



The combined ratio:

$$\frac{(\text{Net Incurred Losses} + \text{Non-Loss Expenses})}{(\text{Net Contributions})}$$

The combined ratio can serve as a basic measure of your pool's overall underwriting results in a year, allowing you to consider necessary adjustments. Risk pool business is much more complex than this ratio allows, with factors such as investment income, IBNR for long-tail lines of business, and inflationary forces all having impact. Even so, paying attention to your combined ratio provides useful insight.

Imagine your pool has \$100 in contributions, \$80 in incurred losses, and \$20 in overhead expenses. $(80 + 20)/100 = 100\%$ which means you had a break-even year. Results above 100% indicate overall loss for the year, while below 100% indicates contributions greater than losses and expense costs in the year.

Of the three figures used for this ratio, two can be adjusted by management. Expenses might be lowered with more efficient operations, and contributions can be increased to better align with losses and expense costs.