

# Montana State Fund

**January 1 – December 31, 2016 Business Plan Performance  
Board of Directors Meeting  
March 10, 2017**



# Key Success Measures

## **KSM**

## **CY16 Business Plan**

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<b>Net Earned Premium</b>	\$162.0M
<b>Fiscal Year Loss Ratio</b>	78.6%
<b>Expense Ratio</b>	28.6%
<b>Investment Income</b>	\$44.1M
<b>Net Operating Income</b> (before dividend)	\$27.3M



# Generate Total NEP \$162.0M

- Implement board approved rate action  
*Result:* Rate action approved and implemented – overall 0%
- \$14.8M new premium  
*Result:* \$16.2M
- 90.3% premium retention  
*Result:* 90.7%

**Total NEP \$169.7M**



# Achieve FY Loss Ratio of 78.6%

- Planned current accident year performance of 74.4%  
**Result:** 73.1%
- Planned to manage prior period development to \$4.9M  
**Result:** \$1.9M of prior period development

FY Loss Ratio 74.4%



# Achieve Expense Ratio of 28.6%

- Manage acquisition expense to 7.2%  
**Result:** acquisition expense of 6.7%
- Manage loss adjustment expense to 9.7%  
**Result:** loss adjustment expense of 12.3%
- Manage operating expenses to 18.2%  
**Result:** operating expenses of 13.4%
- Reinsurance contingent commission of (6.5%)  
**Result:** contingent commission (6.0%)

Expense Ratio 26.4%



# Achieve Investment Income of \$44.1M

- Achieve earned investment income of \$39.5M and realized gains of \$4.7M
- Achieve Portfolio Composition
  1. Bonds: 80.0%  
**Result:** 80.0%
  2. Equities: 12.0%  
**Result:** 11.5%
  3. Real Estate: 6.0%  
**Result:** 6.4%
  4. Short term investments: 2.0%  
**Result:** 2.1%



# Achieve Investment Income of \$44.1M

- Match Returns
  1. Barclays Capital Aggregate Bond Index: 2.08%  
**Result:** 2.23%
  2. S&P 500 Index: 11.96%  
**Result:** 11.93%
  3. MSCI AC World International Equity Index: 4.50%  
**Result:** 4.52%
  4. NCREIF ODCE (Net) Index: 8.68%  
**Result:** 8.59%
- Earned investment income \$40.5M and realized gains \$10.5M

**Investment Income \$51.0M**



Achieve Net Operating Income of  
\$27.3M (before dividend)

Net Operating Income  
**\$45.8M** (before dividend)

Statutory Reported  
Premium to Equity Ratio

Plan: 0.30:1

Result: 0.32:1





# Key Success Measures

<b>KSM</b>	<b>CY16 Plan</b>	<b>CY16 Result</b>
<b>Net Earned Premium</b>	\$162.0M	\$169.7M
<b>Fiscal Year Loss Ratio</b>	78.6%	74.4%
<b>Expense Ratio</b>	28.6%	26.4%
<b>Investment Income</b>	\$44.1M	\$51.0M
<b>Net Operating Income</b> (before dividend)	\$27.3M	\$45.8M



# Enterprise-Wide Initiatives

- Customer Service
  - *Julie Jenkinson, VP Operations*
  - *Al Parisian, CIO*
  - *Sam Heigh, VP Operations Support*
- Infrastructure
  - *Mark Barry, VP Corporate Support*
  - *Julie Jenkinson, VP Operations*
  - *Al Parisian, CIO*



# Customer Service – Policy and Billing System Replacement

**Performance Indicator:** Engage stakeholders in the first phase to produce high level requirements based on improved understanding of the regulatory environment and other relevant system decisions. Release the request for proposal for systems replacement.



# Customer Service – Policy and Billing System Replacement

Met later than plan - multi year

## Success Measures:

- *Release RFP for policy and billing system replacement by September 30, 2016.*

**Result:** RFP released by State of Montana procurement on December 29, 2016.

*The project leaders recommended and MSF Executive Team agreed in March, 2016 to move out the RFP release date so the policy and billing system replacement team members could focus on critical business operations activities. The Executive Team determined the date change did not materially affect the overall project or the nature of the annual business plan commitment.*



# Infrastructure – Regulation

**Performance Indicator:** Key activities to ensure our quarterly financial reports are successfully completed under the new regulatory structure as well as the training and preparation for financial and market conduct examinations expected to begin in 2017.



# Infrastructure – Regulation

## Complete

### Success Measures:

- *Complete quarterly financial report filings by May 15, 2016, August 15, 2016, and November 15, 2016*

**Result:** Quarterly financial reports provided to State Auditor's Office on May 13, August 12, and November 14.

- *Contract with regulation and/or examination consultants for training to occur through June 30, 2017.*

**Result:** Completed one mock market conduct exam with consulting examiner in February, 2016 and a second policy services focused mock market conduct exam in December, 2016.



# Infrastructure – Calendar Year Conversion

**Performance Indicator:** Implement changes to Montana State Fund systems, processes, contracts, and reports as well as changes to our interactions with several State agencies to effectively transition from a July 1-June 30 fiscal year reporting period to a January 1-December 31 calendar year reporting period to align with insurance regulation.



# Infrastructure – Calendar Year Conversion

Complete

## Success Measures:

- *Montana State Fund budget process is converted to calendar year basis to track the approved calendar year budget and record financial and budget transactions on that basis beginning January 1, 2016.*

**Result:** MSF budget process converted by December 31, 2015 with transactions recorded on a calendar year basis beginning January 1, 2016.





# Infrastructure – Calendar Year Conversion

Complete

## Success Measures:

- *Montana State Fund financial reporting process is converted to allow financial reporting on the governmental accounting basis and the statutory accounting basis to meet financial reporting requirements beginning May 15, 2016 and to ensure preparation and completion of the annual financial statements as of December 31, 2016.*

**Result:** Financial reporting successfully converted to report on governmental and statutory basis with first quarterly filing completed and submitted to State Auditor's Office on May 13, 2016.



# Infrastructure – Rates and Rate Filing

**Performance Indicator:** Ensure Montana State Fund is compliant with rate-related areas of the Montana Insurance Code and includes: eliminate classification code differences between MSF classification codes and the NCCI classification codes, implement transition plan specified provisions of the NCCI Basic Manual, prepare and submit MSF forms to State Auditor’s Office for approval, and comply with rate filing requirements.



# Infrastructure – Rates and Rate Filing

Complete

## Success Measures:

- *Policy system changes, business rule changes, and necessary training to implement the transition plan are complete and implemented by March 31, 2016 for new and renewal policies effective July 1, 2016.*

**Result:** Twenty-three system changes completed by March 12, 2016. NCCI trainer was onsite at MSF and completed basic manual and rules training by March 31, 2016.

- *Additional forms required by the State Auditor's Office approved by April 30, 2016.*

**Result:** All required forms were approved by State Auditor's Office by April 30, 2016. At State Auditor's Office request, group endorsements was approved at a later date.



# Infrastructure – Rates and Rate Filing

## Complete

### Success Measures:

- *Montana State Fund rates and related rate filing requirements implemented for rates for new and renewal policies effective July 1, 2016.*

**Result:** Montana State Fund's rate filing was approved by State Auditor's Office on April 11, 2016 and implemented on April 15 for new and renewal policies effective July 1, 2016.



# Infrastructure – Change Management and Communication

**Performance Indicator:** Ensure internal and external stakeholders are informed of changes affecting them as Montana State Fund is regulated under Title 33, Montana Insurance Code.



# Infrastructure – Change Management and Communication

Complete

## Success Measures:

- *Regular communication regarding transition to Title 33, Montana Insurance Code.*
  - *Montana State Fund employee communication plan*
    - *Monthly communication through March, 2016*
    - *Quarterly communications April – December, 2016*

## Result:

1. Regulation update provided to employees January, February, and March, April, July, and December all-employee meetings.
2. Regulation implementation article in April, September and November issue of online employee newsletter.



# Infrastructure – Change Management and Communication

Complete

## Success Measures:

- *Montana State Fund external communication plan:*
  - *Quarterly communications through March, 2016*
  - *Communication at least once from April – December, 2016*

## Result:

1. Director of Government and Community Relations completed personal visits with legislators throughout the year.
2. Regulation implementation article published in May and November issue of external stakeholders online newsletter.
3. Update at May Agent Partnership Council meeting.



# Questions

