



## PRISM Risk Retention Philosophy

PRISM philosophy on when to retain risk and when to transfer risk can generally be summarized as follows:

Each program has determined its own appetite for risk. A low tolerance for risk creates a bias toward transfer of risk. A high tolerance for risk is characterized by a bias toward retention of risk.

If the risk tolerance is neutral, the risk transfer or retention decision is guided by the following philosophy:

The decision whether to purchase insurance/reinsurance will be made with the goals of program stability and security first and foremost. PRISM has a bias towards risk transfer when losses are unpredictable, have a low frequency, and high severity potential. PRISM has a bias toward risk retention when losses are predictable, have a high frequency, and low severity potential. Notwithstanding the predictability of potential losses, market conditions are also considered and there is a bias toward risk transfer when it is cost effective to do so, and a bias toward risk retention when the cost to transfer is greater than retaining the risk.

## Risk Tolerance

