



Property/Casualty Insurance Fund 2013 Biennium

April 13, 2010

Prepared by:
The Risk Management & Tort Defense Division



Our World

- Large, unpredictable losses that arise from high risk services provided by state agencies.
- Catastrophic events that lead to unexpected commercial reinsurance premium increases.



2013 Biennium Funding Objectives

- Maintain reserves for auto insurance sufficient to cover 4 deductible losses of \$750,000 per claim (i.e. \$3,000,000).
- Maintain general liability funding at a level where estimated claims payable are less than 1.5 times reserves (i.e. \$12,000,000).
- Maintain reserves for property insurance sufficient to cover 10 deductible losses of \$500,000 per occurrence (i.e. \$5,000,000)

Auto

Projected Changes in Revenue, Expenses, and Reserves

For the Period Ending June 30th

	Description	Auto							
		FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
(1)	Net Premiums Earned	1,604,213	1,613,363	1,097,185	1,104,048	1,043,151	1,085,288	1,085,288	1,085,288
	Total Operating Expenses	826,521	884,469	1,307,364	1,874,008	1,199,857	1,265,984	1,257,053	1,238,326
(2)	Net Income (Loss) Before Investments	777,692	728,894	-210,179	-769,960	-156,706	-180,696	-171,765	-153,038
(3)	Net Investment Income Earned	89,357	146,268	99,092	35,849	7,425	0	1,276	631
(4)	Insurance Recoveries	30,868	206,122	74,182	68,714	94,972	94,972	94,972	94,972
(5)	Net Income (Loss)	897,916	1,081,284	-36,905	-665,397	-54,310	-85,725	-75,518	-57,436
	Prior Years Assets	105,283	983,510	2,023,887	1,986,982	1,321,586	1,767,276	2,181,551	2,356,033
(6)	Total Assets	983,510	2,023,887	1,986,982	1,321,586	1,767,276	2,181,551	2,356,033	2,548,597
(7)	Total Liabilities	1,274,881	1,020,028	1,443,342	1,445,069	1,242,362	1,269,675	1,277,128	1,276,097
		0	0						
(8)	Reserves	-291,371	1,003,859	543,641	-123,484	524,914	911,876	1,078,905	1,272,500
	Funding Objective 2010 & 2011:								
(9)	Risk Margin to Retention Ratio of 4	-0.39	1.34	0.72	-0.16	0.70	1.22	1.44	1.70

Aviation

Projected Changes in Revenue, Expenses, and Reserves

For the Period Ending June 30th

	Description	Aviation					
		FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
(1)	Net Premiums Earned	167,807	178,625	212,451	212,451	212,451	212,451
	Total Operating Expenses	217,672	212,760	236,135	213,760	213,760	213,760
(2)	Net Income (Loss) Before Investments	-49,865	-34,135	-23,684	-1,309	-1,309	-1,309
(3)	Net Investment Income Earned	14,510	5,816	1,390	0	239	118
(4)	Insurance Recoveries	0	0	1,866	1,866	1,866	1,866
(5)	Net Income (Loss)	-35,355	-28,319	-20,428	557	796	675
	Prior Years Assets	25,883	-9,472	-37,791	-58,219	-57,661	-56,865
(6)	Total Assets	-9,472	-37,791	-58,219	-57,661	-56,865	-56,190
(7)	Total Liabilities	0	0	0	0	0	0
		0	0	0	0	0	0
(8)	Reserves	-9,472	-37,791	-58,219	-57,661	-56,865	-56,190
	Funding Objective 2010 & 2011:						
(9)	Premium based on FY2008 projections.						

General Liability

Projected Changes in Revenue, Expenses, and Reserves

For the Period Ending June 30th

	Description	General Liability					
		FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
(1)	Net Premiums Earned	7,124,500	7,123,899	6,750,000	6,750,000	6,750,000	6,750,000
(2)	Net Income (Loss) Before Investments	-2,280,631	643,444	1,398,306	1,439,413	1,283,324	1,237,178
(3)	Net Investment Income Earned	616,042	222,871	44,155	0	7,587	3,751
(4)	Insurance Recoveries	0	0	1,037	1,037	1,037	1,037
(5)	Net Income (Loss)	-1,664,589	866,315	1,443,497	1,440,450	1,291,948	1,241,966
	Prior Years Assets	14,999,168	17,084,579	21,700,893	23,144,391	24,584,840	24,126,788
(6)	Total Assets	17,084,579	21,700,893	23,144,391	24,584,840	24,126,788	23,618,754
(7)	Total Liabilities	14,083,103	13,179,608	13,542,966	15,217,366	16,691,086	18,134,948
		0	0	0	0	0	0
(8)	Reserves	3,001,475	8,521,285	9,601,425	9,367,475	7,435,702	5,483,806
	Funding Objective 2010 & 2011:						
(9)	Total Liabilities to Risk Margin Ratio of ≤ 1.5	4.69	1.55	1.41	1.62	2.24	3.31

Property

Projected Changes in Revenue, Expenses, and Reserves

For the Period Ending June 30th

	Description	Property					
		FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
(1)	Net Premiums Earned	3,953,568	3,929,251	3,747,417	3,750,054	3,750,054	3,750,054
	Total Operating Expenses	3,928,514	4,501,579	3,810,229	4,267,294	4,062,004	4,144,719
(2)	Net Income (Loss) Before Investments	25,054	-572,328	-62,812	-517,239	-311,949	-394,664
(3)	Net Investment Income Earned	384,229	139,006	27,474	0	4,721	2,334
(4)	Insurance Recoveries	1,703,866	961,729	1,370,609	570,609	70,609	70,609
(5)	Net Income (Loss)	2,113,148	528,406	1,335,271	53,370	-236,619	-321,721
	Prior Years Assets	7,475,947	5,839,095	2,617,502	3,452,773	3,006,143	4,269,523
(6)	Total Assets	5,839,095	2,617,502	3,452,773	3,006,143	4,269,523	5,447,802
(7)	Total Liabilities	2,662,678	2,992,473	2,764,149	2,696,935	2,906,905	3,171,960
		0	0	0	0	0	0
(8)	Reserves	3,176,417	-374,972	688,624	309,208	1,362,619	2,275,842
	Funding Objective 2010 & 2011: Risk Margin to Retention Ratio of 8-20.						
(9)	Reserves to Retention Ratio of 10	12.71	-1.50	1.38	0.62	2.73	4.55

All Lines

Projected Changes in Revenues, Expenses, and Reserves

For the Period Ending June 30th

	Description	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
(1)	Net Premiums Earned	12,343,061	12,335,823	11,753,019	11,797,793	11,797,793	11,797,793
	Total Operating Expenses	14,858,682	13,068,802	10,597,914	11,057,623	10,999,492	11,109,626
(2)	Net Income (Loss) Before Investments	-2,515,621	-732,979	1,155,105	740,170	798,301	688,167
(3)	Net Investment Income Earned	1,113,873	403,542	80,443	0	13,822	6,834
(4)	Insurance Recoveries	1,778,048	1,030,443	1,468,483	668,483	168,483	168,483
(5)	Net Income (Loss)	376,300	701,006	2,704,031	1,408,653	980,606	863,484
	Prior Years Assets	24,524,884	24,901,184	25,602,190	28,306,220	29,714,874	30,695,480
(6)	Total Assets	24,901,184	25,602,190	28,306,220	29,714,874	30,695,480	31,558,964
(7)	Total Liabilities	18,189,123	17,617,151	17,549,477	19,183,975	20,875,120	22,583,005
		0	0	0	0	0	0
(8)	Reserves	6,712,061	7,985,039	10,756,743	10,530,899	9,820,360	8,975,959



2013 Biennium Budget Highlights

- 4 decision packages (i.e. auto, aviation, general liability, and property insurance).
- Total level of allocation is constant.
- No present law adjustments.
- Rates by agency have not yet been decided.

Benchmarks

State of Montana Property/Casualty Insurance Fund Benchmarking Analysis as of 01/10/2010				
	FY07		FY08	
	National Association of Insurance Commissioner's Ratios			
	P/C Insurance Industry	Montana State Government	P/C Insurance Industry	Montana State Government
Change in net premiums	0.0%	0.3%	0.0%	-11.7%
Gross change in net reserves	10.4%	419.2%	10.3%	-23.2%
Net premiums to policy reserves	86.0%	159.9%	94.0%	183.9%
Investment yield	4.4%	8.7%	4.2%	8.6%
Expense Ratio	26.0%	23.4%	28.0%	27.7%
Pure Loss Ratio	68.0%	43.9%	75.0%	87.7%
Combined Loss Ratio	95.0%	67.2%	103.5%	115.3%
Return on Policy Reserves	13.1%	68.4%	-11.1%	5.6%
Auto pure net loss ratio	52.0%	44.0%	54.0%	98.5%
Aircraft pure net loss ratio	n/a	0.0%	n/a	3.4%
General liability pure net loss ratio	53.0%	68.8%	48.0%	115.2%
Property pure net loss ratio	38.0%	12.4%	78.0%	49.3%