



MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

2016 ANNUAL REPORT

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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 (ORC) to act collectively in addressing its members' risk management and risk financing needs. It began operation 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 casualty 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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INSURANCE PROGRAM

Liability: MVRMA’s liability program offers coverages based on the special needs of its member cities. The MVRMA Board of Trustees has the flexibility to custom design this coverage through the Board-approved MVRMA Liability Coverage Document. The liability program includes: General Liability, Auto Liability, Employment Practices Liability and Public Officials Errors and Omissions coverage. Limits of coverage in 2016 were \$12 million per occurrence. The pool funded the first \$500,000 of each occurrence. Government Entities Mutual (GEM), a reinsurance captive, reinsured the next \$4.5 million excess of the pool’s \$500,000 retention. Genesis provided \$7 million excess of \$5 million for a total limit of \$12 million per occurrence.

Property: MVRMA provides property coverage through the Alliant Property Insurance Program (APIP). APIP is the single largest property placement in the world. Lexington Insurance Company is the lead insurer on the program. The policy is “All Risk” providing members the broadest form of coverage. The policy includes Commercial Property, Earthquake, Flood, Boiler and Machinery, Auto Physical Damage and Cyber Liability. The pool funds the first \$250,000 of most property claims with APIP picking up coverage above that point up to repair or replacement cost.

Crime: MVRMA provides Government Crime Coverage through National Union Fire Insurance Company of Pittsburgh, PA. The plan includes limits of \$2 million per occurrence for employee theft, forgery or alteration, computer fraud, funds transfer fraud and government employee faithful performance of duty. A limit of \$100,000 per occurrence applies to theft of money and securities.

Position Bonds: Surety bonds required by charter, ordinance or statutory requirement are provided by MVRMA. Bonds are provided for the required amount except “all employee” bonds are limited to \$2,500 per employee.

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MESSAGE FROM THE EXECUTIVE DIRECTOR

We are pleased to offer this 2016 Annual Report to our members and other parties interested in an overview of the Association’s activities in 2016.

Financial Strength and Stability: The financial data contained in this report continues to demonstrate that MVRMA has matured into a financially strong and stable organization. The 2016 results further strengthened the pool’s financial position, with net position increasing by over \$600,000.

The largest expense item, claims expense, is subject to much volatility from year to year. In 2015, claims expense was unusually low. The increase in claims expense in 2016 marked a return to a more “normal” level; however, it remained below the actuarially expected amount.

The strength of MVRMA’s balance sheet is due to conservative funding of loss years and the resources held in the Shock Loss Fund (SLF). The SLF is a source of surplus funds that act as a “shock absorber” in the rare event any loss year needs additional resources to fund that year’s claims. The SLF balance was \$3.2 million at the end of 2016.

Refunds to Members: 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. No loss years were closed in 2016. This follows a three-year period in which six loss years were closed and \$6.9 million returned to the member cities. As of December 31, 2016, MVRMA had returned over \$15 million to its members since the inception of the pool.

Insurance Program: The MVRMA Board of Trustees approved an increase in the pool’s liability limit of coverage for 2016 from \$10 million per occurrence to \$12 million. Despite the 20% increase in liability limits of coverage, reinsurance premiums decreased 6.2% in 2016 due to a continuing favorable reinsurance market and favorable claims activity.

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The pool’s property insurance program remained largely unchanged in 2016; however, rates decreased by about 3%.

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 1.44% as of December 31, 2016.

Loss Control: It is important to provide information on the pool’s finances; however, no annual report of MVRMA would be complete without a discussion of loss control activities. The loss control services available to members is a key differentiator between MVRMA and commercial insurance, or for that matter, many other pools. Later in this report, we provide an update on the pool’s loss control activities.

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, 2016 and 2015.

**Condensed Statement of Net Position
December 31, 2016 and 2015
(unaudited)**

	<u>2016</u>	<u>2015</u>
Assets:		
Cash, cash equivalents, and investments	\$18,394,646	\$18,452,307
Other Assets	373,062	401,884
Total assets	<u>18,767,708</u>	<u>18,854,191</u>
Deferred Outflows of Resources	<u>144,343</u>	<u>58,672</u>
Liabilities:		
Claims reserve	3,113,308	2,698,181
Members' refunds	4,099,542	5,237,182
Net Pension Liability	362,534	289,865
Other Liabilities	111,312	98,350
Total liabilities	<u>7,686,696</u>	<u>8,323,578</u>
Deferred Inflows of Resources	<u>31,024</u>	<u>5,392</u>
Total net position	<u>\$11,194,331</u>	<u>\$10,583,893</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

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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 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 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 reflects the estimate ultimate loss amounts for currently active claims as well as an estimate for incurred but not reported claims as of December 31, 2016. The claims liability increased from \$2.7 million to \$3.1 million during 2016, following four consecutive years of decrease. The increase in 2016 was due to some negative development of prior years' claims.

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 decreased in 2016 due to periodic withdrawals by the members and the closure of no loss years.

Net position is divided into two categories, invested in capital assets and unrestricted. Total net position increased by \$610,438, or 5.8%, during 2016 due to relatively low claims expense and the closure of no 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.

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, 2016 and 2015
(unaudited)

	<u>2016</u>	<u>2015</u>
Operating Revenue	\$4,493,666	\$4,462,299
Operating Expenses:		
Incurred claims and claims adjustment expenses	1,890,342	651,209
Reinsurance premiums	864,407	885,468
Members' dividends	51,712	2,389,527
Gen. & admin. Expenses	<u>826,140</u>	<u>758,871</u>
Total Operating Expenses	<u>3,632,601</u>	<u>4,685,075</u>
Operating Income (Loss)	861,065	-222,776
Nonoperating Revenue (Expense):		
Interest income and realized and unrealized gains (losses) on investments	-250,323	-238,930
Other nonoperating revenue (expense)	<u>-304</u>	<u>166</u>
Changes in Net Position	<u>\$610,438</u>	<u>-\$461,540</u>

Members' contributions account for about 94% of operating revenue. Changes in net position can vary widely from year to year 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 or when surplus Shock Loss Funds are returned. Dividends from loss year closures can be significant and do not necessarily occur each year. No loss years were closed in 2016; however, loss year closures in 2015, 2014 and 2013 resulted in members' dividends

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of \$2,389,527, \$1,325,803 and \$3,254,320, respectively. The operating loss in 2015 shown in the schedule above was attributable to the payment of members’ dividends.

Below are various ratios useful in comparing the results of MVRMA’s financial performance and capital sufficiency.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Loss Ratio ¹	37%	31%	57%	20%	57%
Expense Ratio ²	23%	23%	23%	23%	25%
Combined Ratio ³	60%	54%	80%	43%	81%

1. *Loss Ratio: Ratio of incurred losses and loss adjustment expenses to net members’ contributions. A typical insurance industry range is between 75% and 90%.*
2. *Expense Ratio: Ratio of brokerage and administrative expenses to net members’ contributions. 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.*

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Surplus to SIR Ratio	25.6	22.5	22.1	21.2	22.4

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 general rule of thumb for the insurance industry is a ratio of at least 10 is desirable. Pools tend to be more conservative and maintain a higher ratio.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Position to Loss Reserves Ratio	3.5	3.1	3.1	3.9	3.6

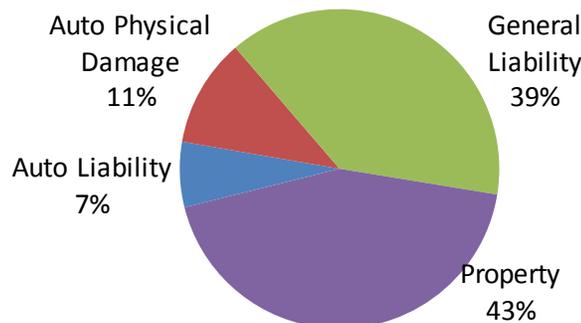
Net Position to Loss Reserves Ratio: This compares the pool’s net position (i.e., net worth) to loss reserves (i.e., the liability for unpaid claims), measuring the pool’s ability to absorb losses. Generally speaking, the higher the ratio, the more financially able the pool is to absorb costs in excess of the booked reserves. Typical ranges for the insurance industry and insurance pooling are between 0.5 and 2.0.

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CLAIMS INFORMATION
Incurred Claims by Loss Year
As of March 31, 2017

Loss Year	Auto Liability	Auto Physical Damage	General Liability	Property	Total
2011	\$87,731	\$162,738	\$323,802	\$1,930,078	\$2,504,349
2012	\$38,269	\$171,593	\$406,294	\$387,515	\$1,003,671
2013	\$243,573	\$228,921	\$658,257	\$353,785	\$1,484,536
2014	\$104,340	\$255,218	\$2,150,015	\$921,641	\$3,431,214
2015	\$76,478	\$78,510	\$232,735	\$587,058	\$974,781
2016	\$119,087	\$215,376	\$165,219	\$228,436	\$728,118
Annual Average \$	\$111,580	\$185,393	\$656,054	\$734,752	\$1,687,778
No. of Claims per Yr	60	61	131	105	357
Average Per Claim	\$1,865	\$3,048	\$5,021	\$6,975	\$4,732

Incurred Claims by Type 2011-16



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LOSS CONTROL ACTIVITIES

Training

In 2016, MVRMA sponsored 32 training programs with 767 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Number of Training Programs	41	31	23	31	24	22	24	32
Number of Participants	1,300	1,155	815	1,016	1,156	861	561	767

The core focus of MVRMA training in 2016 was in the areas of Driver training, Police Liability, and Employment Practices training. Highlights include:

- MVRMA co-sponsored a New Elected Officials Training program, with 44 attendees.
- In 2016, MVRMA sponsored ten driver training sessions. 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 program with 40 attendees.

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- Three supervisory programs were offered in 2016: Dealing with Problem Employees offered by Doug Duckett with 16 attendees, Today's Discrimination Trends offered by Drew Piersall with 10 attendees, After Ohio Banned the Box offered by Jonathan Downes with 37 attendees.
- MVRMA sponsored several safety related training programs in 2016. Back Safety was presented by Mike Hayslip with 133 attendees over several sessions, Work Zone and Flagger Safety presented by Mike Hayslip with 93 attendees. A New Forklift program offered to MVRMA members' employees, with Garry Cook instructing, had 128 attendees.

Best Practices

- In 2016, the MVRMA staff revised and updated 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 reflects staff's research of current risk management best practices and the input from subject matter experts within the member cities. The final updated Best Practices program went into effect in July 2016.
- MVRMA staff conducted annual visits to each 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.

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- 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.

2016 Board of Trustees Officers:

President: John Green, City of Tipp City
Vice-President, Dina Minneci, Village of Indian Hill
Treasurer: Ginger Adams, City of Sidney
Secretary: Julie Trick, City of Vandalia

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