



MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

2014 ANNUAL REPORT

Serving Southwest Ohio Municipalities since 1988

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Miami Valley Risk Management Association

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 Blue Ash (1992)

City of Englewood (2004)

City of Kettering (1988)

City of Mason (1997)

City of Montgomery (1990)

City of Sidney (1993)

City of Tipp City (1996)

City of Vandalia (1988)

City of Wilmington (1988)

City of Bellbrook (2004)

City of Centerville (2004)

Village of Indian Hill (1993)

City of Madeira (1994)

City of Miamisburg (1988)

City of Piqua (2002)

City of Springdale (1991)

City of Troy (1989)

City of West Carrollton (1988)

City of Wyoming (1992)

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MESSAGE FROM THE EXECUTIVE DIRECTOR

We are pleased to offer this 2014 Annual Report to our members and other parties interested in an overview of the Association’s activities in 2014.

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 \$1.3 million of surplus funds were refunded to the member cities from the closure of a loss year in 2014, following the refund of over \$3.2 million in 2013. 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, 2014, MVRMA had returned over \$13 million to its members since the inception of the pool.

Insurance Program: The pool’s insurance program was unchanged in 2014. 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.

The pool’s favorable loss experience led to a 2.2% reduction in liability reinsurance premiums in 2014, the fourth consecutive year of decrease.

MVRMA maintained a self-insured retention of \$250,000 per occurrence for property claims. Property coverage was placed with Public Entities Property Insurance Program (PEPIP), a proprietary program of Alliant Insurance Services, Inc. PEPIP 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 PEPIP program. The pool’s property insurance rates decreased by about 3% and premiums decreased by about 0.4% in 2014.

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Investment Policy and Practices: The Board of Trustees approved changes to the Investment Policy in 2013 to permit investment in high quality corporate bonds and relaxed the restriction on the portfolio’s duration. These changes will lead to a greater return on investment while still maintaining a preservation-of-principal focus. The transition to the new portfolio was well underway in 2014. The December 31, 2014 portfolio consisted of 37% corporate bonds, 50% government agency bonds and 13% money market funds.

Policy Changes: The MVRMA Board reviewed and revised several policies in 2014, including:

Revised the Membership Selection Policy to further define membership criteria and to require that any prospective member that expresses interest in pool membership must undergo an assessment of loss control practices and loss history. Also, the Board approved a Prospective Member List of cities in southwestern Ohio.

Revised the Shock Loss Fund Policy to authorize refunds to members determined to be “over-funded.”

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, 2014, 2013 and 2012.

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|---------------------|
| Condensed Statement of Net Position | | | |
| December 31, 2014, 2013, and 2012 | | | |
| (unaudited) | | | |
| ASSETS: | | | |
| Cash, cash equivalents, and investments | \$18,712,470 | \$18,640,679 | \$18,962,886 |
| Other Assets | 494,597 | 399,206 | 279,391 |
| Total assets | <u>19,207,067</u> | <u>19,039,885</u> | <u>19,242,277</u> |
| LIABILITIES | | | |
| Claims reserve | 3,550,119 | 3,609,448 | 3,636,562 |
| Members' refunds | 4,261,027 | 4,080,483 | 2,740,454 |
| Other Liabilities | 108,899 | 116,682 | 62,157 |
| Total liabilities | <u>7,920,045</u> | <u>7,806,613</u> | <u>6,439,173</u> |
| Total net position | <u>\$11,287,022</u> | <u>\$11,233,272</u> | <u>\$12,803,104</u> |

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 14.3%, 0.7% and 1.6% in 2012, 2013 and 2014, respectively, 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, 2014 due to the closure of a loss year in 2014.

Net position is divided into two categories, invested in capital assets and unrestricted. Total net position decreased by \$1,569,832, or 12.3%, during 2013, and increased by \$53,750, or 0.5%, in 2014. The decrease in 2013 was due to the closure of two loss years. The increase in 2014 was despite the closure of one loss year; net position was bolstered by about \$326,000 in unrealized investment gains in 2014.

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.

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.

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**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Years Ended December 31, 2014, 2013, and 2012
(unaudited)**

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|--------------------|---------------------|--------------------|
| Operating Revenue | \$4,461,937 | \$4,359,916 | \$4,171,048 |
| Operating Expenses: | | | |
| Incurred claims and claims adjustment expenses | 1,892,603 | 1,010,964 | 1,182,409 |
| Reinsurance premiums | 878,317 | 870,249 | 807,647 |
| Members' dividends | 1,325,803 | 3,254,320 | 1,276,154 |
| Gen. & admin. Expenses | <u>757,719</u> | <u>751,099</u> | <u>733,355</u> |
| Total Operating Expenses | <u>4,854,442</u> | <u>5,886,632</u> | <u>3,999,565</u> |
| Operating Income (Loss) | -392,505 | -1,526,716 | 171,483 |
| Nonoperating Revenue (Expense): | | | |
| Interest income and realized and unrealized gains (losses) on investments | 446,255 | -42,851 | 262,787 |
| Other nonoperating revenue (expense) | <u>0</u> | <u>-265</u> | <u>-580</u> |
| Changes in Net Position | <u>\$53,750</u> | <u>-\$1,569,832</u> | <u>\$433,690</u> |

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Members’ contributions account for about 95% of operating revenue. Changes in net position can vary widely due to variances in incurred claims expense and members’ dividends. Although the incurred claims expense is subject to variability, it is controlled 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.

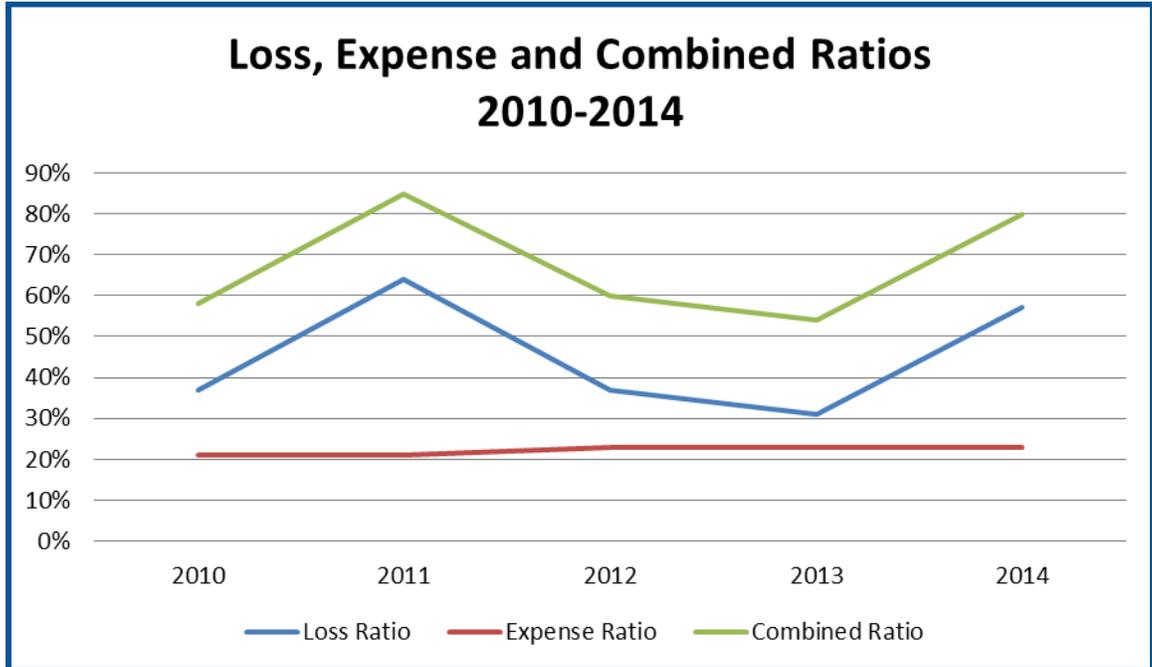
Members’ dividends expense is incurred when the Board of Trustees closes a loss year and refunds the residual assets in the loss year to the members. These amounts can be significant and do not necessarily occur each year. Loss year closures in 2014 and 2013 resulted in members’ dividends of \$1,325,803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

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Loss Ratio ¹ | 37% | 64% | 37% | 31% | 57% |
| Expense Ratio ² | 21% | 21% | 23% | 23% | 23% |
| Combined Ratio ³ | 59% | 85% | 60% | 54% | 80% |

- 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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| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Surplus to SIR Ratio | 23.0 | 24.7 | 25.6 | 22.5 | 22.6 |

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.

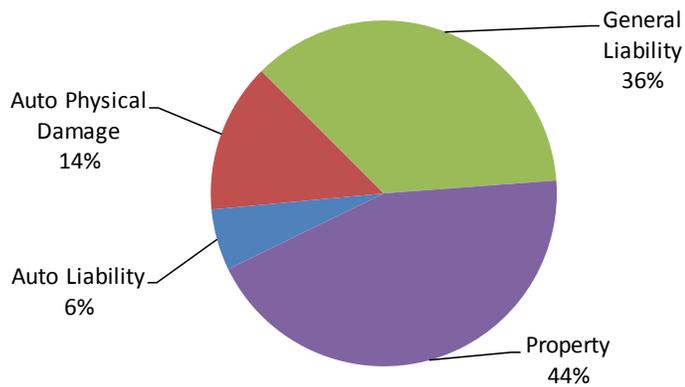
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CLAIMS INFORMATION

| Loss Year | Auto Liability | Auto Physical Damage | General Liability | Property | Total |
|----------------|----------------|----------------------|-------------------|-----------|-------------|
| 2009 | \$31,122 | \$140,298 | \$1,177,812 | \$184,218 | \$1,533,450 |
| 2010 | 161,512 | 265,315 | 955,456 | 124,069 | 1,506,352 |
| 2011 | 87,731 | 162,738 | 258,839 | 1,930,078 | 2,439,386 |
| 2012 | 38,269 | 171,593 | 306,664 | 387,515 | 904,041 |
| 2013 | 108,494 | 228,921 | 297,740 | 338,136 | 973,291 |
| 2014 | 82,740 | 275,735 | 230,955 | 945,216 | 1,534,646 |
| Annual Average | \$84,978 | \$207,433 | \$537,911 | \$651,539 | \$1,481,861 |
| No. of Claims | 61 | 65 | 148 | 102 | 376 |
| Average Per C | \$1,393 | \$3,191 | \$3,635 | \$6,388 | \$3,941 |

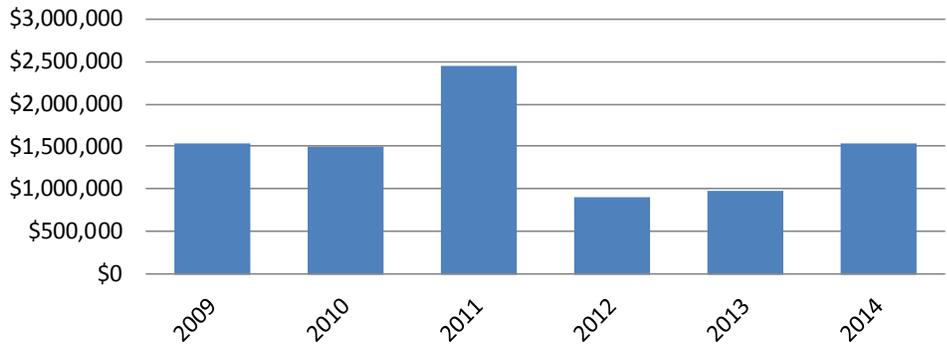
Claims Costs by Type 2009-14



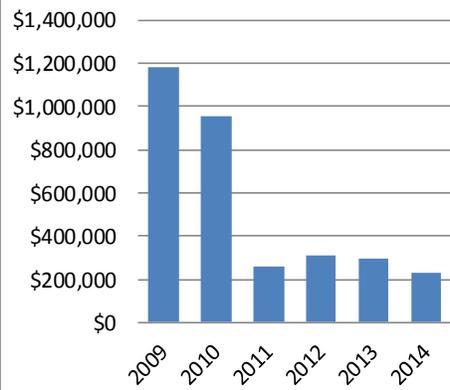
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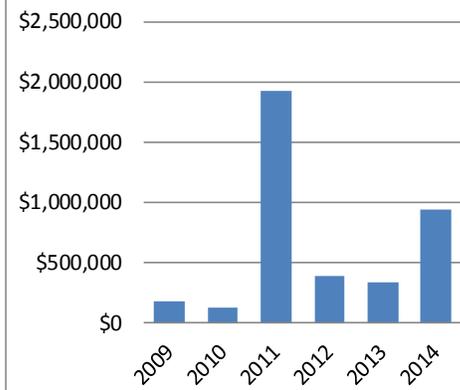
Total Paid and Incurred Claims by Loss Year as of 3/31/15



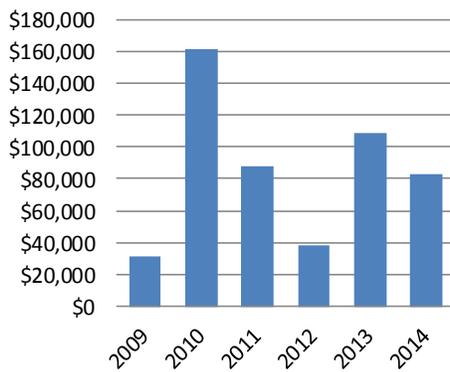
General Liability



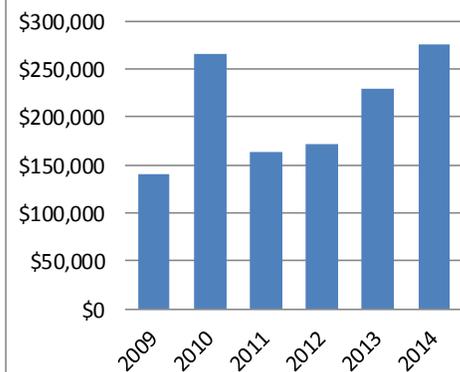
Property



Auto Liability



Auto Physical Damage



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LOSS CONTROL ACTIVITIES

Training

In 2014, MVRMA sponsored 22 training programs with 861 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> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Number of Training Programs | 25 | 41 | 31 | 23 | 31 | 24 | 22 |
| Number of Participants | 882 | 1,300 | 1,155 | 815 | 1,016 | 1,156 | 861 |

The core focus of MVRMA training in 2014 was in the areas of Driver training, Police Liability, and Employment Practices training. Highlights include:

- In 2014, 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 Legal Update session led by MVRMA defense counsel. The program was very well attended with 39 attendees. The session focused on hot topics related to MVRMA claims including use of force, open carry of firearms and property seizure. An additional law enforcement program on Surviving Verbal Conflict presented by retired North Carolina Police Chief Harry Dolan had 24 attendees. Risk Management for Police was attended by 50 and instructed by Canadian Risk Management expert Doug Wyseman.

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- Four supervisory programs were offered in 2014: Harassment and Discrimination offered by Cindy-Ann Thomas with 141 attendees, ABC’s of Employment Law instructed by Jonathan Downes with 24 attendees, Dealing with Problem Employees instructed by Doug Duckett with 56 attendees, and Performance Evaluations instructed by Doug Duckett with 33 attendees.

Best Practices

- MVRMA staff conducted annual visits to each of member city Police departments 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.

2014 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

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