

Montana Municipal Interlocal Authority

Policy Manual

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Policy Statement

The MMIA Board of Directors hereby adopts the following MMIA Property Program Financial Targets and Reserve Surplus Management Policy for purposes of establishing financial target ratios for the Property Program as well as guidelines for the use of any surplus reserves.

Financial Targets

The establishment of target financial ratios will assist in ensuring the Property Risk Retention Program remains financially strong by allowing the Board and staff to compare past financial performance with current and estimated future financial performance. Additionally, establishment of target surplus or equity ratios will help to ensure that Risk Retention Programs are adequately funded to account for uncertainty in loss estimates, catastrophic claims and inaccurate claim reserves. It is also important to establish guidelines for the Board and Staff on utilization of funds in excess of targeted reserve surplus if that situation occurs.

After conferring with other Risk Retention Pools, actuaries, the Association of Government Risk Insurance Pools, and Board deliberation to determine appropriate targets, the following ratios are being defined and established as targets for the MMIA Property Program:

Leverage Ratios	
Net Premium to Net Assets	< 2 : 1
Loss Reserves to Net Assets	> 4 : 1
Net Leverage [(net premium + reserves) to Net Assets]	< 5 : 1
Profitability Ratios	
Loss Ratio (Claims to Net Premium)	<83%
Expense Ratio (Operating Expense to Net Premium)	<17%
Combined Ratio (Claims + Opr Exp to Net Premium)	<100%
Operating Ratio (Total Expense to Total Income)	<100%
Liquidity Ratios	
Total Liabilities to Liquid Assets	<100%
SIR (Self Insured Retention) to Net Assets	<10%
Surplus Ratio	
Net Assets to SIR	10 : 1

Any monies in excess of the targeted surplus ratio would be considered "unrestricted surplus".

Management of Unrestricted Surplus

Unrestricted Surplus (amounts in excess of the target surplus ratio) could be used by the MMIA at the Board's discretion within the Program under the following guidelines:

- Only 50% of the unrestricted surplus may be allocated or distributed in a given year.
- Any amount of unrestricted surplus utilized in a given year should follow these considerations:
 - ✓ Initiatives or investments designed to result in a cost-savings to the Program
 - ✓ Program or Coverage expansion
 - ✓ Rate stabilization
 - ✓ Member dividends
 - ✓ Capital asset acquisition