J. COMMON JPA FINANCIAL TERMS

Accrual Based Accounting:
Recording revenue and expense when incurred rather than when it was received or paid. The cash basis of accounting recognizes revenue and expense when it is received or paid.

Allocated Loss Adjustment Expense (ALAE):
Expenses that can be associated directly with specific claims paid or in the process of settlement, such as legal and adjuster’s fees. Typically a part of the Reserve for Reported Claims.

Ceding Commissions:
Compensation paid by or to an insurance JPA from a reinsurer on premium ceded or assumed.

Claims Payable:
Claims costs which have been identified as owed by the pool but not yet paid. Unlike the Reserve for Reported Claims, these are known amounts owed which are generally paid within 12 months.

Combined Ratio:
The Loss Ratio plus the Expense Ratio. An index of the underwriting profitability in which a result of less than 100 percent generally indicates an underwriting profit.

Confidence levels:
Methodology for establishing contingency margins and evaluating financial solidity. Measures the probability the actual losses will be less than or equal to the funding amount at a particular confidence level.

Deferred policy acquisition costs:
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Commissions and other costs involved in the underwriting policy issue functions are considered to be acquisition costs.

Depreciation:
The process of expensing an asset. JPAs cannot expense an entire capital asset upon purchase. The item must be expensed over the estimated useful life of the asset using a consistent method.
**Discounting:**
Recognizes investment income earned on reserves prior to payout. Investment yield assumption should be consistent with expected yields over claim payout period. Payment pattern/discount factors vary by type of coverage.

**Expense reserves, reported:**
The liability for loss expenses resulting from accidents or occurrences that have taken place and on which the JPA has received notices or reports of loss.

**Funding levels:**
Usually stated for both outstanding liabilities (financial statement) and for future periods (budget). Contingency margins are sometimes included.

**Gross Premium to Surplus:**
A JPA’s surplus as regards policyholders (total capital and surplus) provides a cushion for absorbing above-average losses. The gross premium to surplus ratio measures the adequacy of this cushion, without the effects of reinsurance. The higher the ratio, the more risk the JPA bears in relation to the surplus available to absorb loss variations without the benefit of reinsurance. Calculated by dividing gross premium written by surplus as regards policyholders. The usual range for the gross premium to surplus ratio includes results up to 900 percent (9 to 1).

**Gross Written Premium:**
The total premium charged to policyholders, net of return premiums, to provide the primary insurance on a risk.

**Incurred-but-not-reported (IBNR):**
The liability for claims relating to insured events that have occurred but have not been reported to the insurer, and/or a liability for claims that have been reported but not enough information has been reported. May also include provision for claims now closed, which may reopen.

**Liabilities to Liquid Assets:**
Measures the JPA’s ability to meet the financial demands placed upon it. Calculated by dividing liabilities by liquid assets (including cash and invested assets plus accrued interest, and deferred premiums). The usual range includes results below 105 percent.

**Loss reserves, reported:**
The liability for losses resulting from accidents or occurrences that have taken place and on which the JPA has received notices or reports of loss.

**Losses and LAE paid:**
Disbursements for losses or loss adjustment expenses during the period.
**Net Premium to Surplus:**
The net premium to surplus ratio measures the adequacy of a JPA’s ability to absorb above-average losses, net of the effects of reinsurance. The higher the ratio, the more risk the JPA bears in relation to the surplus available to absorb loss variations, without the benefit of reinsurance. Calculated by dividing net premium written by surplus as regards policyholders. The usual range for net premium to surplus ratio includes results up to 300 percent (3 to 1).

**Premium Ceded:**
- a) Excess-of-loss reinsurance: A kind of reinsurance contract in which the reinsurer pays all or a specified percentage of a loss in excess of a fixed amount and up to a stipulated limit.
- b) Quota-share reinsurance: A form of pro rata reinsurance. A reinsurance of a certain percentage of all the business or certain classes. For example, a JPA may reinsure under a quota-share treaty 50 percent of all of its business or 50 percent of its automobile business.

**Prepaid reinsurance premiums:**
Include amounts paid to reinsurers relating to the unexpired portion of reinsured polices, ceded unearned premiums.

**Reinsurance:**

**Reinsurance recoveries:**
Claim amounts for which the JPA will recover from reinsurers on claims which meet or exceed the limits established in the treaty.

**Reserve for Reported Claims:**
This refers to the amount of estimated future payments on open claims and the accrual for allocated and unallocated claim adjusting costs. Accounting for individual claim years would be within this category.

**Retained Earnings:**
Accounts for that portion of accumulated revenue in excess of expenses. Retained earnings may be restricted or designated for specific purposes, such as reserved for contingency.

**Retrospective Contribution Adjustments:**
This contains the amount due from or owed to a member after adjusting initial premiums based on actual experience. This may be an asset or liability account.
**Surplus Reserves:**
Policyholder assessments. May be utilized to provide additional surplus to fund deficit balances.

**Third Party Administration Fees:**
Fees charged by an outside vendor who provides administration services related to program management and/or claims administration.

**Two-Year Overall Operating Ratio:**
The overall ratio is a measure of profitability of an insurance JPA. This ratio is a combination of three ratios: the loss ratio, plus the expense ratio, minus the investment income ratio. The loss ratio is the total of losses, loss adjustment expenses, and dividend divided by net premium earned. The expenses (net of other income) are divided by net premium earned. The combination of these three ratios indicates the profitability of a JPA's operations with a ratio result below 100 percent signifying a profit and a ratio result above 100 percent indication a loss.

**Unallocated Loss Adjustment Expense (ULAE):**
The liability for adjusting claim which include other costs that cannot be associated with specific claims but are related to claims paid or in process of settlement, such as salaries and other internal costs of the JPA's claims department. Most third party administrators will include this cost in their management fee.

**Unearned Premium:**
The pro rata portion of the premiums in force applicable to the unexpired period of the policy term.