Financial Benchmarking Initiative
## INTRODUCTION

### COMPARING FINANCIAL RATIOS
- The FBI is a method to compare pools even if they are of different sizes or otherwise difficult to compare directly.
- Ratios help compare and investigate relationships between different pieces of financial information.

### LOOKING AT OUTCOMES
The FBI will help your pool understand comparisons, but not *why your pool operates the way it does.*
- No single "right" financial outcome for all pools.
- Each pool operates under unique regulatory requirements and market dynamics.
- No two pools produce audited financials on the same basis.

### NEW PERSPECTIVE
Consider why your pool’s ratios are above or below the average. Comparative data from other pools builds order of magnitude-level insight and prompts you to ask new questions.

### RATIO CATEGORIES
Fourteen ratios are included. There are 6 leverage ratios, retention ratios by line of coverage, 4 profitability ratios, and 3 liquidity & expense ratios.

### COHORT RESULTS
Filters allow you to compare financial results with a custom cohort of pools. Your most recent financial data on file is compared against the most recent data from other pools within a 3-year window.
CONVERSATION STARTER

• Use the FBI to begin a conversation about financial status and funding levels for your pool.

• The FBI will not provide you an answer. The FBI will help identify the next question you want to ask.
Because every pool’s financial data are presented differently, we have interpreted data points to produce ratios. Check your pool’s data map for accuracy.

The ratios are based upon traditional IRIS ratios, which are helpful but not ideal for public entity pooling. Until we have perspective on all pools, we cannot begin to derive more appropriate financial measures for our industry.

This is our first look at financial information across pools. At this time, we are only seeking to understand the norms and averages. We can’t yet establish pooling benchmarks.
Data in this presentation are derived from the FBI.

Information in the FBI is presented specific to your pool, measured against all other pools within the cohort you define.
CONTRIBUTION LEVERAGE

• Compares a pool’s net contributions to its net position.

• A contribution leverage ratio of 1.0 (1:1) is considered very strong in the insurance industry.

• Some insurers operate with a contribution leverage ratio up to 3.0 (3:1).

• Pools are often less leveraged because pricing stability is very important in the public sector.
AVG. CONTRIBUTION LEVERAGE RATIO BY POOL
(COMBINED PROP, LIAB, WORK COMP; NO OUTLIERS)
AVG. CONTRIBUTION LEVERAGE RATIO BY POOL (LIABILITY)
AVG. CONTRIBUTION LEVERAGE RATIO BY POOL (WORK COMP)
AVG. CONTRIBUTION LEVERAGE RATIO BY POOL (HEALTH)
LIABILITY LEVERAGE

• Compares a pool’s total liabilities including claims, debt, dividends payable, etc. to its net position.

• This measures the pool’s ability to support variation in all its liabilities.

• A low liability ratio is an indicator of financial flexibility and strength.
AVG. LIABILITY LEVERAGE RATIO BY POOL (COMBINED PROP, LIAB, WORK COMP; NO OUTLIERS)
AVG. LIABILITY LEVERAGE RATIO BY POOL (LIABILITY)
AVG. LIABILITY LEVERAGE RATIO BY POOL (WORK COMP)
AVG. LIABILITY LEVERAGE RATIO BY POOL (HEALTH)
Measures the change in a pool’s net position, year over year. This ratio is presented as a percent change.

Each pool must determine its own net position goals. Most pools prefer stability in net position and seek to minimize year over year changes.

Pools use net position to offset risks, absorb pricing changes, experiment with new coverages, and smooth net contribution changes otherwise needed from members.
AVG. CHANGE IN NET POSITION
(BY LINE OF COVERAGE)

- Health
- Work Comp
- Liability

Percent Change

0 0.2 0.4 0.6 0.8 1 1.2
**LOSS RATIO**

Comparing a pool's losses and loss adjustment expenses (LAE) to net contributions. Most useful when examined in context alongside claims frequency and severity, strategy and adequacy of pricing, loss control measures, and other operational nuances.
AVG. LOSS RATIO BY POOL (LIABILITY)
AVG. LOSS RATIO BY POOL (WORK COMP)
AVG. LOSS RATIO BY POOL
(COMBINED PROP, LIAB, WORK COMP; NO OUTLIERS)
EXPENSE RATIO

- Percentage of net contributions used to pay all the costs of administering and operating the pool.

- Lower expense to net contribution ratios do not necessarily imply greater efficiency. Risk management services provided by pools vary significantly, and contributions in pooling may be based upon different goals than the traditional insurance market.
AVERAGE POOL EXPENSE RATIOS

- Health
- Combined Coverages
- Work Comp
- Liability

Percent

0  5  10  15  20  25  30  35

24
• Compares losses, LAE, and other operating expenses to total income (including contributions and investment income).

• A low operating ratio indicates net contributions and investment income are more than sufficient to cover losses and operating expenses.

• A ratio above 100 percent (1.0) may result from greater-than-expected losses, unfavorable loss development or investment results, or use of net position to offset contributions otherwise needed from members.
AVERAGE POOL OPERATING RATIOS

- Health
- Combined Coverages
- Work Comp
- Liability

Percent

0 20 40 60 80 100

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| **Member pools begin using the FBI**  
We will send a username and password to pools with audited financials in the system. Share use cases and examples with us. | OCT. 2019 |
| **Data corrected and refined, new pool data added**  
If your pool hasn't submitted audited financial statements, do so now. Data are entered quarterly. | THRU 2020 |
| **Consideration of pooling-specific benchmarks**  
Further data analysis and pool sharing will help us determine whether and how pool benchmarks can be derived. | START 2021 |
| **Next generation of FBI**  
As with any new initiative, we'll continue to monitor and make improvements. | BEGIN 2022 |