

Financial Benchmarking Initiative



STRUCTURE



- Fourteen ratios
 - Six leverage ratios
 - Four profitability ratios
 - Three liquidity and expense ratios
 - Retention ratios by line of coverage
- Cohort filters
 - Line of coverage
 - Contributions
 - Geography

INTERFACE



Line of Coverage

- Health
- Liability
- Property
- Workers' Compensation

Net Contribution Volume

(Total contributions less excess or reinsurance)

2,286,263 126,718,250
 Cohort Min Cohort Max



FBI Min 118,290

FBI Max 1,583,254,294

↑
30,666,820
 Your Pool

Geography

- West North Central x
- IA x KS x MN x
- MO x NO x NE x
- SD x

Ratio	Your 2017 Results	Cohort's Results
Contribution Leverage	0.262	0.716
Reserve Leverage	0.951	1.027
Change in Net Position	-0.1 %	3.8 %
Net Leverage	1.353	1.472
Liability Leverage	1.073	1.350
Invested Assets	1.386	1.937



USING THE FBI

A background image showing a hand holding a microscope slide. The slide contains a mixture of small, colorful particles in shades of white, yellow, orange, and red, which appear to be under a microscope.

1

DATA IS IMPERFECT

Every pool presents financial data differently. We have interpreted data points to produce ratios.

2

RATIOS ARE NOT POOL-SPECIFIC

Ratios are based upon traditional IRIS ratios. Until we have perspective on all pools, we cannot begin to derive more appropriate financial measures.

3

AVERAGES, NOT BENCHMARKS

This is our first look at standardized financial information across pools.

USING THE FBI



- Use the comparative data from other pools as “order of magnitude” insight
- Consider why your pool’s ratios are above or below averages
- Seek to ask new questions about your pool’s financial results



“We’ve learned many things from the FBI.

Specifically, being involved in the process forced me to really **take a hard look** at our financials and develop the ratio analysis.

This led to **educating the Board** on the meaning and use of the ratios as well.

It opened up some **really great discussions** on our financials, our goals, what we need to be watching, the similarities and differences between us and our cohorts.”

DEFINITIONS



Key Term	Simplified Definition
Net Contributions <i>Contributions</i>	Contribution income not including excess or reinsurance premiums
Net Position <i>Surplus, fund balance, member equity</i>	Assets minus liabilities (unrestricted)
Net Incurred Losses <i>Losses</i>	Total of paid claims and loss reserves for a particular time period
Loss Adjustment Expenses <i>LAE, ULAE</i>	Costs to investigate and adjust losses
Net Loss Reserves <i>Reserves, losses, ultimate liabilities</i>	Total estimated liability for all unpaid losses and loss expenses, net of ceded amounts
Total Liabilities	Net loss reserves plus all other liabilities
Investment Income <i>Investments</i>	Income generated by the loss portfolio, less management expenses
Operating Cost <i>Pool expenses, operating budget</i>	Non-loss expense, net of reinsurance premiums

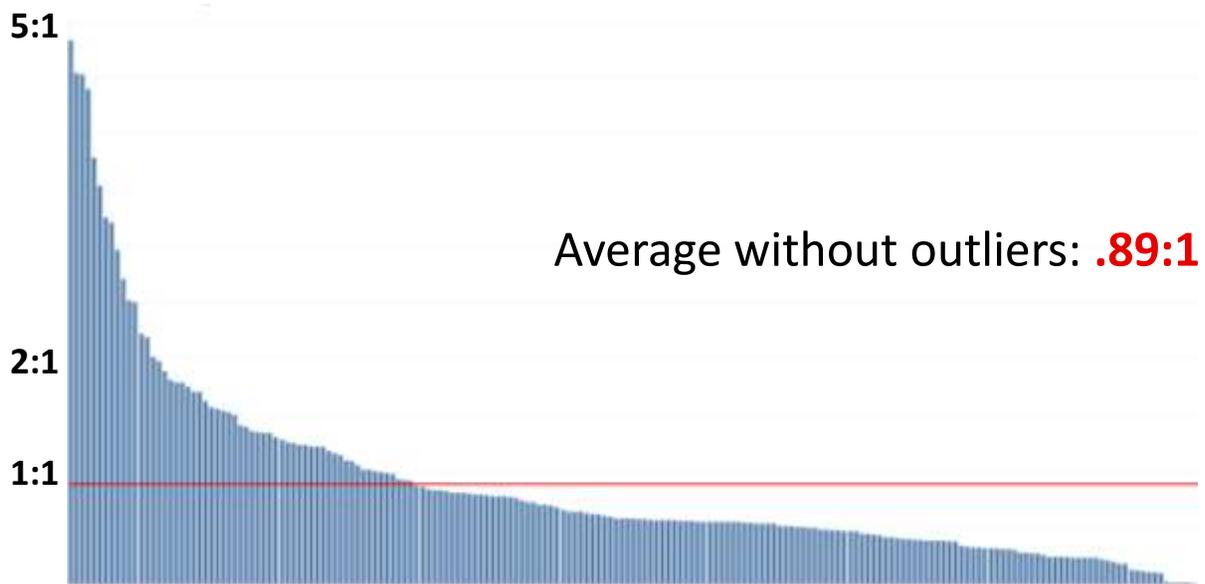
CONTRIBUTION LEVERAGE



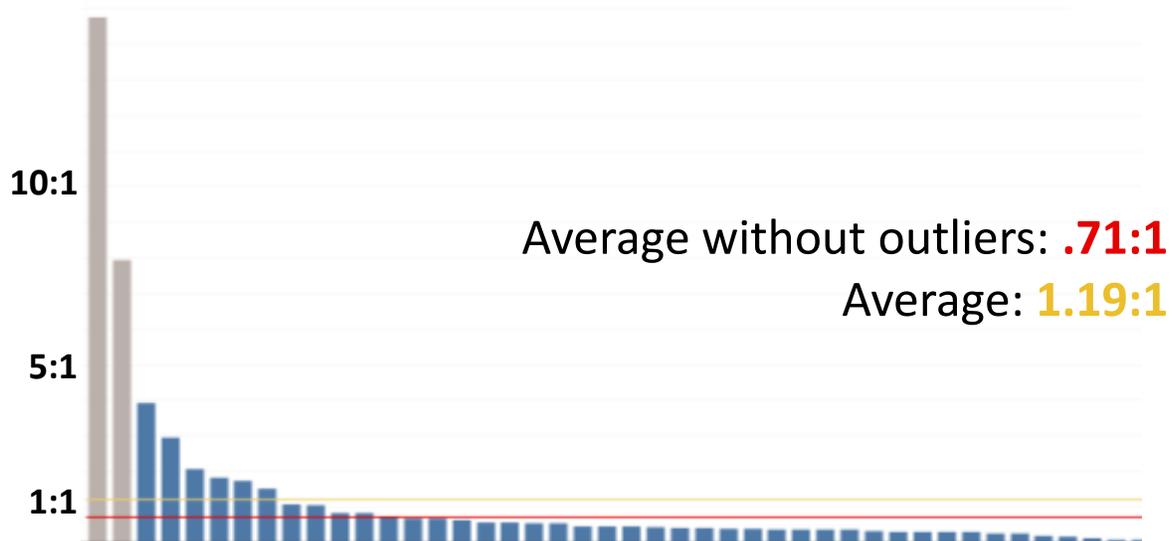
- Compares net contributions to net position
- A contribution leverage ratio of 1.0 (1:1) is considered strong in the insurance industry
- Some insurance companies operate with a contribution leverage ratio up to 3.0 (3:1)
- Pools are often less leveraged because pricing stability is important in the public sector

CONTRIBUTION LEVERAGE RATIO

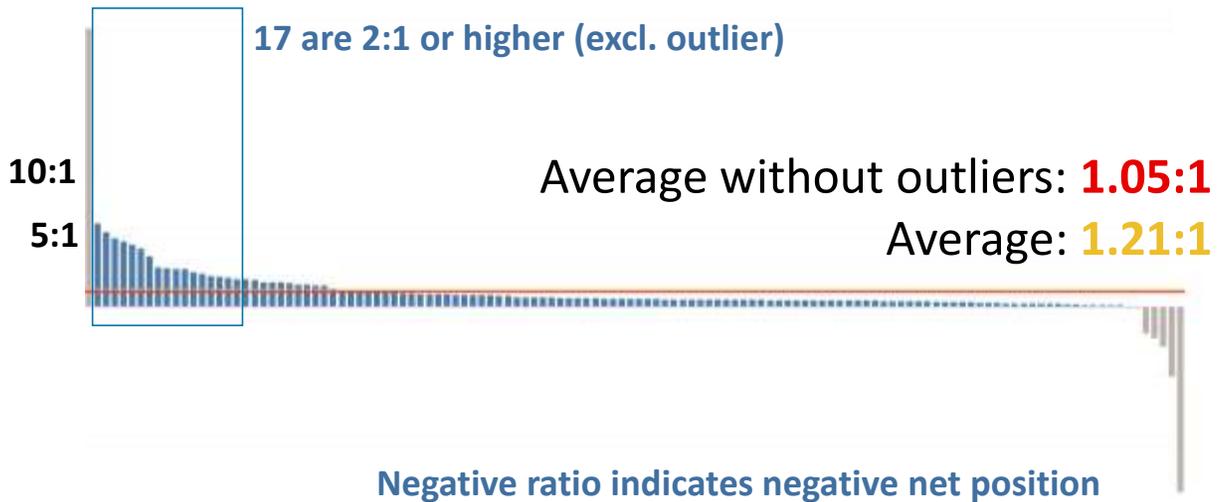
(PROP, LIAB, WORK COMP; EXCL. OUTLIERS)



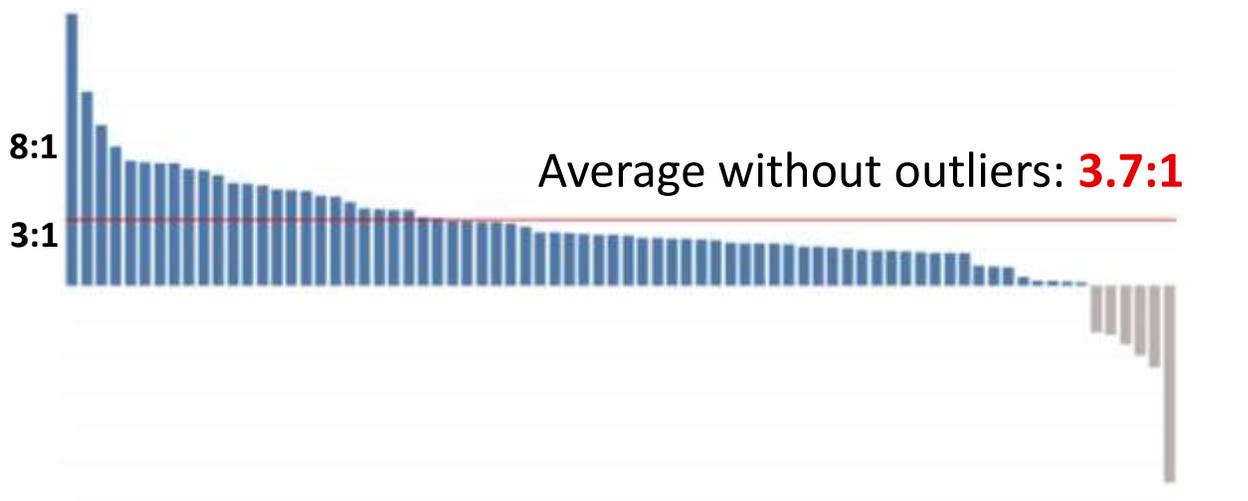
CONTRIBUTION LEVERAGE RATIO (LIABILITY)



CONTRIBUTION LEVERAGE RATIO (WORK COMP)



CONTRIBUTION LEVERAGE RATIO (HEALTH)

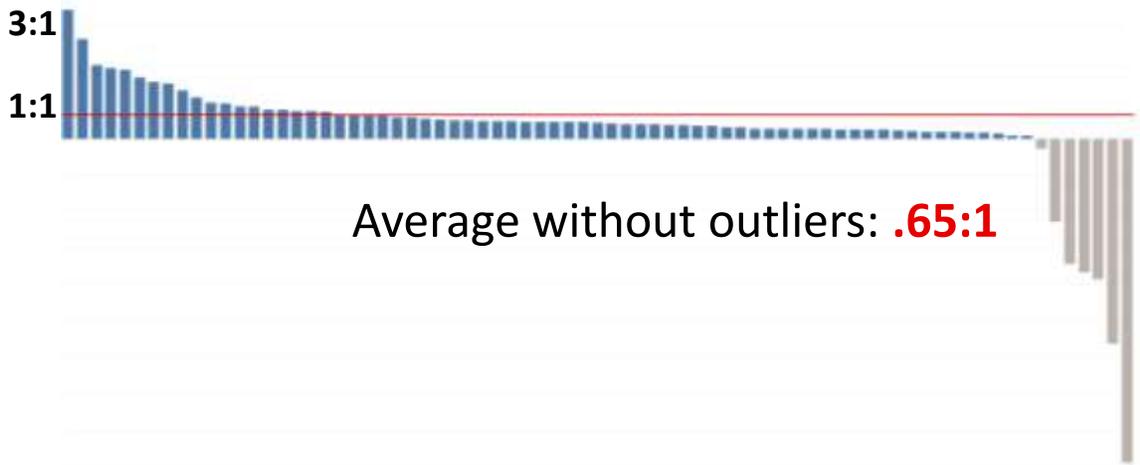


LIABILITY LEVERAGE



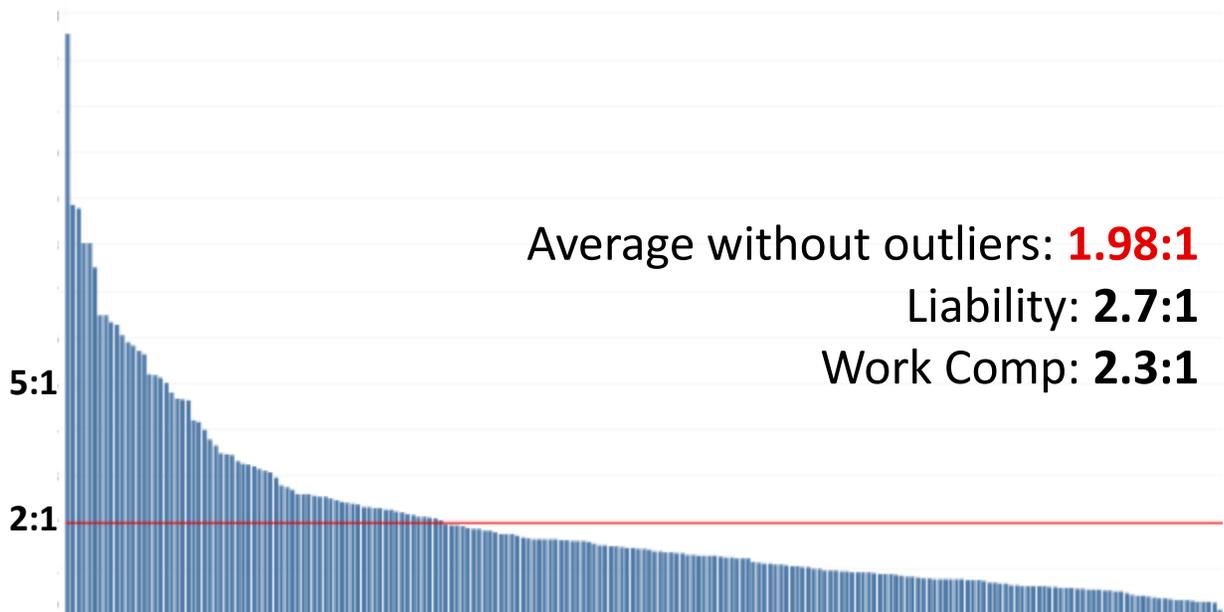
- Compares a pool's total liabilities including claims, debt, dividends payable, etc., to its net position
- Measures the pool's ability to support variation in all its liabilities
- A low liability ratio is an indicator of financial flexibility and strength

LIABILITY LEVERAGE RATIO (HEALTH)

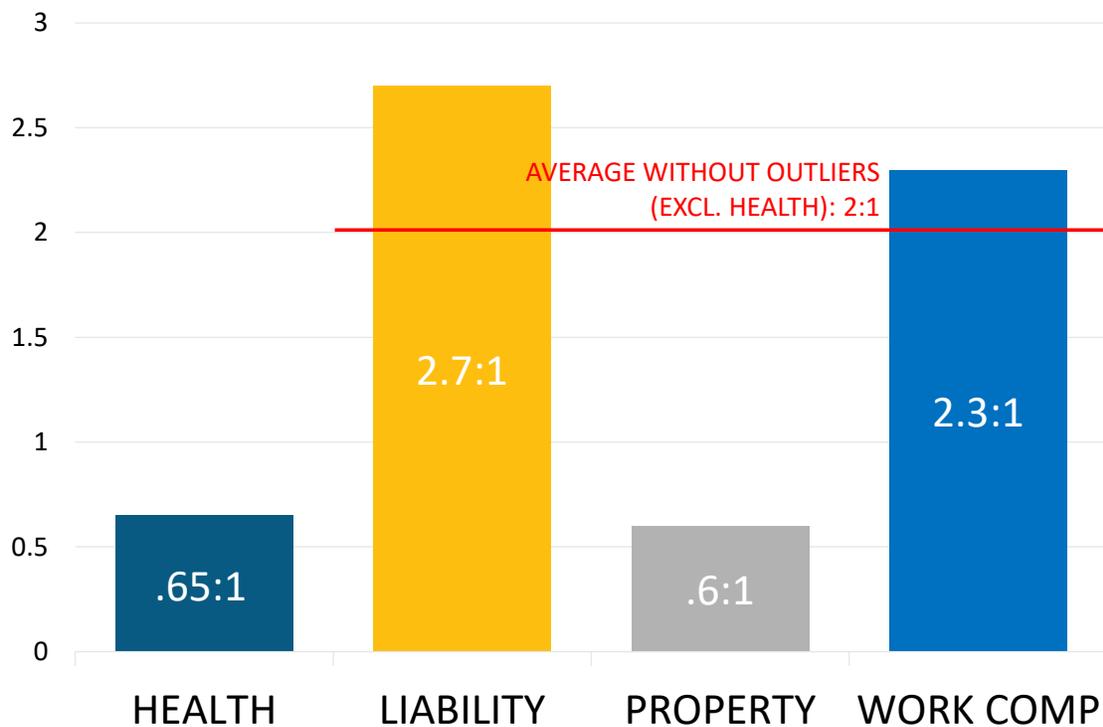


LIABILITY LEVERAGE RATIO

(PROP, LIAB, WORK COMP; EXCL. OUTLIERS)



LIABILITY LEVERAGE RATIO

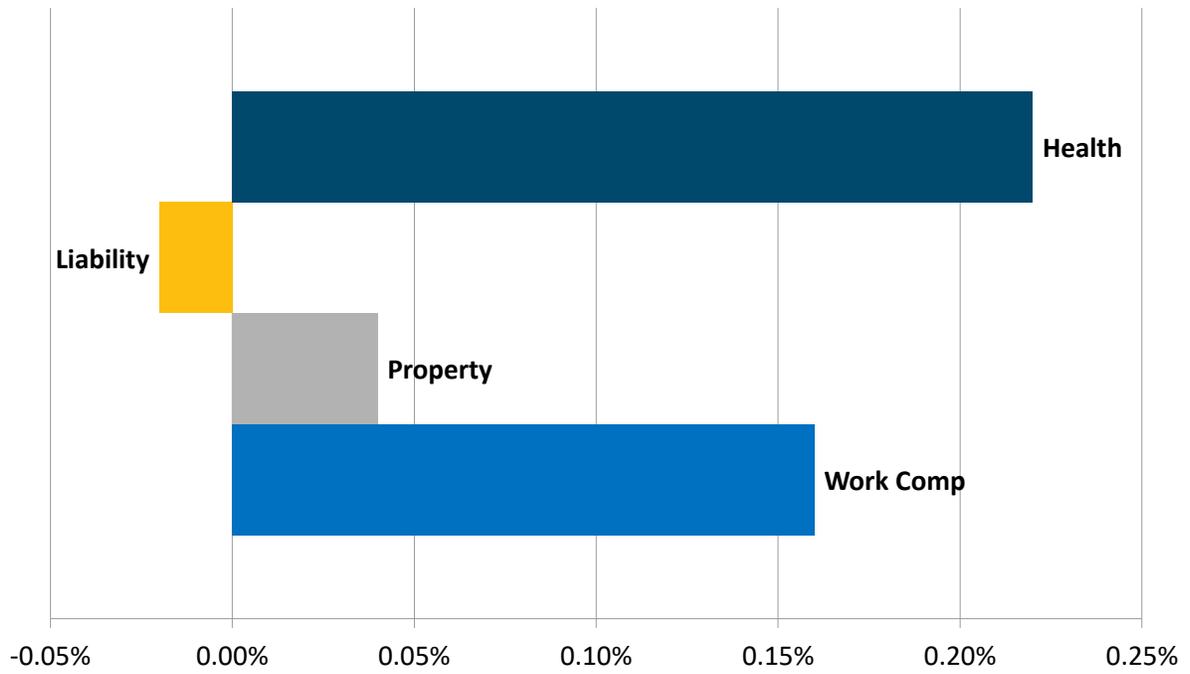


CHANGE IN NET POSITION



- Change in a pool's net position from the prior year
- Most pools seek to minimize year-over-year changes
- Pools use net position to offset risks, absorb pricing changes, experiment with new coverages, and smooth net contribution changes otherwise needed from members

CHANGE IN NET POSITION

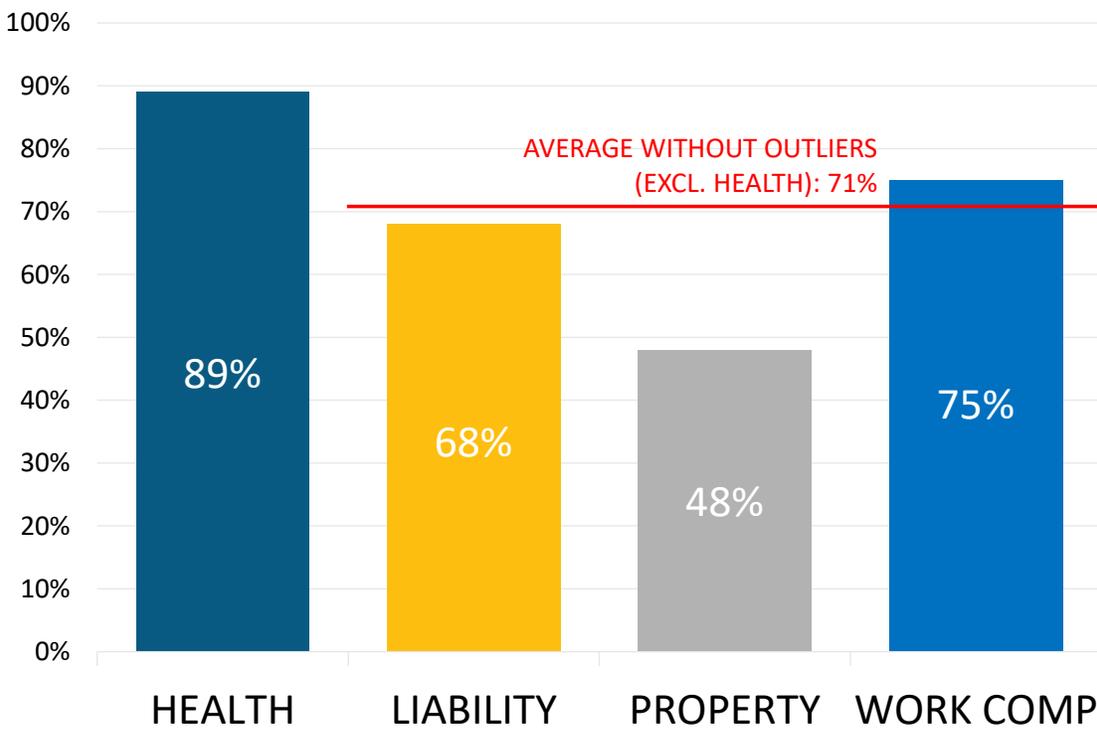


LOSS RATIO



Compares a pool's net incurred losses and loss adjustment expenses (LAE) to net contributions. Most useful when examined in context alongside claims frequency and severity, strategy and adequacy of pricing, loss control measures, and other operational nuances.

LOSS RATIO



LOSS RATIO



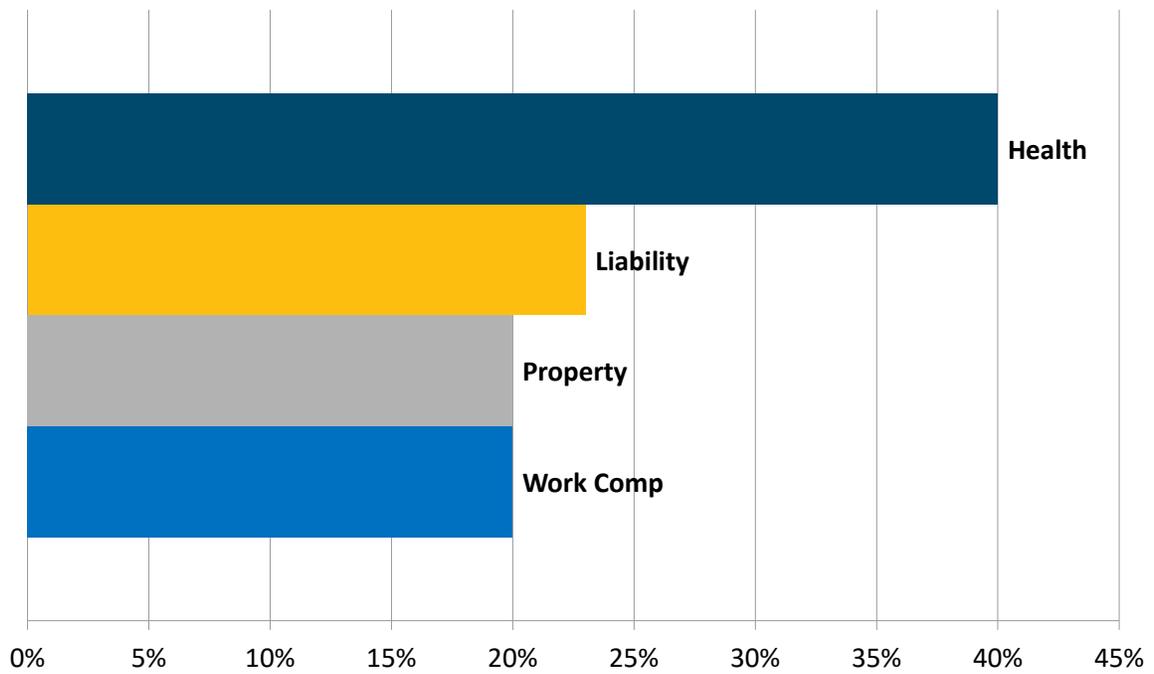
- Liability
 - Average of 68 percent
 - Most range from 40 to 150 percent
- Work Comp
 - Average of 75 percent
 - Most range from 40 to 115 percent
- Health
 - Average of 89 percent
 - Most range from 75 to 109 percent

EXPENSE RATIO



- Percentage of net contributions used to pay all costs of administering and operating the pool
- Lower expense ratios do not necessarily imply greater efficiency
- Risk management services provided by pools vary, and contributions in pooling may be based upon different goals than insurance companies

AVERAGE EXPENSE RATIOS

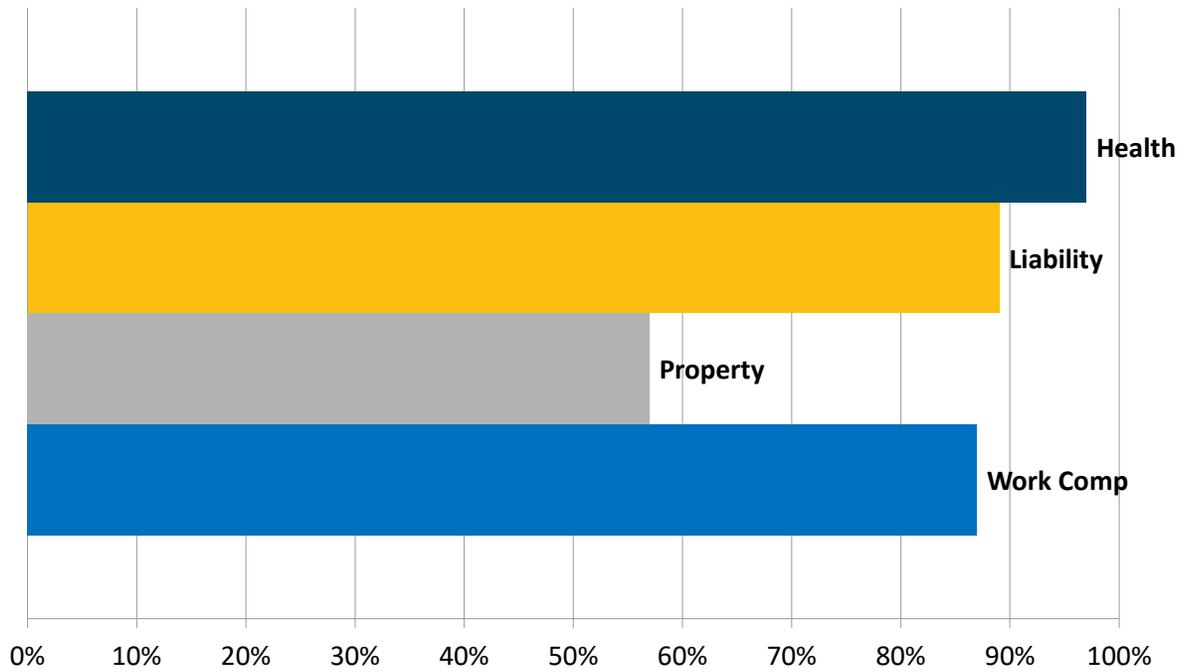


OPERATING RATIO



- Compares losses, LAE and other operating expenses to total income
- A ratio above 100 percent (1.0) may result from greater-than-expected losses, unfavorable loss development or investment results, or use of net position to offset contributions otherwise needed from members

POOL OPERATING RATIOS



NEXT STEPS



<p>Member pools use the FBI</p> <p>Share questions and use case scenarios</p>	<p>2020</p>
<p>Data refined, additional pool data entered</p> <p>Data entered quarterly</p>	<p>2020</p>
<p>Consider pool-specific benchmarks</p> <p>Determine whether and how pool-specific benchmarks can be derived</p>	<p>BEGIN 2021</p>
<p>Next generation of FBI</p> <p>Monitor and make improvements</p>	<p>BEGIN 2022</p>



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