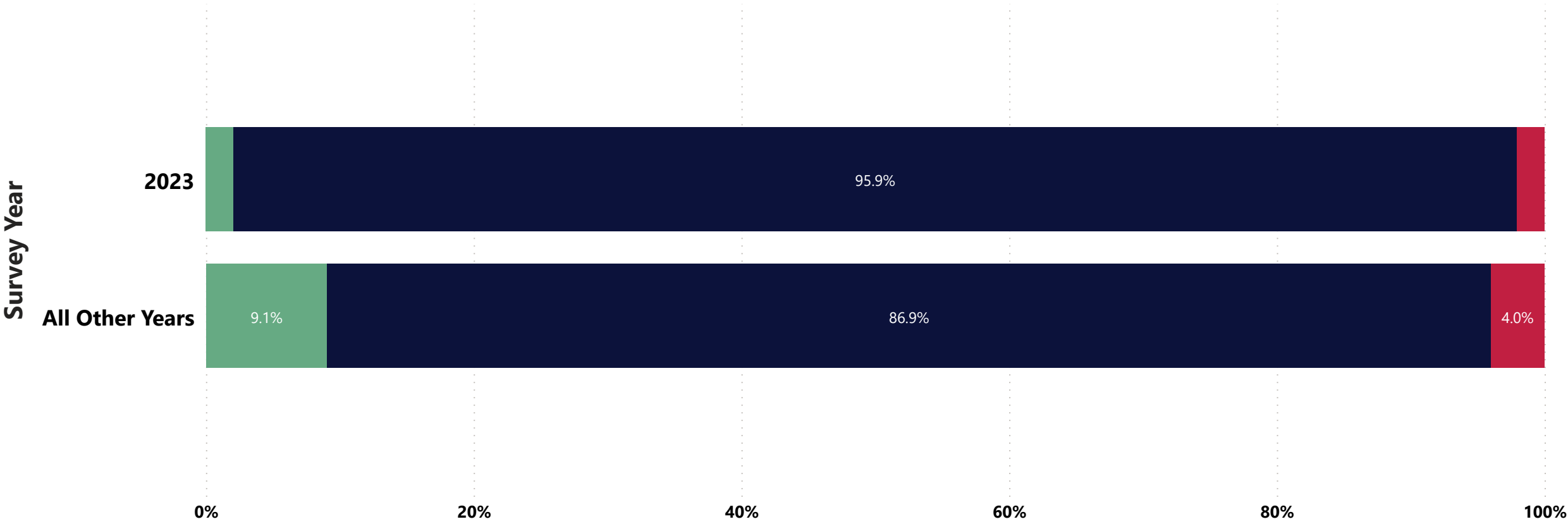
Over recent years, SIGMA has experienced an increase in requests for actuarial support in litigation or arbitration related to collateral issues. This support can include the completion of an expert report or expert testimony. Question 17 attempted to gauge the percentage of companies considering or involved in litigation.

Collateral litigation often focuses on two key areas: the interpretation of the agreement language and the actual calculation of the collateral amount. In our experience, litigation and arbitration are more common in run-off situations, which are addressed in the next two questions.

# 17. Which of the following best describes your collateral situation?

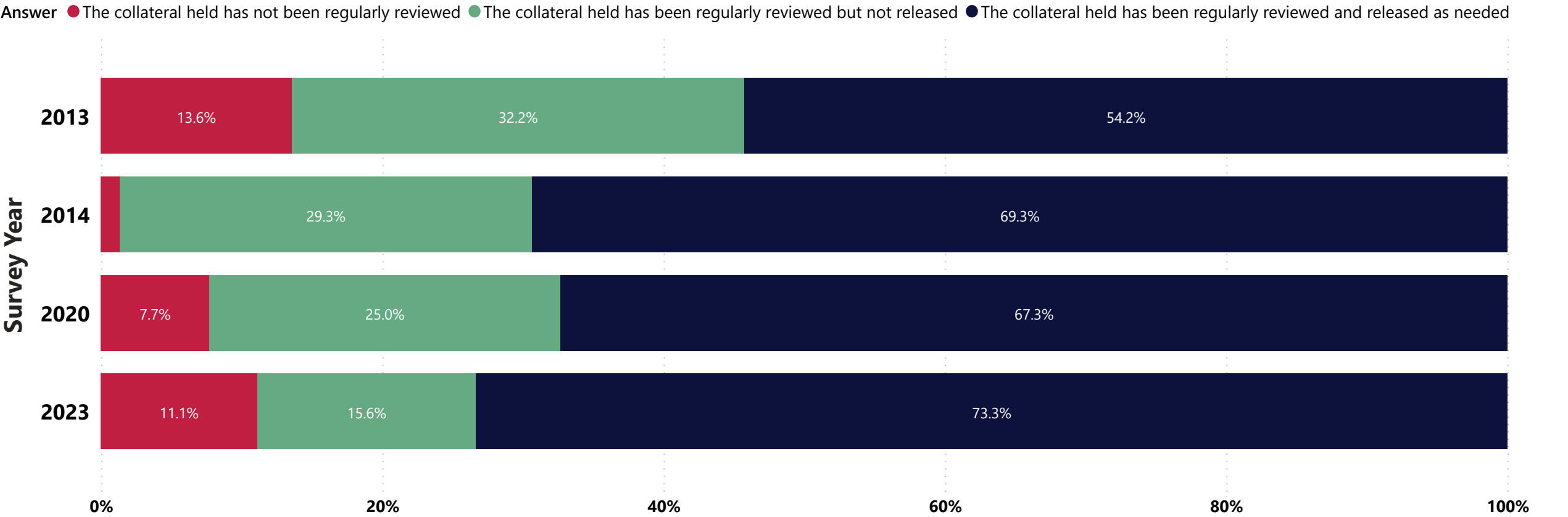
## Comparison of 2023 and All Other Years

Answer ● We considered arbitration or litigation ● We did not consider arbitration or litigation ● We were involved in arbitration or litigation



The 2023 results reflected an increase in the percentage (96%) of respondents that did not consider arbitration of litigation. This is the highest result of any survey year.

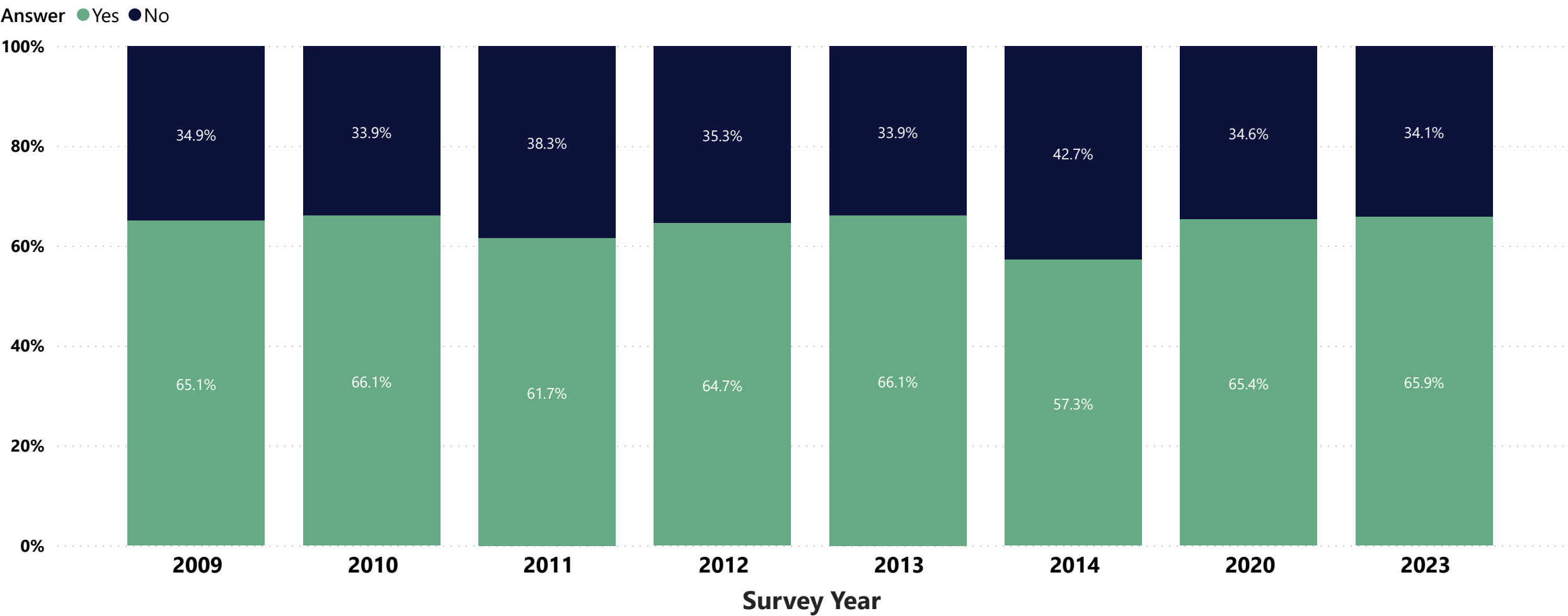
## 18. Which of the following best describes the run-off collateral release?



Questions 18 to 19 of the survey focused on collateral issues related to “run-off” situations. This occurs when a company has collateral held by a carrier that is no longer their current carrier. In this situation, there is no “add-on” collateral, and the old years are winding down as claim payments are made. We have often found that, in these instances, the carrier holding run-off collateral may be less willing to negotiate the collateral amount.

In 2014, respondents indicated a significant decrease in scenarios where collateral has not been regularly reviewed. Conversely, there was an increase in the opposite scenario, wherein collateral has been regularly reviewed and released as needed. In 2020, there was an increase in the percentage indicating that the collateral has not been regularly reviewed, and this percentage increased again in 2023 to 11%.

## 19. Do you have actuarial support in regards to the collateral held for the run-off program?

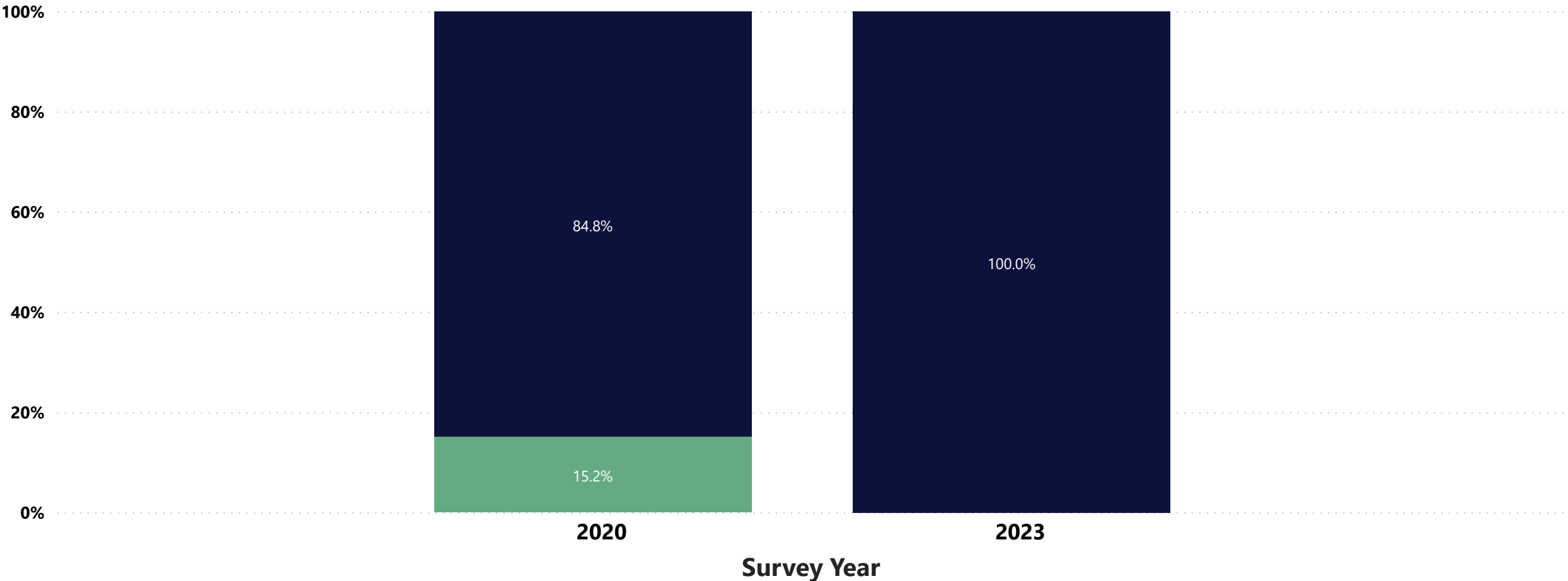


Question 19 indicated that 57% to 66% of the respondents utilized actuarial support in regards to run-off collateral over eight surveys.



## 20. Has your collateral increased due to the COVID-19 outbreak and related financial implications?

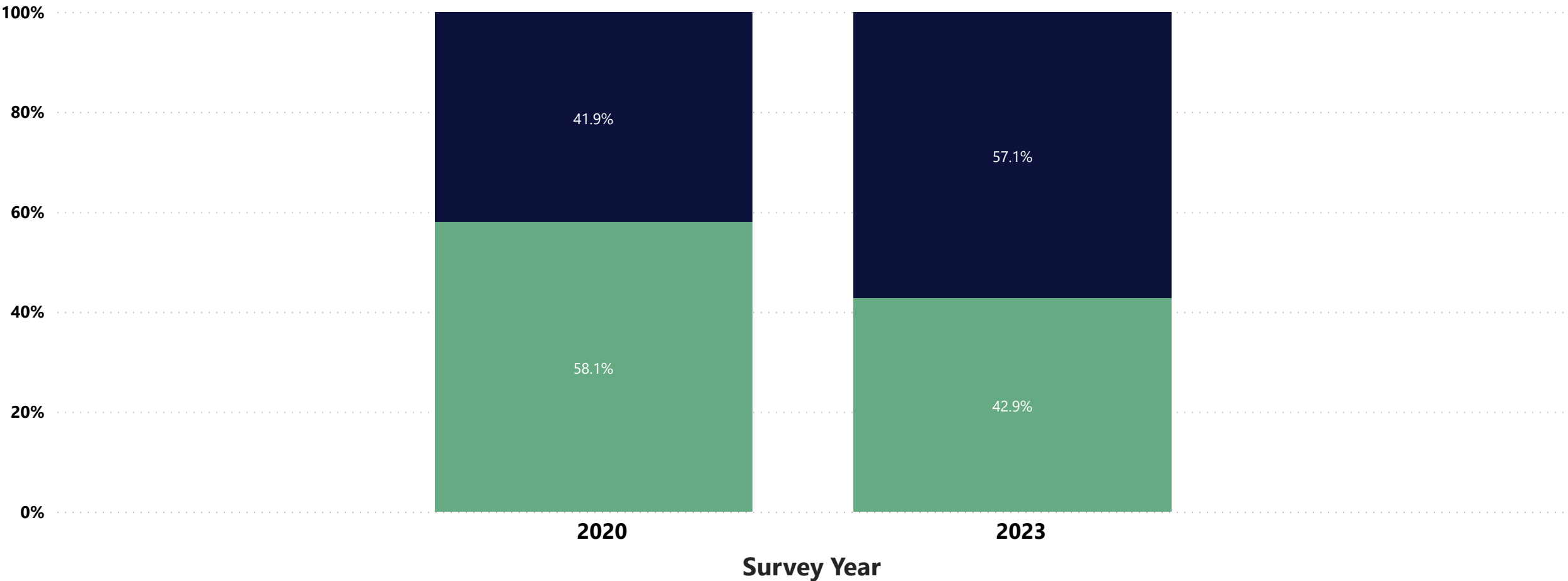
Answer ●Yes ●No



The effects of the emerging risks associated with the novel coronavirus (COVID-19) and resulting economic implications may remain unknown for years. This question attempted to track and monitor the changes in collateral due to the COVID-19 outbreak. Around 15% of the respondents indicated that collateral has been increased due to the COVID-19 outbreak in the 2020 survey. This percentage dropped to 0% in the 2023 survey.

## 21. Do you work with captive insurance companies that have collateral considerations?

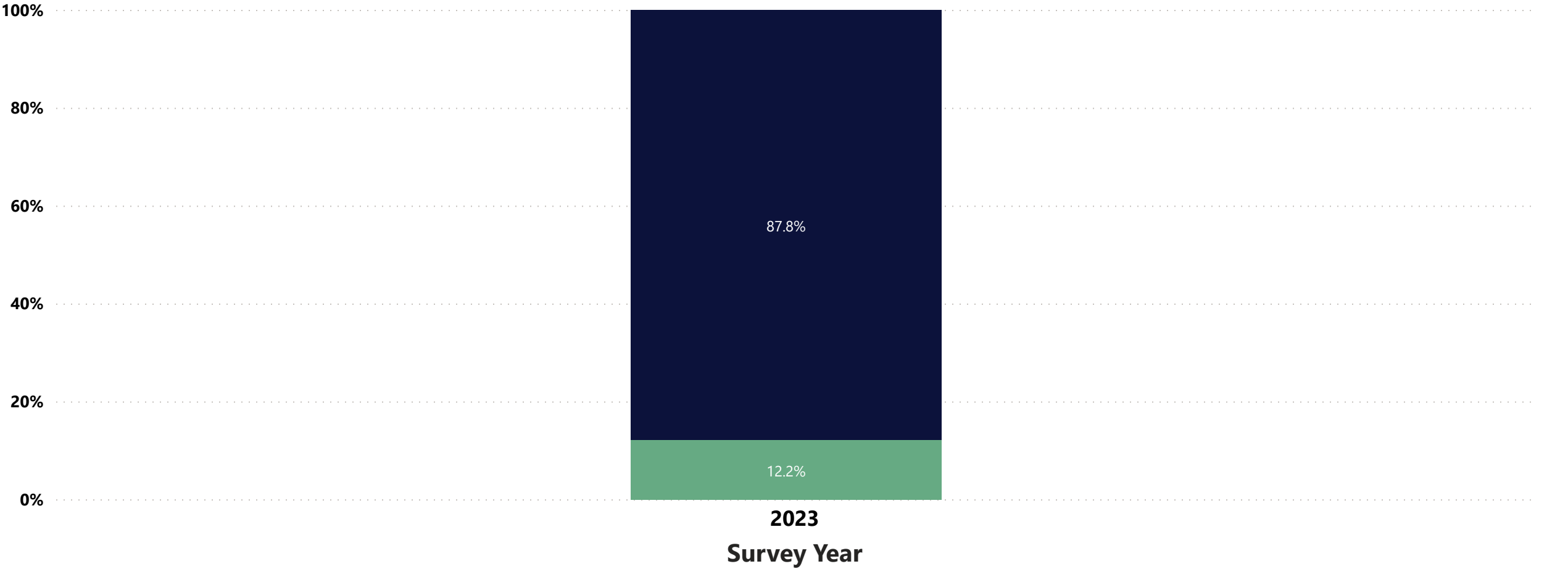
Answer ● Yes ● No



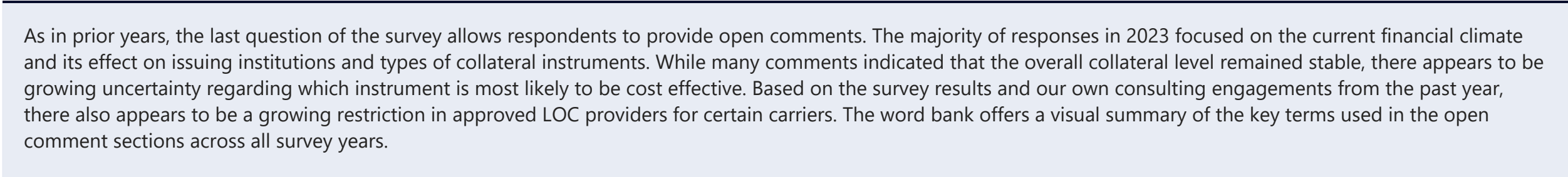
Question 21 attempted to monitor collateral considerations related to captive insurance companies. 58% of respondents indicated that they work with captives that have collateral considerations in the 2020 survey. This percentage dropped to 43% in the current 2023 survey.

## 22. As a result of the current banking crisis, has your carrier either requested or required the posted collateral to be shifted to a different banking institution?

Answer ● Yes ● No



This is a new question in the 2023 survey. Only 12% responded that the recent banking issues caused their collateral instrument to be shifted to a different banking institution.



As in prior years, the last question of the survey allows respondents to provide open comments. The majority of responses in 2023 focused on the current financial climate and its effect on issuing institutions and types of collateral instruments. While many comments indicated that the overall collateral level remained stable, there appears to be growing uncertainty regarding which instrument is most likely to be cost effective. Based on the survey results and our own consulting engagements from the past year, there also appears to be a growing restriction in approved LOC providers for certain carriers. The word bank offers a visual summary of the key terms used in the open comment sections across all survey years.

# Collateral Suggestions

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- 1.** Contact your carrier in advance of the collateral review date and ask if there will be any changes in the procedures or methodology. It might also be helpful to ask about upcoming changes to the use or sourcing of the loss development factors.
- 2.** Ask for the carrier's collateral work papers. Verify the data used in the calculations and look for any add-on provisions for risk margin related to experience or credit risk assessment. Review exposure information, especially if exposures are rapidly changing. This is particularly important during the pandemic, as changes in exposures could result in large swings in collateral. Document and support revised exposure projections.
- 3.** In run-off situations, carefully review open claims, especially if only a small number remain. This review process might also include data on reopened claims and claim reporting lag. An independent claims audit may be useful.
- 4.** Use industry professionals as needed. This includes using your broker, actuary, and risk management consultant to assist in negotiations.

## **We would appreciate feedback on the survey and its results.**

Let us know which questions we can improve and what questions we should consider adding.

Contact us at [\*\*support@SIGMAactuary.com\*\*](mailto:support@SIGMAactuary.com)

# Further Reading

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More suggestions and observations related to SIGMA's collateral survey and overall collateral issues are available in the following papers published by IRMI (International Risk Management Institute) by SIGMA authors. We have limited reprints available, so please let us know if you are interested.

1. "Collateral Trends, Issues, and Tactics." *Risk Financing*, September 2022, by L. Michelle Bradley.
2. "Reducing Collateral Uncertainty." *Risk Financing*, Section III.L, 2008, by L. Michelle Bradley and Lloyd Kelly. (Updated in 2020)

Since the last survey in 2020, SIGMA has also developed a collateral brochure. This popular educational resource summarizes the collateral process and common collateral issues. It can be accessed at [www.SIGMAactuary.com/collateral-brochure](http://www.SIGMAactuary.com/collateral-brochure)



Additionally, our RISK66 resource library has several educational videos and graphics related to collateral. To access these resources, login to your RISK66.com account.

If you do not have an account, you can sign up for a free education license at [www.SIGMAactuary.com/education](http://www.SIGMAactuary.com/education)

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