



MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

2020 ANNUAL REPORT

"MORE THAN INSURANCE"

**Miami Valley Risk Management Association
2020 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 2020 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.

Member Refunds: Per pool policy, when all loss year’s claims and lawsuits have been resolved, all remaining funds in that year, including interest, are returned to the members. In 2020, the Board approved the closure of the 2014 and 2015 loss years, returning nearly \$2.9 million to the members. As of December 31, 2020, MVRMA has returned approximately \$22.5 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 2020 remained unchanged. The limit of coverage remained \$12 million per occurrence. Reinsurance premiums increased about 27% in 2020. Much of the increase was attributable to adding a new member; the premium would have increased about 11% otherwise.

The pool’s property insurance program was placed with the Alliant Property Insurance Program (APIP) again in 2020. Property insurance rates paid by the pool increased by about 22% as of the July 1, 2020 renewal. Unfortunately, the property market continues to harden and another large increase is anticipated for the July 1, 2021 property renewal.

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.

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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 with a seven-year investment horizon. The current yield on the investment portfolio was 1.43% as of December 31, 2020. Significant changes occurred in the investment market in 2020, as yields were continuing to decrease as the year ended.

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. Unfortunately, many loss control activities, especially the training program, were severely curtailed in 2020 due to the COVID pandemic.

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

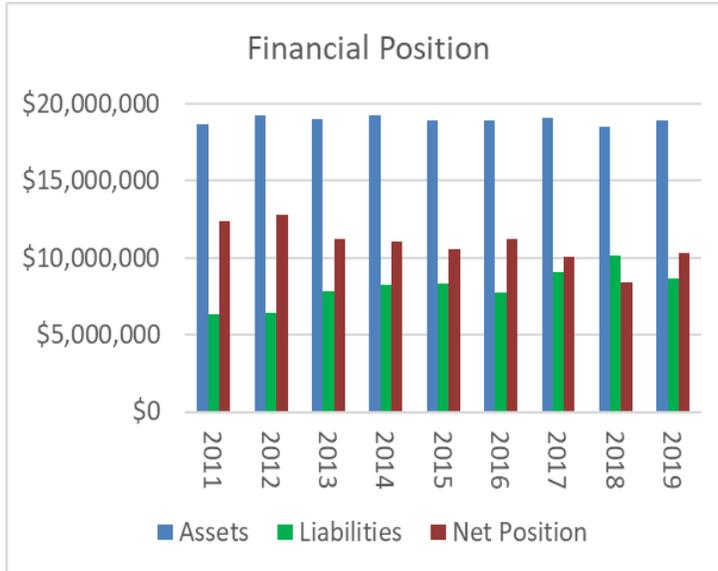
The difference between total assets and total liabilities is reported as “net position.”

The following table presents condensed information on MVRMA’s net position as of December 31, 2020 and 2019. The decrease in net position of \$1.1 million is attributable to members’ dividends of \$2.9 million in 2020.

(unaudited)

	<u>2020</u>	<u>2019</u>
Assets:		
Cash, cash equivalents, and investments	\$18,331,170	\$18,240,934
Other assets	577,409	493,061
Total assets	<u>18,908,579</u>	<u>18,733,995</u>
Deferred Outflows of Resources	<u>139,248</u>	<u>212,916</u>
Liabilities:		
Claims reserve	3,196,920	3,428,442
Members' dividends payable	5,700,213	4,284,943
Net pension & OPEB liabilities	750,713	874,125
Other liabilities	11,227	13,008
Total liabilities	<u>9,659,073</u>	<u>8,600,518</u>
Deferred Inflows of Resources	<u>136,528</u>	<u>15,722</u>
Total Net Position	<u><u>\$9,252,226</u></u>	<u><u>\$10,330,671</u></u>

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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 obliga-

tions 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, 2020. The claims reserve decreased from \$3.4 million to \$3.2 million during 2020 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 increased in 2020 as two loss years were closed.

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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, 2020 and 2019
(unaudited)

	<u>2020</u>	<u>2019</u>
Operating Revenue	\$5,014,788	\$4,523,927
Operating Expenses:		
Incurred claims and claims adjustment expenses	1,431,084	1,011,172
Reinsurance premiums	1,473,388	1,125,633
Members' dividends	2,859,421	98,303
Gen. & admin. Expenses	<u>854,427</u>	<u>987,998</u>
Total Operating Expenses	<u>6,618,320</u>	<u>3,223,106</u>
Operating Income (Loss)	-1,603,532	1,300,821
Nonoperating Revenue (Expense):		
Interest income and realized and unrealized gains (losses) on investments	<u>525,087</u>	<u>643,222</u>
Changes in Net Position	<u>-\$1,078,445</u>	<u>\$1,944,043</u>

Members’ contributions accounted for about 96% of operating revenue in 2020. 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. Two loss years were closed in 2020 resulting in member refunds of about \$2.9 million.

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Loss Ratio ¹	57%	64%	41%	33%	43%
Expense Ratio ²	25%	27%	28%	32%	26%
Combined Ratio ³	81%	81%	69%	64%	69%

- 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>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net Position to SIR Ratio	22.4	20.6	16.8	20.7	18.5

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>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net Position to Loss Reserves Ratio	3.6	2.7	2.3	3.0	2.9

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 2020 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.

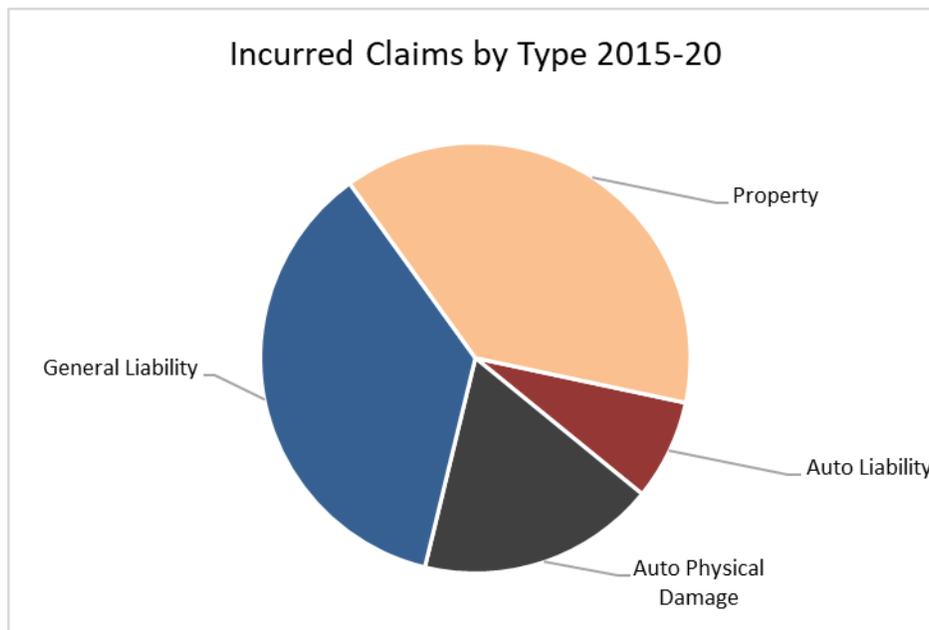
Position Bonds: Surety bonds required by charter, ordinance or statutory requirement are provided by MVRMA. Bonds are provided for the required amount except “all employee” bonds are limited to \$2,500 per employee.

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MVRMA members' claims losses continue to trend well below actuarially-expected losses which generally exceed \$2 million per year.

Incurred Claims by Loss Year by Type
As of February 15, 2021

Loss Year	Auto Liability	Auto Physical Damage	General Liability	Property	Total
2015	\$82,316	\$78,510	\$322,581	\$572,758	\$1,056,165
2016	\$145,899	\$212,449	\$723,508	\$235,754	\$1,317,611
2017	\$65,054	\$172,829	\$568,457	\$434,851	\$1,241,190
2018	\$76,983	\$256,075	\$521,070	\$332,581	\$1,186,710
2019	\$75,861	\$268,422	\$230,474	\$596,157	\$1,170,913
2020	\$77,416	\$253,961	\$151,153	\$483,784	\$966,315
Annual Average	\$87,255	\$207,041	\$419,541	\$442,648	\$1,156,484



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LOSS CONTROL ACTIVITIES

Training

In 2020, MVRMA sponsored 26 training programs with 404 attendees. COVID restrictions and quarantines limited the training offerings in 2020. Staff continues to analyze loss data in order to provide relevant training that contributes to lowering both the frequency and severity of losses.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Number of Training Programs	32	34	57	48	26
Number of Participants	767	640	1,237	757	404

The core focus of MVRMA training in 2020 was focused on Driver training and onsite safety training due to the COVID restrictions.

Highlights include:

- In 2020, MVRMA sponsored a weeklong recertification program for the MVRMA driving 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 2020, MVRMA sponsored fourteen driver training sessions with over 150 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 in the past three years. MVRMA has been offering IAPD driver training to its members since 1999.

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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.

2020 Board of Trustees Officers:

President: Bill Kucera, City of Beavercreek
Vice-President: Emily Christian, City of Miamisburg
Treasurer: Ginger Adams, City of Sidney
Secretary: Ginger Adams, City of Sidney

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