



MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

2019 ANNUAL REPORT

"MORE THAN INSURANCE"

**Miami Valley Risk Management Association
2019 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 (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-one 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)
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)

City of Bellbrook (2004)
City of Centerville (2004)
City of Fairfield (2019)
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)

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MESSAGE FROM THE EXECUTIVE DIRECTOR

We are pleased to offer this 2019 Annual Report to our members and other parties interested in an overview of the Association’s activities.

MVRMA experienced another strong year financially. The Association’s financial position and performance are summarized in the Condensed Financial Information section below.

New Member: MVRMA takes a very selective approach to growth. The City of Fairfield was added as the pool’s twenty-first member in December 2019, the pool’s first new member in fifteen years.

Member Refunds: Per pool policy, when all a loss year’s claims and lawsuits have been resolved, all remaining funds in that year, including interest, are returned to the members. After closing two loss years and returning over \$3 million to the members in 2018, the Board closed no loss years in 2019. As of December 31, 2019, MVRMA has returned nearly \$20 million to its members since the inception of the pool.

Insurance Programs: MVRMA’s insurance program includes general liability, auto liability, public officials’ errors and omissions, cyber liability, pollution liability, “all risk” property coverage, crime coverage and boiler and machinery coverage.

The structure of the pool’s liability program in 2019 remained unchanged. The limit of coverage remained \$12 million per occurrence. Reinsurance premiums for the liability program increased by 5.8% in 2019 and liability reinsurance rates remained relatively low from a historical perspective.

The pool’s property insurance program was placed with the Alliant Property Insurance Program (APIP) again in 2019. Property insurance rates paid by the pool increased by about 17% as of the July 1, 2019 renewal. Unfortunately, the property market continues to harden and another large increase is anticipated for the July 1, 2020 property renewal.

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The impact on MVRMA of the increases in excess insurance and reinsurance is mitigated because the pool's self-insured retentions (\$500,000 for liability and \$250,000 for property) provide a buffer from the commercial insurance market.

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 with a seven-year investment horizon. The current yield on the investment portfolio was 2.04% as of December 31, 2019.

Loss Control: The loss control services available to members is a key differentiator between MVRMA and commercial insurance. 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

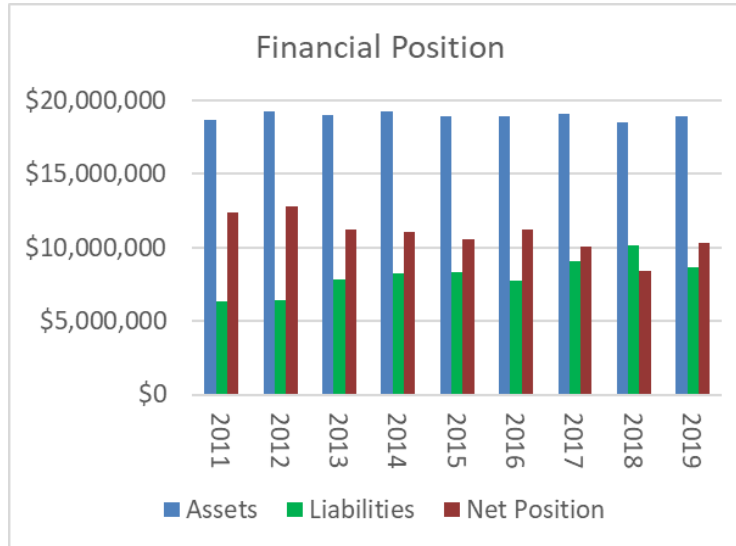
The difference between total assets and total liabilities is reported as “net position.”

The following table presents condensed information on MVRMA’s net position as of December 31, 2019 and 2018.

	(unaudited)	
	2019	2018
Assets:		
Cash, cash equivalents, and investments	\$18,240,934	\$17,948,396
Other assets	493,061	440,477
Total assets	18,733,995	18,338,873
 Deferred Outflows of Resources	 212,916	 107,736
Liabilities:		
Claims reserve	3,428,442	3,685,365
Members' refunds liability	4,284,943	5,691,620
Net pension & OPEB liabilities	874,125	576,521
Other liabilities	13,008	45,050
Total liabilities	8,600,518	9,998,556
 Deferred Inflows of Resources	 15,722	 111,425
 Total Net Position	 \$10,330,671	 \$8,386,628

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MVRMA’s primary assets are cash and investments. MVRMA’s Cash and 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 such investment pools operated or managed by the Treasurer of the State of Ohio. The maximum maturity for MVRMA investments is seven years. The policy provides for diversification and other safeguards necessary to meet the primary objective of preservation of principal.

The single largest liability is the claims reserve. This liability for net unpaid losses and loss adjustment expenses is determined annually with the assistance of an outside actuary. This amount reflects the estimated ultimate loss amounts for currently active claims as well as an estimate for incurred but not reported claims as of December 31, 2019. The claims reserve decreased from \$3.742 million to \$3.428 million during 2019 due to favorable development in 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 2019 as no loss years were closed and members chose to withdraw about \$1.6 million of their funds from the GRF.

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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.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Years Ended December 31, 2019 and 2018
(unaudited)**

	<u>2019</u>	<u>2018</u>
Operating Revenue	\$4,523,927	\$4,378,464
Operating Expenses:		
Incurred claims and claims adjustment expenses	1,011,172	1,298,832
Reinsurance premiums	1,125,633	988,162
Members' dividends	98,303	3,035,305
Gen. & admin. Expenses	<u>987,998</u>	<u>881,436</u>
Total Operating Expenses	<u>3,223,106</u>	<u>6,203,735</u>
Operating Income (Loss)	1,300,821	-1,825,271
Nonoperating Revenue (Expense):		
Interest income and realized and unrealized gains (losses) on investments	<u>643,222</u>	<u>173,522</u>
Changes in Net Position	<u>\$1,944,043</u>	<u>-\$1,651,749</u>

Members' contributions account for about 93% 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 has remained relatively stable in recent years. Fluctuations in claims expense is moderated somewhat 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.

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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 2019 but the closure of two loss years in 2018 resulted in member refunds of about \$3 million.

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Loss Ratio ¹	20%	57%	64%	41%	33%
Expense Ratio ²	23%	25%	27%	28%	32%
Combined Ratio ³	43%	81%	81%	89%	64%

- 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. The increases in 2016 – 2019 are primarily attributable to changes in the method of reporting pension expense.*
- 3. Combined ratio: The sum of the Loss Ratio and Expense Ratio. A Combined Ratio of less than 100% indicates an underwriting profit.*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net Position to SIR Ratio	21.2	22.4	20.6	16.8	20.7

Net Position to SIR Ratio: An indication of pool solvency that measures the relationship between the pool’s net position (i.e., net worth) 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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net Position to Loss Reserves Ratio	3.9	3.6	2.7	2.3	3.0

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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INSURANCE PROGRAM

Liability: MVRMA’s liability insurance 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 2019 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 the total 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.

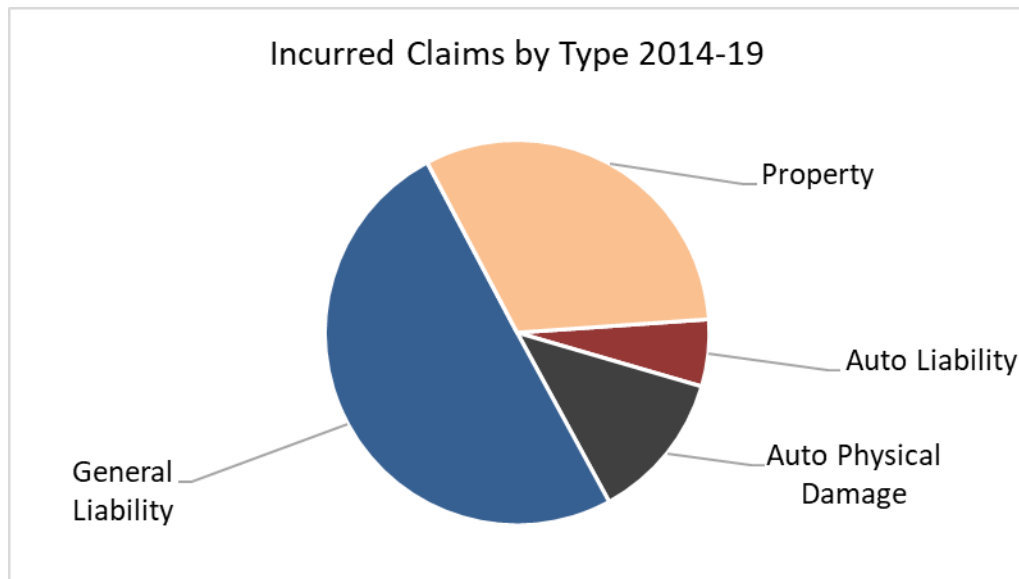
Position Bonds: Surety bonds required by charter, ordinance or statutory requirement are provided by MVRMA. Bonds are provided for the required amount except “all employee” bonds are limited to \$2,500 per employee.

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CLAIMS INFORMATION

Incurred Claims by Loss Year by Type
As of March 31, 2020

Loss Year	Auto Liability	Auto Physical Damage	General Liability	Property	Total
2014	\$104,340	\$255,218	\$2,756,367	\$921,6412	\$4,037,566
2015	\$82,316	\$78,510	\$326,031	\$572,758	\$1,059,615
2016	\$145,899	\$212,449	\$572,522	\$235,754	\$1,166,625
2017	\$65,054	\$172,829	\$573,884	\$434,851	\$1,246,617
2018	\$53,483	\$256,075	\$391,348	\$332,581	\$1,033,488
2019	\$79,361	\$208,122	\$116,001	\$487,747	\$891,230
Annual Average					
\$	\$88,409	\$197,201	\$789,359	\$497,55	\$1,572,524



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LOSS CONTROL ACTIVITIES

Training

In 2019, MVRMA sponsored 48 training programs with 757 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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Number of Training Programs	22	24	32	34	57	48
Number of Participants	861	561	767	640	1,237	757

The core focus of MVRMA training in 2019 was in the areas of Driver training, Safety training, Police Liability, and Employment Practices training.

Highlights include:

- In 2019, MVRMA sponsored a week long verbal de-escalation train the trainer program for law enforcement. There were 12 officers that completed the program and became certified verbal de-escalation instructors.
- MVRMA continued the partnership with the Center for Local Government to offer a Leadership Academy. This program is designed for any supervisors or employees who may have the potential to become supervisors. The program was highly rated by the participants.
- In 2019, MVRMA sponsored twenty driver training sessions with over 130 participants. 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 the past three years. MVRMA has been offering IAPD driver training to its members since 1999.
- MVRMA sponsored several sessions in forklift certification with 147 employees receiving forklift certification.

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- Six supervisory programs were offered in 2019: Ohio Ethics, Managing Discipline, Guide for Supervisor’s Progressive Discipline, Workplace Harassment, Bulletproof Leadership, and Managing Discipline with 288 in total attendance.

Best Practices

- MVRMA staff conducted annual visits to each member city’s 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 Risk Management Best Practices program. These evaluations allow loss control staff to meet with key employees in each city to discuss claims and share best practices recommendations.

2019 Board of Trustees Officers:

President: Dina Minneci, Village of Indian Hill
Vice-President, Bill Kucera, Beavercreek
Treasurer: Ginger Adams, City of Sidney
Secretary: Amanda Zimmerlin, City of Springdale

MVRMA Staff Contact Information:

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