



## **Non-Loss Expense to Net Position ratio:**

$$\frac{\text{Non-Loss Expense (net of reinsurance)}}{\text{Net Positions}}$$

Please note this is NOT the expense ratio in the traditional sense, which is usually defined as expenses divided by contributions.

Non-loss expense (net of reinsurance) is the administrative and operational cost of running the pool, reduced for (1) reinsurance costs, (2) incurred losses, and (3) loss adjustment expenses (LAE). This benchmark ratio compares the administrative and operational expense costs to a pool's net position, rather than to its contribution level.

By measuring the amount of administrative and operational expenses to the pool's net position, which is a proxy to its size, pools can potentially benchmark these costs to similarly sized pools around the country. Pools can also compare the relative cost of administration and operations, which include risk management and loss control products and services offered to its members, against those same relative costs of commercial insurance carriers.

Using net position as a proxy to a pool's size is not a perfect relationship, as some pools have different philosophical approaches to net position. Depending on financial and surplus policies set by a pool's Board of Directors, this ratio might vary dramatically among pools of similar size but varying philosophies. Regardless, it's a useful measure to track over time and in comparison to others.

As an example, a pool with a net position of \$5 million might have \$3 million in total operational expenses on its Income Statement, with incurred losses of \$1,350,000, LAE at \$150,000, and reinsurance policies costing the pool \$400,000. So, non-loss expense (net of reinsurance) would be  $\$3,000,000 - \$1,350,000 - \$150,000 - \$400,000 = \$1,100,000$ . Therefore, the pool's non-loss expense to net position ratio would be  $\$1.1 \text{ million} / \$5 \text{ million}$ , or 22 percent.

There is not a known "typical" pooling industry range, which is one of the reasons AGRiP is working on a financial benchmarking project. Pools will present an interesting study in this expense analysis.