

## Net Leverage ratio:

$$\frac{\text{Net Contributions}}{\text{Net Position}} + \frac{\text{Reserves}}{\text{Net Position}} = \text{Contribution Leverage Ratio} + \text{Reserve Leverage Ratio}$$

The Net Leverage ratio is a combination of two prior benchmarks. This metric is typically reviewed in the context of an unlikely case scenario – the “worst case” in which both deficient reserves and inadequate pricing are found to exist.

A pool’s net position (or “fund balance”, or “surplus”) is a cushion for absorbing the impact of inadequate pricing or inadequate reserves. But if both these deficiencies are identified, the strain on net position is magnified. Even if both the individual ratios are within typical industry ranges and appear reasonable, combining the two into the Net Leverage ratio could flag an important warning.

Using the fictional pool figures from prior illustrations, imagine a pool with the [Contribution Leverage](#) ratio of 1.6 and the [Reserve Leverage ratio](#) of 3.2. The Net Leverage ratio is therefore 4.8, which is approaching the edge of typical industry range of 0.5 – 5.0.

	Example Results	Industry Range	Comments
Contribution Leverage	1.6	0 - 3.0	Within range
Reserve Leverage	3.2	0.5 - 2.0	Higher than range
<b>Net Leverage</b>	<b>4.8</b>	<b>0.5 - 5.0</b>	<b>Within range</b>

Net Leverage is calculated net of reinsurance. Pools should be cognizant of the amount of reinsurance recoverables from their risk transfer contracts. Uncollectible reinsurance could increase the reserve portion of this ratio (possibly substantially) and affect the pool’s financial strength.