Change in Net Position ratio:

$$\frac{\text{Net Position (current year)} - \text{Net Position (prior year)}}{\text{Net Position (prior year)}}$$

The Change in Net Position ratio is a relatively straightforward formula that measures an important financial indicator – year-over-year change in a pool's financial condition. A pool's net position reflects its "bottom line" after all financial transactions in a reporting year have been accounted. Factors that could impact net position include contribution changes, unrealized capital gains or losses, investment gains or losses, reinsurance recoverables, accounting changes, dividends, etc.

A pool with a net position of $5 million in the current year and a prior year net position of $4.5 million has a Change in Net Position of 11 percent. This pool has improved its financial position to withstand unexpected losses or other costs that could impact its operation.

Increasing net position is generally welcome, although it could suggest underwriting that is susceptible to competition or losses uncharacteristically less than expected. Although a decrease in net position signals a weakening financial position, it does not always point to a problem. For instance, a pool may have a negative Change in Net Position ratio after release of a dividend to meet its surplus target.

Reasonable ranges for both the insurance industry and the pooling sector are asymmetric, since adding to net position is generally more acceptable than depleting it. Common insurance industry Change in Net Position ratio results are between -10 to +25 percent, while the pooling sector tends to be narrower with changes typically from -5 to +15 percent in recent years. The high end of the insurance range (+25 percent) is pegged by regulators because many commercial insurance companies post large increases to surplus just before insolvency, usually related to the shifting of capital from other companies within a group, significant growth, or mergers and acquisitions. These reasons generally do not apply to pools.