



MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

2015 ANNUAL REPORT

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**Miami Valley Risk Management Association
2015 Annual Report**

MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

ABOUT MVRMA

MVRMA is a consortium of municipalities located in southwest Ohio, which formed an Association under Section 2744.081 of the Ohio Revised Code to act collectively in addressing its members' risk management and risk financing needs. It became operational in December 1988 with six charter members and now has twenty members.

MISSION STATEMENT

The mission of the Miami Valley Risk Management Association is to deliver high quality risk management services to its member municipalities in a manner which provides long-term financial stability, minimization of risks and protection of mutual interests.

VISION STATEMENT

The vision of the Miami Valley Risk Management Association is to be the premier property and liability insurance pool for member municipalities in Ohio.

MEMBERS (Year Joined)

City of Beavercreek (1988)	City of Bellbrook (2004)
City of Blue Ash (1992)	City of Centerville (2004)
City of Englewood (2004)	Village of Indian Hill (1993)
City of Kettering (1988)	City of Madeira (1994)
City of Mason (1997)	City of Miamisburg (1988)
City of Montgomery (1990)	City of Piqua (2002)
City of Sidney (1993)	City of Springdale (1991)
City of Tipp City (1996)	City of Troy (1989)
City of Vandalia (1988)	City of West Carrollton (1988)
City of Wilmington (1988)	City of Wyoming (1992)

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MESSAGE FROM THE EXECUTIVE DIRECTOR

We are pleased to offer this 2015 Annual Report to our members and other parties interested in an overview of the Association’s activities in 2015.

The financial data contained in this report continues to show that the pool has matured into a financially strong and stable organization. An overview of the pool’s financial profile is presented in the next section of this report.

Refunds to Members: Over \$2.3 million of surplus funds were refunded to the member cities from the closure of two loss years in 2015. Per pool policy, when all of a loss year’s claims and lawsuits have been resolved, all remaining funds from that year, including interest, are returned to the members. As of December 31, 2015, MVRMA had returned over \$15 million to its members since the inception of the pool.

Insurance Program: The pool’s insurance program was unchanged in 2015. Government Entities Mutual, Inc. (GEM), a reinsurance captive, continued to reinsure the next \$2.5 million excess the pool’s \$500,000 self-insured retention for liability claims; Genesis reinsured the next \$7 million for a total of \$10 million per occurrence.

Liability reinsurance premiums increased 1.7% in 2015 after four consecutive years of decrease. This positive recent trend is due to the pool’s favorable loss experience and insurance market conditions.

MVRMA maintained a self-insured retention of \$250,000 per occurrence for property claims. Property coverage was placed with Alliant Property Insurance Program (APIP), a proprietary program of Alliant Insurance Services, Inc. APIP is the single largest property placement in the world. Lexington Insurance Company is the lead insurer on the program. Cyber liability coverage is provided as part of the APIP program. The pool’s property insurance rates decreased by about 3% in 2015.

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Investment Performance: The primary objective of the pool’s investment policy is preservation of principal. Investments are primarily high quality corporate bonds, government agency bonds and money market instruments. The current yield on the investment portfolio was 1.27% as of December 31, 2015.

Property Coverage Document: The Board adopted a Property Coverage Document in 2015. This document formalizes the long-standing practice that claims paid by MVRMA within its property self-insured retention (generally \$250,000 or less) are paid per the terms of the excess property policy currently provided by APIP.

Strategic Planning Retreat / Loss Funding Study: The Board held a Strategic Planning Retreat in May 2015. As a result of discussions at the retreat, the pool contracted with its actuary to perform an actuarial study testing the sufficiency of the pool’s capital to pay claims under various scenarios. The results of this study determined that MVRMA is conservatively capitalized. Currently, there is greater than a 99% confidence level that the pool’s capital surplus funds would be sufficient to handle claims losses. The confidence level remained near 99% even under various scenarios in which the pool’s liability self-insured retention was increased above the current \$500,00. This study provided vital assurances to the Board that its funding policies are adequate to meet the needs of the pool under various possible scenarios.

Board of Trustees: As always, I want to thank the MVRMA Board for their vision, leadership and support of the staff.

Anyone who would like more information about the information in this report may contact the Executive Director at 937-438-8878.

Thomas L. Judy, Executive Director

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CONDENSED FINANCIAL INFORMATION

The Statement of Net Position

The difference between total assets and total liabilities is reported as “net position.” Over time, an increase in net position generally indicates an improvement in financial position while a decrease may indicate a deterioration of financial position.

The following table presents condensed information on MVRMA’s net position as of December 31, 2015, 2014 and 2013.

	2015	2014-restated	2013
Condensed Statement of Net Position			
December 31, 2015, 2014, and 2013			
(unaudited)			
Assets:			
Cash, cash equivalents, and investments	\$18,452,307	\$18,712,470	\$18,640,679
Other Assets	401,884	494,597	399,206
Total assets	<u>18,854,191</u>	<u>19,207,067</u>	<u>19,039,885</u>
Deferred Outflows of Resources	<u>58,672</u>	<u>42,384</u>	<u>0</u>
Liabilities:			
Claims reserve	2,698,181	3,550,119	3,609,448
Members' refunds	5,237,182	4,261,027	4,080,483
Net Pension Liability	289,865	283,973	
Other Liabilities	<u>98,350</u>	<u>108,899</u>	<u>116,682</u>
Total liabilities	<u>8,323,578</u>	<u>8,204,018</u>	<u>7,806,613</u>
Deferred Inflows of Resources	<u>5,392</u>	<u>0</u>	<u>0</u>
Total net position	\$10,583,893	\$11,045,433	\$11,233,272

MVRMA’s primary assets are cash and investments. MVRMA’s investment policy permits investment in United States treasury bills, notes, and bonds; bonds, notes, debentures, or any other obligations or securities issued by any federal agency or instrumentality, including government sponsored enterprises; deposits in eligible financial institutions; bonds, notes, or other obligations of the State of Ohio and its political subdivisions; investment grade corporate bonds rated not lower than A2 by Moody’s or A by S&P; and STAR-Ohio or other

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such investment pools operated or managed by the Treasurer of the State of Ohio. The policy provides for diversification and other safeguards necessary to meet the primary objective of preservation of principal. MVRMA’s investments are professionally managed in accordance with the Cash and Investment Policy.

The single largest liability is the claims reserve. This liability for net unpaid losses and loss adjustment expenses is established annually with the assistance of an outside actuary. This amount decreased by 24% in 2015, the fourth consecutive year this liability has decreased due to positive claims development.

The liability for members’ refunds reflects the funds being held in MVRMA’s General Reserve Fund (GRF). The General Reserve Fund accounts for surplus funds returned, but not yet paid, to members from closed loss years. Members may withdraw their GRF funds within thirty days after the close of a loss year, or in January of each year, or for the payment of a MVRMA invoice at any time during the year. If they wish, members may leave their funds on deposit in the GRF indefinitely. Interest income is allocated to GRF funds. The members’ refunds liability increased as of December 31, 2015 due to the closure of a loss years in 2015.

The Association was required to adopt accounting standards in 2015 that call for the reporting of a net pension liability and deferred inflows/outflows of resources related to pension. This implementation also had the effect of restating net position at December 31, 2014, from \$11,287,022 to \$11,045,433.

Net position is divided into two categories, invested in capital assets and unrestricted. Total net position decreased by \$461,540, or 4.2%, during 2015 due to the closure of two loss years.

The Statement of Revenues, Expenses and Changes in Net Position

This statement reflects operating and non-operating revenue and expenses and how the Association’s net position changed during the year.

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Operating revenue consists primarily of members' contributions. The major categories of operating expenses are claims and claims adjustment expenses, reinsurance premiums, general and administrative expenses, and dividends to members. Non-operating revenue and expense is primarily related to investment activity.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Years Ended December 31, 2015, 2014 and 2013
(unaudited)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenue	\$4,462,299	\$4,461,937	\$4,359,916
Operating Expenses:			
Incurred claims and claims adjustment expenses	651,209	1,892,603	1,010,964
Reinsurance premiums	885,468	878,317	870,249
Members' dividends	2,389,527	1,325,803	3,254,320
Gen. & admin. Expenses	<u>758,871</u>	<u>756,800</u>	<u>751,099</u>
Total Operating Expenses	<u>4,685,075</u>	<u>4,853,523</u>	<u>5,886,632</u>
Operating Income (Loss)	-222,776	-391,586	-1,526,716
Nonoperating Revenue (Expense):			
Interest income and realized and unrealized gains (losses) on investments	-238,930	446,255	-42,851
Other nonoperating revenue (expense)	<u>166</u>	<u>-919</u>	<u>-265</u>
Changes in Net Position	<u><u>-\$461,540</u></u>	<u><u>\$53,750</u></u>	<u><u>-\$1,569,832</u></u>

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Members’ contributions account for about 95% of operating revenue. Changes in net position can vary widely due to fluctuations in incurred claims expense and members’ dividends. Although the incurred claims expense is subject to variability, it is moderated by the insuring of losses above the pool’s self-insured retentions of \$500,000 per occurrence for liability claims and \$250,000 for property claims.

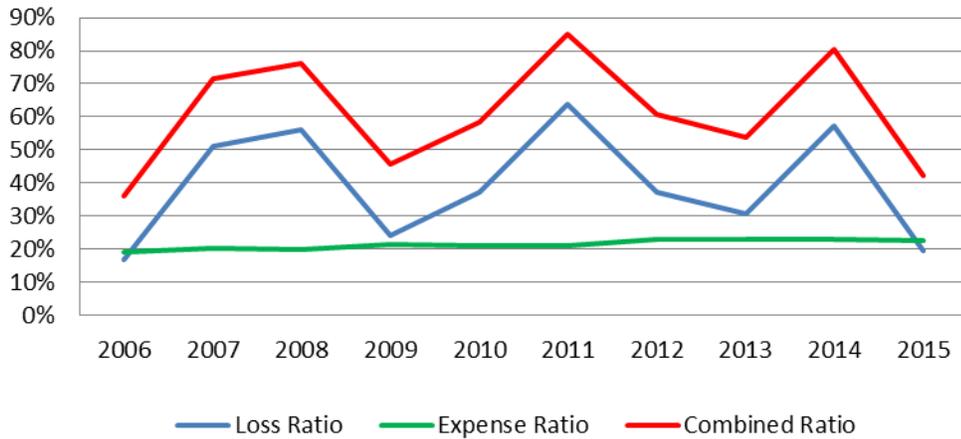
Members’ dividends expense is incurred when the Board of Trustees closes a loss year and refunds the residual assets in the loss year to the members. These amounts can be significant and do not necessarily occur each year. Loss year closures in 2015, 2014 and 2013 resulted in members’ dividends of \$2,389,527, \$1,325,803 and \$3,254,320, respectively. The operating losses in each of the years shown are attributable to the payment of members’ dividends.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Loss Ratio ¹	64%	37%	31%	57%	20%
Expense Ratio ²	21%	23%	23%	23%	23%
Combined Ratio ³	85%	60%	54%	80%	42%

- 1. Loss Ratio: Ratio of incurred losses and loss adjustment expenses to net earned premium. Excludes member dividends (closed loss year refunds).*
- 2. Expense Ratio: Ratio of brokerage and administrative expenses to net earned premium. The Expense Ratio indicates a pool’s operating efficiency.*
- 3. Combined Ratio: The sum of the Loss Ratio and Expense Ratio. A Combined Ratio of less than 100% indicates an underwriting profit.*

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Loss Ratio, Expense Ratio & Combined Ratio



	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Surplus to SIR Ratio	24.7	25.6	22.5	22.1	21.2

Surplus to SIR Ratio: An indication of pool solvency that measures the relationship between the pool’s surplus and its self-insured retention (SIR). MVRMA’s SIR for liability claims is \$500,000 per occurrence. A higher ratio indicates the pool presents less risk and can withstand adverse losses. A ratio of at least 10 is desirable.

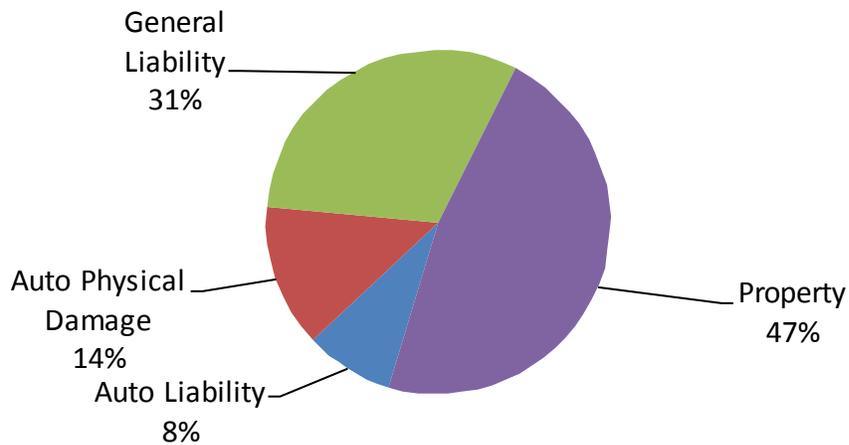
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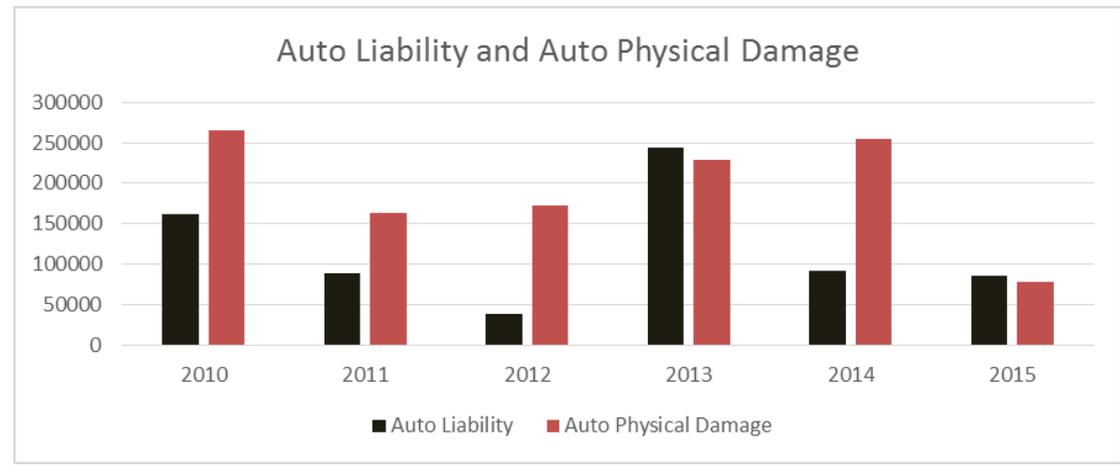
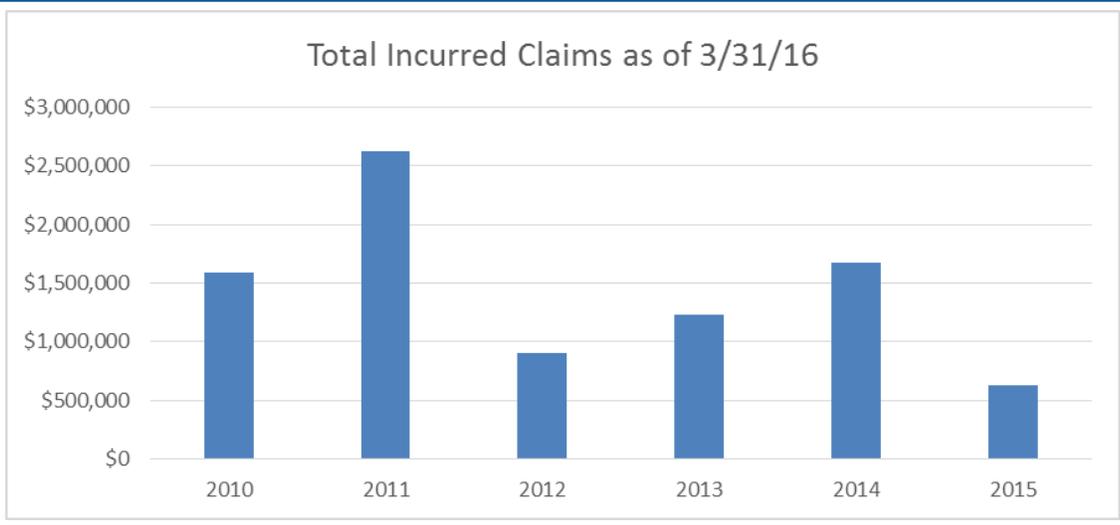
**CLAIMS INFORMATION
Incurred Claims by Loss Year
As of March 31, 2016**

Loss Year	Auto Liability	Auto Physical Damage	General Liability	Property
2010	\$161,512	\$265,315	\$1,036,784	\$124,069
2011	\$87,731	\$162,738	\$443,369	\$1,930,078
2012	\$38,269	\$171,593	\$301,664	\$387,515
2013	\$243,573	\$228,921	\$402,813	\$353,785
2014	\$91,840	\$255,218	\$382,763	\$947,301
2015	\$85,978	\$77,926	\$125,964	\$344,058
Annual Average \$	\$118,151	\$193,619	\$448,893	\$681,134
No. of Claims per Yr	60	61	131	105
Average Per Claim	\$1,975	\$3,183	\$3,435	\$6,466

Incurred Claims by Type 2010-15



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LOSS CONTROL ACTIVITIES

Training

In 2015, MVRMA sponsored 24 training programs with 561 attendees. Staff continues to analyze loss data in order to provide relevant training that contributes to lowering both the frequency and severity of losses.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Number of Training Programs	25	41	31	23	31	24	22	24
Number of Participants	882	1,300	1,155	815	1,016	1,156	861	561

The core focus of MVRMA training in 2015 was in the areas of Driver training, Police Liability, and Employment Practices training. Highlights include:

- The Real Risk Management program presented by Risk Management expert and Lexipol Owner, Gordon Graham. The program was greatly received and was attended by 125 employees.
- In 2015, MVRMA sponsored a recertification program for IAPD driving instructors and had eight instructors renew their certification. Those instructors conducted eight sessions of IAPD Heavy Vehicle Driver Training for operators. Two-day sessions were held for new drivers that had not previously attended the course. A one-day refresher was offered for drivers who had attended the training in the past three years. MVRMA has been offering IAPD driver training to its members since 1999.
- MVRMA sponsored a Law Enforcement Use of Force Program presented by Lexipol’s Ken Wallentine. This program was very well attended with 61 attendees.

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- Four supervisory programs were offered in 2015: Dealing with Problem Employees offered by Doug Duckett with 15 attendees, Conducting Performance Evaluations instructed by Doug Duckett with 80 attendees, ADA, Workers Comp and ADA instructed by Drew Piersall with 15 attendees, and Prevention of Harassment and Discrimination instructed by Doug Duckett with 38 attendees.

Best Practices

- In 2015, the MVRMA staff started to revise and update the current Best Practices program, commonly known by the acronym SPEC. The process to evaluate members’ compliance with the standards was streamlined and updated to include a more complete scope of risk exposures faced by municipal governments. The updated best practices program will reflect staff’s research of current risk management best practices and the input from the subject matter experts within the member cities. The final updated Best Practices program is scheduled to go into effect in July 2016.
- MVRMA staff conducted annual visits to each of member city Police department to evaluate their practices compared to MVRMA’s best practice program. These meetings provide an opportunity for MVRMA staff to discuss claims as well as trends in the area of police risk management with member police representatives.
- MVRMA staff also conducted annual visits to member cities to evaluate all of their city departments based on MVRMA’s Safety Performance Evaluation Checklist (SPEC), a best practices program. The SPEC review allows loss control staff to meet with key employees in each city to discuss claims and share best practices.

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2015 Board of Trustees Officers:

President: Nancy Gregory, City of Kettering
Vice-President: John Green, City of Tipp City
Treasurer: Janine Cooper, City of Englewood
Secretary: Julie Trick, City of Vandalia

MVRMA Staff Contact Information:

Office Phone: 937-438-8878

Email:

Tom Judy, Executive Director: tjudy@mvrma.com

Craig Blair, Claims Manager: cblair@mvrma.com

Starr Markworth, Loss Control Manager: smarkworth@mvrma.com

Sandy Caudill, Office Administrator: scaudill@mvrma.com