KOOKMIN BEST INSURANCE COMPANY, LTD. (US BRANCH)
STATE OF CALIFORNIA

EXPLANATORY MEMORANDUM (BULLETIN 2021-03)

RE: (1) Report per California Department of Insurance Bulletin 2021-03 on Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic - For Reporting Months of January, February, and March 2021
RE: (2) Supplemental Report per California Department of Insurance Bulletin 2021-03 on Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic - For Reporting Months of March through December 2020

The purpose of this explanatory memorandum is to provide an explanation and justification as to why no premium relief has been provided in 2021 for both (1) the reporting months of January, February and March of 2021 and (2) the reporting months of March through December of 2020.

<u>2020 Actions Taken By KBIC In Response to Bulletins 2020-03 and 2020-04</u>
In 2020, Kookmin Best Insurance Company, LTD. US Branch (KBIC) agreed that the COVID-19 pandemic curtailed the activities of some policyholders. This, in turn, reduced the exposures to varying degrees for different business types. To compensate for this reduction in loss exposure, we provided a premium relief for the affected policies that were in force for the reporting months of March through June 2020.

The approach that KBIC took was the evaluation of the loss exposure reduction for each business type due to the curtailed activities resulting from the pandemic. Rather than broad brushing and applying a uniform premium credit to all policyholders, the company decided it was fairer to evaluate each business type on a case-by-case basis. After consultation and vetting internally, we grouped each class of business into four levels of loss exposure reduction. As an example, the take-out restaurants and grocery stores were not greatly impacted from this pandemic. For other classes like liquor stores, some were actually reporting higher sales volume during this time. Below are the four categories along with the associated percentage credit amounts.

1. No reduction in loss exposure (0% credit)
2. Low reduction in loss exposure (15% credit)
3. Medium reduction in loss exposure (25% credit)
4. High reduction in loss exposure (50% credit)

We decided that the loss exposure reduction was primarily on the liability side with reduced activities. This, in turn, could result in less potential third party claims against the insureds. However, we did not adjust the property side as we felt that there was no solid correlation between the property exposure and the curtailed activities of the policyholder. As a matter of fact, we have experienced an increase in property claims (i.e. fire, theft, glass breakage, etc.) during this time as compared to the period before the pandemic onset.

For Reporting Months of (1) January through March 2021, and (2) March through December 2020
KBIC has written premium in California in the CMP line of insurance in January of 2020 through March of 2021. As stated in the above section, we believe that there is no solid correlation between the property exposure and the curtailed activities of the policyholder. Therefore, we feel that no premium refund is warranted for the property portion of the CMP business.

Exhibits B and C show the ultimate accident year loss and DCCE projection for Liability, evaluated as of March 31, 2021, using the actual incurred and paid loss and DCCE data, respectively. The age-to-age loss development factors (LDF) selected in projecting the loss and DCCE to ultimate are the 3-year weighted average LDFs (and this is consistent with the methodology used in the CDI Standard Exhibit Template which uses the 3-year weighted averages LDFs to project losses to ultimate.)

Exhibit A summarizes the results from Exhibit B and Exhibit C. We have selected the ultimate loss and DCCE ratios produced by the Incurred Loss and DCCE Method from Exhibit B. The Incurred development is less influenced by the claims settlement process which has changed in recent years due to multiple changes in senior claims management. In addition, we believe that the ultimate Loss and DCCE projections produced by the Incurred development for recent accident years are more likely to occur than those produced by the Paid development.

In summary, the ultimate loss and DCCE ratios for AY 2020 and 2021 are projected to be 69.6% and 60.1%, respectively, as of March 31, 2021, both of which are higher than the projected ultimate loss and DCCE ratio of 59.2% for AY 2019. This is contrary to the expectation of the reduction in loss exposure due to the COVID-19 pandemic. For this reason, we believe that no premium relief is necessary at this time for both the reporting months of January through March 2021 and March through December 2020.

Going forward, these projections will be updated each quarter, and we will decide whether a premium relief is necessary.

Supporting Exhibits
Exhibit A - Summary of AY Loss & ALAE Projections For Liability as of 3/31/2021
Exhibit B - AY Ultimate Incurred Loss & ALAE Projections For Liability as of 3/31/2021
Exhibit C - AY Ultimate Paid Loss & ALAE Projections For Liability as of 3/31/2021