State of West Virginia

Board of Risk and Insurance Management

2016 Annual Report

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director
Acting Cabinet Secretary

August 31, 2016

Honorable Earl Ray Tomblin, Governor
State of West Virginia

Governor Tomblin:

The Annual Report of the West Virginia Board of Risk and Insurance Management (BRIM) for the year ended June 30, 2016 is hereby respectfully submitted. This report was prepared by the staff of BRIM. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation rests with the management of BRIM. We believe the data, as presented, is accurate and that it is presented in a manner designed to fairly set forth the results of the operations of BRIM. All information necessary to enable the reader to gain an understanding of BRIM's operational activities has been included.

The Annual Report contains discussions of the financial activities and highlights for the past several fiscal years, and BRIM's organization chart. The minutes of the Board of Directors meetings are attached as a supplement to this report.

BRIM is reported as an enterprise fund operating as a single business segment, included as a blended component unit of the primary government in the State's Comprehensive Annual Financial Report (CAFR). After applying the criteria set forth in generally accepted accounting principles, BRIM management has determined there are no organizations that should be considered component units of BRIM.

BRIM is governed by a five-member board appointed by the governor for terms of four years. BRIM operates by the authority granted in Chapter 29, Article 12; Chapter 33, Article 30; and Chapter 20, Article 5H of the West Virginia Code as amended, and the provisions of Executive Order 12-86. The day-to-day operations of BRIM are managed by the executive director, who is responsible for the implementation of policies and procedures established by the Board members.

BRIM is charged with providing insurance coverage to all state agencies. Additionally, BRIM provides these services to cities, counties, and non-profit organizations throughout the State under the provisions of Senate Bill #3 (SB#3). BRIM also provides a coal mine subsidence reinsurance program, which allows homeowners and businesses to obtain insurance coverage up to $75,000 for collapses and damage caused by underground coal mines. Additional coverage of $125,000 up to a total of $200,000 will be available beginning October 1, 2016.

BRIM uses various means to cover its insureds. Although BRIM is not indemnified by an insurance company, it contracts with an insurance company that is compensated for claims handling with a flat fee. The primary methods used by BRIM to fund claims payments results in a more stable and predictable funding of claims and claims related expenses, allowing for better cash management for the organization.

Beginning in fiscal year 1996, liability claims were handled through a "Modified Paid Loss Retrospective" rating program, which required an up-front deposit to an insurance company. As losses occur, payments and reserves are established and charged against the deposit. When the amount of paid losses within a twelve-month period exceeds the amount of the deposit, a retrospective billing is produced and BRIM pays that additional amount to the insurance company.

Beginning in fiscal year 2006, BRIM deposited monies with a financial institution, as trustee, to hold advance deposits in an escrow account for BRIM liability claims with loss dates after June 30, 2005. The funds held in escrow, together with their earnings, will be used to fund the payment of the claims and claims adjustment expenses related to these liability claims. Periodically, monies are transferred from the escrow account to the insurance company administering these claims in order to reimburse the insurance company for payments that they have issued on these claims and claims adjustment expenses on BRIM's behalf.

Property losses are retained by BRIM up to $1 million. Additionally, excess coverage is provided beyond the $1 million retention up to a limit of $400 million per occurrence. This coverage provides reimbursement of loss at the stated or reported value less a $2,500 deductible. Under the mine subsidence program, participating insurers pay BRIM a reinsurance premium, which is equal to the gross premiums collected for mine subsidence coverage, less cancellations, less a 30% ceding commission.

BRIM currently insures approximately 167 state agencies, approximately 950 Senate Bill #3 entities, plus provides mine subsidence reinsurance to approximately 15,000 home and business owners.

Financial Highlights

The financial statements of BRIM are prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. In 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." BRIM elected to implement the provisions of this Statement beginning in fiscal year 1994. As permitted by the Statement, BRIM has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

Internal Accounting Structure and Budgetary Control

As mentioned, BRIM reports and meets the requirements of an enterprise fund. BRIM's assets and liabilities are accounted for in a single fund.

Internal controls have been put in place to ensure the assets and property of BRIM are protected from theft, loss or misuse and to provide adequate accounting data for preparing Generally Accepted Accounting Principles (GAAP) based financial statements.

Internal controls are established to provide reasonable assurance that objectives are met. Additionally, the concept of reasonable assurance should recognize that the cost to administer the control should not exceed the benefits derived from the control.

An annual budget is prepared prior to the start of each fiscal year for use as a management tool and for evaluating performance.

BRIM On-Line

We invite you to visit BRIM's website at http://www.brim.wv.gov/Pages/default.aspx. The website is designed to inform the public about our program and to provide assistance to our customers. One feature allows claimants to submit a claim electronically for faster processing and handling. Detailed instructions on how to fill out a renewal questionnaire are also found on-line. A variety of frequently asked questions on topics ranging from billing to underwriting can also be found on this site.

Results of Operations

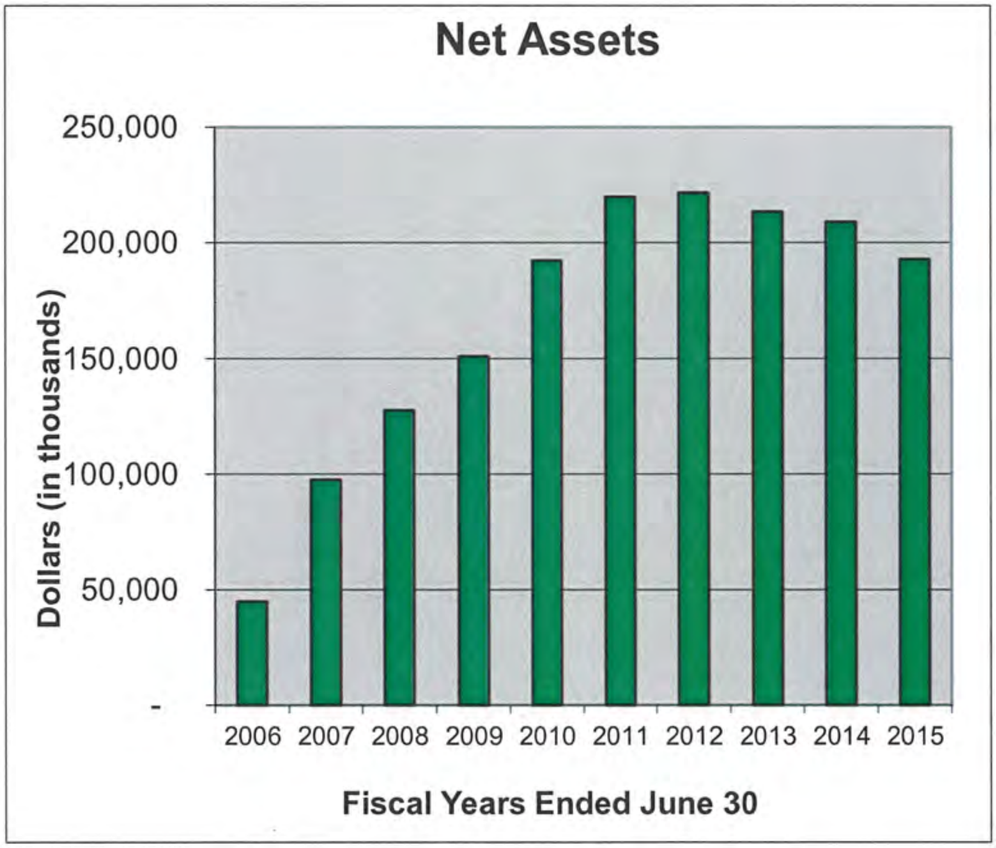
Below are audited results from operations of four most recent fiscal years ended June 30:

	2012	2013	2014	2015
		(In thousands)		
Operating Revenues:				
Premiums	$51,046	$47,134	$52,128	$58,204
Less Excess Coverages	(5,386)	(5,825)	(6,102)	(6,197)
Net Operating Revenues	45,660	41,309	46,026	52,007
Operating Expenses:				
Claims & Claims Adjustment	53,396	54,018	61,626	68,145
General Administrative	3,892	3,275	3,898	3,541
Total Operating Expenses	57,288	57,293	65,524	71,686
Operating Income (Loss)	(11,628)	(15,984)	(19,498)	(19,679)
Non-Operating Revenues:				
Interest Income	13,315	7,835	17,043	4,833
Appropriation Transfer	-0-	-0-	(2,000)	-0-
Payment to Transfer HB601 estimated future IBNR	-0-	-0-	-0-	(750)
Net Income (Loss)	1,687	(8,149)	(4,455)	(15,596)
Retained earnings at beginning of year	219,828	221,515	213,366	208,911
Cumulative effect of adoption of GASB 68	-0-	-0-	-0-	(495)
Retained earnings at end of year	$221,515	$213,366	$208,911	$192,820

BRIM has worked diligently for the past several years to maintain positive retained earnings and eliminate its unfunded liability. Favorable loss patterns and adequate funding have enabled BRIM to maintain positive retained earnings from 2005 thru 2015.

BRIM may occasionally experience some adverse loss development. Premiums continue to be calculated on a basis consistent with exposure and loss trends. It is also important to note that BRIM has not received any state appropriations since 2005. BRIM will continue to closely monitor claims activity with our independent actuary and will bill premiums accordingly. Efforts are being undertaken to increase the emphasis on loss control by state agencies and Senate Bill #3 entities, including educational classes and seminars on sexual harassment, discrimination, liability deductibles, defensive driving classes, and personally meeting with Cabinet Secretaries to discuss loss histories of the agencies under their supervision.

The chart below shows the net assets for the past ten years. All years shown have positive retained earnings.



West Virginia Patient Injury Compensation Fund

House Bill 2122, signed into law on April 8, 2003, created the Patient Injury Compensation Fund Study Board "to study the feasibility of establishing a patient injury compensation fund to reimburse claimants in medical malpractice actions for any portion of economic damages awarded which are uncollectible due to statutory limitations on damage awards for trauma care and/or the elimination of joint and several liability of tortfeasor health care providers and health care facilities."

Through the combined efforts of the BRIM staff, Insurance Commissioner's Office and West Virginia Hospital Association, the study was completed and a report was submitted to the Joint Committee on Government and Finance of the West Virginia Legislature on December 1, 2003, recommending that the fund be established. On April 2, 2004, House Bill 4740 was signed into law, effective June 11, 2004.

The fund is administered and operated by BRIM. During fiscal year 2005, BRIM began receiving appropriated funds into this account. Eligibility for reimbursement is based on the claimant's inability, after exhausting all reasonable means available for recovering the award, to collect all or part of the economic damages awarded due to the caps. With the passage of Senate Bill 602, effective July 1, 2016, the fund shall not provide compensation to claimants who fill a claim with the Patient Injury Compensation Fund on or after July 1, 2016.

Audit

BRIM is required by the Financial Accounting and Reporting Section (FARS) of the Department of Administration to have an annual independent audit. The firm of Dixon Hughes Goodman, LLP was selected to perform the audit for the fiscal year ended June 30, 2016. The June 30, 2016 report will be available near the end of October 2016.

Risk Management

BRIM is charged with providing loss control and risk management services to all insured entities throughout the State. BRIM accomplishes this task through a number of programs. All property insured by BRIM with a value of $1 million or more is inspected annually. Additionally, BRIM holds various seminars and training programs for its insureds throughout the year. Topics include boiler operation, employment practices, and general loss prevention.

Cash Management

BRIM's cash and cash equivalents are managed by the Board of Treasury Investments according to the provisions of the Code of West Virginia. BRIM management monitors cash balances on both a daily and a monthly basis.

Certificate of Achievement for Excellence in Financial Reporting

The West Virginia Board of Risk and Insurance Management's Comprehensive Annual Financial Report for the year ended June 30, 2015, from which the information on page(s) one through eight have been drawn, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Comprehensive Annual Financial Report

Since June 30, 1995, BRIM has issued a Comprehensive Annual Financial Report (CAFR). This report contains an introductory section, a financial section and a statistical section. The financial section will contain audited data for June 30, 2016. The CAFR for fiscal year 2016 will be issued before December 31, 2016. A copy of this report will be sent to the Governor's Office upon completion.

Acknowledgments

This report would not be possible without the assistance of the BRIM staff and the support of the Board members.

Sincerely,

Mary Jane Pickens

Mary Jane Pickens
Executive Director

Listing of Coverages in Effect for Fiscal Year 2016

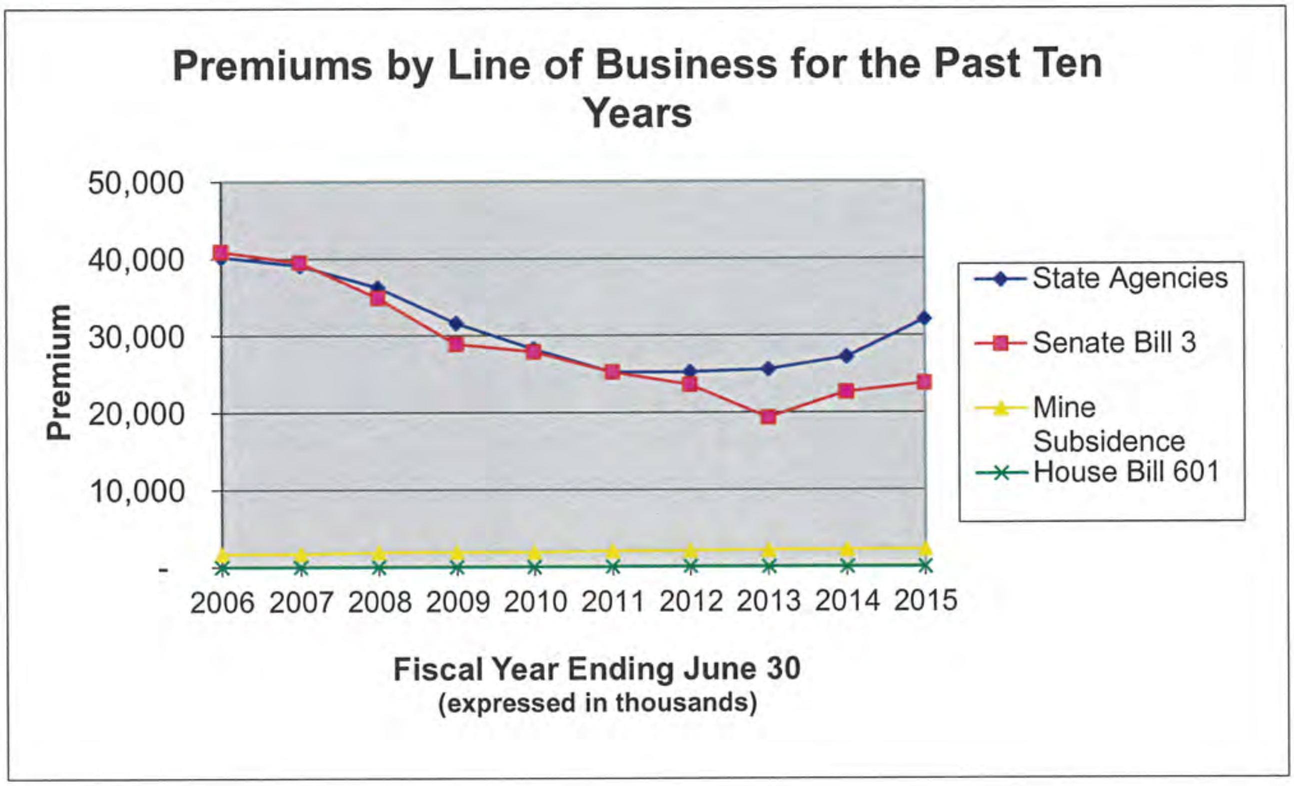
LIABILITY	LIMIT OF LIABILITY	
Automobile Liability Policy No.: CA 533-95-60 Company: National Union Fire Insurance Co.	$	1,000,000 per occurrence
Cyber Liability Policy No.: F10687315 Company: Arthur J. Gallagher International	$	25,000,000 per occurrence
General Liability Policy No.: GL 957-51-60 Company: National Union Fire Insurance Co.	$	1,000,000 per occurrence
Aircraft Liability Policy No.: AV003380147-13 Company: National Union Fire Insurance Co.	$	1,000,000 per occurrence
Excess Liability-Bd. of Education Policy No.: 48409866 Company: The Insurance Company of the State of Penn	$	5,000,000 per occurrence or claim

PROPERTY	LIMIT OF LIABILITY	
Blanket Property Policy No.: MAF760728-15 Company: Axis Insurance Company	$	25,000,000 primary layer 1,000,000 deductible
Policy No.: NHD393217 Company: RSUI	$	100,000,000 in excess of 25,000,000
Policy No.: 795003409 Company: One Beacon	$	75,000,000 in excess of 125,000,000
Policy No.: MAF733355-15 Company: Axis Insurance Company	$	200,000,000 in excess of 200,000,000
Policy No.: MAF760729-15 Company: Axis Insurance Company	$	10,000,000 flood with 1,000,000 deductible
Boiler and Machinery Policy No.: FBP2280385 Company: Hartford Steam Boiler Company	$	5,000,000 per equipment covered in excess of 1,000,000
Public Insurance Official Position Schedule Bond Bond No.: 106128156 Company: Travelers	Variable amounts as set by Statute	

Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

	Top 10 State Agency Premiums for Fiscal Year 2016	
1	West Virginia University	$7,553,049
2	West Virginia State Police	5,765,357
3	Division of Highways	5,190,905
4	Department of Health & Human Resources	3,454,912
5	Marshall University	2,609,874
6	Division of Corrections	1,419,748
7	Regional Jail and Corrections Facility Authority	694,085
8	West Virginia Parkways Authority	606,271
9	General Services	537,209
10	Supreme Court of Appeals	522,529
	Total Top Ten	**$28,353,940**
	Total State Premium Billing for 2016	**$37,674,902**
	% of top 10 in relation to all state agency billings	**75.26%**

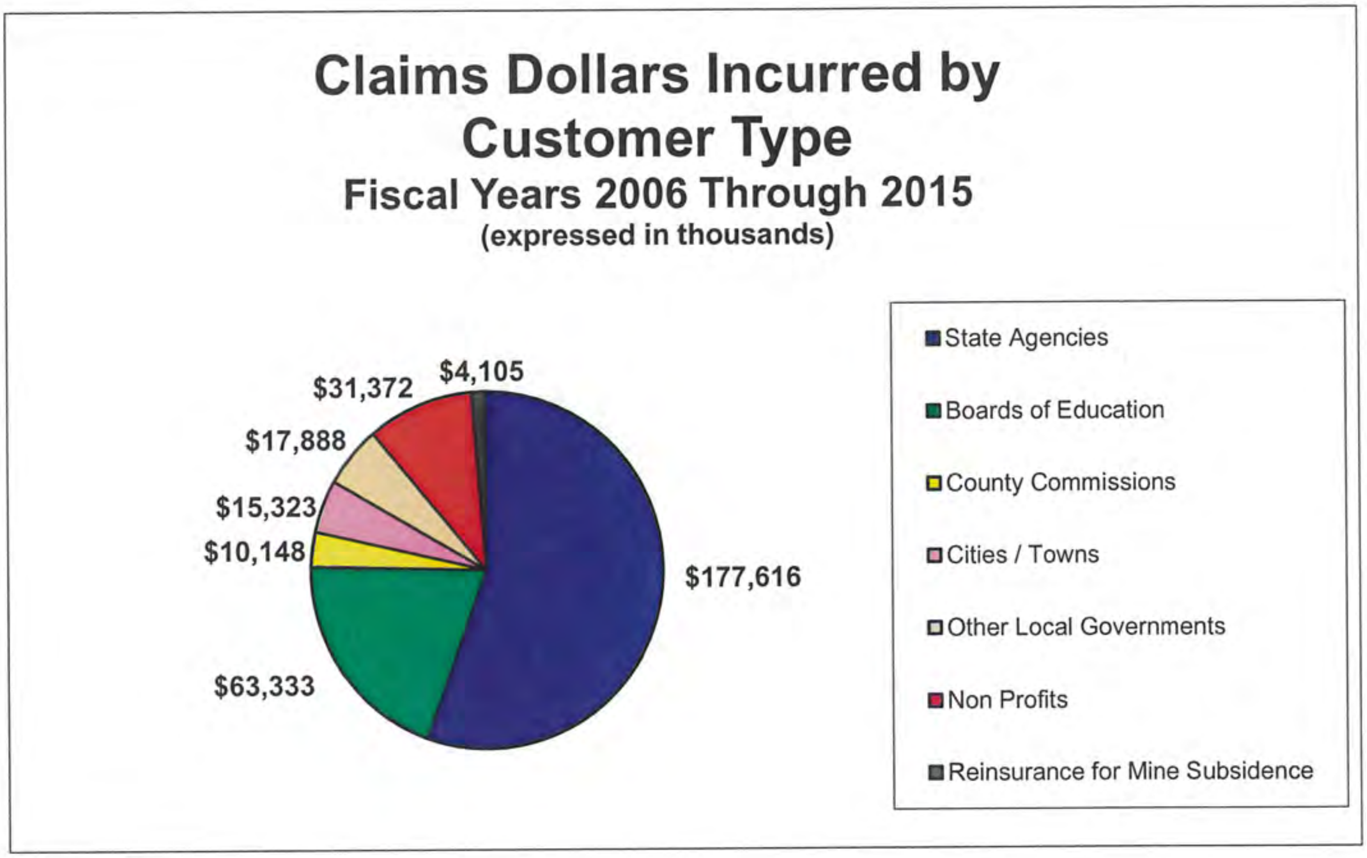
	Top 20 SB 3 Premiums for Fiscal Year 2016	
1	Kanawha County Board of Education	$1,484,834
2	Raleigh County Board of Education	682,932
3	Berkeley County Board of Education	681,062
4	Cabell County Board of Education	561,212
5	West Virginia University Medical Corp	554,699
6	City of St. Albans	542,005
7	Putnam County Board of Education	484,258
8	Harrison County Board of Education	477,266
9	Mingo County Commission	450,120
10	Wayne County Board of Education	419,717
11	Mercer County Board of Education	393,003
12	Wood County Board of Education	373,265
13	Monongalia County Board of Education	363,052
14	Marion County Board of Education	348,963
15	Logan County Board of Education	346,982
16	Jefferson County Board of Education	335,682
17	Mingo County Board of Education	319,884
18	Fayette County Board of Education	308,796
19	Logan County Commission	300,703
20	University Physicians and Surgeons	269,989
	Total Top Twenty	**$9,698,426**
	Total SB 3 Premium Billing for 2016	**$27,030,523**
	% of top 20 in relation to total SB 3 billings	**35.88%**



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
2006	$ 40,252	$ 40,920	$ 1,652	-
2007	$ 39,091	$ 39,481	$ 1,676	-
2008	$ 36,259	$ 34,875	$ 1,852	-
2009	$ 31,596	$ 28,902	$ 1,929	-
2010	$ 28,257	$ 27,889	$ 1,861	-
2011	$ 25,239	$ 25,233	$ 2,032	$ 34
2012	$ 25,290	$ 23,603	$ 2,090	$ 63
2013	$ 25,607	$ 19,345	$ 2,142	$ 40
2014	$ 27,226	$ 22,642	$ 2,220	$ 40
2015	$ 32,118	$ 23,781	$ 2,261	$ 44

The chart above shows premiums by line of business for the past ten fiscal years, expressed in thousands of dollars. This chart illustrates a general downward trend of premiums for State Agencies and Senate Bill 3 customers until 2014.

Source: BRIM's internal financial statements.



Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
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AGENDA
BOARD MEETING OF THE WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

June 21, 2016

Chairman Martin	Call to Order
Chairman Martin	Approval of Board Minutes March 22, 2016

REPORTS

Mary Jane Pickens Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report PCard Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

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www.brim.wv.gov

(304) 766-2646
(304) 744-7120 FAX
(800) 345-4669 TOLL FREE WV

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Executive Director

MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

June 21, 2016

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Chairman Bob Mitts, CPCU, Vice Chairman James Dodrill, Esquire, Member James Wilson, Esq. (via teleconference)
BRIM PERSONNEL:	Mary Jane Pickens, Executive Director Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Chuck Mozingo, Assistant Claim Manager Melody Duke, Underwriting Manager Stephen Panaro, CPA, Controller Jeremy Wolfe, Loss Control Manager Steve Fowler, Esq., BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, AIG Claim Services Frances Henry, AIG Claim Services Brenda Samples, USI Insurance Services, LLC Bob Ayers, USI Insurance Services, LLC
GUESTS:	Sandy Price, WVU Health Sciences Center Mike Gansor, WVU Risk Management

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Martin at 1:00 p.m. on Tuesday, June 21, 2016, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Doddrill moved the approval of the minutes of the March 22, 2016 Board Meeting. The motion was seconded by Vice Chairman Mitts. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

Executive Director's Report

The report of the Executive Director was received and filed, a copy of which is attached and made a part of the record.

Mrs. Pickens began by providing a status report regarding the Marshall and WVU escrow accounts, followed by the report of AIG's litigation statistics as of May 2016.

She thereafter explained that during the recent legislative session, Senate Bill 602 was passed by the Legislature and signed by the Governor, which provides for the closure of the Patient Injury Compensation Fund (PICF) to new claims on and after July 1, 2016.

Further, we have attempted to communicate this information by posting a notice on our website and by requesting the State Bar to include a notice in the "Bar Blast" to its members. We have also sent letters to the county clerks of all fifty-five counties explaining the revenue streams, which, after all the assessments are totaled, will increase from $165 to $285 per filing.

She went on to note that if there is insufficient monies available to handle all the claims that become final prior to July 1, 2016, they will be handled on a prorated basis, with any unpaid amounts considered during subsequent fiscal years and availability of funds from which to make payment.

Mrs. Pickens noted that the monies in the HB 601 account will transfer to the PICF on July 1, and that the revenue streams detailed in the attached written report will increase the money collected per filing from $165 to $285.

During a somewhat lengthy discussion, it was ascertained that assessments can be charged for as many times as licenses are issued or renewed by the Boards of Medicine and Osteopathy.

She then stated that all claims that become final prior to July 1, 2016 will be addressed early in the next fiscal year, and it is expected that all claims made to the Fund will become final either this year or next.

With regard to the mine subsidence issue, Mrs. Pickens noted that House Bill 4734, which increases the amount that BRIM can reinsure from $75,000 to $200,000, was passed and signed. However, the amount of insurance cannot exceed the amount of fire insurance on the structure. The changes to forms and rates provided to the Insurance Commissioner have been approved and were included in the emergency and regular Rule. The bill does not take effect until October 1, 2016; however, a notice explaining the changes will be posted to BRIM's website, and the necessary letters and forms will be mailed to the insurers having a reinsurance agreement with BRIM.

Continuing, Mrs. Pickens also reported on the following topics:

1. Winter Storm Jonas – We are continuing to address these claims, and we have paid $303,175 and have reserves totaling $2,630,000.
2. Central West Virginia Hailstorm – Currently addressing five claims. Damage to roofs and buildings probably will exceed $750,000.
3. Cyber Liability – There are 157 state entities covered and one entity still under consideration; 11 entities yet to apply for the coverage.

   We were able to renew the cyber coverage with no increase in premium for the upcoming fiscal year. The total cost of the coverage for FY ’17 is $690,081.
4. Policy Renewals – Liability is renewing as previously agreed.

   Although some negotiation was required, the Property insurer gave us the previously agreed-to premium discount, a $147,877 decrease for last year.

   After so many markets refused to give quotes on the BOE excess liability because of auto, pupil transportation, professional liability and athletic concussion exposures, our current carrier offered a 6% premium decrease for next year, or $100,000 less than what we paid this year.

   The two remaining renewals are in process—Aircraft and Statutory Bond.
5. Requests for Proposals/Contracts

   The Risk Management Information System (RMIS) RFP was reissued and has a mandatory pre-bid conference date of July 8th and a bid-due date of August 8th. As was the case before, demonstrations will be scheduled.

Effective July 1st, Dixon Hughes Goodman will be our new auditor. While we do not have prior experience with this firm, we do have prior experience with the partner assigned to this account.

6. Personnel – After working for State Government almost 16 years, Bob Miller retired on May 31st.

   Morgan Stutler resigned from BRIM on May 26th due to personal reasons.

7. Miscellaneous - State and Senate Bill #3 rates have been provided to all customers, many of whom received substantial increases in premium.

   Work on the Greenbrooke Building is well underway, and it is estimated that we will be able to move into our new space on the fourth floor around mid-August or—at least--by the last of August.

After a brief discussion regarding the rates, Mrs. Pickens interjected that the interim dates are out, and BRIM will be looked at to provide information regarding certain assets owned by the State. Therefore, we will be cooperating with various counsels and committee chairs in providing them with information as requested.

<u>BRIM Financial Report</u>

There being no questions, Chairman Martin called upon Mr. Schumacher to present the Chief Financial Officer's Report. The Statement of Net Position for the Ten Months Ended April 2016 and the Statement of Revenues, Expenses, and Changes in Net Position for the Ten Months Ended April 2016 were received and filed, copies of which are attached and made a part of the record.

A CD containing the February, March and April 2016 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the October, November and December 2015 and January 2016 billings. The acknowledgement form is retained by the Finance Department.

Mr. Schumacher thereafter reviewed the financial results through April 2016 and concluded that net operating revenues are $5.0 million higher for the current year; that outstanding claims reserves have increased $7.3 million for this fiscal year versus a $6.0 million increase for FY ’15; that fixed income and equity returns are much smaller this year, and that a higher premium revenue combined with the smaller net claims expense offsets the much lower investment returns for FY ’16, which results in net income of $0.2 million as compared to last year’s net loss of ($4.5) million.

Loss Control Report

There being no questions for Mr. Schumacher, the Loss Control Report was thereafter presented by Robert Fisher, Deputy Director/Claim Manager. The report was received and filed, a copy of which is attached and made a part of the record.

Mr. Fisher began by stating that in May, the annual Loss Control Questionnaires were sent to our state agencies, with a return deadline of August 1st. Changes have been made to the questionnaire and the Standards of Participation as a result of the addition of a section related to “Cyber/Information Security and Privacy”. We will not grade them for credits and surcharges this year in order to allow people to get up to speed with what we are requiring, but we will grade them next year.

Mr. Fisher noted that Morgan Stutler resigned on May 26th for personal reasons. At the present time, there are two job openings in the Loss Control Department. We would like to eventually fill these positions, but we plan on waiting until after we have moved.

There were no questions for Mr. Fisher.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being nothing further, the meeting adjourned at 1:40 p.m.

______________________________ ______________________________
Board Chairman Date

STATE OF WEST VIRGINIA
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Executive Director's Report

June 21, 2016

A. Marshall University and West Virginia University Medical Malpractice Program

As of June 10, 2016, Marshall has deposited $1,800,000.00 into the escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $3,725.83. During FY 2016, disbursements totaling $1,783,086.44 have been paid thus far.

As of June 10, 2016, a total of $5,334,843.21 has been deposited into WVU's escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $7,561.47. During FY 2016, disbursements totaling $5,341,934.19 have been paid thus far.

B. State Agency/Senate Bill #3 Liability Claim & Litigation Information

TRIALS

- Thus far in 2016, we have tried 4 cases to a verdict. There were 3 defense verdicts and 1 plaintiff verdict. The plaintiff verdict was less than the demand.

PAID CLAIMS (May 2016 Data)

- Claims Indemnity payments YTD total $16,110,189 vs. PYTD of $17,016,536, a decrease of 5.3%.
- Claims Expense payments YTD total $6,668,409 vs. PYTD of $7,826,969, a decrease of 14.8%.

OUTSTANDING CLAIMS (May 2016 Data)

- Indemnity reserves total $59,444,173 vs. PYTD of $55,267,903, an increase of 7.5%.
- February 2016 Expense Reserves total $20,930,651 v. PYTD total of $23,402,395, a decrease of 10.6%.

CLAIMS COUNTS (May 2016 Data)

- New claims YTD total 1228 vs. PYTD of 1332, a decrease of 7.8%.
- Closed claims YTD total 1417 vs. PYTD of 1327, an increase of 6.8%.
- Open claims YTD total 1012 vs. PYTD of 1023, a decrease of 1.1%.

C. Patient Injury Compensation Fund (PICF)

Senate Bill 602, which was enacted during the regular session of the legislature, closes the PICF as of July 1, 2016. We have attempted to get word of the closing out so that anyone who wishes to present a claim may do so. We have placed a notice on the BRIM website, and

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the State Bar, at our request, sent out a notice as part of its June 7, 2016 'Bar Blast' to State Bar Members. We are working on a Rule and an emergency Rule for filing with regard to the Fund.

We have received several new claims since the legislation was signed and anticipate receiving others prior to the July 1 deadline. Existing monies in the HB 601 account will transfer to the PICF on July 1 and the legislature has identified revenue streams which will be available to the Fund until 2020. These revenue streams include a $125 assessment on each license issued or renewed by the Boards of Medicine and Osteopathy; a $25 assessment per trauma care patient at identified Trauma Centers; a 1% assessment of the gross amount of settlement or judgment involving claims arising under the MPLA; and an additional $120 per filing on all suits filed pursuant to the MPLA. Currently, we receive $165 per filing and with the increase will receive $285 per filing.

Existing PICF claims are currently being addressed by the Application and Executive Review Committees. We will address all claims that become final prior to July 1, 2016 early in the next fiscal year. If there is insufficient monies available to address all then final claims, they will be considered on a pro-rata basis with any unpaid amounts being considered during subsequent fiscal years based on the availability of monies from which to make payment. Barring anything unforeseen, we expect that all claims made to the Fund will become final either this year or next. This will allow us to know exactly how much money is needed to resolve all claims made to the Fund.

D. Mine Subsidence

The Governor signed House Bill 4734 which increases the amount that BRIM may reinsure for mine subsidence loss from $75,000 to $200,000, with the continuing proviso that the amount of mine subsidence insurance cannot exceed the amount of fire insurance on the structure. The bill does not take effect until October 1, 2016. The Insurance Commissioner has approved the changes to forms and rates that we provided to them and these were included in both an emergency and regular Rule. We are preparing a notice to post on BRIM's website regarding these changes and preparing necessary letters and forms to mail to the various insurers who have a reinsurance agreement with BRIM.

E. Winter Storm Jonas Claims

We are continuing to address claims resulting from Winter Storm Jonas which occurred from January 22-24. To this point, we have paid $303,175 and have reserves totaling $2,630,000. We are just about ready to issue payment for $2,000,000 damage to property owned by the Armory Board. BRIM will ultimately only be responsible for paying the first million dollars of the total loss with our property insurer paying the rest.

F. April 28-29, 2016 Hailstorm – Central West Virginia

We are currently addressing five claims that resulted from the severe hail storm that hit north central West Virginia in late April. The storm resulted in severe roof damage to several buildings and we expect the damage to exceed $750,000. Our property insurer has been notified and is actively assessing damages.

G. Cyber Liability Insurance Coverage

We have 157 state entities now covered by the Cyber policy with one entity still under consideration by the underwriters and 11 entities yet to apply for the coverage. We are actively trying to convince the remaining 11 of the importance of the coverage and the need for their participation. One or more of these entities are of the belief that this coverage is voluntary.

We were able to renew the Cyber coverage with no increase in premium for the coming fiscal year. The insurer gave us a 7% rate reduction; however, the increased exposures also totaled 7% which resulted in a flat premium. We decided to keep a $25,000,000 limit for this year, but decided to increase the sub-limit for PCI DSS Assessment (having to do with the handling of credit card data) from $500,000 to $1,000,000 as recommended by our broker. The total cost of our Cyber coverage for the coming year is $690,081.

During the coming year, we will be working with our broker to develop an allocation model for assessing Cyber premiums to our various state customers. The Loss Control Department has updated its Standards of Participation requirements to include a section on Cyber and Privacy. Beginning in FY 18, credits and surcharges will be applied based on efforts to minimize losses. These credits and surcharges will be applied for the first time as we directly bill agencies for Cyber coverage for the first time.

H. Policy Renewals – Fiscal Year 2017

In addition to the Cyber policy which was discussed earlier, we have completed the renewal process for all of our policies except two.

The Liability program through AIG is renewing as previously agreed.

The Property insurer agreed to give us a previously agreed-to premium discount in spite of the fact that losses required a negotiation of rates for this year. The amount of the decrease is $147,877 from last year. For the first time, the insurers of each of the various layers of the Property cover gave us a rate decrease.

We initially weren't pleased with the proposal by our Board of Education excess carrier which offered to reduce premium by only 2.5 %. We attempted, without success to negotiate a better deal with our current carrier; but when we could not, we directed our broker to go to market to try to get us a more generous proposal. Thirty-five markets were contacted and all but one refused to quote on the business and the one that was willing to quote, wasn't willing to follow form and we couldn't accept the coverage restrictions they wanted. Just as we were about to accept the fact that we had run out of options, our current carrier came back to us and offered a 6% premium decrease for next year. The cost for next year is $100,000 less than what we paid this year. We accept the offer. It is worth noting that the BOE excess carriers refused to quote on our program due to auto exposures, pupil transportation exposures, professional liability exposures and athletic concussion exposures.

The two remaining renewals that are still in process are for Aircraft and Statutory Bond. Our broker is actively comparing Aircraft pricing and the Bond renewal is being finalized with the current carrier.

I. Requests for Proposals (RFP)/Contracts

We have reissued our RFP for a new Risk Management Information System (RMIS) with a bid-due date of August 8, 2016. A mandatory pre-bid conference is scheduled for July 8, 2016. Following receipt of proposals from the various bidders, we will be scheduling demonstrations of the various systems being offered to us. We hope that these demonstrations can be concluded during the month of August, but they may continue into September. You may recall that we tried to issue this contract earlier this year, but we were unable to score the cost proposals. They were too diverse to allow for proper comparison. Our new RFP gave additional guidance for the cost proposal that should allow for proper evaluation.

As a result of the RFP that was issued for auditing services, we will have a new auditing firm effective July 1, 2016. Dixon, Hughes, Goodman will be our new auditor. While we have no experience with this particular firm, we do have experience with the partner assigned to this account. We have also been in contact with other state entities that have utilized this firm and have received positive responses with regard to their demonstrated abilities.

J. Personnel

Bob Miller retired from State Government on May 31, 2016 after more than 26 of service. He worked for BRIM for almost 16 years. He was a valued employee and a good friend to many. We will miss him and wish him the best as he enjoys his retirement.

Loss Control Specialist Morgan Stutler left employment with BRIM on May 26, 2016. We were sorry to see her go and we will not be looking to fill her position until after our office move has been completed.

K. Miscellaneous

State and Senate Bill #3 rates have been provided to all customers. We received many questions about the rates as many insured saw substantial increases in premium. We did the best that we could to minimize the increases, but losses and reserves have trended upward in recent years and that is reflected in the premium.

The work on the Greenbrooke Building, which will be BRIM's new home, is well under way. Work to replace the roof began recently and cabling has almost been completed in parts of the building. Our space will be on the fourth floor and will be the last space completed due to the time constraints other building occupants are working under. The interior of the entire building is being painted and new carpet is being installed throughout. We will be moving our cubicle equipment to the new space and our new equipment needs should be minimal. We did purchase a fair amount of unneeded office desks and other equipment from the OIC at a very favorable rate. We have estimates for moving our belongings and are addressing other needs as they are identified. Currently, it is estimated that we may be able to move to the new space around the fourth week of August.

Very truly yours,

Mary Jane Pickens
Executive Director

MJP/RAF:lld

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STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director
Acting Cabinet Secretary

Chief Financial Officer's Report
June 21, 2016

A. P Card Report

CD copies provided contain the supporting detail for P card purchases for BRIM for the months of February, March, and April 2016. The totals are:

February	$59,966.98
March	$41,213.36
April	$59,506.39

B. Financial Results

- The financial results presented are for the ten months ended April 30, 2016.
- Net operating revenues are $5.0 million higher for the current year.
- Estimated outstanding reserves reflect AON's risk funding studies thru March 31. An additional estimated reserve increase for April is also included for both years.
- Outstanding claims reserves have increased $7.3 million for FY'16 vs. a $6.0 million increase for FY'15. The year over year difference of $1.3 million increased claims expense for the current year when compared to last year's results. Actual claims payments have decreased by $3.0 million for the first ten months of FY'16 versus the same period last year. The combined impact of the larger increase in claims reserves this year was offset by the $3.0 million decrease in claims payments for FY'16, thereby decreasing operating expenses by $1.7 million this year versus last.
- Both fixed income and equity returns are much smaller this year. The combined investment earnings are $2.6 million lower for FY'16, reflecting lower overall returns this year to date.
- Higher premium revenue combined with the smaller net claims expense more than offset the much lower investment returns for FY'16, resulting in net income of $0.2 million for this year as compared to last year's net loss of ($4.5) million for the comparable period.

Respectfully submitted,

Stephen. W Schumacher, CPA
Chief Financial Officer

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West Virginia Board of Risk and Insurance Management

Statements of Net Position

For the Ten Months Ended April 30th

	2016	2015
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	11,267	9,982
Advance deposits with insurance company and trustee	215,955	214,461
Receivabales	7,060	4,657
Prepaid insurance	1,140	1,037
Restricted cash and cash equivalents	9,884	8,068
Restricted receivables:	0	0
Premiums due from other entities	597	710
Total current assets	**245,903**	238,916
Noncurrent assets:		
Equity position in internal investments pools	83,598	90,248
Restricted investments	48,298	49,105
Total noncurrent assets	**131,896**	139,353
Total assets	**377,799**	378,269
Deferred Outflows of Resources	127	0
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	47,890	53,448
Unearned premiums	12,029	10,931
Agent commissions payable	722	724
Claims Payable	48	0
Accrued expenses and other liabilities	3,253	2,889
Total current liabilities	**63,941**	67,992
Estimated unpaid claims and claims adjustment expense net of current portion	120,374	105,761
Compensated absences	76	76
Net pension liability	253	0
Total noncurrent liabilities	**120,703**	**105,836**
Total liabilities	**184,645**	173,828
Deferred Inflows of Resources	270	
Net position:		
Restricted by State code for House Bill 601 Program and mine subsidence coverage	55,427	53,527
Unrestricted	137,393	155,383
Net Assets (Deficiency)	192	(4,469)
Net position	**$ 193,012**	**$ 204,441**

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Position

For the Ten Months Ended April 30th

	2016	2015
	(In Thousands)	
Operating revenues		
Premiums	**$ 54,038**	$ 48,526
Less coverage/reinsurance programs	**(5,672)**	(5,159)
Net operating revenues	**48,366**	43,367
Operating expenses		
Claims and claims adjustment expense	**49,552**	51,212
General and administrative	**3,066**	2,926
Total operating expenses	**52,618**	54,138
Operating income (loss)	**(4,252)**	(10,771)
Nonoperating revenues		
Investment income	**4,444**	7,052
Appropriation Transfer HB4261		0
Payment to transfer HB601 estimated future IBNR	–	(750)
Net nonoperating revenues	**4,444**	**6,302**
Changes in net position	**192**	(4,469)
Total net position, beginning of year	**192,820**	208,910
Total net position, end of period	**$ 193,012**	**$ 204,441**

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director
Acting Cabinet Secretary

Loss Control Report to the Board
June 2016

During the month of May, we sent out Loss Control Questionnaires to all state agencies. The deadline for submission to BRIM is August 1, 2016. We will then begin the process of reviewing the submissions and calculating loss control credits or surcharges for fiscal year 2018.

We announced a new section to the Standards of Participation and associated Loss Control Questionnaire for state agencies. It addresses newly established risk management Standards related to "Cyber/Information Security and Privacy". We will not begin assessing credits or surcharges for these new Standards until fiscal year 2019, giving agencies the remainder of this fiscal year to take the necessary steps to meet the new Standards.

We have successfully renewed our Loss Control contracts for next year. Once again, Aon will perform insurance loss control inspections and Hartford Steam Boiler will provide both boiler insurance and inspection services.

Since our last meeting, a vacancy has arisen within the Department. Morgan Stutler resigned from her position as a Loss Control Specialist. We don't yet have a timetable for filling this vacancy, though clearly, it won't be before we move to our new offices.

During the months of April, May and June, Aon conducted 137 inspections and Hartford conducted 445. The reports are being processed according to established procedures.

Since my last report, our loss control technical staff reports the following activity:

14 Loss Control Visits
These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

31 Standards of Participation Visits
These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

2 Presentation Visits

These are visits during which we provide active training and/or outreach to a group of individuals.

Dated: *June 21, 2016*

Respectfully submitted,

Robert A. Fisher
Deputy Director *and* Claim Manager

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director
Acting Cabinet Secretary

AGENDA
BOARD MEETING OF THE WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

March 22, 2016

Chairman Martin	Call to Order
Chairman Martin	Approval of Board Minutes December 15, 2015

REPORTS

Jo Ellen Cockley, FCAS, MAAA AON Associate Director and Actuary	Risk Funding Study as of June 30, 2015
Mary Jane Pickens Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report PCard Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Acting Cabinet Secretary
Executive Director

MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

March 22, 2016

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Chairman Bob Mitts, CPCU, Vice Chairman James Dodrill, Esquire, Member James Wilson, Esquire, Member Edward Magee, Ed.D., CPA, Member (via teleconference) Tonya Gillespie, CPA, Representing Mike Riley, Insurance Commissioner, Board Secretary and Ex-Officio Member
BRIM PERSONNEL:	Mary Jane Pickens, Executive Director Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Chuck Mozingo, Assistant Claim Manager Melody Duke, Underwriting Manager John Fernatt, IT Manager Stephen Panaro, CPA, Controller Jeremy Wolfe, Loss Control Manager Steve Fowler, Esq., BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, AIG Claim Services Brenda Samples, USI Insurance Services, LLC Bob Ayers, USI Insurance Services, LLC

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GUESTS: Jo Ellen Cockley, AON Risk Consultants
Sandy Price, WVU Health Sciences Center
Mike Gansor, WVU Risk Management
Brian Gallagher, Marshall Health Sciences

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Martin at 1:03 p.m. on Tuesday, March 22, 2016, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Vice Chairman Mitts moved the approval of the minutes of the December 15, 2015 Board Meeting. The motion was seconded by Mr. Wilson. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

<u>June 30, 2015 Actuarial Report</u>

Chairman Martin then recognized Jo Ellen Cockley of AON Risk Consultants to present the June 30, 2015 Risk Funding Study, copies of which were previously distributed to the Board members for their reference.

Mrs. Cockley began by giving a general market overview, noting that 2015 was a good year for the industry--basically a repeat of 2014--and she thinks that 2016 will be the same.

During her presentation, she stated that the insurance industry policyholder surplus is over $700 billion, primarily because of falling property rates. The loss cost trends or frequency and severity trends have been very modest. Further, the industry's results have been helped by prior year reserve releases, low CAT (catastrophic) costs, and a continued low inflationary environment.

She further pointed out that cyber liability has especially been talked about a lot because the losses are going up, pricing is going up, and people are still struggling with----what is the best way to underwrite and to price cyber liability?

Using an overhead projector and referring to the various combined ratios graphs and diagrams, she stated that an 8.8% return on equity was posted in 2015; that the property slide shows that over the past few years, it has not been the big CATs as much as the winter storms that are causing some of the results to be a little higher than what would be thought of as a non-CAT year, and, referring to the rate change activity every year, both property and GL in the fourth quarter of 2015 had some rate decreases around 3.5%, with auto having trouble keeping pace as their rates were up about 3.3%.

Mrs. Cockley thereafter discussed at length the market for cyber liability. She stated that the insurance market for cyber is tightening a little; that there has been 10 – 15 percent rate increases, and that there are more exclusions—a tightening of the coverage and stricter underwriting of the coverage. Referring to the 2014 data breaches on page 13 of the risk funding study, she explained the breakdown shown on the pie chart and the effects in each business category, as well as noting that 22% of health care data breaches were physical/non-electronic records.

Still on the subject of health care, she stated that a 1% decline in claims frequency is expected for 2016, and claim severity is growing at a 2% annual rate.

Chairman Martin commented that West Virginia has seen a big increase in claims frequency. In responding, Mrs. Cockley referred to page 18 and noted that

West Virginia has had a claim frequency higher than the national average, but the claim severity is similar.

She then mentioned that before AON prepared the June 30th study, the reserving template and model were rewritten, and this was the first major overhaul in a number of years. She explained that what they were trying to do is make the monitoring and reporting aspects more transparent in terms of looking at the changes—what's actually happened versus what's expected, both on a quarterly basis as they're doing the review all the time, but then on the annual review, which is the longer term financial picture. The methods and overall approach are consistent with those used previously.

Mrs. Cockley thereafter noted that there was a $7.7 million increase in unpaid loss, or 5%, which is an improvement over last year. The contributors were the general liability and medical malpractice lines.

Referring to the risk funding results, she noted the change in retained unpaid loss for the 2015 fiscal year, which included medical malpractice, mine subsidence and SB3.

Mrs. Cockley summarized the results of each line of business, particularly noting that it is hoped that AIG will consistently reserve on the med mal claims. The initial thought was that AIG was posting the reserves a lot faster, so it wasn't that the ultimate losses were going up, it was that they were recognizing the ultimate sooner. However, as we've seen, as some of those losses pay out, it's not solely just the reserving process but also the actual losses that have increased.

In the forecasting, she explained that they have completed the transition of SB3 practice plans of the medical schools, so forecasting takes that into account and also for the higher limit, the $1.5 million dollar limit increase for the schools as well.

Mrs. Cockley concluded her report by comparing the SSU FY 16/17 rating to the 15/16, noting that total costs to allocate increased $8.0M; that there is a continued reduction in unfunded liability credit for SSU, and that the comparison of 16/17 to 15/16 rate changes saw increases in auto liability and general liability and a decrease in the property rate. She further noted that they will be starting the SB3 rating analysis for 16/17 next week.

During a brief conversation between Mrs. Cockley and Mr. Fisher, it was concluded that even though BRIM lost money last year, BRIM should have a good year due to the projected increase in premiums.

There being no further questions, Mr. Dodrill MOVED the acceptance of the actuary's report. The MOTION was seconded by Mr. Mitts. There being no discussion, a vote was taken and the MOTION ADOPTED.

(The Risk Funding Study as of June 30, 2015 will be attached and made a part of the record.)

Executive Director's Report

The report of the Executive Director was received and filed, a copy of which is attached and made a part of the record.

Before presenting the report, Mrs. Pickens informed the Board Members that she had been appointed Acting Cabinet Secretary of the Department of Administration on February 10th. Former Cabinet Secretary Jason Pizatella had resigned to register and run as a candidate for the Office of State Auditor.

Mrs. Pickens provided a status report regarding the Marshall and WVU escrow accounts.

She also presented AIG's litigation statistics as of March 15, 2016 and announced that BRIM began electronically transferring claims to AIG on February 16th. This is a quicker and less costly method for transferring claims.

With regard to legislation, Mrs. Pickens explained that during the recent legislative session, Senate Bill 602 was passed and is currently awaiting the Governor's signature. This bill provides for the closure of the Patient Injury Compensation Fund (PICF) to new claims on July 1, 2016. The monies in the Medical Liability Fund will be transferred to the PICF and the remaining funding will come from assessments on medical licenses, assessments on medical licenses, assessments on trauma centers, assessments on claims filed under the Medical Professional Liability Act (MPLA), as well as increases in court filing fees for MPLA suits. These funding sources will remain in effect until all claims have been settled or 2020, whichever comes first. There are also other provisions relative to attorneys' fees and the handling of claims received prior to and after July 1, 2016.

In addition, the Governor signed House Bill 2101, which repeals the statutory language which created the Patient Injury Compensation Fund Study Board.

Mrs. Pickens also noted that House Bill 4734 was passed and is awaiting the Governor's signature. This bill increases the amount that BRIM can reinsure for mine subsidence, from $75,000 to $200,000; however, the amount of insurance cannot exceed the amount of fire insurance on the structure. The bill does not take effect until

October 1, 2016, but an emergency rule will be needed, as well as a new coverage form from the Office of the Insurance Commissioner.

Continuing, Mrs. Pickens reported on the following topics:

1. Winter Storm Jonas – 14 claims need to be addressed. One makes up over $2 million of the $2.735 in reserve. BRIM is responsible for the first $1 million.
2. Cyber Liability – We have received five applications and still have 13 outstanding.
3. Underwriting Renewal Questionnaires – 29 SB3 entities did not submit the required questionnaires. As such, non-renewal notices were sent out, effective July 1, 2016.
4. Privacy Management Team – BRIM provides an update re obtaining cyber liability coverage at each meeting. Sallie Milam, State Privacy Officer, and Josh Spence, State's Chief Information Security Officer, are working with Jeremy Wolfe to develop changes to our Standards of Participation to include privacy and cyber issues.
5. COOP – John Fernatt and Chuck Mozingo have been reviewing the DOA agencies' existing COOP plans. After the review has been completed, they will offer various recommendations for improvement.
6. Status of Requests for Proposals/Contracts – Reviewing responses to RMIS RFP. The technical review is almost complete; after scoring has been completed, the cost proposals will be opened and scored.

With regard to the RFP for appraisal services, it was issued and later withdrawn to allow for better coordination with RMIS.

7. Loss Control – Because of the rise in reserves and payments for state agency claims, the number of visits to state agencies will increase in the months ahead.
8. Personnel – Mrs. Pickens was appointed Acting Cabinet Secretary by the Governor in February 2016, but will also remain serving in her position as Executive Director of BRIM.

   Deanne Stevens was promoted to Insurance Assistant, Lead, in October 2015.
9. Miscellaneous – BRIM is almost finished with finalizing the rates for the state agencies and will be sending them out soon. The first quarterly payment is due July 1st.
10. We are continuing to monitor the work being done on the Greenbrooke Building in preparation for the summer move, which includes new carpet and paint throughout the office space. Two additional projects will require contractual work, that is, the rewiring of and replacing the roof on the entire building.

<u>BRIM Financial Report</u>

There being no questions, Chairman Martin called upon Mr. Schumacher to present the Chief Financial Officer's Report. The Statement of Net Position for the Seven Months Ended January 2016 and the Statement of Revenues, Expenses, and changes in Net Position for the Seven Months Ended January 2016 were received and filed, copies of which are attached and made a part of the record.

A CD containing the October, November and December 2015 and the January 2016 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the July, August and September 2015 billings. The acknowledgement form is retained by the Finance Department.

Mr. Schumacher thereafter reviewed the financial results through January 2016 and concluded that the numbers are slightly better overall for the past seven months. Since the premium revenue is up over $5 million versus last year for the same period, the increase in premium for this year reduces the unfunded liability portion to a smaller amount when compared to the prior year. He also noted that the smaller increase in claims reserves and the lower net claims payments has resulted in better operating results for FY 2016.

Loss Control Report

There being no questions for Mr. Schumacher, the Loss Control Report was thereafter presented by Robert Fisher, Deputy Director/Claim Manager. The report was received and filed, as copy of which is attached and made a part of the record.

Mr. Fisher began by stating that the SB3 loss control questionnaires were due on January 1, 2016 and, to date, 953 evaluations had been completed, for which the credits or surcharges had been applied based on insured participation in the Standards of Participation program.

He further stated that during the spring and summer, the Loss Control Department will focus the consultation services on the insured state agencies. This will assist in identifying the primary areas in which claims occur and give us an opportunity to advise in developing strategies and methods for controlling or avoiding claims.

Continuing with his report, Mr. Fisher stated: that our Loss Control Department has been working with the State Privacy Office and the Office of Technology to create risk management standards for state agencies, i.e., information security, privacy and cyber liability, to incorporate into the Standards of Participation program in awarding credits and surcharges for FY 2018; that we continue to participate in the live presentation of the class “Workplace Safety: Your Responsibility”; that we continue to submit risk management news articles to the WV PSC for inclusion in their quarterly newsletter, and that from December 2015 through March 2016, AON and Hartford conducted 95 and 965 inspections, respectively. In addition, the Loss Control staff made several visits for various reasons, but noted that during the loss control questionnaire evaluation period, the number of visits become significantly reduced.

There were no questions for Mr. Fisher.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:05 p.m.

Board Chairman Date

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director

Acting Cabinet Secretary

Executive Director's Report

March 22, 2016

A. Marshall University and West Virginia University Medical Malpractice Program

As of March 15, 2016, Marshall has deposited $1,300,000.00 into the escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $2,024.14. During FY 2016, disbursements totaling $1,279,604.49 have been paid thus far.

As of March 15, 2016, a total of $3,345,648.48 has been deposited into WVU's escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $4,329.64. During FY 2016, disbursements totaling $3,348,775.59 have been paid thus far.

B. State Agency/Senate Bill #3 Liability Claim & Litigation Information

TRIALS

- Thus far in 2016, we have tried 1 case to a defense verdict. In 2015, 10 cases were tried to defense verdicts.

PAID CLAIMS (February 2016 Data)

- Claims Indemnity payments YTD total $5,502,144 vs. PYTD of $9,235,935, a decrease of 40.43%.
- Claims Expense payments YTD total $3,800,233 vs. PYTD of $2,928,824, an increase of 29.75%.

OUTSTANDING CLAIMS (February 2016 Data)

- Indemnity reserves total $52,002,152 vs. PYTD of $53,044,132, a decrease of 1.96%.
- February 2016 Expense Reserves total $19,535,990 v. PYTD total of $22,623,797, a decrease of 13.65%.

CLAIMS COUNTS (October 2015 Data)

- New claims YTD total 511 vs. PYTD of 506, an increase of 0.989%.
- Closed claims YTD total 592 vs. PYTD of 528, an increase of 12.12%.
- Open claims YTD total 1065 vs. PYTD of 1002, an increase of 6.29%.

BRIM began routine electronic transfer of claims to AIG on February 16, 2016. This enables files to be set up more quickly and information to be transmitted through a secure and much less costly method than that used in the past.

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C. Patient Injury Compensation Fund (PICF)

Senate Bill 602 completed legislative action on the 59th day of the session and is awaiting the Governor's signature. The bill makes many changes to the existing law, the most important of which is the closure of the fund to new claims on July 1, 2016. In addition, the monies remaining in the Medical Liability Fund will be transferred to the PICF and the fund will have an ongoing stream of funding from assessments on medical licenses, assessments on trauma centers, assessments on claims filed under the Medical Professional Liability Act (MPLA) as well as in increase in court filing fees for MPLA suits. These additional funding sources will remain in effect until all of the claims are extinguished or 2020, whichever comes first. Several procedural changes were also made. Attorneys' fees are no longer recoverable and BRIM may make periodic payments or place claims in nonpayment status in its discretion. Claimants who do not make claim to the Fund prior to July 1, 2016, will be able to recover an additional $1,000,000 on top of the $500,000 trauma cap which is currently in place. BRIM is required to submit an annual report to the Joint Committee on Government and Finance each year, beginning January 1, 2018 giving recommendations based on actuarial analysis of the fund's liability. We have several claims pending and just recently received a new one. We suspect that we will receive additional claims prior to the July 1 deadline.

The Governor signed House Bill 2101 which repeals the statutory language that created the PICF Study Board which completed its charge prior to the creation of the PICF in 2004.

D. Mine Subsidence

House Bill 4734 also completed legislative action on the 59th day of the session and is awaiting the Governor's signature. The bill increases the amount that BRIM may reinsure for mine subsidence loss from $75,000 to $200,000, with the continuing proviso that the amount of mine subsidence insurance cannot exceed the amount of fire insurance on the structure. As a result of the passage of this bill, which does not take effect until October 1, 2016, we will need to promulgate an emergency rule to make the necessary modifications to the existing rule and seek approval of a new coverage form from the Office of the Insurance Commission. While BRIM isn't regulated by the Commission, the form which each insurer will use is made a part of the rule. If we get the form approved, the individual insurers will not have to do so. We did this the last time we made a change to the rule in 2007.

E. Winter Storm Jonas Claims

To date, BRIM has been asked to address 14 claims which currently have reserves of $2.735 million. One particular loss makes up over $2 million of these reserves. BRIM is only responsible for the first $1 million, with the rest being the responsibility of our property insurer. Our property insurer is actively working with our independent adjusters to arrive at a resolution of the existing claims.

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F. Cyber Liability Insurance Coverage (update)

We have now received applications from ERP, IMB, SBA, RESA II and Cedar Lakes. We have 13 entities still outstanding, and we will continue to follow with these entities.

G. Underwriting Renewal Questionnaires

A total of 29 SB #3 entities did not submit an underwriting questionnaire as required. Non-renewal notices were sent out to those entities which will be effective July 1, 2016; however, all but 12 of the 29 have returned their completed questionnaires as of March 15.

H. Privacy Management Team

BRIM continues to participate as a member of the Privacy Management Team and provides an update on the procurement of cyber liability coverage at each meeting. The State Privacy Officer, Sallie Milam, and the State's Chief Information Security Officer, Josh Spence have been actively working with Jeremy Wolfe to develop changes to our Standards of Participation program to encompass privacy and cyber issues. The Management Team has been kept abreast of these developments as well.

I. COOP

John Fernatt and Chuck Mozingo have long worked with Executive Branch agencies with regard to their COOP planning. We have been charged with reviewing the existing plans for the Department of Administration. That review is ongoing. Once complete, we will work with the agencies on how their plans may be improved as may be necessary.

J. Status of Requests for Proposals/Contracts

We are processing the submissions in response to our RFP seeking a new Risk Management Information System (RMIS). The technical review is almost complete. We had to seek the answer to one question from each proposal submitter before the technical scoring can be completed. Once the technical scoring is complete, the cost proposals will be opened and scored. We would hope to have a final decision sometime around the end of the month.

Due to our attempts to procure a new RMIS, our attempt to procure appraisal services has been delayed. We issued an RFP, but later withdrew it as much of what we sought will be affected by the new RMIS. Our RFP for appraisal services included a system for data storage and utilization which will likely no longer be necessary. We anticipate issuing a new RFP for appraisal services after we have the new RMIS in place.

K. Loss Control

Given the rise in reserves and payments for state agency claims, Jeremy and his staff will

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be specifically targeting state agencies for visits in the coming months.

Jeremy has prepared proposed changes to the Standards of Participation to deal with cyber and privacy issues which are currently being reviewed by senior management. We expect to roll out these changes during the next fiscal year.

L. Personnel

I was honored to be appointed by Governor Tomblin to serve as Acting Cabinet Secretary of the Department of Administration on February 10, 2016. I will continue to serve as the Executive Director of BRIM and will remain actively involved in the management of the agency during my tenure as Secretary.

Deanne Stevens was promoted to Insurance Assistant, Lead, in the Underwriting Department on October 31, 2015 to fill the vacancy created by the promotion of Tonya Pugh.

M. Miscellaneous

We have been developing state agency rates for the coming fiscal year. We will be finalizing the rates and will send them out to each agency. The first quarterly payment will be due by July 1.

We are continuing to progress toward our anticipated summer move to the Greenbrooke Building. It is our understanding that the Insurance Commissioner will move out of the space over three weekends during the month of April. Once they have moved out, General Services Division (GSD) will move in and perform various activities in anticipation of our moving in. Currently, we are scheduled to get new carpet and paint throughout the space, the movement of several walls, changes to the office doors with security access added, and we believe, the installation of water and sewer for a kitchen within the space. Two other projects will need to be completed. GSD is letting a contract to put an entirely new roof on the building. Water leakage has been a problem for many years and cannot be addressed further with patching. Also, the entire building is being rewired, and is being done by an outside vendor on an emergency contract basis. We have no control over either of the last two projects, and a delay to either, especially the wiring project, could delay our move until later in the year.

Very truly yours,

Mary Jane Pickens
Executive Director

MJP/RAF:lld

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STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director
Acting Cabinet Secretary

Chief Financial Officer's Report
March 22, 2016

A. P Card Report

CD copies provided contain the supporting detail for P card purchases for BRIM for the months of October, November, and October 2015 and January 2016. The totals are:

October	$64,868.04	December	$67,969.16
November	$49,854.21	January	$51,492.98

B. Financial Results

- The financial results presented are for the seven months ended January 31, 2016.
- Net operating revenues are $3.4 million higher for the current year.
- Estimated outstanding reserves reflect AON's risk funding studies thru December 31. An additional estimated reserve increase for January is also included for both years.
- Outstanding claims reserves increased overall by $0.8 million for FY'15 vs. a $1.3 million increase for FY'15. The year over year decrease of $0.5 million reduced claims expense for the current year when compared to last year's results. Net claims payments were also lower by $1.7 million for the current fiscal year, further reducing claims expense for the first seven months of FY'16 versus the same period last year. The combined impact of the smaller increase in claims reserves and the lower net claims payments resulted in the better operating results for FY'16.
- The recent market volatility and weaker bond markets thru January resulted in investment losses of $2.6 for the current year. Comparative investment earnings of $4.0 million for FY'15 resulted in a year over year unfavorable swing of $6.6 million.
- Higher premium revenue and lower net claims expense were more than offset by investment losses resulting in an overall loss of $0.9 million for this year as compared to last year's slight improvement to BRIM's net position of $0.3 million for the same seven month period.

Respectfully submitted,

Stephen. W Schumacher, CPA

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West Virginia Board of Risk and Insurance Management

Statements of Net Position

For the Seven Months Ended January

		2016	2015
		(In Thousands)	
Assets			
Current assets:			
Cash and cash equivalents	$	15,484	4,826
Advance deposits with insurance company and trustee		212,413	215,283
Receivabales		2,432	9,661
Prepaid insurance		2,850	2,593
Restricted cash and cash equivalents		9,298	8,273
Restricted receivables:		0	0
Premiums due from other entities		597	710
Total current assets		243,074	241,346
Noncurrent assets:			
Equity position in internal investments pools		80,180	88,829
Restricted investments		46,413	47,852
Total noncurrent assets		126,593	136,681
Total assets		369,667	378,027
Deferred Outflows of Resources		127	0
Liabilities			
Current liabilities:			
Estimated unpaid claims and claims adjustment expense		47,890	53,449
Unearned premiums		12,058	10,960
Agent commissions payable		503	529
Claims Payable		50	121
Accrued expenses and other liabilities		2,887	2,674
Total current liabilities		63,388	67,733
Estimated unpaid claims and claims adjustment expense net of current portion		113,899	101,033
Compensated absences		76	76
Net pension liability		253	0
Total noncurrent liabilities		114,228	101,109
Total liabilities		177,616	168,842
Deferred Inflows of Resources		270	
Net position:			
Restricted by State code for House Bill 601 Program and mine subsidence coverage		53,597	53,527
Unrestricted		139,223	155,383
Net Assets (Deficiency)		(912)	275
Net position	$	191,908	$ 209,185

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Position

For the Seven Months Ended January

	2016	2015
	(In Thousands)	
Operating revenues		
Premiums	$ 37,797	$ 34,008
Less coverage/reinsurance programs	(3,962)	(3,603)
Net operating revenues	33,835	30,405
Operating expenses		
Claims and claims adjustment expense	29,821	32,001
General and administrative	2,281	2,115
Total operating expenses	32,102	34,116
Operating income (loss)	1,733	(3,711)
Nonoperating revenues		
Investment income	(2,645)	3,986
Appropriation Transfer HB4261		0
Payment to transfer HB601 estimated future IBNR	–	0
Net nonoperating revenues	(2,645)	3,986
Changes in net position	(912)	275
Total net position, beginning of year	192,820	208,910
Total net position, end of period	$ 191,908	$ 209,185

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director
Acting Cabinet Secretary

Loss Control Report to the Board
March 2016

Senate Bill #3 loss control questionnaires were due on January 1, 2016. Since that time, we have been evaluating those questionnaires to apply credits or surcharges based on insured participation in our Standards of Participation program. We should complete the evaluation process during the month of March. To date, we have completed 953 evaluations.

This spring and summer, we will concentrate our loss control consultation services toward insured state agencies. We hope these efforts will assist agencies in identifying the primary areas in which their claims occur and provide an opportunity for us to give advice as to developing specific strategies and methods to enable the agencies to control and/or avoid preventable claims. We have identified over eighty (80) agencies that could benefit from our services.

Since October, we have been working with the State Privacy Office and the Office of Technology to create risk management standards for insured state agencies relating to information security, privacy, and cyber-liability threats. It is our goal to introduce these standards into our loss control program of credits and surcharges for fiscal year 2018. We believe the standards will provide agencies with opportunities to implement risk management strategies that will, if implemented, assist them in mitigating these types of business risks before claims are made.

We are continuing our partnership with the Division of Personnel with regard to a class entitled "Workplace Safety: Your Responsibility". We participate by making a live presentation during each class. This program is available to all state agencies.

We are also continuing our partnership with the West Virginia Public Service Commission by contributing risk management news articles for inclusion in their quarterly newsletter, "The Pipeline". This newsletter is distributed to public utility organizations and public service districts throughout the state.

During the months of December, January, February, and March Aon conducted 95 inspections and Hartford conducted 965. The reports are being processed according to established procedures.

Since my last report, our loss control technical staff reports the following activity:

7 Loss Control Visits

These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

9 Standards of Participation Visits

These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

3 Presentation Visits

These are visits during which we provide active training and/or outreach to a group of individuals.

5 Continuing Education Visits

These are visits which are designed to provide the loss control specialists with education and training for professional development.

As is the case each year, the number of loss control visits is markedly reduced during the period in which we evaluate loss control questionnaire submissions.

Dated: ***March 21, 2016***

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

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State of West Virginia
Board of Risk and Insurance Management

Risk Funding Study as of June 30, 2015

Presented March 22, 2016

Empower Results®

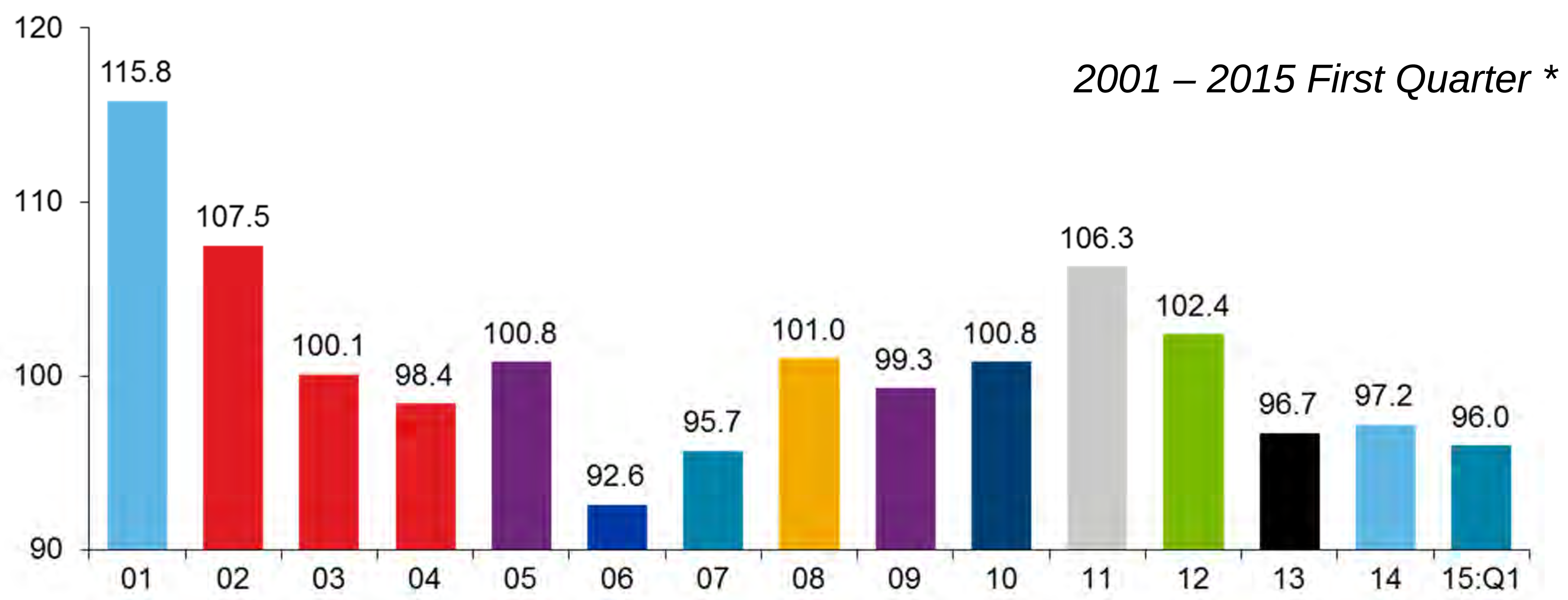
Market Update

Empower Results®

General Marketplace Overview

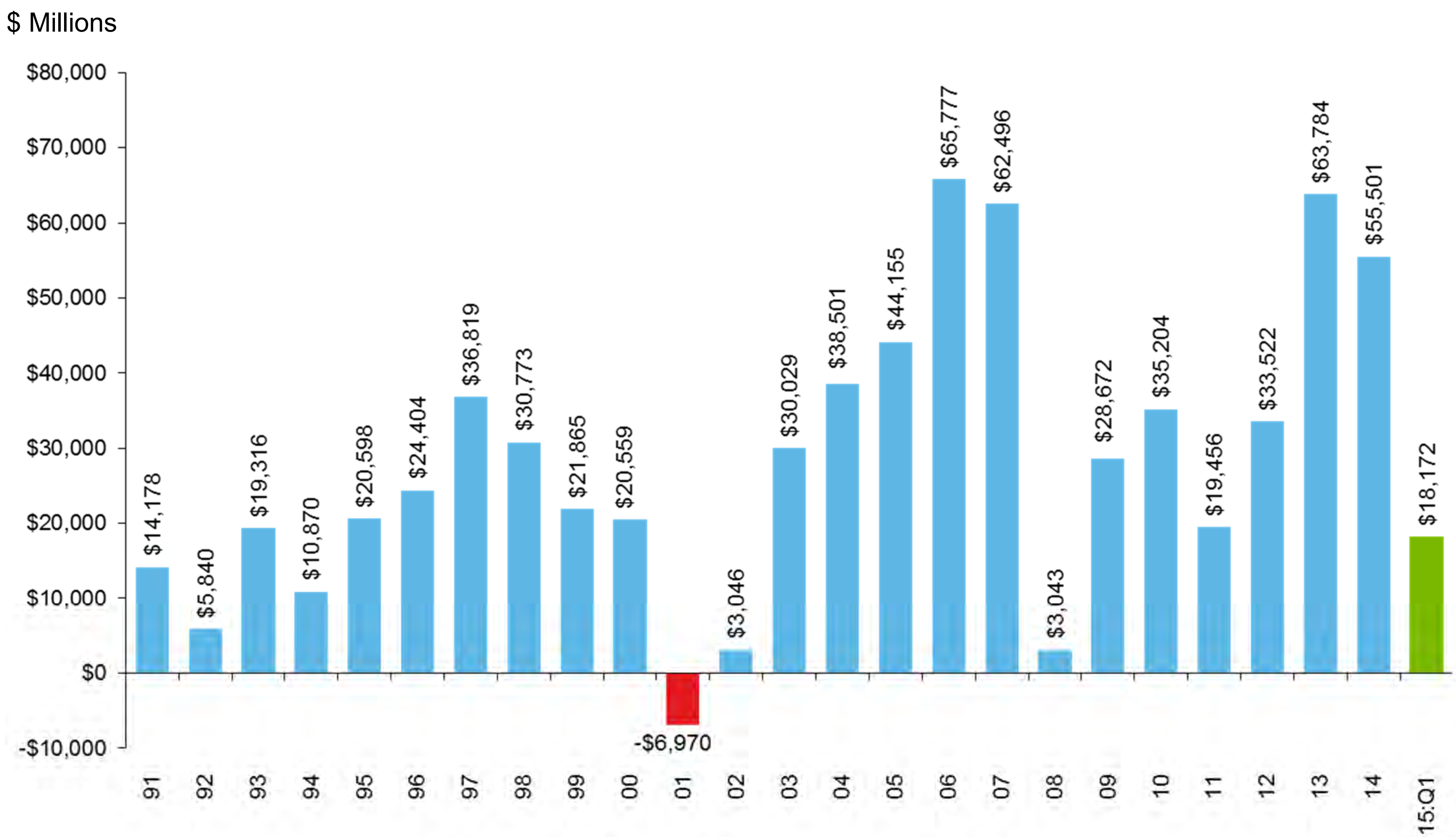
- Policyholder Surplus is approaching $700 Billion
- Investment returns remain low
  - Depressed yields will eventually influence underwriting and pricing
  - Assets held in bonds may decline in value
- Recent merger & acquisition activity among the insurance markets may reduce potential options for health care providers.
- New capacity for property exposures has been created by special purpose insurance vehicles and the catastrophe bond market
- Merger & acquisition activity among providers will continue to be factor in keeping health care liability insurance market soft. The insurance marketplace continues to expand its capital base while the number of potential customers is shrinking.
- Workers Compensation line of business has improved significantly since 2011. Excess WC coverage still experiencing increases
- Cyber Liability market is experiencing increased losses, increased pricing and more diligent underwriting.
  - Increased pricing and coverage restriction is expected.
  - Historically, underwriters expected health care losses caused mostly by lost laptops. Now, hacking and phishing incidents which are characterized by higher forensic investigation expense are more prevalent.

Overall Property and Casualty Insurance Industry Combined Ratio, 2001–2015 First Quarter



* Excludes Mortgage & Financial Guaranty insurers 2008–2014
Sources: A.M. Best, ISO, Insurance Information Institute.

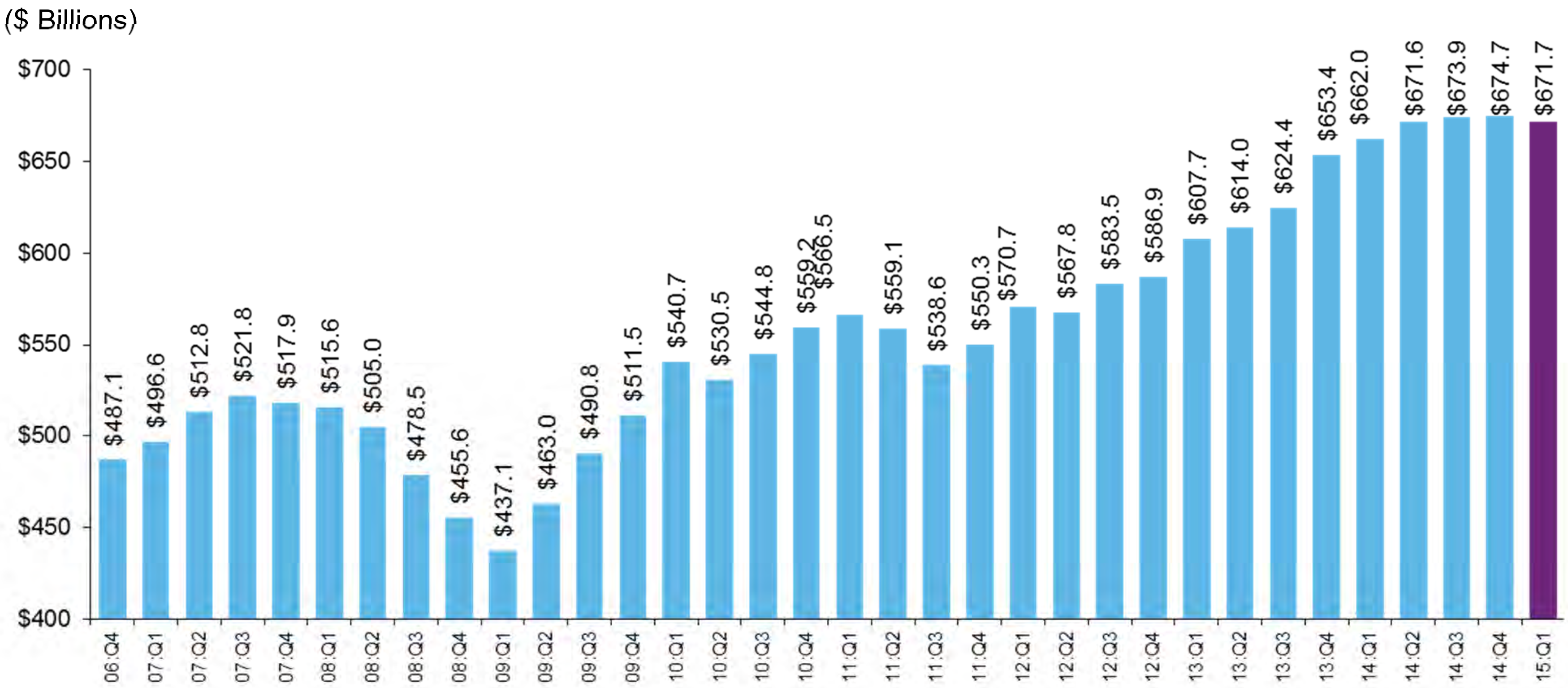
P/C Industry Net Income After Taxes
1991–2015: First Quarter



Sources: A.M. Best, ISO; Insurance Information Institute

Empower Results®

Policyholder Surplus, 2006: Q4–2015 First Quarter



The industry now has $1 of surplus for every $0.73 of NPW, close to the strongest claims-paying status in its history.

The P/C insurance industry entered 2015 in very strong financial condition.

Sources: ISO, A.M. Best, Insurance Information Institute.

Directors & Officers Liability

Category	2013	2014	2015
Pricing	↔ ↑	↑	↑
Deductibles/Retentions	↔	↑	↔ ↑
Limits	↑	↔ ↑	↔ ↑
Coverage Terms & Conditions	↑	↑ ↓	↔ ↑

Pricing

Many carriers continue to show increased pricing in the private/Not-For-Profit space. Due to the changes and litigation in the health care space, carriers are looking to fund for the industry exposure.

Deductibles/Retentions

Carriers are continuing to evaluate retention levels on a risk by risk basis. Antitrust, along with governmental retentions are receiving the most attention.

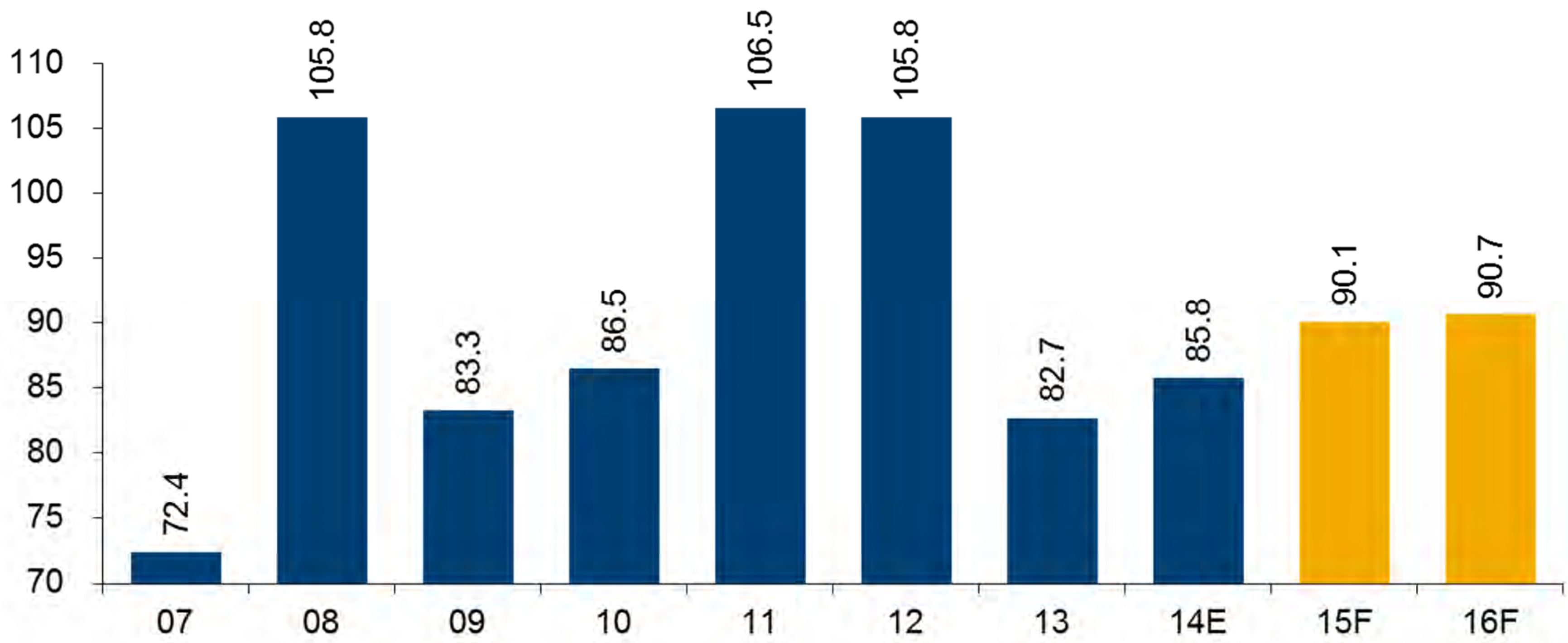
Limits

While there has been an influx of capacity in the overall market, the health care industry has a limited amount of carriers which are comfortable with the risk. As such, carriers continue to monitor limit aggregation.

Coverage

Antitrust remains a key focus for the underwriters due to industry consolidation. Carriers are willing to evaluate if the enhancements requested fit the risk. For M&A activity, the terms and conditions for run off policies will vary by insurer and situation. Pricing expected to increase and coverage terms/conditions more restrictive.

Commercial Property Combined Ratio: 2007–2016F



Commercial Property Underwriting Performance Has Been Volatile in Recent Years, Largely Due to Fluctuations in CAT Activity

Source: Conning Research and Consulting.

Property

Category	2013	2014	2015
Pricing	↔ ↑	↔ ↓	↓
Deductibles/Retentions	↔	↔	↔
Limits	↔	↔	↔ ↑
Coverage Terms & Conditions	↔	↔	↔

Pricing

- Throughout 2014, the market continued to be soft, due mostly to limited major natural catastrophe losses and most carriers posted positive underwriting results and earnings.
- Overall rate reductions in 2014 ranged from zero to -7%.
- Based on Q1-2015 results, outside of any major natural catastrophes, the downward trend should continue.
- However, because rates for healthcare have been historically lower than other lines of business, the reductions may not be as great as the overall marketplace.

Deductibles/Retentions

- Over 95% of accounts maintained the same or lower deductibles in Q1 -2015.
- There continues to be limited pressure from the majority of markets to change deductibles/retentions.

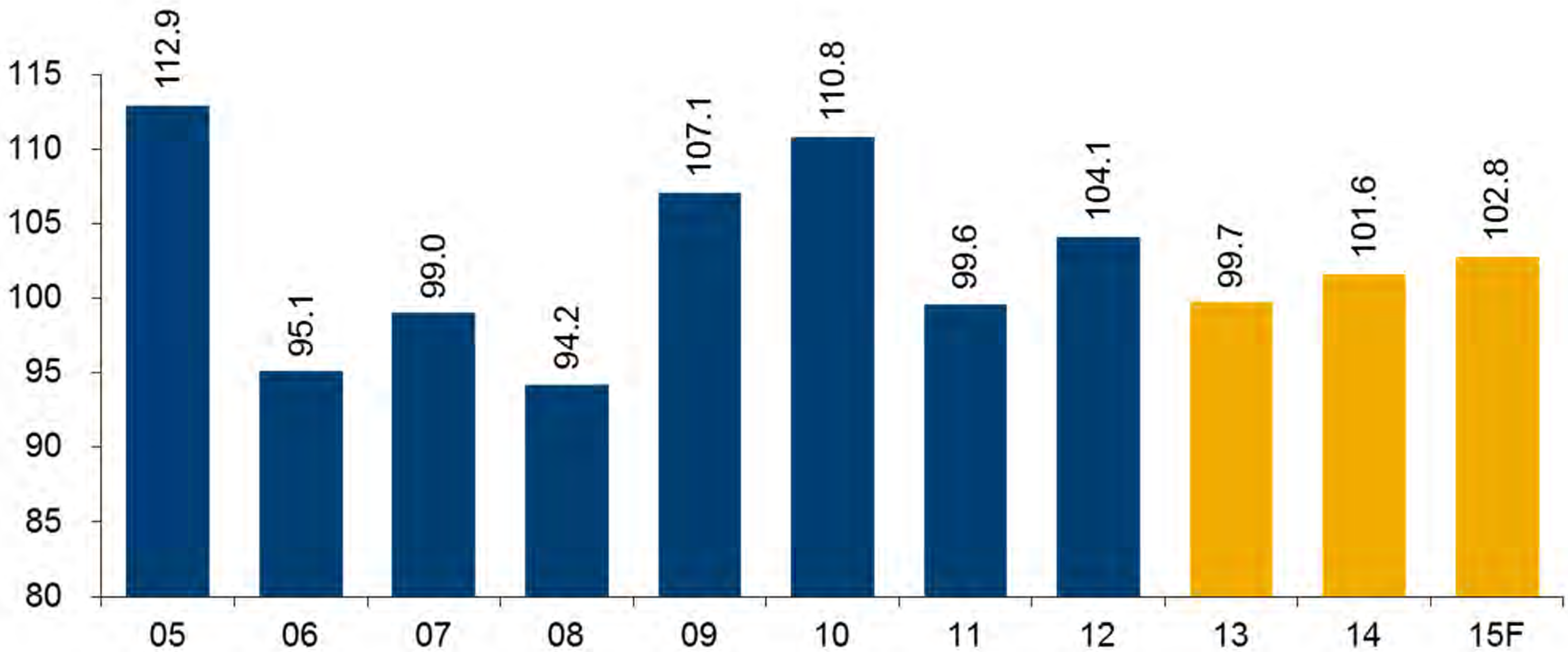
Limits

- No significant change in limits is expected.
- Flood exposures will continue to be carefully underwritten.

Coverage

- Very limited coverage changes are anticipated except where severe natural catastrophe exposures exist.

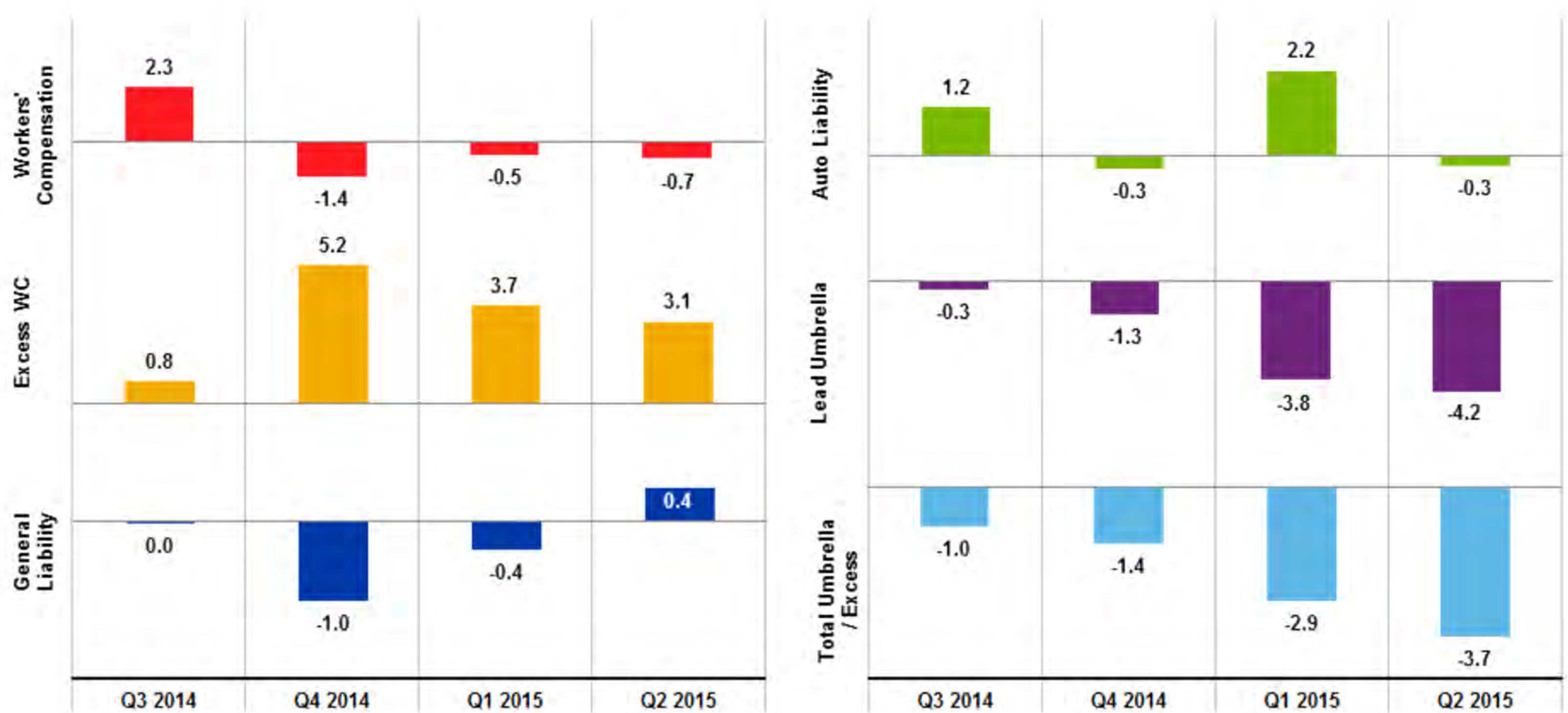
General Liability Combined Ratio: 2005–2015F



Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

Source: Conning Research and Consulting.

Average Year-Year Rate Change Over Time
Casualty Lines of Coverage



Above reflects average National Casualty % rate change by quarter by line of business

Cyber Risk:

Cyber Risk is a rapidly emerging exposure for businesses large and small in every industry. The health care industry is a target.

AON
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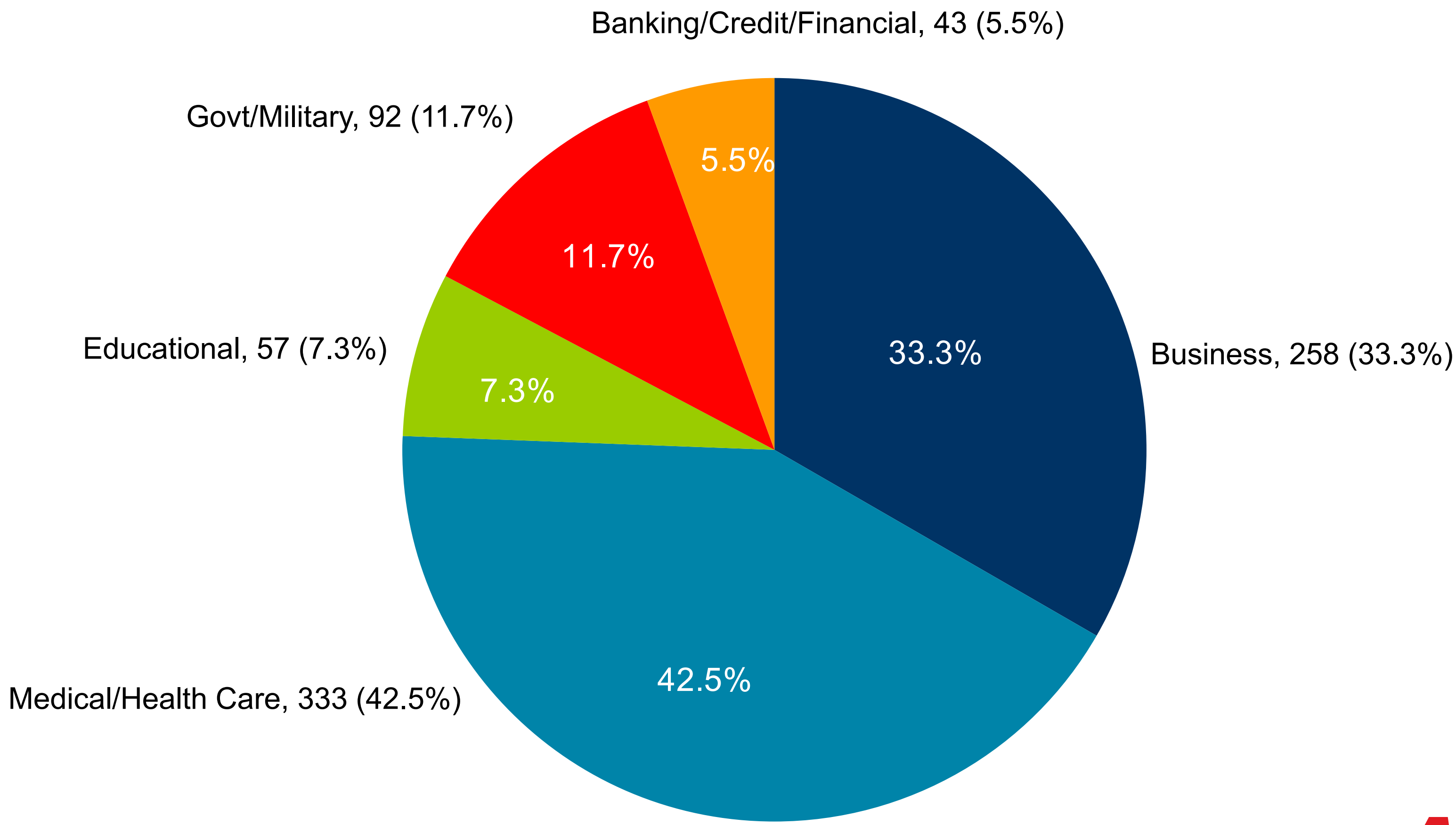
Network Security and Privacy

- Errors & Omissions and Cyber market continues to harden and we are expecting a 10–15% increase in rates
- Increases likely for clients with no change in exposure (stagnant revenues, clean loss history, no significant changes in operations, etc.)
- Top markets are Beazley, AIG, ACE, AXIS, Zurich and XL
- Cyber exclusions are aggressively been pursued by many insurers in medical professional and general liability policies
- Limits purchased by health care providers are in the range of $10 mil to $20 million, with only a few large systems purchasing limits in the $50 to $100 million range
- High value of health care records and the wide sharing of data make health care a vulnerable target
- Expanded use of credit cards by health care entities increases the exposure to loss

2014 Data Breaches By Business Category, by Number of Breaches

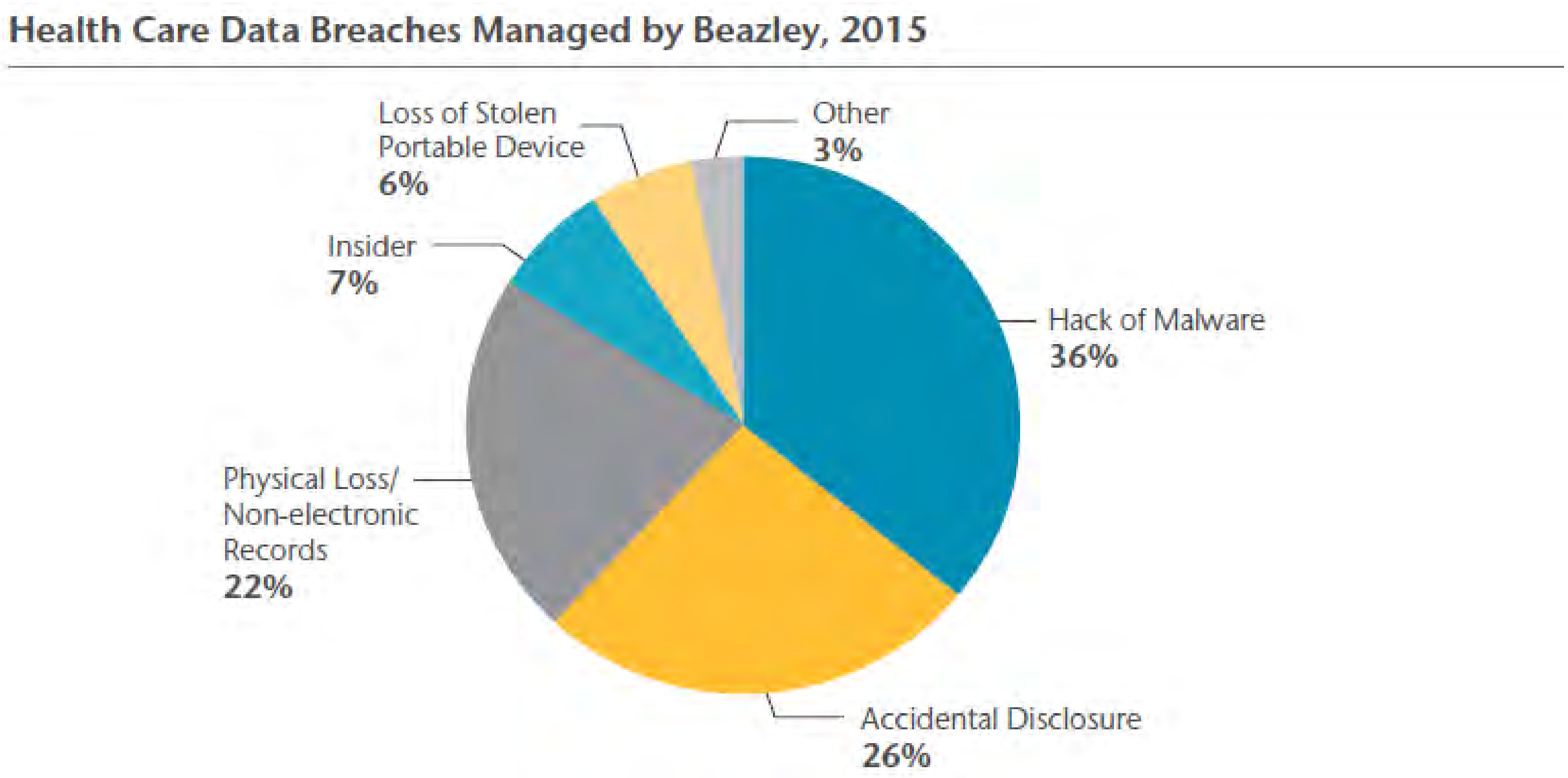
The majority of the 783 data breaches in 2014 affected business and medical/health care organizations, according to the Identity Theft Resource Center.



Source: Identity Theft Resource Center

Cyber Liability

- Not all stolen records are electronic: 22% of health care data breaches managed by The Beazley Group were physical/non-electronic records



Source: Identity Theft Resource Center

Cyber Liability

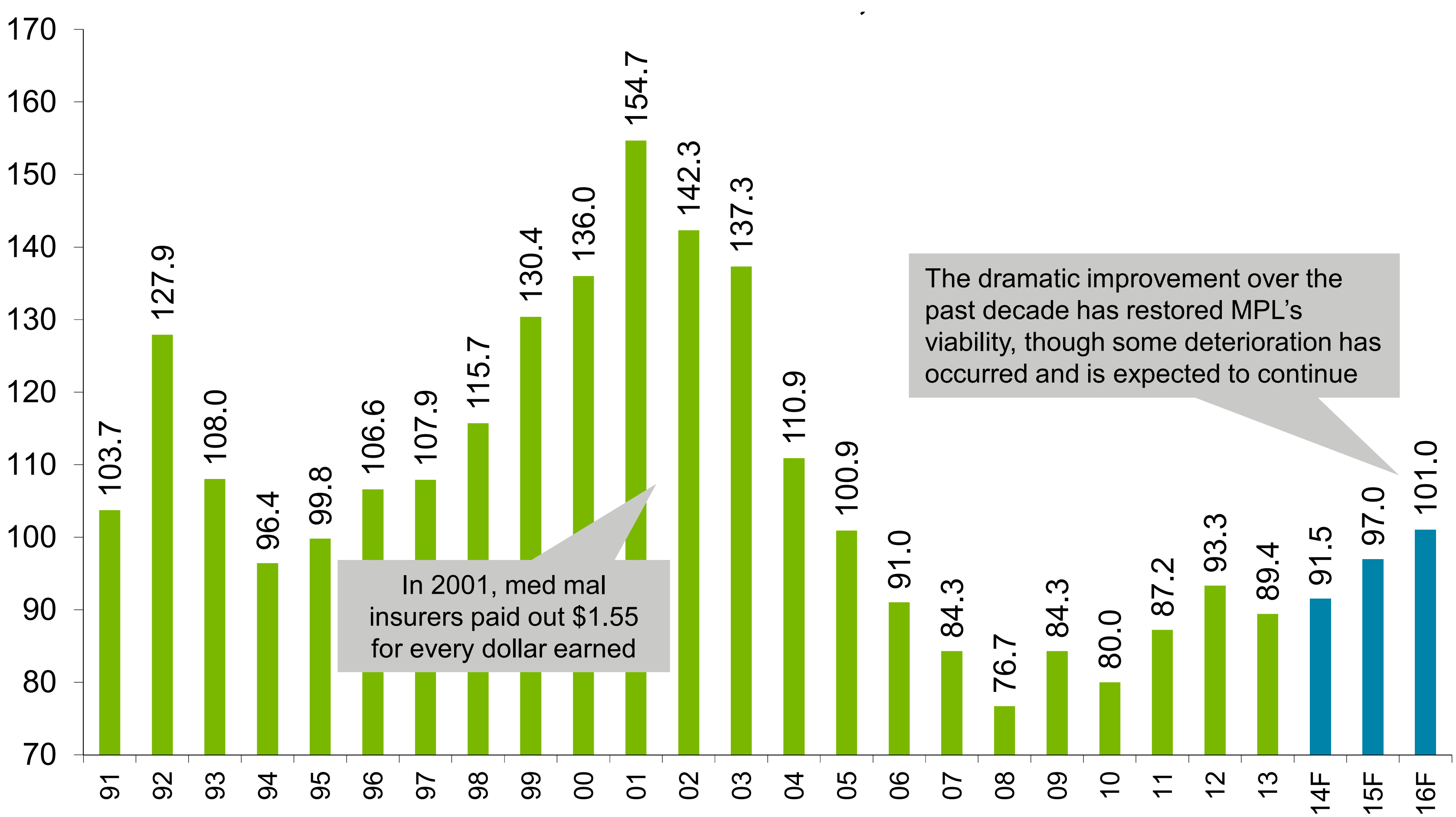
- Industry focus on quantification of cyber liability
  - Understanding the liability (first party, third party)
  - Managing the risk (transfer, acceptance)
  - Collaborative effort across disciplines

Source: Identity Theft Resource Center

Health Care Market Overview

- Claims frequency for hospital professional liability is stable. We project a 1% decline for 2016.
- Claim severity, including defense costs, is growing at an annual rate of 2.0%. This matches the lowest rate of claim severity growth in the 15 year history of Aon benchmark report.
- There is a direct correlation of increases in patient satisfaction to claim frequency decreases.
- We found no correlation between claims and quality although more depth and maturity of data is needed before conclusions can be drawn.
- Revenue continues to show strong correlation to claims vs Occupied Bed Equivalents.
- Claim dynamics are evolving as result of physician employment.
- Despite depressed yields on investment returns, medical professional liability is still a good and stable investment for the capital markets, fueling new market entrants.
- Consolidation of HC organizations fueling competition – shrinking pool of available business.
- More HC organizations are using captives which take business out of the marketplace.
- Movement of underwriters into newer companies fuels competition.
- Now seeing some consolidation of carriers.
- Underwriters attract and retain business though new product development.
- Cyber exclusions or related coverage restrictions are being aggressively pursued by most insurers.

Medical Malpractice Combined Ratio 1991–2016F



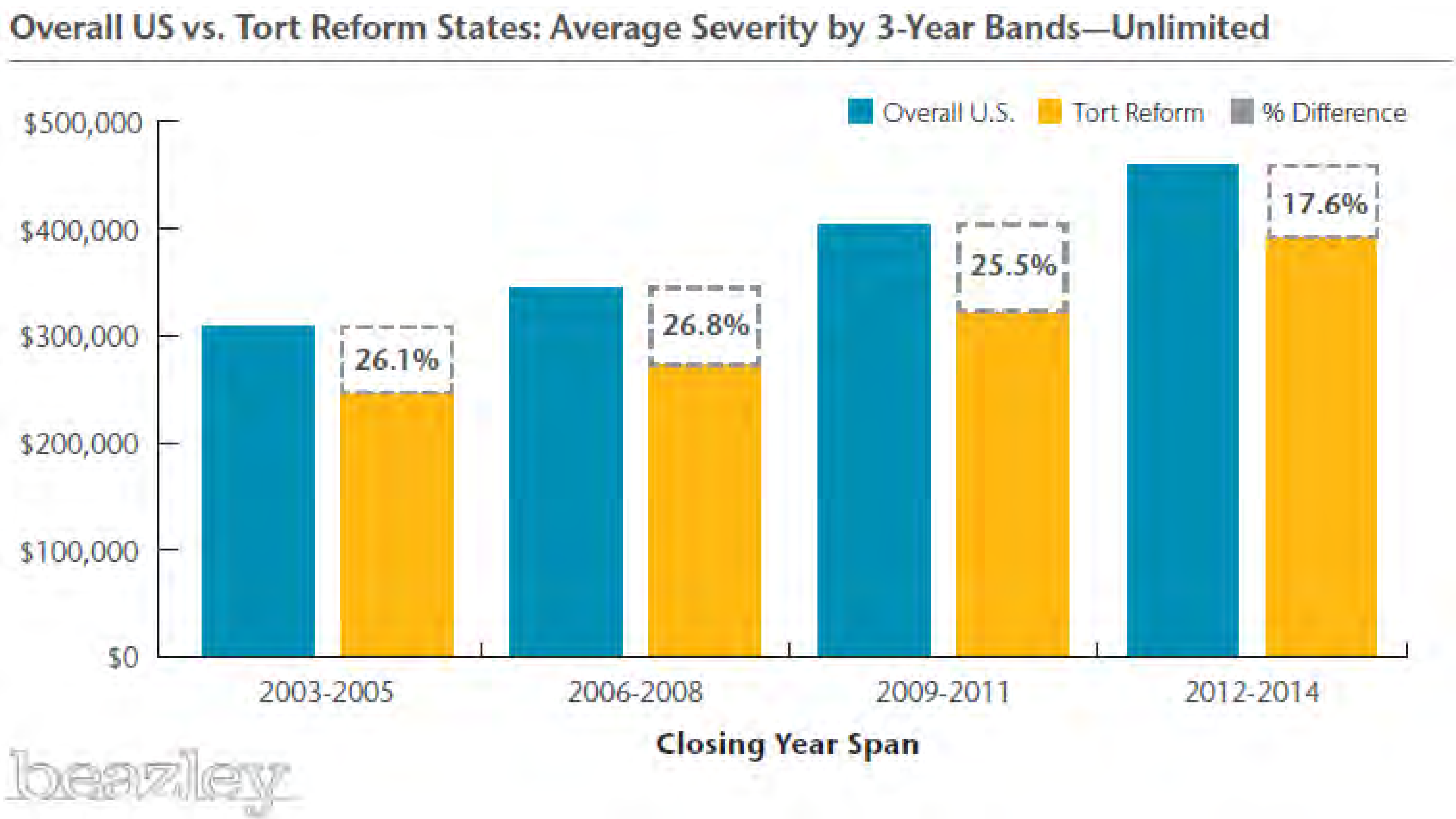
Source: AM Best (1991–2014F); Conning (2015F) Insurance Information Institute.

Medical Malpractice

- Aon 2015 Hospital Professional Benchmark Study
  - 16th year
  - represents 29% of the US industry

- Benchmark Highlights:
  - Nationwide Cost of Risk increasing at 1% per year
    - frequency has been on the decline and expected to decrease at 1% per year
    - modest severity trend at 2% per year
  - West Virginia
    - claim frequency is higher than national averages
    - claim severity is similar to national averages

Medical Malpractice



Risk Funding Study as of June 30, 2015

New Report Format

- Rewrote the Risk Funding reserving template!

- Key new features:
  - Highlighted actual vs. expected loss emergence monitoring
  - Changes from prior report and prior fiscal year end more prominent
  - More explicit recognition of excess losses
  - Addition of the frequency / severity method for all exposures
  - More efficient quarterly reserving process

- What didn't change
  - The aggregate reserving methods
  - Our focus on providing high quality, peer reviewed actuarial work product and advisory services

6/30/15 Retained Unpaid Loss Estimates

Definitions

- Unpaid Loss = Ultimate Loss – Paid Loss
- Unpaid Loss = Case Reserves + IBNR

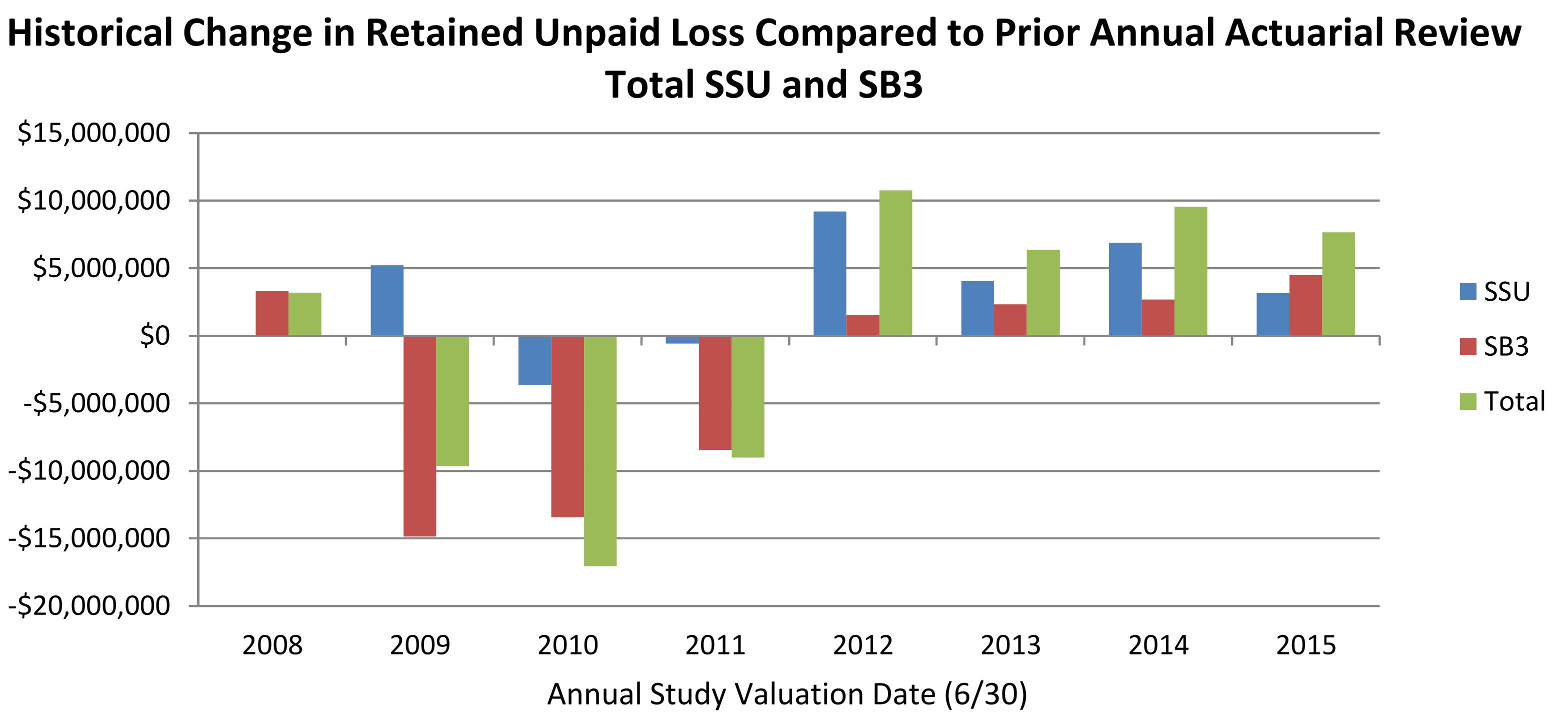
Results

- Increased $7.7 million (5.1%) from 6/30/2014
  – medical malpractice contributed $5.2 million
  – general liability contributed $3.1 million
  – auto and SSU property decreased $1.3 million

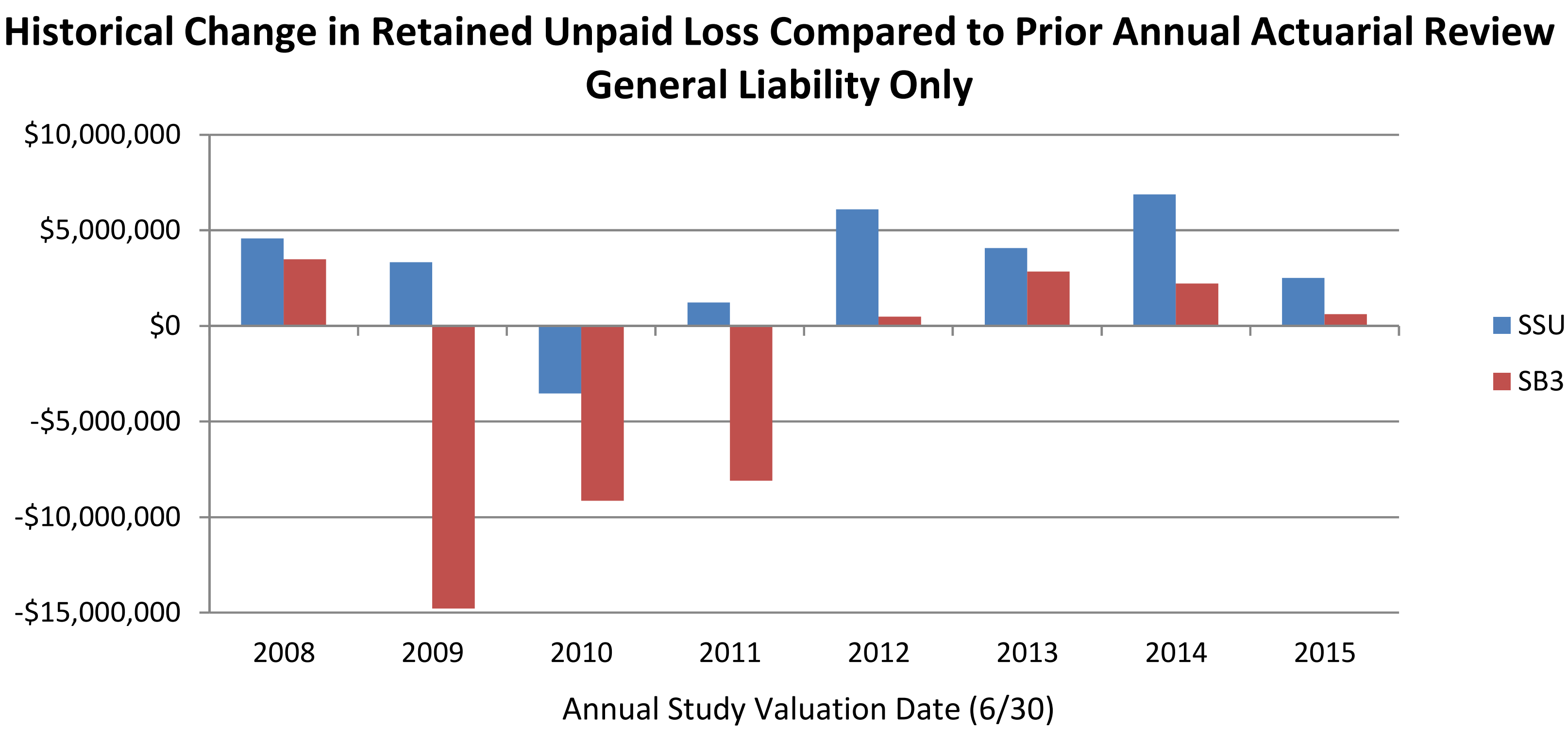
June 30, 2015 Risk Funding Study - Results

Line of Business	Entity	Retained Case Reserves at 6/30/2015	Retained IBNR at 6/30/2015	Retained Unpaid at 6/30/2015	Retained Case Reserves at 6/30/2014	Retained IBNR at 6/30/2014	Retained Unpaid at 6/30/2014	*Change from 6/30/2014 to 06/30/2015 in Retained Unpaid Loss* Dollar Change	Percent Change
Automobile	SSU	3,420,671	4,869,086	8,289,757	3,877,696	4,528,388	8,406,084	(116,328)	-1.4%
Automobile	SB3	5,092,214	5,175,413	10,267,626	4,585,318	5,938,474	10,523,792	(256,166)	-2.4%
General Liability	SSU	30,732,325	37,692,675	68,425,000	32,219,339	33,686,239	65,905,578	2,519,422	3.8%
General Liability	SB3	20,369,520	22,269,297	42,638,817	19,382,996	22,641,135	42,024,131	614,686	1.5%
Property	SSU	1,345,500	985,493	2,330,993	2,306,142	1,009,189	3,315,331	(984,338)	-29.7%
Property	SB3	1,859,104	896,211	2,755,315	652,604	1,488,018	2,140,622	614,693	28.7%
Medical Malpractice	SSU	7,456,364	11,761,170	19,217,534	6,768,811	10,687,929	17,456,740	1,760,794	10.1%
Medical Malpractice	SB3	2,277,194	2,297,179	4,574,372	199,823	863,030	1,062,853	3,511,519	330.4%
Mine Subsidence		412,936	413,271	826,207	255,000	557,595	812,595	13,611	1.7%
Subtotal - SSU		42,954,860	55,308,424	98,263,284	45,171,988	49,911,745	95,083,733	3,179,551	3.3%
Subtotal - SS3		29,598,032	30,638,099	60,236,131	24,820,741	30,930,658	55,751,399	4,484,732	8.0%
Subtotal - SSU + SB3		72,552,892	85,946,523	158,499,415	69,992,729	80,842,403	150,835,132	7,664,283	5.1%
Total		72,965,828	86,359,794	159,325,621	70,247,729	81,399,998	151,647,727	7,677,894	5.1%

Historical Changes in Unpaid Loss



Historical Changes in Unpaid Loss – General Liability



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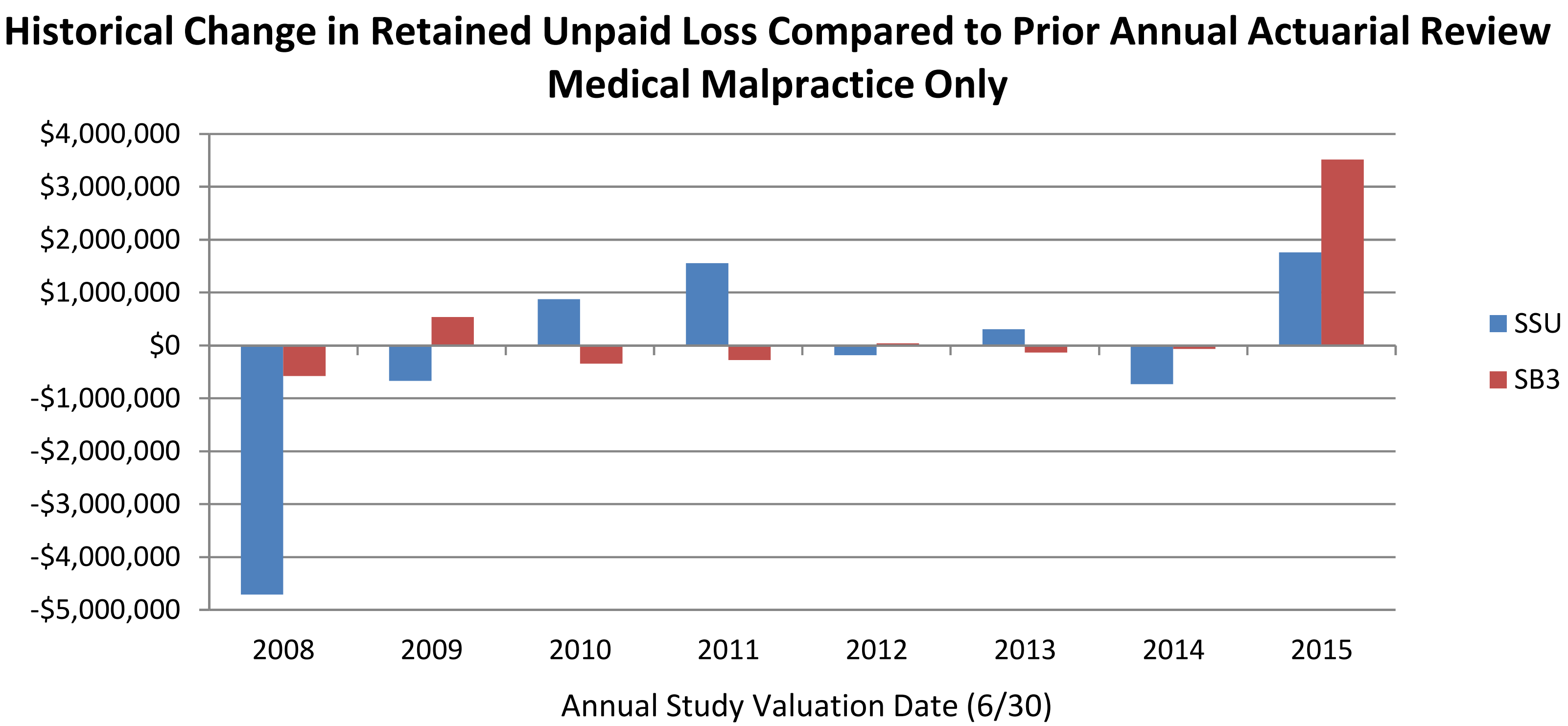
Historical Changes in Unpaid Loss – Medical Malpractice



Empower Results®

Comparison of Premium and Ultimate Losses

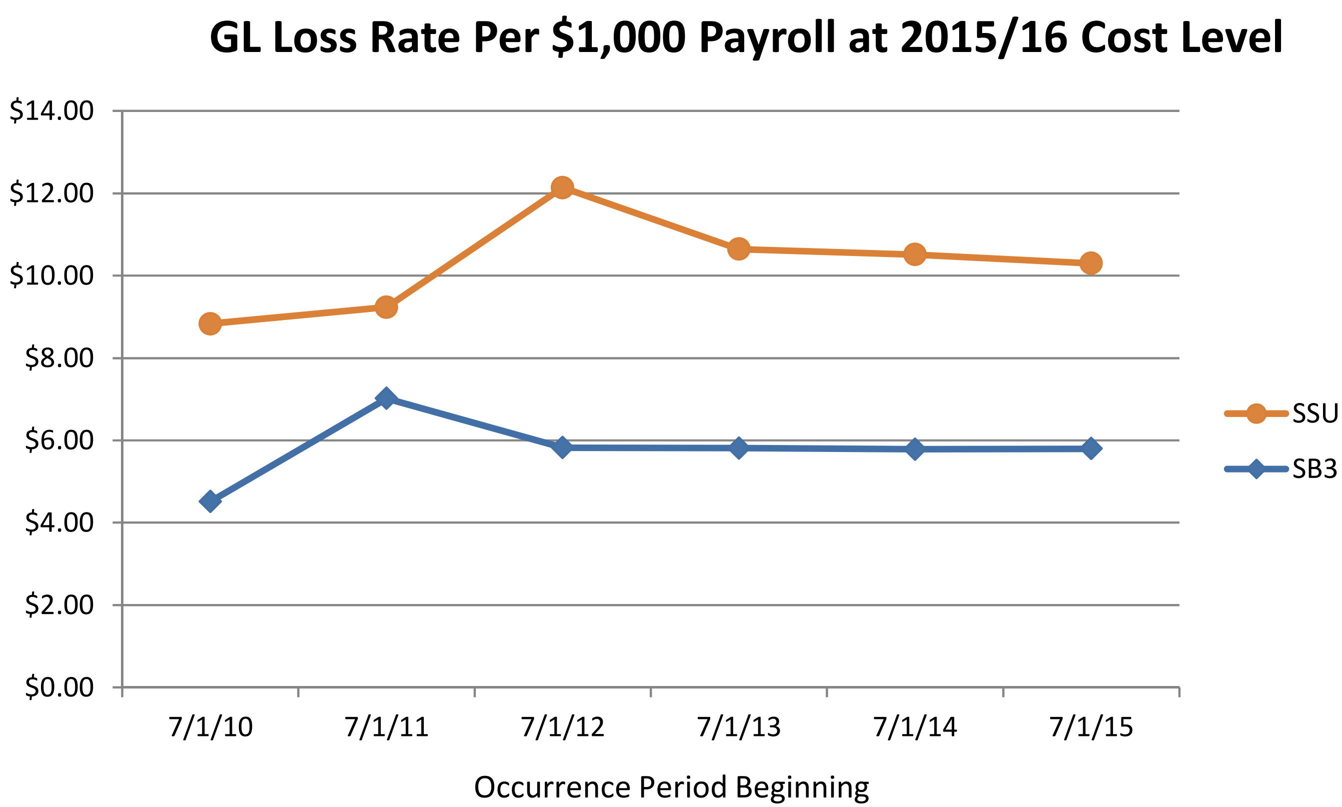
		SSU			SB3		
Occurrence Period		Charged Premium	Projected Ultimate Retained Loss	Difference	Charged Premium	Projected Ultimate Retained Loss	Difference
7/1/1998	6/30/1999	21,526,869	24,805,611	(3,278,742)	23,070,990	17,227,635	5,843,355
7/1/1999	6/30/2000	20,982,952	29,141,242	(8,158,290)	22,677,285	21,088,750	1,588,535
7/1/2000	6/30/2001	20,018,978	19,322,348	696,630	20,951,525	19,030,601	1,920,924
7/1/2001	6/30/2002	27,130,323	21,035,607	6,094,716	26,524,921	24,031,744	2,493,177
7/1/2002	6/30/2003	36,181,360	16,798,186	19,383,174	37,843,695	22,004,315	15,839,380
7/1/2003	6/30/2004	36,011,418	20,089,825	15,921,593	35,793,345	24,752,385	11,040,960
7/1/2004	6/30/2005	46,715,999	23,103,285	23,612,714	41,269,868	20,026,142	21,243,725
7/1/2005	6/30/2006	39,985,777	17,814,493	22,171,283	40,920,237	20,545,468	20,374,770
7/1/2006	6/30/2007	39,091,169	20,496,138	18,595,031	39,480,713	17,396,585	22,084,128
7/1/2007	6/30/2008	36,258,662	22,399,024	13,859,638	34,852,156	18,414,982	16,437,174
7/1/2008	6/30/2009	31,595,637	23,967,563	7,628,074	28,901,791	17,013,546	11,888,245
7/1/2009	6/30/2010	28,257,070	21,730,542	6,526,528	27,889,296	17,012,188	10,877,108
7/1/2010	6/30/2011	25,239,238	25,987,315	(748,077)	25,232,989	17,640,170	7,592,819
7/1/2011	6/30/2012	25,296,014	33,826,275	(8,530,261)	23,769,617	24,300,896	(531,279)
7/1/2012	6/30/2013	25,645,800	35,661,630	(10,015,830)	19,306,565	23,566,331	(4,259,766)
7/1/2013	6/30/2014	27,255,798	32,951,785	(5,695,986)	22,654,784	20,404,501	2,250,283
7/1/2014	6/30/2015	32,118,612	33,871,623	(1,753,011)	23,780,631	23,759,335	21,296
Total		519,311,676	423,002,492	96,309,184	494,920,407	348,215,577	146,704,831

Line of Business Results

General Liability

- Higher than expected reported loss emergence for SSU GL
  - Driven by many moderate-sized ($150,000 or less) case reserve increases
  - And a handful of large claims, such as newly reported $1 million State Police claim from 12/13 accident year
- Higher than expected paid loss emergence for SSU GL
  - Largely due to payment of Division of Highways sexual harassment claims ($2.8 million)
- Higher than expected SB3 GL reported loss emergence overall and concentrated in accident years 09/10 and subsequent
  - Case reserves have been steadily increasing

General Liability

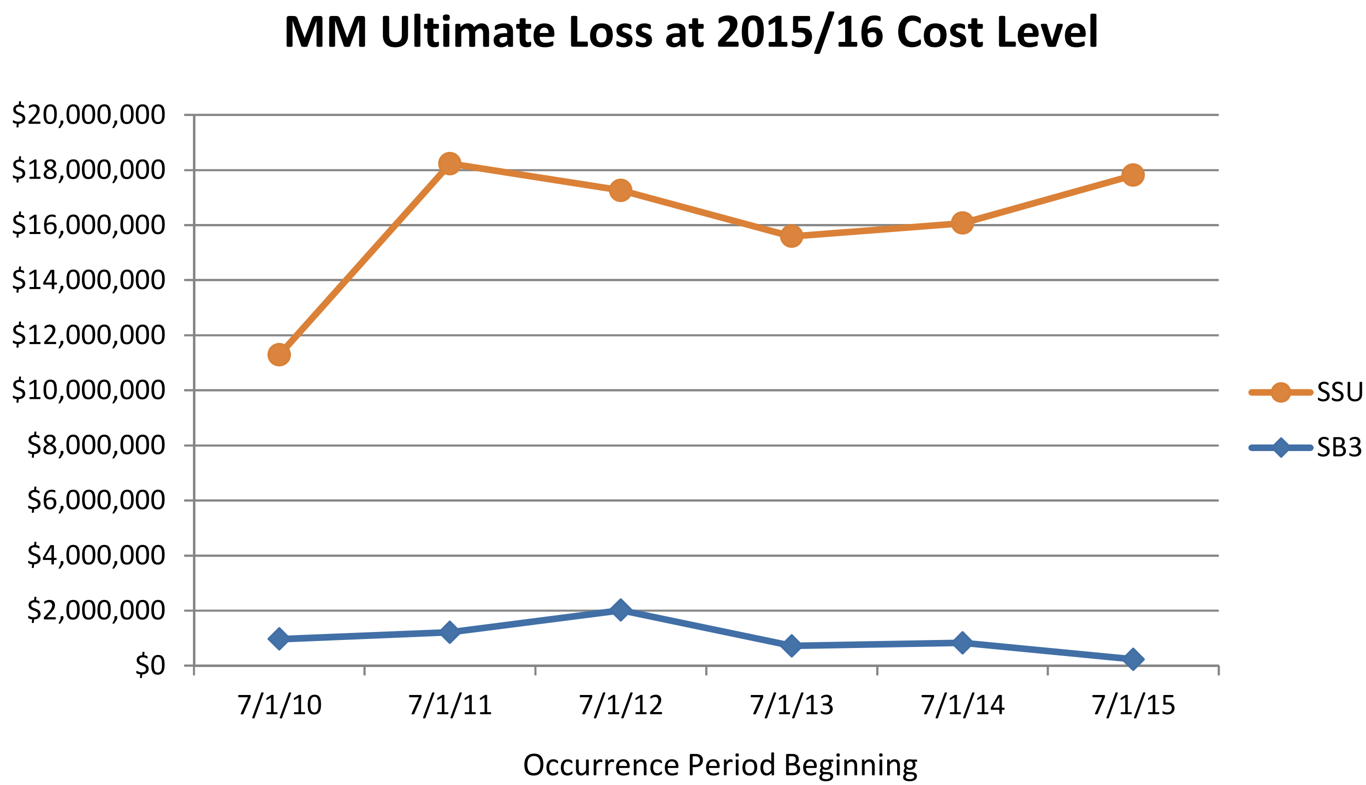


Note: Loss rates are on a retained basis, and gross of any deductibles.

Medical Malpractice

- Reported loss emergence for both SSU and (in particular) SB3 was higher than expected
- The changes to the medical malpractice case reserving timeline implemented in 2014 continues to result in loss increases under the $250,000 SSU deductible
  – And may be beginning to affect the retained medical malpractice case reserves as well
- $2 million (tenfold) increase to SB3 case reserves
  – Largely attributable to the practice plans of the medical schools
  – Includes $675,000 transfer from SSU for 02/03 claim

Medical Malpractice



Notes: 1. Loss rates are on a retained basis, and gross of any deductibles.
2. Reflects that, effective 7/1/2015, the SB3 practice plans are part of the SSU program.
3. Reflects 7/1/15 limits increase to $1.5M For Medical Schools Only.

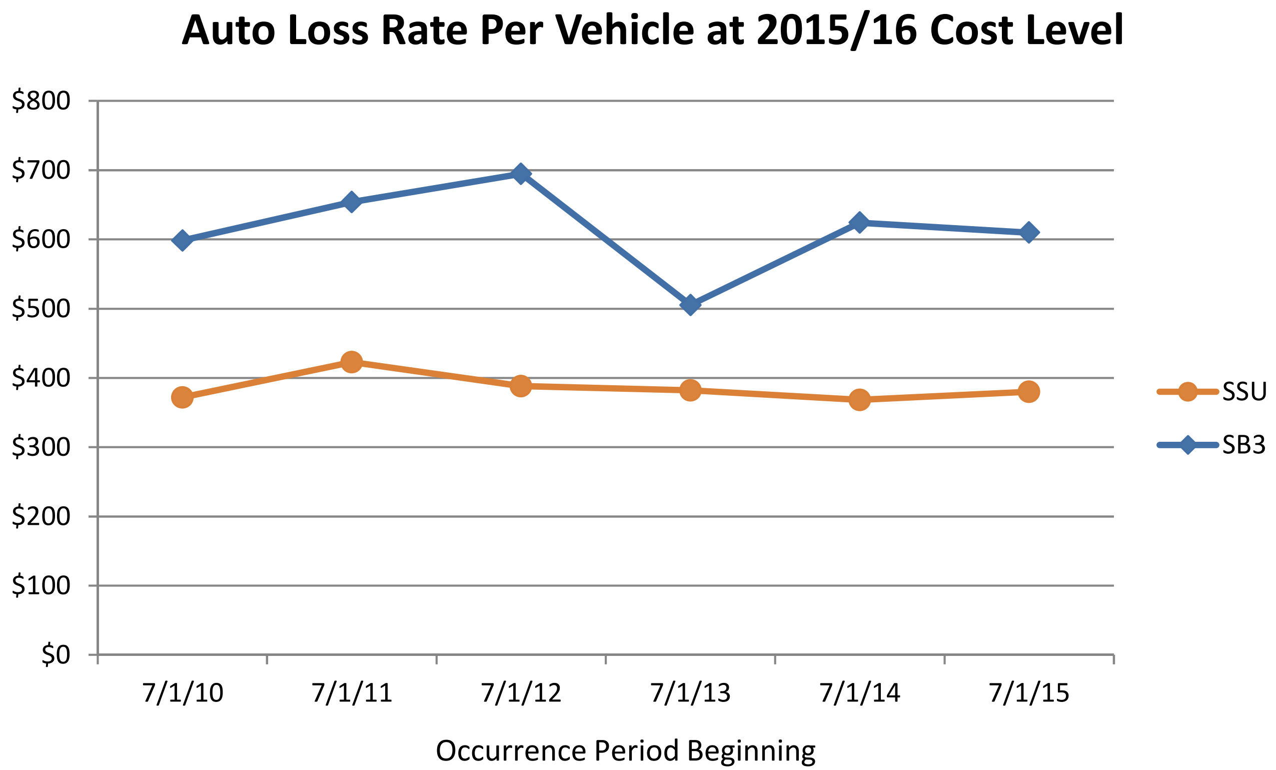
Automobile

- Relatively quiet year overall

- SSU Auto had higher than expected paid and reported loss emergence
  - Shortly after 6/30/14, case reserves increased significantly
  - Considerable pay down of open claims subsequent to 9/30/14

- SB3 Auto had generally lower than expected loss emergence on both a paid loss and reported loss basis

Automobile

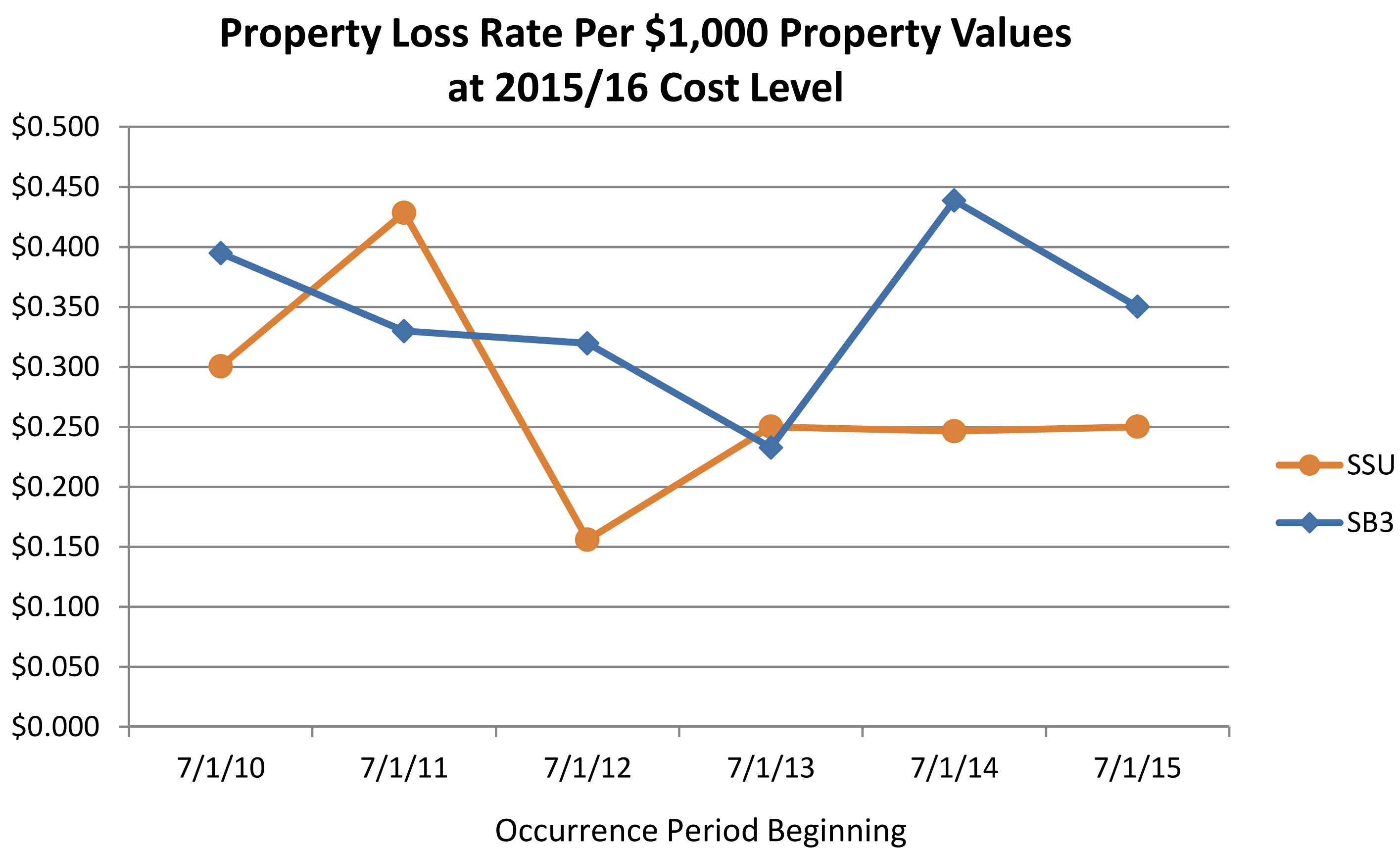


Note: Loss rates are on a retained basis, and gross of any deductibles.

Property

- A fairly quiet year
- Increase to accident year 14/15 case reserves related to water pipe breaks rom cold weather
- Favorable (no payment) outcome on SSU 08/09 fraud/embezzlement claim, was reserved for $1MM

Property



Note: Loss rates are on a retained basis, and gross of any deductibles.

Mine Subsidence

- Mine Subsidence continues to perform at a favorable loss ratio (average = 27% over the past 10 years)

SSU Fiscal Year 16/17 Rating

- Total costs to allocate increased $8.0M over 15/16
  - Loss forecasts increased $4.2M over 15/16
    - SB3 practice plans now in SSU
    - Increases to GL, AL, and MM forecasts; reduction to property forecast
  - Continued reduction in unfunded liability credit for SSU
    - From $3.0 million for 15/16 to $0.3 million for 16/17
- Rate changes (16/17 compared to 15/16)
  - Auto Liability rate increased 17%
  - General Liability rate increased 10%
  - Property rate decreased 3%
- About to kick-off SB3 rating analysis for 16/17

Interim Study as of December 31, 2015

December 31, 2015 Interim Analysis

- Unpaid loss estimates increased $0.165 million (0.1%) between June 30, 2015 and December 31, 2015

- Decreases to SB3 medical malpractice and SB3 auto liability unpaid loss were offset by increases to other coverages
  - Decreases
    - Several SB3 medical malpractice claims closed for significantly less than their previously case reserved amounts
    - SB3 auto liability unpaid losses dropped due to payments (with offsetting case reserve reductions) for existing open claims
  - Increases
    - Emergence of $1M claim for SB3 general liability in the 13/14 accident year
    - Accrual of first 6 months of current 2015/16 program year

December 31, 2015 Interim Analysis - Results

Line of Business	Entity	Retained Case Reserves at 12/31/2015	Retained IBNR at 12/31/2015	Retained Unpaid at 12/31/2015	Retained Case Reserves at 6/30/2015	Retained IBNR at 6/30/2015	Retained Unpaid at 6/30/2015	*Change from 6/30/2015 to 12/31/2015 in Retained Unpaid Loss* Dollar Change	Percent Change
Automobile	SSU	2,981,263	5,260,996	8,242,259	3,420,671	4,869,086	8,289,757	(47,497)	-0.6%
Automobile	SB3	3,656,206	5,625,532	9,281,738	5,092,214	5,175,413	10,267,626	(985,888)	-9.6%
General Liability	SSU	27,372,020	41,932,806	69,304,826	30,732,325	37,692,675	68,425,000	879,826	1.3%
General Liability	SB3	21,037,801	22,197,165	43,234,966	20,369,520	22,269,297	42,638,817	596,149	1.4%
Property	SSU	618,201	1,750,938	2,369,139	1,345,500	985,493	2,330,993	38,146	1.6%
Property	SB3	1,300,105	1,094,450	2,394,555	1,859,104	896,211	2,755,315	(360,760)	-13.1%
Medical Malpractice	SSU	5,526,788	15,021,899	20,548,687	7,456,364	11,761,170	19,217,534	1,331,153	6.9%
Medical Malpractice	SB3	1,167,419	2,081,511	3,248,930	2,277,194	2,297,179	4,574,372	(1,325,442)	-29.0%
Mine Subsidence		420,000	445,668	865,668	412,936	413,271	826,207	39,461	4.8%
Subtotal - SSU		36,498,272	63,966,639	100,464,911	42,954,860	55,308,424	98,263,284	2,201,627	2.2%
Subtotal - SS3		27,161,531	30,998,658	58,160,189	29,598,032	30,638,099	60,236,131	(2,075,942)	-3.4%
Subtotal - SSU + SB3		63,659,803	94,965,297	158,625,100	72,552,892	85,946,523	158,499,415	125,685	0.1%
Total		64,079,803	95,410,965	159,490,768	72,965,828	86,359,794	159,325,621	165,146	0.1%

Questions & Discussion

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STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director

Jason Pizatella
Cabinet Secretary

AGENDA
BOARD MEETING OF THE WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

December 15, 2015

Chairman Martin	Call to Order
Chairman Martin	Approval of Board Minutes September 15, 2015

REPORTS

Susan Wheeler/Kathleen Weekley Ernst & Young, LLP	June 30, 2015 Audited Financial Report by Ernst & Young, LLP
Mary Jane Pickens. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report PCard Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

Discussion relating to the Premium-to-Net Asset Reserve Policy adopted by the Board in 2013.

ADJOURNMENT

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MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

December 15, 2015

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Chairman James A. Dodrill, Esquire, Member Edward Magee, Ed.D., CPA, Member Bob Mitts, CPCU, Vice Chairman Tonya Gillespie, CPA, Representing Mike Riley, Insurance Commissioner, Board Secretary and Ex-Officio Member
BRIM PERSONNEL:	Mary Jane Pickens, Executive Director Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Chuck Mozingo, Assistant Claim Manager Melody Duke, Underwriting Manager John Fernatt, IT Manager Stephen Panaro, CPA, Controller Jeremy Wolfe, Loss Control Manager Carl Baldwin, Deputy Loss Control Manager Kimberly Hensley, Loss Control Specialist Morgan Stutler, Loss Control Specialist Steve Fowler, Esq., BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, AIG Claim Services Brenda Samples, USI Insurance Services, LLC
GUESTS:	Susan Wheeler, Ernst & Young LLP Kathleen Weekley, Ernst & Young LLP

GUESTS (cont'd): Sandy Price, WVU Health Sciences Center
Mike Gansor, WVU Risk Management
Brian Gallagher, Marshall Health Sciences
Travis M. Bailey, Marshall University
Tracy Smith, Marshall University

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Martin at 1:05 p.m. on Tuesday, December 15, 2015, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Dodrill moved the approval of the minutes of the September 15, 2015 Board Meeting. The motion was seconded by Dr. Magee. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

June 30, 2015 Audited Financial Report

Chairman Martin then recognized Susan Wheeler of Ernst & Young (E & Y) independent auditors for the West Virginia Board of Risk and Insurance Management, who presented the annual audit results as of June 30, 2015. (Copies of the reports entitled "West Virginia Board of Risk and Insurance Management, 2015 audit results" and "Financial Statements, Required Supplementary Information, and other Financial Information" for the Years Ended June 30, 2015 and 2014 were distributed to the Board members.)

Before beginning, Ms. Wheeler introduced her colleague, Ms. Kathleen Weekley. She then recognized the BRIM Finance staff and commended them on being very cooperative, diligent, and doing such a fine job.

Referring to the audit results documents, Ms. Wheeler stated that E & Y issued an unqualified opinion (highest rating possible) on BRIM's 2015 financial statements; that BRIM's analysis for significant accounting matters is appropriate; that reasonable judgments and consistency were used by management to account for significant accounting estimates, and that there were outstanding cooperation and communication between BRIM and E & Y.

Ms. Wheeler further noted that on pages 4 and 5, E & Y is required to communicate quality and application of accounting policies and estimates, thereafter stating that the significant policies are consistent with the prior year and the applications are appropriate.

Continuing, Ms. Wheeler and Ms. Weekley summarized the contents of pages 6 and 7, "Accounting policies and areas of audit emphasis," which explain the key issue/risk areas and summarizes E & Y's procedures and findings in each of the areas identified. In discussing all of the key issues and risk areas, it was thereafter determined that based on the procedures performed, the amounts and disclosures contained in the financial statements were appropriate and in conformity with US GAAP; further, that E & Y identified no differences greater than their summary of audit differences threshold.

In discussing the "Summary of required communications" topic, Ms. Weekley referenced the audit engagement agreement which describes their responsibilities and stated that an unqualified opinion was issued on BRIM's financial statements as of and for the year ended June 30, 2015. She also noted that they issued E & Y's Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Ms. Weekley also noted that they were not aware of any significant accounting policies used by BRIM in a controversial or emerging area or experienced a lack of authoritative guidance; that there were no uncorrected or corrected misstatements identified relative to the audit of the financial statements as of June 30, 2015, and that there were no material weaknesses identified in the audit.

Continuing, Ms. Weekley stated that they had obtained from management a letter of representations related to the audit, and that there were no changes to the terms of the audit. E & Y is not aware of any significant findings or issues to any related parties.

She thereafter stated that E & Y had no disagreements with management, and a copy of the Letter of Representation which BRIM management signed is contained in Appendix A.

In explaining the Industry analysis ratio comparison on page 17, she noted that the decrease in loss ratio for 2015 is due to premiums increasing at a higher rate (12%) over the prior year than what claims and claims adjustment expense increased (11%) over the prior year. The expense ratio is well below the average, mainly due to low overhead and because State entities are required to purchase insurance from BRIM. BRIM's combined ratio is significantly higher than the industry combined because of the loss ratio factor noted above.

Chairman Martin then inquired if they were using some med mal in their loss ratio comparison or is it strictly property and casualty, to which Ms. Wheeler responded that it only includes casualty and property. Chairman Martin did ascertain that it is comparing to our overall program, including the med mal program.

There being no further questions from the Board, Mr. Dodrill thereafter MOVED the acceptance of the audit report. The MOTION was seconded by Dr. Magee. There being no discussion, a vote was taken and the MOTION ADOPTED.

(The two reports previously described and used in the presentation will be attached and made a part of the record.)

Executive Director's Report

The report of the Executive Director was received and filed, a copy of which is attached and made a part of the record.

Mrs. Pickens began her report by giving financial updates for the Marshall University and West Virginia University Medical Malpractice Programs, the November litigation statistics received from AIG (trials, paid claims, outstanding claims) and claim counts for new, closed and open claims.

She thereafter gave an update regarding the status of PICF claims, particularly mentioning the one claim pending on the issue of timing of payment. On 12/7/2015, Judge Kaufman ordered that BRIM pay the entire award in full without prorating with other claims that become final in FY '16 and without consideration to payment of administrative expenses.

Mrs. Pickens also stated that she and others at the Capitol and a former staff counsel for the House Finance Committee are working on a proposal for a legislative solution to the funding concern.

Continuing, Mrs. Pickens reported that all but 25 state agencies are covered with Cyber Liability Insurance, and some of these have applications in progress.

In addition, she also noted that the first cyber claim was submitted under the policy and that it was handled very well. She also stated that BRIM is currently studying how it will allocate policy premiums to covered agencies and implement updated data security and privacy standards in the Loss Control Standards of Participation and the assessment of credits and surcharges.

Mrs. Pickens then announced that BRIM's first Continuing Education (CE) Meeting for Insurance Producers was held on November 9, 2015 at West Virginia State University. "Update for Producers: Legal, Regulatory, and Emerging Risks" was approved by the Insurance Commissioner's Office for 4 CE credits. The meeting was well-received, and BRIM would like to offer the seminar annually.

Turning to the status of RFPs or contracts, Mrs. Pickens pointed out that the RMIS software bids were due on November 20, 2015. Eight bids were received and John Fernatt is working to schedule demonstrations with the vendors. The new CTO has assigned the new IS&C Director, Bryan Pratt, to act as an advisor to BRIM during the evaluation process.

On December 2, 2015, a decision was made to withdraw the property appraisal RFP because of the possibility of it overlapping with the RMIS proposal as it relates to management of property appraisal data. Mrs. Pickens stated that consideration will be given to the probability of reissuing this RFP in early 2016.

In the area of Loss Control, Mrs. Pickens noted that she and Jeremy Wolfe have been working with the General Services Division to enhance the property inspection processes, more specifically, to have certain recommendations in AON's inspection reports to speak directly to the attention of tenants occupying GSD-maintained properties and to hold them directly responsible for corrective action.

Loss Control continues to receive drone questionnaires. After we have finished gathering this information, we will put a plan in place to address coverage needs. Currently, 12 agencies have drones.

Mrs. Pickens announced that during the month of October, Morgan Stutler was hired as a Loss Control Specialist II. In addition, during the month of December, Tonya Pugh was promoted to Underwriter, and Deanne Stevens was promoted to Insurance Assistant, Lead.

Mrs. Pickens informed the Board that The Governor's Office has asked BRIM to work with all of the DOA agencies in having their Continuation of Operation Plans ("COOPs") updated by the end of the calendar year.

In closing, Mrs. Pickens mentioned that BRIM has been approached about moving to the fourth floor of the Greenbrooke Building on Smith Street in Charleston. BRIM will be working with the Real Estate Division and the General Services Division on the move, which will probably occur next summer. This undertaking will require a lot of planning and coordination, as well as working with General Services on any changes to accommodate our staff.

BRIM Financial Report

There being no questions, Chairman Martin called upon Mr. Schumacher to present the Chief Financial Officer's Report. The Unaudited Balance Sheet as of September 30, 2015 and the Unaudited Income Statement for the three months ending September 30, 2015 were received and filed, copies of which are attached and made a part of the record.

A CD containing the July, August and September 2015 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the May and June 2015 billings. The acknowledgement form is retained by the Finance Department.

Mr. Schumacher explained that what he would consider one of the key measures, which isn't in the industry analysis but which is important to BRIM and its financial stability, is contained in footnote number 4, Unpaid Claims and Claims Adjustment Expense Liability. Up until last year, 2014, BRIM had experienced several years in which there were decreases in provisions for prior years' reserves. This allowed BRIM some flexibility in the rates and to be able to give some money back to the insureds. However, for the last few years, BRIM has seen a reverse in that trend; there has been an increase in provisions (for insured events of prior years)—for the combined two years totaling $9 million. Further, this is considered unrecovered costs; and even though BRIM can look at reforecasting information for '16, to recover any portion related to the current year's increases, we cannot recover the prior years' increases.

Mr. Schumacher thereafter stated that since there's not much BRIM can do to recover the $9 million, we are seeing these losses dropping to the bottom line on the audited financials—for last year and this year. These additional claims costs were not anticipated in our rates, and now BRIM will have to absorb these losses.

Continuing, Mr. Schumacher stated that although our loss ratio is 117% versus the industry average of 68%, it is well above the industry standard. However, anything probably above 90 is not considered very good because of the negative position we're in regarding our ability to recover the money. BRIM's expense ratio is very good compared to the industry standard, and we're still maintaining a low cost on the operating side. He further stated that the combined ratio is just a combination of the two ratios, so BRIM is looking at its expenses and losses, which happens to place us on the unfavorable side.

Mr. Schumacher then emphasized that the point he wanted to make is that BRIM has given back a considerable amount of money in 2015's rates; so if you were to factor back in that money, the overall loss ratio would be 100% instead of 117%. The expense ratio would actually drop down to 5%, and the combined ratio would be 105%, which is much closer to the industry standard. He further stated that he wasn't trying to belittle the significance of the numbers. In addition, he wants everyone to understand that the numbers aren't necessarily true indicators of where BRIM is compared to the industry because they are skewed by the reduction in the premiums given in '15 and even prior years. Although the loss ratio and the combined ratio look pretty negative, they're not nearly as bad as what the numbers could have been.

During Mr. Schumacher's summation of the current financial statements, he expressed his opinion that the Federal Reserve will raise rates by a quarter of a basis point in the near future.

Loss Control Report

There being no questions for Mr. Schumacher, the Loss Control Report was thereafter presented by Robert Fisher, Deputy Director/Claim Manager. The report was received and filed, a copy of which is attached and made a part of the record.

Before presenting his report, Mr. Fisher first introduced and welcomed Morgan Stutler, Loss Control Specialist II, to the Board.

In presenting his report, Mr. Fisher noted that two boiler safety and operational seminars were held during October; that the evaluation of the loss control questionnaires has been completed and that 119 State agencies will receive a credit for their participation in the Standards of Participation program; that Jeremy Wolfe recently became a member of the West Virginia Safety Management Taskforce's Occupant Protection Committee; that the questionnaires were sent to our SB3 insureds and the questionnaires and supporting documentation are due to BRIM by January 1, 2016, and that from September through November, AON and Hartford conducted 47 and 642 inspections, respectively..

Mr. Fisher thereafter ended his report by reviewing the number of loss control, Standards of Participation, presentation and continuing education visits that were conducted by the technical staff since his last report.

There were no questions for Mr. Fisher.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

Premium-to-Net Asset Reserve Policy

Chairman Martin began the discussion by noting that former Board member Sherry Cunningham was very instrumental in working with Steve and the Finance Department to create what we hoped would be a benchmark going forward so that we would have a standard for when our reserves were either too big or too small. Mr. Schumacher was then asked to explain BRIM's position since the adoption of the Net Asset Reserve Policy in 2013.

Mr. Schumacher began by explaining that this policy is a means of providing a benchmark that BRIM can use to assess their overall financial stability, as well as their ability to maintain relatively neutral rates without too much fluctuation from year to year. He noted that a special interest behind this was that as a special revenue agency, there is no money that BRIM receives from the general revenue fund. As such, we have to be cautious as to how we develop rates; how we manage claims, and do the best we can to maximize the return on the money that we're holding in order to "run off" those claims. There is no way of generating any capital other than through premium revenue and investment income.

Continuing, Mr. Schumacher stated that for a long period of time prior to 2013, BRIM had a relatively strong position and everything was working in our favor. Prior years' reserves were dropping; investment income was improving because we were seeing the rates continually dropping, which increased the value of what we were holding, and premium revenue was relatively stable; and with the prior years' reserves, what we were able to do is give money back to the insureds as a result of the reduction in reserves. However, in late 2012, we started to see all the trends reverse; e.g., we started to see the reserves increase, investment areas started to become more fickled, and particularly in 2014 and 2015;, they had almost become nonexistent. So the purpose of the policy is to create some way of measuring what we are doing so that there's a way of looking at rates going forward that makes sense so that we're not in a position where we would exhaust our capital, and it would not be harder to manage from an overall financial and operations standpoint.

Mr. Schumacher further stated that the special points he gave are just primarily to give an idea of what has happened since the policy. Re-stating, he has seen BRIM's net position decrease by almost $21,000,000. BRIM has seen a financial deterioration brought on by adverse trends in the claims reserves, which actually began back in 2012. However, BRIM really didn't see that trend develop until '13, '14 and '15. He stated that particularly troubling is the $9 million increase in prior periods reserves which--if it wasn't included in the rates, there is no way of recovering that money.

In closing, he commented that investment returns aren't going to get us the full upset we need-- claims are starting to increase, and the reserves are increasing, so the only other viable alternative is to look at what we can do from a premium standpoint so that we don't deplete our capital—and that's the primary focus of the policy.

Chairman Martin interjected that to recap on the initiative, we said that we would use the benchmark in order to determine whether any actions were necessary. At first it looked like we were maybe going to be outside of our 10% benchmark, but we ended up falling right in there.

After further discussion, Chairman Martin stated that he feels the Board does need to look hard at being on the upper side of whatever type of rate increase BRIM needs to implement, to which Dr. Magee agreed. Mr. Fisher thereafter noted that in the future, we could more than likely expect to see rate increases in premiums on the State side.

There was no further discussion.

ADJOURNMENT

There being nothing further the meeting adjourned at 2:01 p.m.

Board Chairman Date

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director

Jason Pizatella
Cabinet Secretary

Executive Director's Report

December 15, 2015

A. Marshall University and West Virginia University Medical Malpractice Program

- As of December 7, 2015, Marshall has deposited $300,000.00 into the escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $792.09. During FY 2016, disbursements totaling $920,809.81 have been paid thus far.

- As of December 7, 2015, a total of $810,650.42 funds have been deposited into WVU's escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $1,878.71. During FY 2016, disbursements totaling $2,946,801.27 have been paid thus far

B. State Agency/Senate Bill #3 Litigation

TRIALS

Thus far in 2015, we have tried 10 cases to defense verdicts. Of these, the most recent was a directed verdict for the defense in November.

PAID CLAIMS (November 2015 Data)

Claims Indemnity payments YTD total $35,257,491 vs. PYTD of $35,311,342, a decrease of 0.15%.

Claims Expense payments YTD total $17,017,424 vs. $15,975,057, an increase of 6.4%.

OUTSTANDING CLAIMS (November 2015 Data)

November 2015 Indemnity reserves total $52,701,494 vs. November 2014 Indemnity reserves of $54,497,918, a decrease of 3.3%.

November 2015 Expense reserves total $21,131,798 vs. November 2014 Expense of $22,774,412, a decrease of 7.2%.

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CLAIMS COUNTS (November 2015 Data)

New claims YTD total 2852 vs. PYTD of 2668, an increase of 6.9%.

Closed claims YTD total 2967 vs. PYTD of 2663, an increase of 11.4%.

Open claims YTD total 1070 vs. PYTD of 1011, a increase of 5.8%.

C. Patient Injury Compensation Fund (PICF)

The last claim asserted against the PICF was received by BRIM on July 20, 2015. One claim is pending on the issue of timing of payment. Judge Kaufman entered the plaintiff's proposed order in that claim on December 7, 2015, requiring BRIM to pay the entire award in full without prorating with other claims that become final in FY 16 and without consideration to payment of administrative expenses. We are currently reviewing options in response to the order with our counsel. In addition, an award letter was mailed out December 10, 2015, leaving six claims pending at the Application Review Committee level.

I've been focused all year on a solution to the funding problem with the PICF. I've had multiple meetings with legislators and other government officials to discuss the fund and the money needed to pay the claims and expenses of the fund both now and into the future. Jennelle Jones, counsel in Administration and former staff counsel for the House Finance Committee, is working with me on what we hope to be a proposal for a legislative solution to our funding concern.

D. Cyber Liability Insurance Coverage (update)

We continue to work with state agencies to bring them under the coverage of the Cyber Liability Policy which was renewed on July 1, 2015. Currently all but about 25 state agencies are covered (over 140 are covered). Of the 25, some have applications in process. We haven't received applications from about 20 state agencies, and Melody Duke is calling each to discuss the need to submit an application and work with them to get the coverage in place. As we've gone through the process of bringing agencies and elected officials under the policy, we've changed and refined processes in addition to gaining a better understanding of the underwriting process and criteria which will be helpful going forward. We have also submitted the first claim under the policy and can report that it was handled well and we had prompt access to the types of legal and other services that we expected under the policy.

We continue to look at how BRIM will ultimately allocate policy premium to covered agencies and implement updated data security and privacy standards in BRIM's Standards of Participation as well as credits and surcharges resulting from compliance with the updated standards.

E Continuing Education Meeting for Insurance Producers

BRIM's first CE meeting was held on Monday, November 9, 2015 at West Virginia State University. The name of the meeting was "Update for Producers: Legal, Regulatory, and Emerging Risks" and was approved by the Insurance Commissioner's office for 4 continuing education credits. Some of the topics covered were loss control and risk management strategies and techniques, updates from BRIM's Underwriting Division, liability exposure and insurance coverage related to drone use, a legal update from the Insurance Commissioner, cyber and data security liability, and errors and omissions coverage and bad faith claims affecting producers. The meeting was well-attended and well-received, with some attendees asking if we plan to do it regularly. Assuming BRIM has the resources to do so, I would like to present the seminar annually.

F. Status of Requests for Proposals/Contracts

1. Information Technology – Risk Management Information System – Bids on RMIS software RFP were due on November 20, 2015. Eight bids were received and we are currently scheduling demonstrations with the vendors which we expect to go through January, 2016. At BRIM's request, the state's Chief Technology Officer has assigned new IS&C Director Brian Pratt to participate as advisor to BRIM during the evaluation process.

2. Property Appraisals RFP – a decision was made on December 2, 2015 to withdraw the property appraisal RFP based on a current review of broader system needs at BRIM. Some of the specifications in the property appraisal RFP could have been affected by the outcome of the RMIS RFP, resulting in changes to the scope of services we need relating to property appraisals, and we decided the prudent approach would be to withdraw the property appraisal RFP with the goal of continuing to assess needs and releasing a new RFP for appraisal services likely in the first half of CY 2016.

G. Loss Control Division

Jeremy Wolfe and I have been working with General Services Division to address some requests from GSD relating to property inspection processes. In addition, we are working with GSD to bring certain recommendations in Aon's inspection reports directly to the attention of tenants occupying GSD-maintained properties so they are responsible for corrective action.

Loss Control also sent Drone questionnaires to all state agencies to determine if they are currently using drones or plan to use them in the future. We obtained an aviation policy providing drone coverage a few months ago when we learned that Highways had some drones. Given the growing awareness around drones and the obvious advantages of public sector use, we wanted to make sure that any liability exposures had been considered and that coverage was in place. Once we finish gathering the information from the questionnaires we will put a plan in place to address coverage needs in this area.

H. Personnel

Morgan Stutler was hired for one of the Loss Control Specialist II positions on October 5th.

Tonya Pugh of our Underwriting Department was recently promoted to Insurance Underwriter, effective October 31st.

A Notice of Job Opening was posted internally for an Insurance Assistant, Lead, in Melody Duke's Underwriting Department. That position has been filled by Deanne Stevens.

I. Miscellaneous

The Governor's office has asked BRIM to work with all Department of Administration agencies to update their Continuation of Operation Plans ("COOPs") by the end of this calendar year. John Fernatt and Chuck Mozingo, who helped develop and implement DOA's COOP initiative several years ago, will be reviewing updates submitted by agencies toward the end of this month, and we anticipate continuing to work with DOA agencies after the first of the year on any longer-term revisions we think are needed as a result of the update process.

BRIM has also been approached about moving to the fourth floor of the Greenbrooke Building on Smith Street in Charleston when the Offices of the Insurance Commissioner vacates the building in the spring. BRIM is working with the Real Estate Division and General Services Division on the move, which will likely happen during next summer. There will be costs associated with the move in terms of an increase in rent and the purchase of some office furniture. We anticipate having a relatively small increase in square footage. We are just now beginning to estimate costs associated with the move. It will also require quite a bit of planning and coordination, in addition to working with GSD on any changes or buildouts to the space to accommodate BRIM staff and functions. We will keep the Board informed as progress is made on this.

Very truly yours,

Mary Jane Pickens
Executive Director

MJP:lld

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director

Jason Pizatella
Cabinet Secretary

Chief Financial Officer's Report
December 15, 2015

A. P Card Report

CD copies contain the supporting detail for P card purchases for the months of July, August, and September, 2015. These totals are:

July	$21,916.38
August	$87,300.01
September	$32,769.12

B. Audited Financials and Audit Results and Communications

- An overall Increase of $9 million in provision for insured events in prior years over the last two years is especially concerning.
- BRIM's loss ratio is 117% vs. the industry average of 68%; well above the industry average.
- BRIM's expense ratio of 6% is very favorable vs. the industry average of 28%.
- BRIM's combined ratio of 123% is well above the industry average of 96%. BRIM's high loss ratio is the primary driver behind BRIM's unfavorable combined loss ratio.
- Excluding the credits given in FY'15 premiums for earlier prior year reserve decreases, BRIM's loss ratio would have been 100%, BRIM's expense ratio would have been 5% and BRIM's combined ratio would have been 105%.

C. Current Financial Results

- The financial results presented are for the quarter ended September 30, 2015. The results do not reflect the actuarially estimated unpaid losses from AON's risk funding study as of September 30, 2015.
- Premium revenue has increased by $1.0 million for the first three months of FY'15.
- FY'15 reflects an estimated increase of claims reserves of $2.0 million for the current quarter vs. an increase of $0.8 million for the same quarter last year. Reserve additions increased claims expenses for both years.
- Although actual claims payments for the first three months of FY'15 are about $2.9 million less than the same quarter last year, reserve increases continue to be a drag on operating results for both years.
- The poor investment environment resulted in losses of $2.6 million for the current quarter vs. losses of $1.3 million for the same quarter last year.
- The unfavorable loss ratio and investment losses has resulted in net losses for the first three months of FY'15 ($7.0 million) and FY'14 ($8.3 million).

D. Premium to Net Asset Reserve Ratio

- On August 27, 2013 the Board approved a premium to net asset reserve ratio policy. The policy established a process to help guide BRIM's Board in assessing BRIM's overall financial condition. A calculated composite benchmark establishes a target range of net assets to assist BRIM in maintaining an adequate level of capital to help stabilize rates from year to year and to assist in monitoring BRIM's financial stability.
- The net asset reserve policy formulates a composite benchmark by combining a group of external insurance entities premiums to net assets to be used as a basis to evaluate if BRIM's net assets fall within an established band.
- The resulting range of premium to net asset reserves is a guide to help evaluate acceptable risk level factors for BRIM's calculated ratio and how BRIM is tracking versus the similar type insurance entities that comprise the benchmark study.
- The attached exhibit shows that BRIM falls within the established band using the calculated composite benchmark. BRIM's premium to net asset ratio falls near the middle of the range for the acceptable level of risk. This indicates that BRIM has maintained a net position (i.e. capital) for the level of net premium generated for FY'15 vs. the benchmark.

Respectfully submitted,

Stephen W. Schumacher, CPA
Chief Financial Officer

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	September 30 2015	September 30 2014
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 18,822	$ 13,547
Advance Deposit with Carrier/Trustee	207,150	204,374
Receivables - Net	1,912	3,366
Prepaid Insurance	3,704	3,441
Total Short Term Assets	231,588	224,728
Long Term Assets		
Investments	127,977	139,393
Total Long Term Assets	127,977	139,393
TOTAL ASSETS	359,565	364,121
Deferred Outflows of Resources	127	-
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,805	381
Claims Payable	276	789
OPEB Liability	407	388
Agents Commissions Payable	213	339
Unearned Revenue	7,649	7,518
Current Estimated Claim Reserve	47,890	53,448
Total Short Term Liabilities	58,239	62,863
Long Term Liabilities		
Compensated Absences	76	76
Net Pension Liability	253	-
Estimated Noncurrent Claim Reserve	115,051	100,597
Total Long Term Liabilities	115,380	100,673
TOTAL LIABILITIES	173,619	163,536
Deferred Inflows of Resources	270	-
Prior Year Net Assets	192,800	208,911
Current Year Earnings	(6,997)	(8,326)
TOTAL NET ASSETS	185,803	200,585
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 359,422	$ 364,121

DRAFT - Unaudited - Management Purposes Only

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
For the three months ending

	September 30 2015	September 30 2014
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 16,337	$ 15,203
Less - Excess Insurance	(1,689)	(1,528)
Total Operating Revenues	14,648	13,675
Operating Expenses		
Claims Expense	15,596	19,098
Property & MS Claims Expense	2,404	595
Personal Services	380	351
General & Administrative Expense	625	610
Total Operating Expenses	19,005	20,654
Operating Income (Loss)	(4,357)	(6,979)
Nonoperating Revenues		
Investment Income	(2,640)	(1,347)
Total Nonoperating Revenues	(2,640)	(1,347)
Net Income (Loss)	$ (6,997)	$ (8,326)

Discussion Points for Net Asset Reserve Policy - 12/15/15 Board Meeting

- Since the Board's adoption of BRIM's Net Asset Reserve Policy on August 27, 2013, BRIM's net position has decreased by $20.8 million. This financial deterioration has been driven by adverse trends in claims reserves that began in FY'12 and also by recent negative developments in the investment markets in FY'15.

- Particularly troubling is the increase in prior period reserves of $9.0 million over the last two years. These are retrospective and would not have been anticipated in the rates for those years and they are indicative of an adverse claims trend developing.

- Due to the current poor investment environment, it is projected that overall investment returns will be well below BRIM's required return of 4% and, in fact, could be negative over the next few years.

- Despite the fact that BRIM's net position has shrunk by $20.8 million during this period, BRIM increased premium revenue $5.0 million in FY'14 and $6.1 million in FY'15. Premium revenue is projected to increase by an additional $8.6 million in FY'16 and $10.3 million for FY'17.

- Even if there had been no adverse claims development and if investment returns were to recover to around 4%, projected premiums would increase due to the actuarially projected discounted loss pics increases for both FY16 (1.9%) and FY'17 (6.5%).

- Premiums should be set at a level to allow recover both the most recent prior period reserve increase and the increase in actuarially estimated losses so that BRIM can sustain the operation of all of its programs without a significant premium deficiency developing and further erosion of its net position occurring.

External Benchmark Comparison (FY'15)
(BRIM Actual Premium)
Calculation of the Average Premium to Net Assets Ratio (PNAR) - Similar Organizations

Premium or Operating Revenue	Net Assets	Premium to Net Asset Ratio (PNAR)	Name of Entity
$ 20,892,859	$ 41,044,450	0.509	Utah Local Government Trust
$ 7,278,473	$ 20,417,576	0.356	Texas Council Risk Management Fund (Cities)
$ 4,461,937	$ 11,287,022	0.395	Miami Valley R.M. Association (Ohio Municipalities)
$ 10,673,133	$ 44,732,145	0.239	Local Gov't Ins. Trust (Maryland Counties and Municipalities)
$ 28,115,362	$ 93,868,956	0.300	Intergovernmental Risk Mgmt. Agency (Illinois Municipalities)
$ 4,227,356	$ 17,691,724	0.239	Texas Water Conservation Fund
$ 75,649,120	$ 229,041,873	0.330	Combined PNAR of Entities

Derivation of Statistics:

Entity Count Per Above		**6**	**Number of Similar Organizations With Data Available**
(0.230- 0.144)/2 = .043		**0.135**	**Average of the Range Between the Highest and Lowest PNAR**
$ 75,600,000	**$ 229,000,000**	**0.330**	**Combined PNAR of Similar Organizations (Average Risk)**
$ 49,700,000	**$ 137,392,000**	**0.362**	**BRIM's Premium Revenue, NAR and Calculated PNAR**

Step 2: Matrix of Net Assets Risk Ratings for Various Premium Levels ($ rounded to nearest 100,000)

Actual Premium Levels	Less Risk (PNAR Factor & NAR $ Level)	<------------------ PNAR Factor & NAR $ Level)	Average Risk (PNAR Factor & NAR $ Level)	-----------------> (PNAR Factor & NAR $ Level)	More Risk (PNAR Factor & NAR $ Level)
	0.23	**0.28**	**0.33**	**0.38**	**0.43**
$ 80,000,000	$ 347,800,000	$ 285,700,000	$ 242,400,000	$ 210,500,000	$ 186,000,000
$ 77,500,000	$ 337,000,000	$ 276,800,000	$ 234,800,000	$ 203,900,000	$ 180,200,000
$ 75,000,000	$ 326,100,000	$ 267,900,000	$ 227,300,000	$ 197,400,000	$ 174,400,000
$ 72,500,000	$ 315,200,000	$ 258,900,000	$ 219,700,000	$ 190,800,000	$ 168,600,000
$ 70,000,000	$ 304,300,000	$ 250,000,000	$ 212,100,000	$ 184,200,000	$ 162,800,000
$ 67,500,000	$ 293,500,000	$ 241,100,000	$ 204,500,000	$ 177,600,000	$ 157,000,000
$ 65,000,000	$ 282,600,000	$ 232,100,000	$ 197,000,000	$ 171,100,000	$ 151,200,000
$ 62,500,000	$ 271,700,000	$ 223,200,000	$ 189,400,000	$ 164,500,000	$ 145,300,000
$ 60,000,000	$ 260,900,000	$ 214,300,000	$ 181,800,000	$ 157,900,000	$ 139,500,000
$ 57,500,000	$ 250,000,000	$ 205,400,000	$ 174,200,000	$ 151,300,000	$ 133,700,000
$ 55,000,000	$ 239,100,000	$ 196,400,000	$ 166,700,000	$ 144,700,000	$ 127,900,000
$ 52,500,000	$ 228,300,000	$ 187,500,000	$ 159,100,000	$ 138,200,000	$ 122,100,000
$ 50,000,000	$ 217,400,000	$ 178,600,000	$ 151,500,000	$ 131,600,000	$ 116,300,000
$ 47,500,000	$ 206,500,000	$ 169,600,000	$ 143,900,000	$ 125,000,000	$ 110,500,000
$ 45,000,000	$ 195,700,000	$ 160,700,000	$ 136,400,000	$ 118,400,000	$ 104,700,000
$ 42,500,000	$ 184,800,000	$ 151,800,000	$ 128,800,000	$ 111,800,000	$ 98,800,000
$ 40,000,000	$ 173,900,000	$ 142,900,000	$ 121,200,000	$ 105,300,000	$ 93,000,000
$ 37,500,000	$ 163,000,000	$ 133,900,000	$ 113,600,000	$ 98,700,000	$ 87,200,000
$ 35,000,000	$ 152,200,000	$ 125,000,000	$ 106,100,000	$ 92,100,000	$ 81,400,000
$ 32,500,000	$ 141,300,000	$ 116,100,000	$ 98,500,000	$ 85,500,000	$ 75,600,000

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director

Jason Pizatella
Cabinet Secretary

Loss Control Report to the Board
December 2015

I would like to begin by introducing you to Morgan Stutler, a recent addition to our Loss Control technical staff. Morgan has already completed an in-house training program and has begun to meet with our various insured. We are pleased to have her aboard and look forward to great things from her in the future.

BRIM and Hartford Steam Boiler sponsored two boiler safety and operational seminars during the month of October. By our count, 127 people took part in the seminars. We are pleased with the level of interest these seminars attract.

The evaluation of state agency loss control questionnaire responses has been completed. A total of 119 agencies will be receiving a credit for their successful participation in our Standards of Participation program.

Jeremy Wolfe recently became a member of the West Virginia Safety Management Taskforce's Occupant Protection Committee. This committee provides input to the Governor's Highway Safety Program on ways to ensure and improve vehicle occupant safety.

In October, we sent out loss control questionnaires to our senate bill #3 insured. The completed questionnaires and supporting documentation are due to BRIM on January 1, 2016.

During the months of September, October and November Aon conducted 47 inspections and Hartford conducted 642. The reports are being processed according to established procedures.

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Since my last report, our loss control technical staff reports the following activity:

7 Loss Control Visits
These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

23 Standards of Participation Visits
These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

6 Presentation Visits
These are visits during which we provide active training and/or outreach to a group of individuals.

3 Continuing Education Visits
These are visits which are designed to provide the loss control specialists with education and training for professional development.

Dated: December 14, 2015

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director and Claim Manager

Financial Statements, Required Supplementary Information, and Other Financial Information

West Virginia Board of Risk and Insurance Management
(an Enterprise Fund of the State of West Virginia)
Years Ended June 30, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

West Virginia Board of Risk and Insurance Management

Financial Statements, Required Supplementary Information, and Other Financial Information

Years Ended June 30, 2015 and 2014

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Building a better
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Report of Independent Auditors

The Board of Directors and Management
West Virginia Board of Risk and Insurance Management

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Board of Risk and Insurance Management (BRIM), an enterprise fund of the State of West Virginia, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the BRIM's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRIM as of June 30, 2015 and 2014, and the changes in the financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 2, the financial statements of BRIM are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 4 to 11 and the supplemental schedule of Ten-Year Claims Development Information on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BRIM's basic financial statements. The Financial Accounting and Reporting Section closing book forms listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated December 7, 2015, on our consideration of BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BRIM's internal control over financial reporting and compliance.

Ernst & Young LLP

December 7, 2015

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis

Year Ended June 30, 2015
(Dollars in Thousands)

OVERVIEW OF THE FINANCIAL STATEMENTS

Management of the West Virginia Board of Risk and Insurance Management (BRIM) provides this Management's Discussion and Analysis for readers of BRIM's financial statements. This narrative overview of the financial activities of BRIM is for the years ended June 30, 2015, 2014, and 2013. BRIM provides property and casualty insurance to the State of West Virginia (the State) agencies and Senate Bill 3 (SB3) entities, which include boards of education, and governmental and nonprofit organizations. BRIM also administers a coal mine subsidence reinsurance program that makes available to the general public dwelling insurance covering damage caused by the collapse of underground coal mines. From December 2001 until novation to a physician's mutual on July 1, 2004, BRIM's program was expanded to include providing medical malpractice insurance to private sector health care providers (referred to hereafter as the House Bill 601 Program). The hospitals that were non-renewed in 2003 are still being managed by BRIM for claims that were made during the period they were insured.

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental entities. The three basic financial statements presented are as follows:

- *Statement of Net Position* – This statement presents information reflecting BRIM's assets, liabilities, and net position and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or that are collectible or becoming due within 12 months of the statement's date.

  The statement of net position reports a separate financial statement element called *deferred outflows of resources*. This financial statement element represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. BRIM reports $127 as deferred outflow of resources on the statement of net position. The statement of net position reports a separate financial statement element called *deferred inflows of resources.* This financial statement element represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. BRIM reports $270 as deferred inflows of resources on the statement of net position.

- *Statement of Revenues, Expenses, and Changes in Net Position* – This statement reflects the operating and nonoperating revenues and expenses for the operating year. Operating revenues primarily consist of premium income with major sources of operating expenses being claims loss and loss adjustment expense and general and administrative expenses. Nonoperating revenues primarily consist of investment income and appropriations from the State.

- *Statement of Cash Flows* – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, noncapital financing, and investing activities. Cash collections and payments are reflected on this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

FINANCIAL HIGHLIGHTS

(Dollars in Thousands)

The following tables summarize the statements of net position and changes in net position as of and for the years ended June 30, 2015, 2014, and 2013:

				Change 2015–2014		Change 2014–2013	
	2015	**2014**	**2013**	**Amount**	**Percent**	**Amount**	**Percent**
Cash and cash equivalents	**$ 19,505**	$ 13,354	$ 19,723	$ 6,151	46.1 %	$ (6,369)	(32.3)%
Advance deposits with carrier/trustee	**204,219**	206,774	201,613	(2,555)	(1.2)	5,161	2.6
Receivables	**2,531**	3,611	4,001	(1,080)	(29.9)	(390)	(9.7)
Prepaid insurance	**–**	–	7	–	–	(7)	100.0
Total current assets	**226,255**	223,739	225,344	2,516	1.1	(1,605)	(0.7)
Noncurrent investments	**137,824**	147,378	139,875	(9,554)	(6.5)	7,503	5.4
Total assets	**364,079**	371,117	365,219	(7,038)	(1.9)	5,898	1.6
Deferred outflows of resources (pension expense)	**127**	–	–	127	100.0	–	–
Estimated claim expense	**47,890**	53,448	49,793	(5,558)	(10.4)	3,655	7.3
Unearned premiums	**7,659**	7,518	6,757	141	1.9	761	11.3
Agent commissions payable	**1,032**	939	861	93	9.9	78	9.1
Accrued expenses	**1,389**	469	603	920	196.2	(134)	(22.2)
Total current liabilities	**57,970**	62,374	58,014	(4,404)	(7.1)	4,360	7.5
Estimated claim expense	**113,070**	99,756	93,775	13,314	13.3	5,981	6.4
Compensated absences	**76**	76	64	–	–	12	18.7
Total noncurrent liabilities	**113,146**	99,832	93,839	13,314	13.3	5,993	6.4
Total liabilities	**171,116**	162,206	151,853	8,910	5.5	10,353	6.8
Deferred inflows of resources (pension expense)	**270**	–	–	270	100.0	–	–
Net position:							
Restricted	**55,428**	53,595	49,372	1,833	3.4	4,223	8.5
Unrestricted	**137,392**	155,316	163,994	(17,924)	(11.5)	(8,678)	(5.6)
Net position	**$ 192,820**	$ 208,911	$ 213,366	$ (16,091)	(7.7)	$ (4,455)	(2.1)

(Dollars in Thousands)

	2015	2014	2013	Change 2015–2014 Amount	Change 2015–2014 Percent	Change 2014–2013 Amount	Change 2014–2013 Percent
Premiums	**$ 58,204**	$ 52,128	$ 47,134	$ 6,076	11.7 %	$ 4,994	10.6 %
Less excess coverage	**(6,197)**	(6,102)	(5,825)	(95)	1.6	(277)	4.8
Net operating revenues	**52,007**	46,026	41,309	5,981	13.0	4,717	11.4
Claims and claims adjustment expense	**68,145**	61,626	54,018	6,519	10.6	7,608	14.1
General and administrative	**3,541**	3,898	3,275	(357)	(9.2)	623	19.0
Total operating expenses	**71,686**	65,524	57,293	6,162	9.4	8,231	14.4
Operating loss	**(19,679)**	(19,498)	(15,984)	181	0.9	(3,514)	22.0
Nonoperating revenues:							
Investment income	**4,833**	17,043	7,835	(12,210)	(71.6)	9,208	117.5
Appropriation transfer HB4261	**–**	(2,000)	–	2,000	(100.0)	(2,000)	(100.0)
Payment to transfer HB601 estimated future IBNR	**(750)**	–	–	(750)	100.0	–	–
Total nonoperating revenues, net	**4,083**	15,043	7,835	(10,960)	(72.9)	7,208	92.0
Changes in net position	**(15,596)**	(4,455)	(8,149)	(11,141)	250.1	3,694	(45.3)
Total net position – beginning	**208,911**	213,366	221,515	(4,455)	(2.1)	(8,149)	(3.7)
Cumulative effect of adoption of GASB 68	**(495)**	–	–	(495)	100.0	–	–
Total net position – beginning of year restated	**208,416**	213,366	221,515	(4,950)	(2.3)	(8,149)	(4.0)
Total net position – end	**$ 192,820**	$ 208,911	$ 213,366	$ (16,091)	(7.7)	$ (4,455)	(2.1)
Total revenues	**$ 56,090**	$ 61,069	$ 49,144	$ (4,979)	(8.2)	$ 11,925	24.3
Total expenses	**$ 71,686**	$ 65,524	$ 57,293	$ 6,162	9.4	$ 8,231	14.4

- Total assets decreased by $7,038 in 2015 and increased by $5,898 in 2014. The decrease in 2015 is due to a decrease in investment earnings offset partially by an increase in premium revenue. The increase in 2014 is due to increased premiums and higher investment earnings. This was offset by an increase in claims paid to claimants in 2014.

- Total liabilities increased $8,910 in 2015 and $10,353 in 2014. Estimated claims expense increased in 2015 and 2014, mostly from adverse development of both current and prior year reserve estimates, including an unanticipated increase in State general liability claims (primarily in 2010 and 2011 reserves) and a couple of large property loss occurrences that adversely impacted both the State and SB3 programs (2012 reserves).

- Several factors contributed to the $16,091 decrease in total net position for 2015 and the $4,455 decrease for 2014. In 2015, while revenue increased, investment earnings decreased significantly, $12,210, due to market conditions. BRIM also implemented GASB 68 in 2015, which resulted in an adjustment that reduced beginning retained earnings by $495. Total operating expenses for the year increased $6,162, which was caused wholly by the increase in claims expense. In 2014, the increase in estimated claims expense liability grew by a combined $9,636, based on the actuarial study. The investment returns of 2014 did not offset the increase in claims liability, which led to the decrease in net position. Also included within the net position category are restricted positions totaling $55,428 in 2015, $53,595 in 2014, and $49,372 in 2013 for programs that provide mine subsidence coverage to the general public per the West Virginia State Code and that provide medical malpractice tail coverage for the House Bill 601 Program.

- Total net operating revenues increased by $5,981 in 2015 and increased by $4,717 in 2014. The unfavorable claims trend developments in prior years' outstanding claims reserve has led BRIM to increase premium rates to policyholders for 2015 and 2014.

- Total operating expenses increased to $71,686 in 2015 from $65,524 in 2014. Claims and claims adjustment expense increased year over year by $6,519 while G&A expenses decreased by $357.

- Nonoperating revenues, net decreased by $10,960 in 2015 and increased $7,208 in 2014. The decreased investment returns reflect the lower interest rate environment decreasing overall yields on fixed-income securities that make up most of the investments being held, as well as a weaker stock market, which impacted the other investment holdings. Another component of the 2015 nonoperating revenues was the disposition of potential House Bill 601 Program claims to a third party. BRIM paid $750, based on the future estimated IBNR of these claims, to dispose of these liabilities.

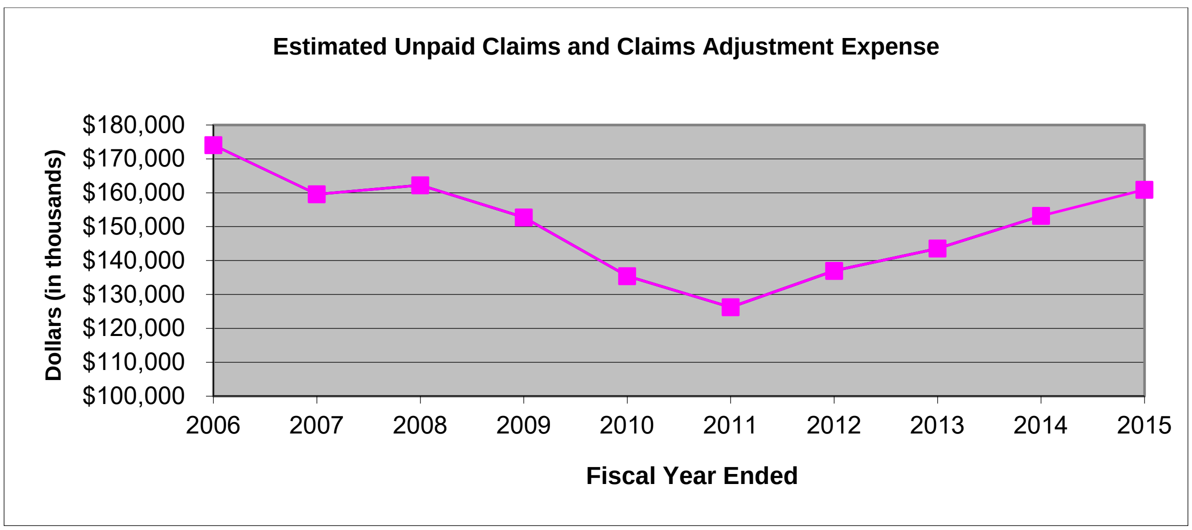
- Total revenues and total expenses from 2015 to 2014 and from 2014 to 2013 have fluctuated due to the year-over-year increases and reductions in premium rates, the changes in the retained loss estimates, and the variations in annual investment market returns. See the analysis of these individual components, as previously discussed, for additional information.

OVERALL ANALYSIS

The overall condition of BRIM deteriorated 7.7% from the prior year compared with a decrease of 2.1% from 2013 to 2014. Reserves increased, and there was also a decrease in investment earnings. The overall increase in claims and claims adjustment expense as well as the significant decrease in investment earnings caused the decrease of net position for the current year, reflecting a net position total of $192,820 at June 30, 2015. BRIM continues to adhere to a comprehensive financial stability and rating plan.

Unpaid Claims Liability

BRIM's most significant number on its statements of net position is the liability for estimated unpaid claims and claims adjustment expense. This liability consists of two parts: claims of which BRIM is aware that have been reserved and incurred but not reported (IBNR) claims, which are projected by an independent actuary. From fiscal year 2014 to 2015, the liability for unpaid claims increased from $153,204 to $160,960. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2006 through 2015.



House Bills 601 and 2122

In December 2001, the West Virginia Legislature passed House Bill 601, which authorized BRIM to provide medical malpractice and general liability coverage to health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies' nonrenewing insurance policies for health care providers on a national level and in the State.

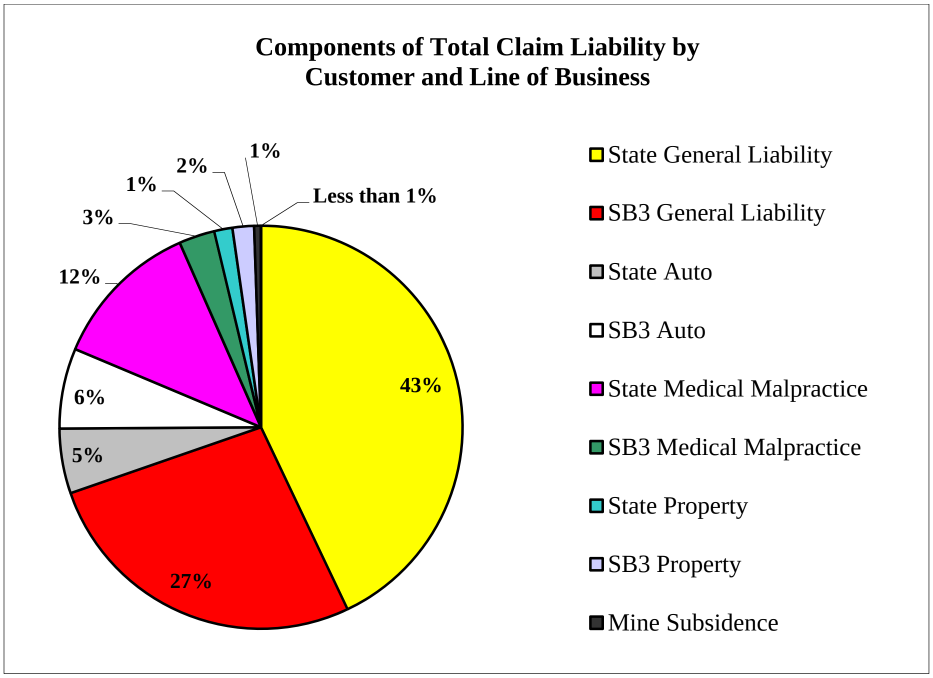
During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for the physicians insured under House Bill 601 to novate into a physicians' mutual. On July 1, 2004, these physicians were novated to the West Virginia Physicians' Mutual Insurance

Company (WVPMIC). The hospitals and clinics that did not novate were not renewed by BRIM prior to June 30, 2004. Tail coverage was offered to all terminated insurers in House Bill 601. In March 2015, BRIM novated any potential future claims on the tail policies to a commercial carrier. BRIM paid the carrier $750 to assume the liability of these claims.

Results by Line of Business for BRIM

BRIM's lines of business are comprised of the State (state agencies), SB3 (for nonprofits, boards of education, and other governmental units), mine subsidence (for home and business owners), and House Bill 601 (medical malpractice for private physicians).

The following chart shows the breakdown by customer and line of business of the total estimated claim liability number, which is $160,960. As demonstrated in the chart, the largest claim volume for BRIM relates to general liability for the State agencies and SB3 programs and the State agencies' medical malpractice coverage.



There is no long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Management's Plan to Maintain Net Position by Line of Business

BRIM has had no deficiency in net position for the programs it has overseen for several years. Previously, however, a deficiency arose, primarily due to adverse claim development in the general liability and medical malpractice lines of business for the State and SB3. The following paragraphs describe the essential plans that BRIM continues to follow to ensure that all lines of business remain fiscally solvent and that the individual programs are financially sound.

Risk Management

BRIM continues pursuing an aggressive risk management plan to help identify the risks underlying the adverse losses that occurred in earlier years. Processes are in place to allow for better organization and for proper documentation of activities. BRIM has been working on ways to increase and improve communications, both within the agency and with its customers, and has been promoting interaction within the agency with regard to loss control utilization. In conjunction with the underwriting department, a system of credits and surcharges is in place, based on loss control efforts and cooperation, or lack thereof, on the part of BRIM's insurers.

Investment Returns

Investment income decreased for fiscal year 2015 and increased for 2014. The market conditions in 2015 were not as favorable as 2014, and investment income was significantly lower. The increase in 2014 was due to a slightly more favorable interest rate environment and a stronger stock market. All BRIM funds held by the West Virginia Investment Management Board (WVIMB) inure to the benefit of program participants. BRIM reinvests the investment earnings on funds held by the WVIMB and occasionally withdraws monies from these funds, as needed, for operating and short-term cash requirements. In 2015 and 2014, BRIM withdrew $12 million and $6 million, respectively, of its funds from the WVIMB for operational purposes.

Premium Determination Process

BRIM has properly maintained premiums across all lines of business for the past several years based on relevant exposure data, claims loss history, and investment returns. Charging proper premiums, consistent with the commercial industry, has enabled BRIM to adequately cover losses. Although fiscal year 2013 benefited from prior years' reserve releases, both 2015 and 2014 saw overall net increases in retained claims reserves. If this recent claim trend persists over the next several fiscal years and future investment returns continue to decline, it may require that premiums increase to allow for a sufficient level of funding to adequately sustain the operation of all programs and to help ensure that no premium deficiency develops.

In addition, BRIM adopted a net asset reserve policy in 2014. The policy calculates a ratio of premiums to net assets for comparison to other similar agencies. A range was established to assist BRIM's board in assessing its overall financial condition.

Effective July 1, 2014, BRIM adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. BRIM determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the decrease to beginning net position of implementing this change of $495 as of July 1, 2014, which is the net pension liability of $628 less deferred outflows of resources related to pension plan contributions of $133 as of that date. BRIM further determined that it was not practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions as of July 1, 2014, and these amounts are not reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide BRIM's customers, governing officials, legislators, citizens, and taxpayers with a general overview of BRIM's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Office of the Chief Financial Officer at (304) 766-2646.

West Virginia Board of Risk and Insurance Management

Statements of Net Position

	June 30 2015	June 30 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 11,286**	$ 6,132
Advance deposits with insurance company and trustee	**204,219**	206,774
Receivables	**1,934**	2,901
Restricted cash and cash equivalents	**8,219**	7,222
Restricted receivables:		
Premiums due from other entities	**597**	710
Total current assets	**226,255**	223,739
Noncurrent assets:		
Equity position in internal investment pools	**89,199**	99,641
Restricted investments	**48,625**	47,737
Total noncurrent assets	**137,824**	147,378
Total assets	**364,079**	371,117
Deferred outflows of resources	**127**	–
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	**47,890**	53,448
Unearned premiums	**7,659**	7,518
Agent commissions payable	**1,032**	939
Accrued expenses and other liabilities	**1,389**	469
Total current liabilities	**57,970**	62,374
Estimated unpaid claims and claims adjustment expense, net of current portion	**113,070**	99,756
Compensated absences	**76**	76
Total noncurrent liabilities	**113,146**	99,832
Total liabilities	**171,116**	162,206
Deferred inflows of resources	**270**	–
Net position:		
Restricted by State code for House Bill 601 Program and mine subsidence coverage	**55,428**	53,595
Unrestricted	**137,392**	155,316
Net position	**$ 192,820**	$ 208,911

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2015	**2014**
	(In Thousands)	
Operating revenues		
Premiums	**$ 58,204**	$ 52,128
Less excess coverage/reinsurance premiums	**(6,197)**	(6,102)
Net operating revenues	**52,007**	46,026
Operating expenses		
Claims and claims adjustment expense	**68,145**	61,626
General and administrative	**3,541**	3,898
Total operating expenses	**71,686**	65,524
Operating loss	**(19,679)**	(19,498)
Nonoperating revenues		
Investment income	**4,833**	17,043
Appropriation transfer HB4261	**–**	(2,000)
Payment to transfer HB601 estimated future IBNR	**(750)**	–
Net nonoperating revenues	**4,083**	15,043
Changes in net position	**(15,596)**	(4,455)
Total net position, beginning of year	**208,911**	213,366
Cumulative effect of adoption of GASB 68	**(495)**	–
Net position at beginning of year as restated	**208,416**	213,366
Total net position, end of year	**$ 192,820**	$ 208,911

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

	Year Ended June 30	
	2015	**2014**
	(In Thousands)	
Operating activities		
Receipts from customers	**$ 53,376**	$ 47,200
Payments to employees	**(1,014)**	(1,391)
Payments to suppliers	**(1,662)**	(2,567)
Payments to claimants	**(60,389)**	(51,990)
Deposits to advance deposit with insurance company and trustee	**(60,857)**	(59,407)
Withdrawals from advance deposit with insurance company and trustee	**63,411**	54,245
Net cash used in operating activities	**(7,135)**	(13,910)
Noncapital financing activities		
Appropriation transfer HB4261	**–**	(2,000)
Cumulative effective of GASB 68 adoption	**(350)**	–
Payment to transfer HB601 estimated future IBNR	**(750)**	–
Net cash used in noncapital financing activities	**(1,100)**	(2,000)
Investing activities		
Purchase of investments	**(22,064)**	(30,636)
Sale of investments	**32,417**	34,926
Net investment earnings	**4,033**	5,251
Net cash provided by investing activities	**14,386**	9,541
Net increase (decrease) increase in cash and cash equivalents	**6,151**	(6,369)
Cash and cash equivalents, beginning of year	**13,354**	19,723
Cash and cash equivalents, end of year	**$ 19,505**	$ 13,354
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 11,286**	$ 6,132
Restricted cash and cash equivalents	**8,219**	7,222
	$ 19,505	$ 13,354

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	Year Ended June 30	
	2015	**2014**
	(In Thousands)	
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (19,679)**	$ (19,498)
Adjustments to reconcile operating loss to net cash used in operating activities		
Decrease (increase) in advanced deposits	**2,555**	(5,161)
Decrease in premiums receivable, net	**1,080**	406
Decrease in prepaid insurance	**–**	7
Increase in estimated liability for unpaid claims and claims adjustment expense	**7,756**	9,637
Increase (decrease) in other liabilities	**1,012**	(63)
Increase in unearned premiums	**141**	762
Total adjustments	**12,544**	5,588
Net cash used in operating activities	**$ (7,135)**	$ (13,910)
Noncash activities		
Increase in fair value of investments	**$ 9,554**	$ 11,792

See accompanying notes.

1. General ***(Amounts referenced in this note related to insurance coverages are actual dollars)***

The West Virginia Board of Risk and Insurance Management (BRIM) was established in 1957 to provide for the development of the State of West Virginia's (the State and primary government) property and liability self-insurance program. Approximately 161 State agencies participate in the program. Beginning in 1980, county boards of education were authorized to participate in the liability portion of this program, with 55 county boards currently participating in the program. In fiscal year 1987, Senate Bill 3 (SB3) was enacted, allowing local governmental entities and nonprofit organizations to participate in the entire program. There are approximately 900 such entities participating in the program. In 1982, legislation was also enacted requiring BRIM to establish and administer a coal mine subsidence reinsurance program that makes available to the general public dwelling insurance covering damage up to a specific maximum caused by the collapse of underground coal mines.

BRIM operates under the authority granted by the Legislature in Chapter 29, Article 12, and Chapter 33, Article 30, of the West Virginia Code and the provisions of Executive Order 12–86. BRIM is an agency of the State operating within the Department of Administration and is governed by a five-person board of directors appointed by the Governor. Accordingly, BRIM is reported as an enterprise fund of the State operating as a single business segment and is included in the State's Comprehensive Annual Financial Report.

BRIM uses a "modified" paid retrospective rating plan for its liability insurance program. Under the current plan, BRIM annually pays a "premium" deposit into a trust fund in the amount of the estimated losses for the current policy year. As claims are reported, they are paid from the trust funds established by the "premium" deposit. When paid losses exceed the amount of the "premium" deposit, including earnings, BRIM pays into the trust account an additional "premium" deposit estimated to be sufficient to fund any estimated remaining claims and claims adjustment expenses expected to be paid during the ensuing 12-month period. These payments are calculated through retrospective rating adjustments made subsequent to the current policy year. Therefore, the "premiums" paid by BRIM are advance deposits, and BRIM is not indemnified by the insurance company for any losses. Under this plan, the insurance company is compensated for its claim-handling services by a fixed fee negotiated on a yearly basis.

From January 1, 1971 through June 30, 1976, the liability coverage provided by BRIM was limited to $25 thousand per occurrence on general liability, automobile liability, and medical malpractice claims. From July 1, 1976 through June 30, 1980, the liability coverage provided by BRIM was limited to $100 thousand per occurrence. From July 1, 1982 through June 30, 1985,

1. General *(Amounts referenced in this note related to insurance coverages are actual dollars)* (continued)

the liability coverage provided by BRIM was limited to $6 million per occurrence. Since July 1, 1985, the liability coverage provided by BRIM is limited to a $1 million indemnity per occurrence. In addition, the county boards of education are covered by an excess insurance policy providing up to $5 million of coverage in excess of the underlying $1 million limit. These limits only apply to incur indemnity claim losses. BRIM pays all allocated loss adjustment expenses, which are the costs incurred in the reporting, investigation, adjustment, defense, and settlement of claims that are attributable to a specific, individual claim.

Prior to July 1, 1990, BRIM retained the first $25 thousand of loss per event on property insurance claims. Losses in excess of $25 thousand per event were also retained within an annual aggregate limit. From July 1, 1990 through June 30, 1991, the exposure retained by BRIM was $1 million per event. From July 1, 1991 through June 30, 1996, the exposure retained by BRIM was $2 million per event. Since July 1, 1996, the exposure retained by BRIM is $1 million per event. BRIM has obtained excess coverage, through insurance companies, covering losses in excess of $1 million, up to $400 million per occurrence, subject to various sublimits for particular types of claims as specified in the policy. With the passage of House Bill 532 in March 2015, BRIM is required to retain the first $1.5 million of medical malpractice liability for the state's medical schools and their related practice plans beginning July 1, 2015.

In 1985, the coal mine subsidence program was legislatively expanded to include all types of building structures, and the maximum amount of insurance available was increased from $50 thousand to $75 thousand per structure.

In December 2001, the West Virginia Legislature passed House Bill 601, which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers (the House Bill 601 Program). On July 1, 2004, all physicians novated to the newly formed West Virginia Physicians' Mutual Insurance Company (WVPMIC). BRIM maintained the hospital and facilities in the House Bill 601 Program that did not novate to WVPMIC. However, all policies have been terminated as of June 30, 2004, and the program is in runoff mode only for existing claims and for any claims that may be submitted on any tail policies that were purchased. In 2015, BRIM transferred any potential claims/IBNR run-off to a third-party for $750.

1. General *(Amounts referenced in this note related to insurance coverages are actual dollars)* (continued)

In March 2004, the West Virginia Legislature passed House Bill 4740, creating a Patient Injury Compensation Fund. The purpose of this fund is to provide fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of previously enacted tort reforms. This fund provides relief to claimants whose damages were limited because of caps for trauma care or as a result of joint and several liabilities. The capitalization of the fund comes from the State's tobacco settlement fund. The activity for this fund is not reflected in BRIM's financial statements. BRIM serves as third-party administrator for this fund and, accordingly, the activity for this fund is reflected in the State's financial statements.

In the normal course of business, BRIM seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable operating results by reinsuring levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Reinsurance permits recovery of a portion of losses from reinsurers; however, it does not discharge the primary liability of BRIM as direct insurer of the risks insured. BRIM does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

The funding of the property and liability insurance premiums for the State agencies comes from direct premium assessments on those agencies. SB3 entities are charged a premium to participate in the program. Under the mine subsidence line of business, the ceding insurers pay BRIM a reinsurance premium.

Pursuant to the West Virginia Code, BRIM submits a detailed budgetary schedule of administrative expenses to the secretary of the Department of Administration prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan. The budgetary schedule is prepared on a modified cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). Expenditures related to the general revenue appropriation amount, if any, are monitored by the State's budgetary review process in total on an unclassified basis. Each year's appropriation lapses at year-end. The remaining operations of BRIM are subject to a nonappropriated budgetary review process.

1. General *(Amounts referenced in this note related to insurance coverages are actual dollars)* (continued)

GAAP defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable or other organizations for which the nature and significance of their relationship with the State's financial statements would cause them to be misleading. BRIM has considered whether it has any component units as defined by GAAP and has determined that no such organizations meet the criteria set forth above.

2. Summary of Significant Accounting Policies

Basis of Accounting

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. In its accounting and financial reporting, BRIM follows the pronouncements of the Governmental Accounting Standards Board.

BRIM distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with BRIM's principal ongoing operations. The principal operating revenues and expenses of BRIM relate to premium revenues and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract period. Net investment earnings and finance charges are reported as nonoperating revenues.

The financial statements of BRIM are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with GAAP.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of interest-earning deposits in certain investment pools maintained by the West Virginia Board of Treasury Investments (BTI). Such funds are available to BRIM with overnight notice. Interest income from these investments is prorated to BRIM at rates specified by the BTI based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool. The book carrying value of the amounts on deposit with the BTI, which approximates estimated fair value, was $16,147 and $11,286 at June 30, 2015 and 2014, respectively.

Restricted cash and cash equivalents are cash and cash equivalents that are to be used for specific lines of business (i.e., mine subsidence coverage provided to the general public, and medical malpractice and general liability coverage provided to health care providers) based on restrictions provided in the State Code.

Advance Deposits With Insurance Company and Trustee

Advance deposits with the insurance company consist of monies on deposit that are utilized to fund claims and claims adjustment expenses as they are paid by the insurance company.

BRIM deposits monies with the Bank of New York (BNY), as trustee, to hold as advance deposits in an escrow account for BRIM liability claims. The monies held in escrow are invested in specific money market funds and short-term guaranteed or investment-grade fixed-income securities that are identified as "qualified assets" in the escrow agreement. The funds held in escrow, together with their earnings, will be used to fund the payment of the claims and claims adjustment expenses related to these liability claims. As escrow agent, BNY periodically transfers monies from the escrow account to the insurance company administering these claims in order to reimburse the insurance company for payments that it has issued on these claims and claims adjustment expenses on BRIM's behalf.

2. Summary of Significant Accounting Policies (continued)

Investments

BRIM invests in certain West Virginia Investment Management Board (WVIMB) investment pools. Some of these pools invest in longer-term securities and are subject to market fluctuation because of changes in interest rates. Investments are reported by WVIMB at fair value and are accounted for by BRIM accordingly, with changes in the fair value included in investment income. Income from these investments is prorated to BRIM at rates specified by WVIMB based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool.

Restricted investments are investments that are to be used for specific lines of business (i.e., mine subsidence coverage provided to the general public and medical malpractice and general liability coverage provided to health care providers) based on restrictions provided in the State Code.

Compensated Absences

Employees fully vest in all earned but unused annual leave, and BRIM accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer-paid premiums for postemployment health care coverage through the West Virginia Retiree Health Benefit Trust Fund (RHBT) or be converted into a greater retirement benefit under the State of West Virginia Public Employees Retirement System (PERS).

Unpaid Claims and Claims Adjustment Expense

Utilizing an external actuary, management establishes the unpaid claims and claims adjustment expense liability based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but not settled and of claims that have been incurred but not reported (IBNR). Such estimates are based on industry statistical loss reserve information as well as BRIM historical data, including case-basis estimates of losses reported, actuarial projections of loss development of IBNR claims, and estimates of expenses for investigation and adjustment of all incurred and unadjusted losses (and estimates of expected

2. Summary of Significant Accounting Policies (continued)

salvage and subrogation receipts are deducted from the estimated liability). The length of time for which such costs must be estimated varies depending on the coverage involved. In the event a reinsurer is unable financially to satisfy an obligation, BRIM is responsible for such liability.

Management believes the estimate for unpaid claims and claims adjustment expense is a reasonable best estimate of BRIM's ultimate losses and loss adjustment expenses to be incurred to discharge BRIM's obligations. However, because actual claims costs depend on such complex factors as actual outcomes versus industry statistical information utilized in the estimation process, inflation, changes in doctrines of legal liability, and damage awards, the process used in computing estimates of claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability and medical malpractice. For instance, medical malpractice claims have a long payout period and claims may not be known for several years. The exposures written under this program have not yet developed sufficient experience to be evaluated based on their own merit. Accordingly, BRIM's actual incurred losses and loss adjustment expenses may vary significantly from the estimated amounts reflected in BRIM's financial statements. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors; such adjustments are included in current operations. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. The claims and claims adjustment expense category on the statements of revenues, expenses, and changes in net position includes estimated incurred claim costs, allocated loss adjustment expenses, and unallocated claims adjustment expenses.

Premium deficiency is defined as the amount by which expected claims costs (including IBNR claims) and all expected claims adjustment expenses exceed related unearned premiums. BRIM has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income, using an assumed 4% discount rate.

Receivables and Premium Income

Receivables represent the amount outstanding for premiums from the insured covered under BRIM's insurance program. Management maintains an allowance for doubtful accounts to reserve for estimated losses based on the length of time the amount has been past due.

2. Summary of Significant Accounting Policies (continued)

Unearned Premiums

Unearned premiums included premium revenues collected for future periods. These revenues will be recognized in the operating periods in which they are earned.

Restricted Net Position

Restricted net position is net position that is to be used for the House Bill 601 Program and mine subsidence coverage provided to the general public based on restrictions provided in the State Code. When an expense is incurred for which both restricted and unrestricted net positions are available, BRIM first utilizes restricted net position for such purpose.

3. Deposit and Investment Risk Disclosures

BRIM is mandated by statute to have its cash and investments managed by the WVIMB and BTI. However, BRIM currently does not have specific policies addressing limitations on specific risk types, such as credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Cash Equivalents

West Virginia Money Market Pool (formerly the Cash Liquidity Pool)

The BTI administers the pool and limits the exposure to credit risk by requiring all corporate bonds held by the West Virginia Money Market Pool to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated A-1 by Standard & Poor’s and P-1 by Moody’s. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

The following table provides information on the weighted-average credit ratings of the West Virginia Money Market Pool's investments:

	June 30, 2015				June 30, 2014			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Pool Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Pool Assets**
Commercial paper	**P-1**	**A-1+**	**$ 186,737**	**9.88%**	P-1	A-1+	$ 234,951	11.99%
	P-1	**A-1**	**660,027**	**34.91**	P-1	A-1	772,107	39.40
Corporate bonds and notes	**Aa3**	**NR**	**10,000**	**0.53**			–	–
	Aa3	**AA-**	**10,000**	**0.53**	Aa3	AA-	20,000	1.02
	Aa3	**A+**	**10,005**	**0.53**			–	–
			30,005	**1.59**			20,000	1.02
U.S. agency bonds	**Aaa**	**AA+**	**81,994**	**4.34**	Aaa	AA+	82,765	4.22
U.S. Treasury notes	**Aaa**	**AA+**	**229,760**	**12.15**	Aaa	AA+	185,065	9.45
U.S. Treasury bills	**P-1**	**A-1+**	**92,059**	**4.87**	P-1	A-1+	104,995	5.36
Negotiable certificates of deposit	**NR**	**AA-**	**–**	**–**	NR	AA-	10,000	0.51
	Aa2	**AA-**	**10,000**	**0.53**			–	–
	P-1	**A-1+**	**51,000**	**2.70**	P-1	A-1+	28,000	1.43
	P-1	**A-1**	**142,000**	**7.51**	P-1	A-1	144,000	7.35
U.S. agency discount notes	**P-1**	**A-1+**	**304,342**	**16.10**	P-1	A-1+	207,484	10.59
Money market funds	**Aaa**	**AAAm**	**90,017**	**4.76**	Aaa	AAAm	39	–
Repurchase agreements:								
U.S. Treasury notes	**Aaa**	**AA+**	**1,323**	**0.07**	Aaa	AA+	93,284	4.76
U.S. agency notes	**Aaa**	**AA+**	**11,200**	**0.59**	Aaa	AA+	76,900	3.92
			12,523	**0.66**			170,184	8.68
			$ 1,890,464	**100.00%**			$ 1,959,590	100.00%

Concentration of Credit Risk

West Virginia statutes prohibit the West Virginia Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2015 and 2014, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

At June 30, 2015 and 2014, the West Virginia Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All pools and accounts are subject to interest rate risk.

The overall weighted-average maturity (WAM) of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides the WAM for the various asset types in the West Virginia Money Market Pool:

	June 30, 2015		June 30, 2014	
Investment Type	**Fair Value**	**WAM Days**	**Fair Value**	**WAM Days**
Repurchase agreements	**$ 12,523**	**1**	$ 170,184	1
U.S. Treasury notes	**229,760**	**75**	185,065	47
U.S. Treasury bills	**92,059**	**123**	104,995	44
Commercial paper	**846,764**	**30**	1,007,058	33
Certificates of deposit	**203,005**	**51**	182,000	51
U.S. agency discount notes	**304,342**	**60**	207,484	38
Corporate bonds and notes	**30,000**	**75**	20,000	17
U.S. agency bonds/notes	**81,994**	**58**	82,765	74
Money market funds	**90,017**	**1**	39	1
Total rated investments	**$ 1,890,464**	**47**	$ 1,959,590	36

BRIM's amount invested in the West Virginia Money Market Pool of $16,147 is included in cash and cash equivalents at June 30, 2015, and $11,286 at June 30, 2014, represents approximately 1% of total investments in this pool.

3. Deposit and Investment Risk Disclosures (continued)

Foreign Currency Risk

None of the West Virginia Money Market Pool holds interest in foreign currency or interests valued in foreign currency.

Investments

Board of Risk and Insurance Management Fund

This fund was specifically designed for BRIM by WVIMB based on BRIM's unique cash flow needs. BRIM is the only State agency participating in this fund and owns 100% of the total assets in the fund. The fund invests, along with other agencies, in the following WVIMB investment pools: Domestic Large Cap Equity Pool, Domestic Non-Large Cap Equity Pool, International Equity Pool, International Nonqualified Equity Pool, Short-Term Fixed Income Pool, Total Return Fixed Income Pool, Core Fixed Income Pool, Hedge Fund, and the Treasury Inflation Protection Securities (TIPS).

Investment Objectives

This fund's investment objective is to achieve a total rate of return of at least 4.9% per annum, net of fees.

Asset Allocation

Based upon the WVIMB's determination of the appropriate risk tolerance for the fund, the WVIMB has adopted the following broad asset allocation guidelines for the assets managed for the Board of Risk and Insurance Management Fund. (Policy targets have been established on a market value basis.)

Asset Class	Policy Target
Domestic equity	15%
International equity	15
Fixed income	70
Combined total	100%

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Asset Value

Investments at cost, and as reported at fair value (actual asset allocation), are summarized as follows at June 30:

	2015		2014	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Large cap domestic	**$ 15,532**	**$ 16,733**	$ 14,351	$ 16,904
Non-large cap domestic	**3,757**	**3,963**	4,583	5,566
International equity	**15,646**	**14,540**	14,093	16,614
International nonqualified	**5,303**	**5,317**	4,101	5,303
Total return fixed income	**35,090**	**34,012**	34,557	36,014
Core fixed income	**14,725**	**14,631**	15,483	15,649
Hedge fund	**26,201**	**27,815**	27,046	29,331
TIPS (Treasury Inflation Protection Securities)	**13,788**	**13,686**	14,158	14,783
Short-term fixed income	**6,981**	**6,981**	7,214	7,214
Total investments	**$ 137,023**	**$ 137,678**	$ 135,586	$ 147,378

Investment income is comprised of the following for the years ended June 30:

	2015	2014
Investment income:		
Interest income including realized gains/losses on sale of securities	**$ 1,658**	$ 1,726
Unrealized gain on investments	**3,175**	15,317
Total investment income	**$ 4,833**	$ 17,043

WVIMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as unrealized gain on investment in the prior year.

3. Deposit and Investment Risk Disclosures (continued)

Asset Class Risk Disclosures

Domestic Large Cap Equity Pool

This pool holds equity securities of U.S. companies, exchange-traded stock index futures, and money market funds with the highest credit rating. At June 30, 2015 and 2014, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the large cap domestic pool of $16,733 and $16,904 at June 30, 2015 and 2014, respectively, represents approximately 0.5% of total investments in this pool.

Domestic Non-Large Cap Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2015 and 2014, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the non-large cap domestic pool of $3,963 and $5,566 at June 30, 2015 and 2014, respectively, represents approximately 0.5% of total investments in this pool.

International Equity Pool

This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies are as follows:

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

	June 30, 2015			June 30, 2014		
Currency	**Equity Securities**	**Cash**	**Total**	**Equity Securities**	**Cash**	**Total**
Australian dollar	**$ 71,411**	**$ 21**	**$ 71,432**	$ 90,022	$ 674	$ 90,696
Brazil cruzeiros real	**113,460**	**829**	**114,289**	95,376	1,232	96,608
British pound	**272,285**	**1,049**	**273,334**	280,040	379	280,419
Canadian dollar	**130,182**	**62**	**130,244**	115,598	423	116,021
Czech koruna	**11,113**	–	**11,113**	14,240	1	14,241
Danish krone	**24,755**	**1**	**24,756**	11,957	–	11,957
Egyptian pound	**3,762**	**–**	**3,762**	–	–	–
Emirati dirham	**3,773**	**–**	**3,773**	3,497	–	3,497
Euro	**410,970**	**(51)**	**410,919**	435,175	924	436,099
Hong Kong dollar	**267,032**	**979**	**268,011**	235,280	658	235,938
Hungarian forint	**9,379**	**106**	**9,485**	14,797	1	14,798
Indian rupee	**49,212**	**1,019**	**50,231**	89,933	1,126	91,059
Indonesian rupiah	**19,720**	**39**	**19,759**	12,473	92	12,565
Israeli shekel	**19,243**	**3**	**19,246**	12,876	103	12,979
Japanese yen	**401,766**	**2,410**	**404,176**	321,007	3,116	324,123
Malaysian ringgit	**12,366**	**252**	**12,618**	6,529	98	6,627
Mexican peso	**35,498**	**5**	**35,503**	32,670	–	32,670
New Taiwan dollar	**70,408**	**2,623**	**73,031**	47,308	1,960	49,268
New Zealand dollar	**1,056**	**57**	**1,113**	7,678	108	7,786
Norwegian krone	**26,742**	**34**	**26,776**	37,343	38	37,381
Pakistani rupee	**5,610**	**–**	**5,610**	5,669	–	5,669
Philippine peso	**8,810**	**–**	**8,810**	9,975	30	10,005
Polish zloty	**10,753**	**71**	**10,824**	10,717	9	10,726
Qatari riyal	**300**	**9**	**309**	2,789	–	2,789
Singapore dollar	**13,923**	**151**	**14,074**	20,246	1,220	21,466
South African rand	**48,901**	**551**	**49,452**	49,744	404	50,148
South Korean won	**174,570**	**1,238**	**175,808**	207,761	951	208,712
Swedish krona	**48,637**	**1**	**48,638**	41,954	245	42,199
Swiss franc	**97,333**	**14**	**97,347**	86,527	22	86,549
Thailand baht	**25,382**	**29**	**25,411**	22,984	4	22,988
Turkish lira	**45,967**	**–**	**45,967**	61,288	101	61,389
Total	**$ 2,434,319**	**$ 11,502**	**$ 2,445,821**	$ 2,383,453	$ 13,919	$ 2,397,372

This table excludes securities held by the pool that are denominated in U.S. dollars. The market value of these U.S. dollar denominated securities is $527,419 and $462,603 at June 30, 2015 and 2014, respectively. BRIM's amount invested in the international equity pool of $14,540 and $16,614 at June 30, 2015 and 2014, respectively, represents approximately 0.6% of total investments in this pool.

<u>International Nonqualified Equity Pool</u>

This pool holds a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2015 and 2014, was $153,554 and $153,093, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

currency risk through the underlying investments. BRIM's amount invested in the international nonqualified equity pool of $5,317 and $5,303 at June 30, 2015 and 2014, respectively, represents approximately 3.5% of total investments in this pool.

Total Return Fixed Income Pool

Credit Risk

WVIMB limits the exposure to credit risk in the Total Return Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the asset types in the fixed income pool:

	June 30, 2015				June 30, 2014			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
Corporate bonds	**Baa**	**BBB**	**$ 578,292**	**24.2%**	Baa2	BBB	$ 571,567	24.8%
U.S. Treasury issues	**Aaa**	**AA**	**113,459**	**4.7**	Aaa	AA	183,531	7.9
Corporate asset-backed issues	**A**	**AA**	**116,267**	**4.8**	Baa2	A-	73,955	3.2
Corporate CMO	**B**	**B**	**101,927**	**4.2**	Caa1	B	63,110	2.7
Corporate CMO interest only	**C**	**NR**	**7,706**	**0.3**	C1	NR	7,955	0.4
Corporate preferred security	**Ba**	**BB**	**10,430**	**0.4**	Ba1	BB	10,512	0.5
U.S. Government Agency MBS	**Aaa**	**AA**	**298,744**	**12.4**	Aaa	AA	290,820	12.6
U.S. Treasury TIPS	**Aaa**	**AA**	**20,616**	**0.9**	Aaa	AA	14,276	0.6
U.S. Government CMO Agency	**Aaa**	**AA**	**80,795**	**3.4**	Aaa	AA	89,517	3.9
U.S. Government CMO interest only	**Aaa**	**AA**	**3,819**	**0.2**	Aaa	AA	11,490	0.5
Municipal bonds	**A**	**A**	**51,734**	**2.2**	A1	A	53,510	2.3
Short-term issue	**Aaa**	**AAA**	**102,153**	**4.3**	Aaa	AAA	37,727	1.7
Time deposits	**P-1**	**A-1**	**7,174**	**0.3**	–	–	–	–
U.S. Government Agency discount note	**Aaa**	**AA**	**2,579**	**0.1**	Aaa	AA	2,469	0.1
U.S. Government Agency TBAs	**Aaa**	**AA**	**884**	**–**	Aaa	AA	888	–
Foreign government bond	**Baa**	**BBB**	**212,335**	**8.8**	Baa2	BBB	192,350	8.3
Foreign asset-backed issues	**A**	**A**	**20,876**	**0.9**	A2	A	17,691	0.8
Foreign corporate bonds	**Baa**	**BB**	**286,053**	**11.9**	Baa3	BBB	245,728	10.6
Total rated investments			**2,015,843**	**84.0**			$ 1,867,096	80.9%
Common stock			**7,266**	**0.3**				
Corporate CMO residuals			**21,983**	**0.9**				
Investments in other funds			**356,277**	**14.8**				
Option contracts purchased			**1,114**	**–**				
Total investments			**$ 2,402,483**	**100.0%**				

3. Deposit and Investment Risk Disclosures (continued)

At June 30, 2014, unrated securities include commingled investment pools of $418,593, investments made with cash collateral for securities loaned valued at $23,881, and option contract purchased valued at $341. These unrated securities represent 19.2% of the fair value of the pool's investments.

Concentration of Credit Risk

West Virginia statutes prohibit the Total Return Fixed Income Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2015 and 2014, the fixed income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2015 and 2014, the Total Return Fixed Income Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the WVIMB. Investments in commingled funds are held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's collateral reinvestment fund.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the fixed income pools:

	June 30, 2015		June 30, 2014	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Investments in other funds	**$ 356,277**	**3.2**	$ 418,593	4.2
Corporate bonds	**578,249**	**6.6**	571,567	6.3
U.S. Treasury bonds	**111,398**	**4.2**	183,531	10.5
U.S. Treasury TIPS	**20,616**	**14.0**	14,276	17.5
U.S. Government Agency TBAs	**884**	**2.1**	888	2.2
Corporate asset-backed issues	**115,952**	**2.2**	73,955	1.4
Corporate CMO	**101,802**	**1.8**	63,110	1.5
Corporate CMO interest only	**7,706**	**18.8**	7,955	25.7
Corporate preferred security	**10,428**	**0.3**	–	–
U.S. Government Agency MBS	**292,921**	**2.6**	290,820	2.2
U.S. Government Agency discount notes	**2,566**	**4.3**	2,469	5.3
U.S. Government Agency CMO	**80,795**	**2.1**	89,517	2.4
U.S. Government Agency CMO interest only	**3,816**	**2.2**	11,490	(1.3)
Repurchase agreements	**14,948**	**–**	–	–
Municipal bonds	**51,734**	**8.4**	53,510	9.0
Investments made with cash collateral for securities loaned	**–**	**–**	23,881	–
Short-term issues	**102,153**	**–**	37,727	–
Time deposits	**7,173**	**–**	–	–
Foreign asset-backed issues	**20,849**	**1.6**	17,691	0.7
Foreign corporate bonds	**285,960**	**6.0**	245,728	6.0
Foreign government bond	**212,324**	**6.3**	192,350	6.5
Total assets	**$ 2,378,551**	**4.5**	$ 2,299,058	5.2

The Total Return Fixed Income Pool invests in commercial and residential mortgage-backed, asset-backed securities and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with

3. Deposit and Investment Risk Disclosures (continued)

changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2015 and 2014, the Total Return Fixed Income Pool held $623,846 and $462,892, respectively, of these securities. This represents approximately 26% and 20%, respectively, of the value of the fixed income pools.

BRIM's amount invested in the Total Return Fixed Income Pool of $34,118 and $36,014 at June 30, 2015 and 2014, respectively, represents approximately 1.4% and 1.6%, respectively, of total investments in this pool for both years.

Foreign Currency Risk

The pool has foreign government bonds and foreign corporate bonds that are denominated in foreign currencies that are exposed to foreign currency risks. The pool also has foreign-denominated futures contracts and foreign exchange forward contracts. Additionally, the pool has indirect exposure to foreign currency risk through its ownership interest in certain of the commingled investment pools. Approximately $124,768, or 35%, at June 30, 2015, and $186,841, or 45%, at June 30, 2014, of the commingled investment pools hold substantially all of their investments in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2015 and 2014, the WVIMB was in compliance with this limitation.

Core Fixed Income Pool

WVIMB limits the exposure to credit risk in the Core Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the asset types in the Core Fixed Income Pool:

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

	June 30, 2015				June 30, 2014			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
U.S. corporate bonds	**A**	**A**	**$ 222,329**	**20.4%**	A3	A	$ 203,346	19.1%
U.S. Treasury bonds	**Aaa**	**AA**	**204,400**	**18.7**	Aaa	AA	165,535	15.6
Corporate asset-backed issues	**A**	**A**	**76,880**	**7.0**	A2	AA	42,858	4.0
Corporate CMO	**A**	**A**	**87,661**	**8.0**	A2	AA	108,098	10.2
Corporate CMO principal only	**B**	**AA**	**278**	**–**	Ba2	AA	389	–
Corporate CMO interest only	**Ba**	**AAA**	**1,198**	**0.1**	Ba3	AAA	1,607	0.2
Foreign asset-backed issues	**Aa**	**AA**	**2,813**	**0.3**	Aa1	AA	3,394	0.3
Foreign government bonds	**Aa**	**A**	**7,814**	**0.7**	Aa2	AA	10,356	1.0
Foreign corporate bonds	**A**	**A**	**46,435**	**4.3**	A2	A	41,750	3.9
U.S. Government Agency MBS	**Aaa**	**AA**	**194,546**	**17.8**	Aaa	AA	200,083	18.8
U.S. Government Agency CMO	**Aaa**	**AA**	**144,364**	**13.2**	Aaa	AA	164,375	15.4
U.S. Government Agency CMO principal only	**Aaa**	**AA**	**10,501**	**1.0**	Aaa	AA	12,688	1.2
U.S. Government Agency CMO interest only	**Aaa**	**AA**	**6,921**	**0.6**	Aaa	AA	8,997	0.8
U.S. Government Agency bonds	**Aaa**	**AA**	**21,742**	**2.0**	Aaa	AA	24,449	2.3
Municipal bonds	**Aa**	**AA**	**8,646**	**0.8**	Aa2	AA	8,378	0.8
Preferred stock	**A**	**A**	**2**	**–**	–	–	–	–
Short-term issue	**Aaa**	**AAA**	**41,293**	**3.8**	Aaa	AAA	33,771	3.2
Time deposits	**P-1**	**A-1**	**7,044**	**0.6**			–	–
U.S. Treasury inflation protected security	**Aaa**	**AA**	**415**	**–**				
Total rated investments			**1,084,867**	**99.3**			1,030,074	96.8
Common stock			**7,134**	**0.7**			–	–
Total investments			**$ 1,092,001**	**100.0%**			$ 1,030,074	96.8%

This table includes investments received as collateral for repurchase agreements with a fair value of $15,496 as compared to the amortized cost of the repurchase agreements of $14,676.

Unrated securities include investments made with cash collateral for securities loaned valued at $34,417, or 3.2%, of the fair value of the pool's investments at June 30, 2014.

Concentration of Credit Risk

West Virginia statutes prohibit the Total Return Fixed Income Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2015

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

and 2014, the Core Fixed Income Pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2015 and 2014, the Core Fixed Income Pool held no securities that were subject to custodial credit risk. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

Interest Rate Risk

WVIMB monitors interest rate risk of the Core Fixed Income Pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the core fixed income pools:

	June 30, 2015		June 30, 2014	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Corporate bonds	**$ 222,273**	**6.1**	$ 203,346	6.3
U.S. Treasury issues	**202,383**	**7.2**	165,535	7.6
Corporate asset-backed issues	**76,574**	**2.0**	42,858	1.3
Corporate CMO	**87,539**	**2.0**	108,098	2.1
Corporate CMO principal only	**278**	**3.2**	389	2.8
Corporate CMO interest only	**1,198**	**(8.5)**	1,607	(4.0)
Foreign asset-backed issues	**2,786**	**0.1**	3,394	–
Foreign government bonds	**7,800**	**8.7**	10,356	6.6
Foreign corporate bonds	**46,346**	**5.7**	41,750	6.3
U.S. Government Agency MBS	**188,831**	**4.8**	200,083	4.8
U.S. Government Agency bonds	**21,730**	**4.7**	24,449	5.2
U.S. Government Agency CMO	**144,364**	**3.7**	164,375	3.5
U.S. Government Agency CMO principal only	**10,501**	**7.4**	12,688	6.8
U.S. Government Agency CMO interest only	**6,919**	**7.6**	8,997	1.8
Municipal bonds	**8,646**	**13.9**	8,378	14.6
Repurchase agreements	**14,676**	**–**	–	–
Time deposits	**7,044**	**–**	–	–
U.S. Treasury inflation protected security	**415**	**5.4**	–	–
Investments made with cash collateral for securities loaned	**–**	**–**	34,417	–
Short-term issue	**41,293**	**–**	33,771	–
Total assets	**$ 1,091,596**	**4.8**	$ 1,064,491	4.9

3. Deposit and Investment Risk Disclosures (continued)

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2015 and 2014, the Core Fixed Income Pool held $518,979 and $542,489, respectively, of these securities. This represents approximately 48% and 51%, respectively, of the value of the fixed income pool.

BRIM's amount invested in the Core Fixed Income Pool of $14,671 and $15,649 at June 30, 2015 and 2014, respectively, represents approximately 1.3% and 1.5%, respectively, of total investments in this pool.

Foreign Currency Risk

None of the securities held by the Core Fixed Income Pool are exposed to foreign currency risk.

Hedge Fund

The Hedge Fund holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies, and thus, any credit risk cannot be accurately reported. The pool is not exposed to interest rate risk, custodial credit risk, or concentration of credit risk. The pool is indirectly exposed to foreign currency risk, as certain of the funds have investments denominated in foreign currencies. At June 30, 2014, the funds were indirectly exposed to foreign currency risk. The dollar amount of the funds invested in foreign currencies was not disclosed by the WVIMB in its financial statement footnotes for this fund. BRIM's amount invested in the Hedge Fund of $27,815 and $29,331 at June 30, 2015 and 2014, respectively, represents approximately 1.7% and 1.9%, respectively, of total investments in this pool.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Treasury Inflation Protection Securities (TIPS)

The TIPS pool invests in U.S. Treasury inflation-protected securities, and its objective is to match the performance of the Barclays Capital U.S. TIPS bond index on an annualized basis.

Credit Risk

WVIMB limits the exposure to credit risk in the TIPS pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the asset types in the TIPS pool:

	June 30, 2015				June 30, 2014			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
U.S. Treasury inflation-protected securities	**Aaa**	**AA**	**$ 427,774**	**99.9%**	Aaa	AA	$ 601,027	100.0%
Short-term issue	**Aaa**	**AAA**	**228**	**0.1**	Aaa	AAA	244	–
Total rated investments			**$ 428,002**	**100.0%**			$ 601,271	100.0%

Concentration of Credit Risk

West Virginia statutes prohibit the TIPS pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2015 and 2014, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2015 and 2014, the TIPS pool held no securities that were subjected to custodial credit risk. All securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's collateral reinvestment fund.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

WVIMB monitors interest rate risk of the TIPS pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the TIPS pool:

	June 30, 2015		June 30, 2014	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
U.S. Treasury inflation-protected securities	**$ 427,774**	**7.9**	$ 601,027	7.8
Short-term issue	**228**	**–**	244	–
Total assets	**$ 428,002**	**7.9**	$ 601,271	7.8

BRIM's amount invested in the TIPS pool of $13,543 and $14,783 at June 30, 2015 and 2014, respectively, represents approximately 3.2% and 2.4%, respectively, of total investments in this pool.

Foreign Currency Risk

None of the securities held by the TIPS pool are exposed to foreign currency risk.

Advanced Deposits

Insurance Company and Trustee

BRIM deposits monies with BNY, as trustee, to hold as advance deposits in an escrow account for BRIM liability claims. The monies held in escrow are invested in specific money market funds and short-term guaranteed or investment-grade fixed income securities that are identified as "qualified assets" in the escrow agreement.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

The following table provides information on the weighted-average credit ratings of the cash liquidity pool's investments:

	June 30, 2015				June 30, 2014			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
Corporate bonds and notes	**Aaa**	**AAA**	**$ 1,982**	**0.97%**	Aaa	AAA	$ –	– %
	Aa1	**AA+**	**1,028**	**0.50**	Aa1	AA+	1,218	0.59
	Aa1	**AA**	**784**	**0.39**	Aa1	AA	–	–
	Aa1	**AA-**	**2,088**	**1.02**	Aa1	AA-	2,381	1.15
	Aa2	**AA**	**–**	**–**	Aa2	AA	1,152	0.56
	Aa2	**AA-**	**2,106**	**1.03**	Aa2	AA-	2,424	1.17
	Aa3	**AA-**	**2,096**	**1.03**	Aa3	AA-	1,139	0.55
			10,084	**4.94**			8,314	4.02
Collateralized mortgage obligations	**Aaa**	**AA+**	**–**	**–**	Aaa	AA+	13,776	6.66
			–	**–**			13,776	6.66
U.S. Treasury bonds and notes	**Aaa**	**NR**	**167,196**	**81.87**	Aaa	AA+	177,871	86.03
U.S. Agency bonds	**Aaa**	**AA+**	**15,587**	**7.63**	Aaa	AA+	6,456	3.12
Agency-backed securities	**NR**	**NR**	**10,878**	**5.33**	Aaa	AA+	–	–
Money market funds	**Aaa**	**AAA**	**474**	**0.23**	Aaa	AAA	357	0.17
Total rated investments			**$ 204,219**	**100.00%**			$ 206,774	100.00%

Concentration of Credit Risk

As per the Investment Guidelines, at the time of purchase, no more than 4.9% of its advance deposit assets can be held in securities issued by a single private corporation or association.

Custodial Credit Risk

At June 30, 2015 and 2014, advanced deposits include no securities that were subject to custodial credit risk.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The following table provides the WAM for the various asset types in the advanced deposits:

	June 30, 2015		June 30, 2014	
Investment Type	**Fair Value**	**WAM Years**	**Fair Value**	**WAM Years**
Corporate bonds and notes	**$ 10,084**	**5.0**	$ 8,314	3.2
U.S. Treasury bonds	**167,196**	**3.7**	177,871	3.1
U.S. agency bonds	**15,587**	**4.3**	6,456	5.3
Collateralized mortgage obligations	**–**	**–**	13,776	3.8
Agency-backed securities	**10,878**	**4.3**	–	–
Money market funds	**474**	**–**	357	–
Total rated investments	**$ 204,219**	**3.6**	$ 206,774	3.2

Foreign Currency Risk

None of the advanced deposits include interest holds in foreign currency or interests valued in foreign currency.

(Dollars in Thousands)

4. Unpaid Claims and Claims Adjustment Expense Liability

BRIM establishes an estimated liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in the estimated liability for the fiscal and policy years ended June 30:

	2015	2014
Unpaid claims and claims adjustment expense liability at beginning of year	**$ 153,204**	$ 143,568
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	**62,342**	58,389
Increase in provision for insured events of prior years	**5,803**	3,237
Total incurred claims and claims adjustment expense	**68,145**	61,626
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	**(11,146)**	(10,560)
Claims and claims adjustment expense attributable to insured events of prior years	**(49,243)**	(41,430)
Total payments	**(60,389)**	(51,990)
Total unpaid claims and claims adjustment expense liability at end of year	**$ 160,960**	$ 153,204

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2015 and 2014 to take into consideration the time value of money, the result would be a decrease in the liability and an increase in net position of approximately $14,209 and $13,692 for fiscal years 2015 and 2014, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

5. Employee Benefit Plans

Pension Benefits

All full-time BRIM employees are eligible to participate in PERS, a cost-sharing, multiple-employer public employee retirement system. Employees who retire at or after age 60 with 5 or more years of contributory service or who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to 2% of the employee's final average salary of the past three years, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, and death and disability benefits, and issues an annual report that can be obtained by contacting PERS.

Covered employees are required to contribute 4.5% of their salary to PERS. Beginning July 1, 2015, the employee contribution rate for new hires increases to 6%. BRIM is required to contribute 14.0% of covered employees' salaries to PERS for 2015, 14.5% for 2014, and 14.5% for 2013. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. As noted below, BRIM contributed the proper, required amounts.

Contributions

Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Current funding policy requires contributions consisting of member contributions of 4.5% of covered payroll and employer contributions of 14.0%, 14.5%, and 14.0% for the years ended June 30, 2015, 2014, and 2013, respectively.

During the years ended 2015, 2014, and 2013, BRIM's contributions to PERS required and made were approximately $127, $133, and $129, respectively.

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, BRIM reported a liability of $254 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to the measurement date of June 30, 2014. BRIM's proportion of the net pension liability was based on BRIM's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2014. At June 30, 2014, the BRIM's proportion was 0.024%, which was a decrease of 0.045% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, BRIM recognized pension expense of $28. At June 30, 2015, BRIM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ –	$ 269
Changes in proportion and differences between BRIM's contributions and proportionate share of contributions	–	1
BRIM's contributions made subsequent to the measurement date of June 30, 2014	127	–
Total	$ 127	$ 270

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

$127 reported as deferred outflows of resources related to pensions resulting from BRIM's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:		
2016	$	68
2017		68
2018		68
2019		67

Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.20%
Salary increases	4.25%–6.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense

Mortality rates were based on the 1983 GAM for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	15.0%	2.9%–4.8%
Domestic equity	27.5	7.6%
International equity	27.5	8.5%
Real estate	10.0	6.8%
Private equity	10.0	9.9%
Hedge funds	10.0	5.0%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

Sensitivity of BRIM's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents BRIM's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what BRIM's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
BRIM's proportionate share of net pension liability	$ 716	$ 253	$ (141)

Pro forma effects of retroactive application of GASB 68 cannot be reasonably estimated for individual prior periods due to the presentation of the amounts in prior year financial statements of PERS. Within the financial statements, BRIM is included with other agencies that are administered under the Department of Administration and, therefore, no separate amounts are disclosed allowing the calculation of the effect of GASB 68 for prior periods.

The Consolidated Public Retirement Board (CPRB) administers PERS under the direction of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and ten members appointed by the Governor. CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from the Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304.

5. Employee Benefit Plans (continued)

Other Postemployment Benefits (OPEB)

BRIM participates in a cost-sharing, multiemployer, defined benefit other postemployment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the OPEB plan are accounted for in the RHBT. The plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit plan and through external managed care organizations, basic group life, accidental death, and prescription drug coverage for retired employees of the State, and various related State and non-State agencies, and their dependents. Details regarding this plan and a copy of the RHBT financial report can be obtained by contacting Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia 25304 or by calling (888) 680-7342.

Upon retirement, an employee may apply unused sick leave and/or annual leave to reduce his or her future insurance premiums paid to the RHBT. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for BRIM. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later may not convert sick leave into a health care benefit. The conversion of sick leave into OPEB health care benefits is now required to be accounted for as part of the OPEB obligation.

Legislation requires the RHBT to determine, through an actuarial study, the Annual Required Contribution (ARC), which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC is allocated to respective cost-sharing employers, including BRIM, who are required by law to fund at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB health care claims and administrative expenses with residual funds held in trust for future OPEB costs. BRIM records expense for its allocated ARC and a liability for the ARC that has not been paid. BRIM’s OPEB expense for fiscal years 2015 and 2014 was approximately $40 and $63, respectively, of which approximately $407 and $388 remained unpaid as of June 30, 2015 and 2014, respectively, and is recorded in accrued expenses and other liabilities on the statements of net position. For fiscal years 2015 and 2014, BRIM’s OPEB contribution was approximately $40 and $54, respectively,

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

of the total required contribution of $40 and $63, respectively, for both years. The actual contribution represents 74% and 85% of the total required contribution for 2015 and 2014, respectively. BRIM's policy is to fund at least the minimum annual premium component of the ARC. There are currently 26 employees eligible to receive such benefits.

6. Lease Arrangement

In December 2011, the State renewed the lease arrangement on behalf of BRIM for office space occupied by BRIM with a monthly lease payment of $12 and a term beginning on January 1, 2012, and ending on December 31, 2016.

Operating lease expense approximated $139 and $135 for the years ended June 30, 2015 and 2014, respectively, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are as follows for years ending June 30:

2016	$139
2017	70

7. Transactions With Primary Government and Component Units

Premium revenues derived from billings to State entities, which are funded by special revenue funds and component units of the primary government, approximated $32,119 and $27,226 for the years ended June 30, 2015 and 2014, respectively.

BRIM is required by Senate Bill 1002 to remit amounts equal to the gross premium tax attributable to premiums collected by BRIM. These amounts are to be placed in a separate account known as "the Premium Tax Savings Fund" (the Fund) maintained by the State Treasurer. Amounts deposited by BRIM into the Fund approximated $2,198 and $1,812 for the years ended June 30, 2015 and 2014, respectively. The Fund is not included in BRIM's financial statements, but is included in the general fund of the State.

In 2014, a transfer of $2,000 to the Patient Injury Compensation Fund as authorized by House Bill 4261 was made.

8. Reinsurance (Amounts referenced in this note related to insurance coverages are actual dollars)

BRIM has entered into two reinsurance agreements for excess coverage with unrelated insurance companies wherein the company assumes the liability over BRIM's limit for a ceded premium. BRIM obtains an excess policy from the commercial market, which gives boards of education a liability limit of up to $5 million in excess of BRIM's $1 million self-insured limit. BRIM also purchases an excess policy on all State and SB3 insured property over and above BRIM's $1 million self-insured limit. These reinsurance agreements have been accounted for as a transfer of risk in the accompanying financial statements. However, BRIM is not relieved of its primary obligation to the insureds in the reinsurance transaction. BRIM had one reinsurance recovery for the fiscal year ended June 30, 2015, of $1,200 and $1,000 for the fiscal year ended June 30, 2014.

9. Risk Management *(Amounts referenced in this note related to insurance coverages are actual dollars)*

BRIM is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; medical liabilities; and natural disasters.

BRIM is a participant in the self-insured public entity risk pool it administers. Coverage is in the amount of $1 million per occurrence for general liability and property damage. Health insurance coverage for BRIM's employees is obtained through its participation in health insurance coverage offered by the West Virginia Public Employees Insurance Agency (PEIA). PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State and various related State and non-State agencies. BRIM has coverage for job-related injuries through a State-wide workers' compensation policy with a third-party insurer.

There have been no significant reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

Required Supplementary Information

West Virginia Board of Risk and Insurance Management

Ten-Year Claims Development Information (Unaudited)

The table below illustrates how BRIM's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by BRIM as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's premium revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of BRIM including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows BRIM's incurred claims and claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each year. (6) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	Fiscal and Policy Year Ended June 30									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	(In Thousands)									
1) Premiums and investment revenues										
Earned	$ 89,690	$ 98,270	$ 83,499	$ 69,739	$ 83,088	$ 71,320	$ 64,361	$ 54,969	$ 69,172	**$ 63,037**
Ceded	4,145	6,151	6,394	5,944	6,257	6,075	5,386	5,825	6,102	**6,197**
Net earned	85,545	92,119	77,105	63,795	76,831	65,245	58,975	49,144	63,070	**56,840**
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	8,894	8,536	8,045	7,840	8,043	7,867	7,562	7,240	7,888	**7,653**
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	58,491	59,678	59,246	56,194	51,388	53,728	60,176	57,276	58,389	**62,342**
Ceded	172	3,597	2,000	300	–	–	2,312	–	–	–
Net incurred	58,319	56,081	57,246	55,894	51,388	53,728	57,864	57,276	58,389	**62,342**
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	10,097	12,416	8,352	9,753	9,965	10,757	10,156	10,870	10,560	**11,146**
One year later	17,547	16,942	18,097	19,069	17,009	18,034	20,830	18,936	19,965	
Two years later	23,291	24,345	26,240	25,457	25,606	26,398	30,577	30,649		
Three years later	31,901	30,733	33,488	32,126	32,612	34,305	43,021			
Four years later	37,202	35,469	38,077	36,501	38,174	39,497				
Five years later	39,306	37,636	39,518	39,349	39,821					
Six years later	40,739	40,076	41,403	42,577						
Seven years later	40,886	41,334	43,674							
Eight years later	42,730	42,030								
Nine years later	43,245									
5) Reestimated ceded claims and expenses	172	3,597	2,000	300	–	–	2,312	–	–	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of policy year	58,319	56,081	57,246	55,894	51,388	53,728	57,864	57,276	58,389	**62,342**
One year later	51,183	53,924	57,108	48,432	46,571	52,844	58,812	56,883	57,772	
Two years later	47,726	48,330	51,881	46,176	47,102	50,289	61,106	63,767		
Three years later	45,490	44,898	46,708	45,328	46,116	48,480	62,460			
Four years later	44,898	43,179	45,459	44,112	44,171	47,980				
Five years later	43,237	42,181	44,323	46,551	43,567					
Six years later	42,839	42,862	44,349	45,424						
Seven years later	43,061	43,340	45,098							
Eight years later	43,548	42,566								
Nine years later	43,605									
7) (Decrease) increase in estimated net incurred claims and allocated claims adjustment expense from end of policy year	(14,714)	(13,515)	(12,148)	(10,470)	(7,821)	(5,748)	4,596	6,491	(617)	–

Note: The above financial data is summarized for individual contract periods. Subsequent premium and related expense adjustments and reserve developments are recorded in the year incurred for fiscal year financial reporting, but are included in the applicable contract year for purposes of the above schedule. Accordingly, components of the change in net assets as determined on a contract-year basis will differ from those included in BRIM's fiscal year financial statements.

West Virginia Board of Risk and Insurance Management

Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (Unaudited)

The table below presents the changes in unpaid claims and claims adjustment expense liability for BRIM's lines of business:

	Fiscal and Policy Year Ended June 30									
	2015					**2014**				
	Liability	**Property**	**Mine Subsidence**	**House Bill 601**	**Total**	**Liability**	**Property**	**Mine Subsidence**	**House Bill 601**	**Total**
	(In Thousands)									
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	**$ 146,833**	**$ 5,510**	**$ 861**		**$ 153,204**	$ 137,984	$ 4,703	$ 881	$ –	$ 143,568
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	**55,686**	**5,960**	**696**		**62,342**	52,067	5,686	636	–	58,389
(Decrease) increase in provision for insured events of prior fiscal years	**8,020**	**(2,053)**	**(164)**		**5,803**	4,960	(1,422)	(301)	–	3,237
Total incurred claims and claims adjustment expense	**63,706**	**3,907**	**532**	**–**	**68,145**	57,027	4,264	335	–	61,626
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	**(9,404)**	**(1,664)**	**(78)**		**(11,146)**	(8,541)	(1,968)	(51)	–	(10,560)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	**(46,187)**	**(2,617)**	**(439)**		**(49,243)**	(39,637)	(1,489)	(304)	–	(41,430)
Total claims and claims adjustment expense payments	**(55,591)**	**(4,281)**	**(517)**	**–**	**(60,389)**	(48,178)	(3,457)	(355)	–	(51,990)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	**$ 154,948**	**$ 5,136**	**$ 876**	**$ –**	**$ 160,960**	$ 146,833	$ 5,510	$ 861	$ –	$ 153,204

Other Financial Information

West Virginia Board of Risk and Insurance Management

Combining Statement of Net Position

June 30, 2015
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 11,286	$ –	$ –	$ 11,286
Advance deposits with carrier/trustee	204,219	–	–	204,219
Receivables, net	1,934	–	–	1,934
Prepaid insurance:				
Restricted cash and cash equivalents	–	5,475	2,744	8,219
Restricted receivables, net	–	597	–	597
Total current assets	217,439	6,072	2,744	226,255
Noncurrent assets:				
Investments	89,199	–	–	89,199
Restricted investments	–	48,625	–	48,625
Total noncurrent assets	89,199	48,625	–	137,824
Total assets	306,638	54,697	2,744	364,079
Deferred outflows of resources	127	–	–	127
Liabilities				
Current liabilities:				
Estimated unpaid claims and claims adjustment expense	47,376	514	–	47,890
Unearned revenue	6,555	1,104	–	7,659
Agent commissions payable	1,032	–	–	1,032
Accrued expenses and other liabilities	1,371	18	–	1,389
Interprogram (receivables) payables	(15)	15	–	–
Total current liabilities	56,319	1,651	–	57,970
Noncurrent liabilities:				
Estimated claims and claims adjustment expense, noncurrent	112,708	362	–	113,070
Compensated absences	76	–	–	76
Total noncurrent liabilities	112,784	362	–	113,146
Total liabilities	169,103	2,013	–	171,116
Deferred inflows of resources	270	–	–	270
Net position				
Restricted	–	52,684	2,744	55,428
Unrestricted	137,392	–	–	137,392
Net position	$ 137,392	$ 52,684	$ 2,744	$ 192,820

West Virginia Board of Risk and Insurance Management

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2015
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Operating revenues				
Premiums	$ 55,897	$ 2,263	$ 44	$ 58,204
Less excess coverage/reinsurance premiums	(6,197)	–	–	(6,197)
Total operating revenues	49,700	2,263	44	52,007
Operating expenses				
Claims and claims adjustment expense	67,620	525	–	68,145
General and administrative expense	3,445	76	20	3,541
Total operating expenses	71,065	601	20	71,686
Operating (loss) income	(21,365)	1,662	24	(19,679)
Nonoperating revenues				
Investment income	3,936	893	4	4,833
Payment to transfer HB601 estimated future IBNR	–	–	(750)	(750)
Net nonoperating revenues	3,936	893	(746)	4,083
Changes in net position	$ (17,429)	$ 2,555	$ (722)	$ (15,596)

West Virginia Board of Risk and Insurance Management

Deposits Disclosure

Form 7

Year Ended June 30, 2015
(In Thousands)

	Fair Value	
Cash with Treasurer	$ 3,358	(1)

(1) Agrees to audited statement of cash flows as follows:

Cash with Treasurer	$ 3,358	(2)
Cash equivalents with BTI	16,147	(2)
	$ 19,505	(3)

(2) Agrees to Form 8-A.

(3) Agrees to audited statement of cash flows.

West Virginia Board of Risk and Insurance Management

Investments Disclosure

Form 8

Year Ended June 30, 2015
(In Thousands)

Investment Pool	Amount Unrestricted		Amount Restricted		Amount Reported		Fair Value
BTI and WVIMB Investment Pools:							
Cash liquidity	$ 8,439	(1)	$ 7,708	(1)	$ 16,147	(3)	$ 16,147
Long-term	89,199	(1)	48,625	(1)	137,824	(3)	137,824
Total investments	$ 97,638	(1)	$ 56,333	(1)	$ 153,971		$ 153,971

(1) Agrees to audited statement of net position as follows:				
Investments with BTI and WVIMB	$ 97,638		$ 56,333	
Less investments classified as cash equivalents	8,439		7,708	
Total investments	$ 89,199	(2)	$ 48,625	(2)

(2) Agrees to audited statement of net position.

(3) Agrees to Form 8-A.

West Virginia Board of Risk and Insurance Management

Deposits and Investments Disclosure

Form 8-A

Year Ended June 30, 2015
(In Thousands)

Reconciliation of cash and cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnotes:

Deposits:		
Cash and cash equivalents as reported:		
Noncurrent – restricted	$ 8,219	(1)
Unrestricted	11,286	(1)
Total cash and cash equivalents	19,505	
Less investments disclosed as cash equivalents	16,147	(2)(3)
Fair value of deposits as disclosed on Form 7	$ 3,358	(2)
Investments:		
Investments as reported:		
Noncurrent – restricted	$ 48,625	(1)
Noncurrent – unrestricted	89,199	(1)
Total investments	137,824	
Add investments disclosed as cash equivalents	–	
Fair value of investments as disclosed on Form 8	$ 137,824	(3)

(1) Agrees to audited statement of net position.

(2) Agrees to Form 7.

(3) Agrees to Form 8.

West Virginia Board of Risk and Insurance Management

Schedule of Receivables (Other Than State Agencies)

Form 9

Year Ended June 30, 2015

(In Thousands)

	Amount	
Accounts receivable (other than State agencies):		
Total accounts receivable as of June 30, 2015	$ 2,531	(1)
Less allowance for doubtful accounts	–	(2)
Net receivable	$ 2,531	

(1) Derived from the audited statement of net position as follows:

Receivables	$ 1,934	(2)
Restricted receivables	597	(2)
	$ 2,531	

(2) Agrees to the audited statement of net position.

West Virginia Board of Risk and Insurance Management

Schedule of Accounts Receivable From Other State Agencies

Form 10

June 30, 2015
(In Thousands)

Receivable From	**Amount**	
Accounts receivable from other State agencies	$ 21	(1)
(1) Premiums due from other State agencies	$ 21	
Premiums due from other entities	1,913	
Total receivables	$ 1,934	(2)

(2) Agrees to audited statement of net position.

West Virginia Board of Risk and Insurance Management

Schedule of Changes in Long-Term Obligations – Compensated Absences

Form 13

Year Ended June 30, 2015
(In Thousands)

Type of Debt	**Final Maturity Date**	**Balance as Reported June 30 2014**	**Payments**	**Other Changes**	**Balance June 30 2015**	
Compensated absences – annual leave	Varies	$ 76	$ –	$ –	$ 76	(1)

(1) Agrees to audited statement of net assets.

Building a better working world

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors and Management
West Virginia Board of Risk and Insurance Management

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Board of Risk and Insurance Management (BRIM), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered BRIM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BRIM's internal control. Accordingly, we do not express an opinion on the effectiveness of BRIM's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether BRIM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

December 7, 2015

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West Virginia Board of Risk and Insurance Management

2015 audit results

December 15, 2015

Building a better working world

Building a better working world

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The Board of Directors and Management
West Virginia Board of Risk and Insurance Management

December 15, 2015

Dear Members of the Board of Directors and Management,

We are pleased to present the results of our audit of the financial statements of West Virginia Board of Risk and Insurance Management (BRIM). Open and candid dialogue with you, as the Board of Directors and Management, is a critical step in the audit process, and in the overall corporate governance process and we appreciate this opportunity to share the insights from our audit with you.

Our audit was designed to express an opinion on the 2015 financial statements as of June 30, 2015. We received the full support and assistance of BRIM's personnel in conducting our audit.

At EY, we are committed to delivering the highest quality audit services, and we continually evaluate the quality of our professionals' work in order to meet or exceed your expectations. We encourage you to participate in our Assessment of Service Quality (ASQ) process to provide your input on our performance. The ASQ process is a critical tool that enables us to monitor and improve the quality of our audit services to BRIM.

This report is intended solely for the information and use of the Board of Directors and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to meeting with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Susan P. Wheeler
Partner

Table of contents

Executive summary

Status

- The 2015 audit is completed and we issued an unqualified opinion on the financial statements.

Scope

- Our audit scope is consistent with the plan communicated to Stephen Schumacher, CFO; we continually reassess the need for changes to our planned audit approach throughout the audit.

Results

- BRIM's analysis for significant accounting matters is appropriate.*
- Reasonable judgments and consistency have been used by management to account for significant accounting estimates.*
- No corrected misstatements or material uncorrected misstatements were identified.
- Outstanding cooperation and communication occurred between BRIM and EY.

EY critical insights

- Cybersecurity

Significant 2015 considerations*

- Significant accounting policies and estimates
- Accounting policies and areas of audit emphasis
- Industry analysis
- Industry trends

* These matters are addressed on the following pages within our presentation.

2015 audit results

Significant accounting policies and estimates

Provided below is a summary of BRIM's significant accounting policies and accounting estimates, which have been applied in accordance with US GAAP and consistent with industry practice:

Description of accounting policy/estimate	Our views on the quality and application of accounting policy and reasonableness of estimate (as applicable)
Investments, including valuation , and related interest income	
BRIM records investments at fair value in the Statement of Net Position. Changes in fair value recorded in interest income in the Statement of Revenues, Expenses, and Changes in Net Position. Also included in interest income is the realized gains/losses on sale of securities. BRIM invests in certain West Virginia Investment Management Board (WV IMB) and West Virginia Board of Treasury Investment (WV BTI) investment pools. Investments are reported by WVIMB at fair value and are accounted for by BRIM, accordingly. Income from these investments is prorated to BRIM at rates specified by WVIMB based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool. Investments are identified as restricted or unrestricted. Restricted investments are investments that are to be used for specific lines of business, mine subsidence and medical malpractice and general liability coverage provided to health care providers, based on restrictions provided for in the State code. BRIM concluded that all required disclosures for investments and interest income are appropriately included in the financial statements.	We believe that BRIM's investment and interest income accounting policy and the application thereof are appropriate. Additionally, we have reviewed the financial statements, including the disclosures relating to investments and interest income, and found them to be appropriate and in conformity with US GAAP.
Unpaid claims reserve and claims adjustment expense	
The unpaid claims reserve and claims adjustment expense represents an estimate of BRIM's obligation related to unpaid losses that have occurred prior to the Statement of Net Position date. The reserve is comprised of known reported losses/claims and an estimate of incurred losses/claims that have not been reported to BRIM. BRIM utilizes an external actuary, to establish the unpaid claims and claims adjustment expense liability based on estimates of the ultimate cost of claims, including future claims adjustment expenses. Estimates are based on industry statistical loss reserve information as well as BRIM historical data, including case-basis estimates of losses reported, actuarial projections of loss development of IBNR claims, and estimates of expenses for investigation and adjustment of all incurred and unadjusted losses. Management believes the estimate for unpaid claims and claims adjustment expense is a reasonable best estimate of BRIM's ultimate losses and loss adjustment expenses to be incurred to discharge BRIM's obligations. The Company concluded that all required disclosures for unpaid claims reserve and claims adjustment expense are appropriately included in the financial statements.	We believe that BRIM's unpaid claims reserve and claims adjustment expense accounting policy and the application thereof are appropriate. Based on the results of our audit procedures, we believe management's process and assumptions used in the unpaid claims reserve are reasonable. Additionally, we have reviewed the required unpaid claims reserve and claims adjustment expense disclosures and found them to be appropriate and in conformity with US GAAP.

2015 integrated audit results

Significant accounting policies and estimates

Description of accounting policy/estimate	Our views on the quality and application of accounting policy and reasonableness of estimate (as applicable)
Earned premium/premiums receivable/unearned premiums	
BRIM recognizes premiums in income as earned over the term of the policy. Premiums receivable are reported on the Statement of Net Position net of an allowance for uncollectible amounts. BRIM estimates its allowance for uncollectible amounts based on the length of time the amount has been past due.	We believe that BRIM's premium income and receivables accounting policy and the application thereof are appropriate. Additionally, we have reviewed the financial statements, including the disclosures relating to premium income and receivables, and found them to be appropriate and in conformity with US GAAP.
Advanced deposits with insurance company and trustee	
Advance deposits with the insurance company consist of monies on deposit that are utilized to fund claims and claims adjustment expenses as they are paid by the insurance company. BRIM deposits monies with the Bank of New York Mellon (BNYM), as trustee, to hold as advance deposits in an escrow account for the payment of BRIM liability claims. These monies are invested in specific money market funds and short-term guaranteed or investment-grade fixed income securities that are identified as "qualified assets" in the escrow agreement. These income securities are recorded at fair value. The funds held in escrow and the related earnings, are used to fund the payment of the claims and claims adjustment expenses. BNYM transfers monies from the escrow account to the insurance company administering these claims to reimburse the insurance company for payments that it has issued for claims and claims adjustment expenses on BRIM's behalf.	We believe that BRIM's advanced deposits accounting policy and the application thereof are appropriate. Additionally, we have reviewed the financial statements, including the disclosures relating to advanced deposits, and found them to be appropriate and in conformity with US GAAP.

2015 audit results

Accounting policies and areas of audit emphasis

Our audit procedures emphasize testing those processes, accounts, contracts or transactions where we believed there was the greatest potential for risk of material misstatement to the financial statements, whether due to error or fraud, including disclosure items. We considered the effects of current market risk factors on BRIM, and also placed emphasis on those areas requiring subjective determinations by management. Our audit procedures at BRIM included additional focus on the following areas:

Key issue/risk area	Summary of procedures and findings
Cash and cash equivalents	▸ We updated our understanding of the cash and cash equivalent process, including performing a walkthrough of the cash disbursements and cash receipts transactions. ▸ We performed substantive audit procedures, which included confirming bank balances, testing bank reconciliations, and performing cash cut-off procedures. ▸ Based on the procedures performed, we believe that the amounts and disclosures included within the financial statements are appropriate and in conformity with US GAAP, industry practice and prior year. ▸ We identified no differences greater than our summary of audit differences threshold.
Advance deposits with insurance company and trustee	▸ We updated our understanding of the advanced deposits process, including performing a walkthrough of the processes, which specifically addressed purchases and sales, and the recording of income gains and losses. ▸ We substantively tested advanced deposits as of year end. We confirmed balances with Bank of New York Mellon (BNYM) reviewed the BNYM SOC 1 reports, tested reconciliations, tested the progression of the accounts from prior year to the current year, performed price testing over a sample of the portfolio, and performed analytical procedures. ▸ Based on the procedures performed, we believe that the amounts and disclosures included within the financial statements are appropriate and in conformity with US GAAP, industry practice and prior year. ▸ We identified no differences greater than our summary of audit differences threshold.
Investments and related interest income	▸ We updated our understanding of management's processes related to investments. As BRIM invests in certain WV BTI and WV IMB investment pools, we obtained an understanding of BRIM's recording process for the investments held at WV BTI and WV IMB by performing a walkthrough of the investment processes, including purchases and sales of investments, and the recording of investment income gains and losses. ▸ We performed substantive audit procedures, which included confirming the balances of the WV BTI and WV IMB investments held by BRIM, re-computing the fair value of the investments using the confirmed interest in the fund and the audited net asset value per share, and progressing the investment accounts. ▸ Based on the procedures performed, we believe that the amounts and disclosures included within the financial statements are appropriate and in conformity with US GAAP, industry practice and prior year. ▸ We identified no differences greater than our summary of audit difference threshold.

2015 audit results

Accounting policies and areas of audit emphasis

Key issue/risk area	Summary of procedures and findings
Unpaid claims and claims adjustment expense	‣ We updated our understanding of management's process related to unpaid claims and claims adjustment expense process including performing a walkthrough of the claims processed in-house and by AIG (BRIM's external claims processor), and a walkthrough of the unpaid claims reserve processes. ‣ We performed substantive audit procedures over the unpaid claims reserve, which included engaging our internal actuaries to review the assumptions and amounts determined by management's actuary in determining the appropriate the unpaid claim reserve liability. We tested the inputs used to determine the liability and completed reconciliations over the information, noting no exceptions. ‣ We performed substantive audit procedures over the recorded claims adjustment expense, which included testing a sample of claims processed during the year, both in-house and externally at AIG. ‣ Based on the procedures performed, we believe that the amounts and disclosures included within the financial statements are appropriate and in conformity with US GAAP, industry practice and prior year. ‣ We identified no differences greater than our summary of audit difference threshold.
Receivables, premium income and unearned premiums	‣ We updated our understanding of the premium revenue and receivables process including performing a walkthrough. ‣ We performed substantive audit procedures, which included testing the receivable and unearned premiums, testing the premium revenue recorded, and reviewing subsequent cash receipts. ‣ Based on the procedures performed, we believe that the amounts and disclosures included within the financial statements are appropriate and in conformity with US GAAP, industry practice and prior year. ‣ We identified no differences greater than our summary of audit differences threshold.

Shaded areas indicate accounts or transactions identified as having significant risks

Required communications with the Board of Directors

Summary of required communications

Provided below is a summary of required communications between the audit team and the Board of Directors.

	Communicate when event occurs	Communicate on a timely basis, at least annually
Overview of the planned scope and timing of the audit		Page 10
Auditor's responsibility under professional standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern		Page 10
Our views about the qualitative aspects of the entity's significant accounting practices, including:		
▸ Accounting policies		Page 11
▸ Sensitive accounting estimates		Page 12
▸ Financial statement disclosures and related matters		Page 12
▸ Significant unusual transactions	Page 12	
Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial		Page 13
Material corrected misstatements, related to accounts and disclosures		Page 13
Significant deficiencies and material weaknesses in internal control	Page 13	Page 13
Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements		Page 13
Fraud and illegal acts	Page 14	
Independence matters		Page 14
Representations we are requesting from management		Page 14
Changes to the terms of the audit with no reasonable justification for the change	Page 14	
Significant findings and issues arising during the audit relating to related parties	Page 15	
Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	Page 15	
Significant difficulties encountered during the audit	Page 15	
Disagreements with management	Page 16	
Management's consultations with other accountants	Page 16	
Findings regarding external confirmations	Page 16	
AICPA ethics ruling regarding third-party service providers		Page 16
Other findings or issues regarding the oversight of the financial reporting process	Page 16	

Required communications

Area	Comments
Overview of the planned scope and timing of the audit	
We provide those charged with governance with an overview of our overall audit scope, including the timing of the audit and our plans to use the work of internal auditors.	Our audit scope is consistent with the engagement letter and the audit plan communicated to Stephen Schumacher, CFO.
Auditor's responsibility under professional standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	
The financial statements are the responsibility of management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we will express no such opinion. An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements. [If applicable] We also communicate to you matters required by other legal or regulatory requirements.	Our responsibilities are included in our audit engagement agreement. We issued an unqualified opinion on BRIM's financial statements as of and for the year ended June 30, 2015. As part of obtaining reasonable assurance about whether BRIM's financial statements were free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Additionally, as part of our audit, we obtained a sufficient understanding of internal controls to plan our audit and determine the nature, timing, and extent of testing performed and not to provide assurance on internal control over financial reporting. We issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Required communications

Area	Comments
Our views about the qualitative aspects of the entity's significant accounting practices: accounting policies	
As part of our discussion about the qualitative aspects of the entity's significant accounting practices, we discuss our views about the entity's application of accounting policies including instances we believe a significant accounting policy, although acceptable under US GAAP, is not appropriate for the particular circumstances of the entity. Our discussion may also include the following: ▸ The initial selection of new, or changes in, significant accounting principles and policies, including the application of new accounting pronouncements. ▸ The effect of the timing and method of adopting a change in accounting policy on current and future earnings of the entity (or expected new accounting pronouncements). ▸ The appropriateness of the accounting policies to the particular circumstances of the entity. ▸ Where acceptable alternative accounting policies exist, the identification of financial statement items that are affected by the implemented significant policies as well as information on accounting policies used by similar entities. ▸ The effect of a significant accounting policy in a controversial or emerging area (or those unique to an industry), particularly when there is a lack of authoritative guidance or consensus.	During the year, BRIM adopted the following standards: • Governmental Accounting Standards Board Statement No 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The effect of adopting this standard did not materially affect the 2015 financial statements. Accordingly, we have not modified our opinion as to consistency. We are not aware of any significant accounting policies used by BRIM in controversial or emerging areas or for which there is a lack of authoritative guidance. We have included a discussion of significant accounting policies within the section titled "Accounting policies and area of audit emphasis" on pages 7-8.

Required communications

Area	Comments
Our views about the qualitative aspects of the entity's significant accounting practices: additional views	
(1) Management's process used to develop particularly sensitive accounting estimates, our conclusions regarding the reasonableness of such estimates and the basis for those conclusions. Our discussion may also include the following: ▸ Risks of material misstatement ▸ Indicators of possible management bias ▸ Disclosure of estimation uncertainty in the financial statements (2) Financial statement disclosures and related matters which may include the following: ▸ The issues involved and related judgments made, in formulating sensitive financial statement disclosures ▸ The overall neutrality, consistency and clarity of financial statement disclosures ▸ The potential effect of significant risks and exposures and uncertainties on the financial statements ▸ The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized ▸ The factors affecting asset and liability carrying value ▸ The selective correction of misstatements (3) Significant unusual transactions (i.e., those outside the normal course of business for the entity or those that appear unusual due to timing, size, or nature) and the policies or practices management has used to account for those transactions.	We have provided our views regarding accounting estimates and financial statement disclosures and related matters in the sections titled "Significant accounting policies and estimates" on pages 5-6. Significant unusual transactions included the payment of $750,000 to a third party to transfer any potential claims/IBNR run-off of House Bill 601 program.

Required communications

Area	Comments
Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial	
We discuss with those charged with governance uncorrected misstatements, related to accounts and disclosures, and the effect that they may have on our opinion in the auditor's report. We also discuss the effect of uncorrected misstatements related to prior periods on the significant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, we discuss with those charged with governance the implications of a failure to correct known and likely misstatements, if any, considering qualitative as well as quantitative considerations, including the possible implications in relation to future financial statements.	No uncorrected misstatements were identified in connection with our audit of BRIM's financial statements as of and for the year ended June 30, 2015.
Material corrected misstatements, related to accounts and disclosures	
We discuss with those charged with governance material, corrected misstatements, related to accounts and disclosures, that were brought to the attention of management as a result of our audit procedures. In addition, we may discuss other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.	No corrected misstatements were identified in connection with our audit of BRIM's financial statements as of and for the year ended June 30, 2015.
Significant deficiencies and material weaknesses in internal control	
We communicate all significant deficiencies and material weaknesses in internal control that were identified during the course of our audit, including those that have been remediated during the audit.	There were no material weaknesses identified as a result of our audit of BRIM.
Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements	
Our auditor's report on the financial statements relates only to the financial statements and the accompanying notes. If the entity includes other information in documents containing audited financial statements, we review such other information and consider whether such information, or the manner of its presentation, is materially inconsistent with the audited financial statements. If we conclude that a material inconsistency exists, we determine whether the financial statements, our auditor's report, or both require revision. In addition, we notify you if we conclude that there is a material misstatement of fact in the other information.	As required by GASB, BRIM has presented required supplementary information, including management's discussion and analysis and the supplemental schedule of Ten-Year Claims Development Information with its basic financial statements required by Governmental Accounting Standards Board Statement No. 30. We have applied certain limited procedures, and we do not express an opinion or provide any assurance on the information because of our limited procedures. BRIM also presented other financial information requested by the State of West Virginia (the State). This other financial information is not a required part of the basic financial statements but is presented for purposes of additional analyses. Such information has been subjected to the auditing procedures applied in our audit of the 2015 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2015 financial statement taken as a whole.

Required communications

Area	Comments
Fraud and illegal acts	
We communicate with those charged with governance fraud and illegal acts involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements. If desired by those charged with governance or we determine it is appropriate, we communicate to those charged with governance regarding fraud involving employees other than management that does not result in a material misstatement. We also communicate other matters of non-compliance with laws and regulations (illegal acts) that come to our attention during the audit, unless they are clearly inconsequential.	We are not aware of any matters that require communication.
Independence matters	
Although the auditor's report affirms our independence, in certain situations, we discuss with those charged with governance circumstances of relationships (e.g., financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in our professional judgment may reasonably be thought to bear on independence and that we gave significant consideration to in reaching the conclusion that independence has not been impaired.	We are not aware of any matters that in our professional judgment would impair our independence. Relating to our audit of the basic financial statements of BRIM as of June 30, 2015, and for the year then ended, we are independent certified public accountants with respect to BRIM within the meaning of Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings, and the requirements of *Government Auditing Standards*.
Representations we are requesting from management	
We discuss with those charged with governance representations we are requesting from management.	We have obtained from management a letter of representations related to the audit and a copy of the letter of representations is included in Appendix A.
Changes to the terms of the audit with no reasonable justification for the change	
We discuss with those charged with governance any changes to the terms of the audit engagement where there is no reasonable justification for the change and we are not permitted by management to continue the original audit.	None.

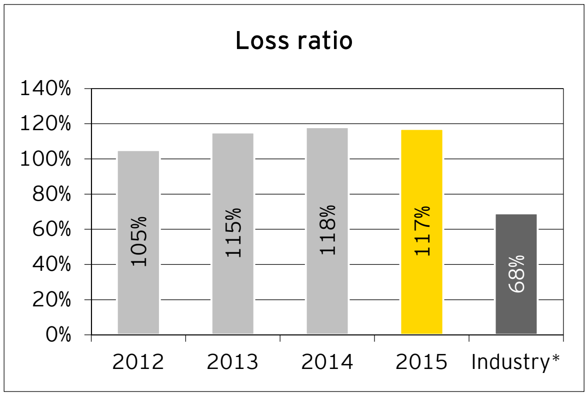
Required communications

Area	Comments
Significant findings and issues arising during the audit relating to related parties	
We discuss with those charged with governance any significant findings and issues arising during the audit relating to the entity's related parties. Such matters may include the following: ▸ Non-disclosure (whether intentional or not) by management of related parties or significant related party transactions ▸ The identification of significant related party transactions that have not been appropriately authorized and approved ▸ Disagreement with management regarding the accounting for, and disclosure of, significant related party transactions in accordance with US GAAP ▸ Non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions ▸ Difficulties in identifying the party that ultimately controls the entity	None.
Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	
We discuss with those charged with governance any significant matters that were discussed with, or the subject of correspondence with, management, including: Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatements. Discussions or correspondence in connection with our initial or recurring retention as the auditor, including, among other matters, any discussions regarding the application of accounting principles and auditing standards, the scope of the audit, financial statement disclosures and the wording of the auditor's report. We communicate those major professional issues we discussed with management, prior to our being hired as the auditors, during the entity's two most recently completed fiscal years and any subsequent interim period.	None.
Significant difficulties encountered during the audit	
We inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit which may include such matters as: Significant delays in management providing required information An unnecessarily brief time within which to complete the audit The unavailability of expected information Restrictions imposed on us by management Management's unwillingness to provide information about its plans for dealing with the adverse effects of the conditions or events that lead us to believe there is substantial doubt about the entity's ability to continue as a going concern	None.

Required communications

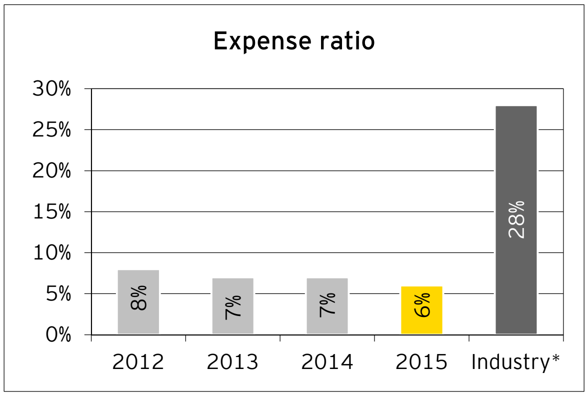
Area	Comments
Disagreements with management	
We discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or our auditor's report. For purposes of this discussion, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.	None.
Management's consultations with other accountants	
When we are aware that management has consulted with other accountants about accounting or auditing matters, we discuss with those charged with governance our views about significant matters that were the subject of such consultation.	None of which we are aware.
Findings regarding external confirmations	
We discuss with those charged with governance any instances where management has not permitted us to send confirmation requests, or where we cannot obtain relevant and reliable audit evidence from alternative procedures.	None.
AICPA ethics ruling regarding third-party service providers	
AICPA Ethics Ruling No. 112 under Rule 102, Integrity and Objectivity, requires that we inform you whenever we use a third-party service provider in providing professional services to the entity. The Rule has broadly defined "third-party service provider" to include an individual who is not employed by our US firm. Accordingly, third-party service providers might include, but not be limited to, the following examples: non US personnel who work for EY affiliate firms (e.g., Ernst & Young United Kingdom), non US personnel working in the US on a foreign secondment and non US personnel working at EY shared service centers.	From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Company or its affiliates directly, although EY alone will remain responsible to you for the Audit Services, and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.
Other findings or issues regarding the oversight of the financial reporting process	
We communicate other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.	There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

Industry analysis
Ratio comparison



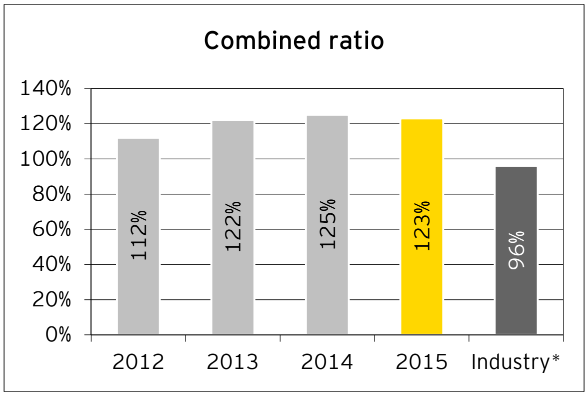
The loss ratio measures claims cost experience. It is derived by dividing claims and claims adjustment expenses by earned premiums. This ratio can soar during a period of heavy catastrophe losses.

The decrease in loss ratio for 2015 is due to premiums increasing at a higher rate (12%) over the prior year, than what claims and claims adjustment expense increased (11%) over the prior year. As a result, the loss ratio decreased slightly during the current year compared to 2014. The 2014 loss ratio has increased since the prior year due to increases in both expenses ($7.6 million) and premiums ($5.0 million). While both of the metrics increased, claims adjustment expense increased more than premiums during 2014. Additionally, in 2012 and 2013, there were two large storms which caused widespread damage and is the primary drivers of the increased expense.



The expense ratio measures how cost-effectively an insurer writes new business. It is derived by dividing general and administrative expenses by written premiums.

BRIM's expense ratio is well below the industry average. This is mainly due to low overhead and the requirement of State entities to obtain insurance coverage from BRIM. The 2015 expense ratio decreased slightly compared to the previous years. This is due to a decrease in general and administrative expenses in the current year compared to the prior year.



The combined ratio is one of the key ratios used to measure underwriting performance. It is equal to the sum of the loss ratio and the expense ratio. A combined ratio below 100% indicates an underwriting profit, while a combined ratio in excess of 100% points to an underwriting loss.

BRIM's combined ratio is significantly higher than the industry combined ratio due to the loss ratio factor discussed above.

**Industry data obtained from the National Association of Insurance Commissioners (NAIC) 2014 Property/Casualty & Title Insurance Industry Report*

Appendix

Appendix A

Letter of representations

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

Earl Ray Tomblin
Governor

Mary Jane Pickens
Executive Director

Jason Pizatella
Cabinet Secretary

December 7, 2015

Ernst & Young LLP
900 United Center
500 Virginia Street East
Charleston, WV 25301

In connection with your audits of the basic financial statements of West Virginia Board of Risk and Insurance Management (BRIM or the Agency) as of June 30, 2015 and 2014 and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of BRIM in conformity with US generally accepted accounting principles

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief.

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated June 23, 2015, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding years.

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Agency from whom you determined it necessary to obtain audit evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Uncorrected misstatements

There are no uncorrected misstatements (including the effects of correcting or reversing prior year uncorrected misstatements and misstatements related to supplementary information), or uncorrected misstatements in disclosures relating to the current year basic financial statements.

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees from the beginning of the period covered by the financial statements to the date of this letter are as follows:

Board of Director Meetings:
August 26, 2014
November 25, 2014
March 24, 2015
June 23, 2015

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Significant assumptions

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.

Risks and uncertainties

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed.

Ownership and pledging of assets

Except for properties capitalized under capital leases, the Agency has satisfactory title to all assets appearing in the statements of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which the Agency has satisfactory title appear in the statement of net assets.

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the statement of net position dates, goods shipped on consignment, or other types of arrangements not constituting sales. All revenue recognized as of the statement of net position dates has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement

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exists, (2) goods have been delivered or services rendered, (3) consideration to be received is fixed or determinable and (4) collectability is reasonably assured.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the statement of net position dates in respect of sales and services rendered prior to those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at those dates.

We have adequately disclosed a description of our major revenue-generating products and services, the types of arrangements (including multiple-element arrangements) used to deliver these products or services, and a description of the revenue recognition policies applicable to these products or services.

We have disclosed to you all sales terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of Government Auditing Standards Board (GASB) Statement No. 31. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 31.

We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements of GASB Statement No. 31.

Related party transactions

We have disclosed to you the identity of the Agency's related parties and all the related party relationships and transactions of which we are aware.

Transactions with related parties, as defined in GASB Statement No. 56, *Related Party Disclosures*, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration have been properly recorded and disclosed in the basic financial statements.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the basic financial statements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Accounting for Contingencies.*

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the basic financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by GASB Statement No. 62, nor are there any accruals for loss contingencies included in the statement of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62.

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

Fraud

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Agency's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the basic financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the basic financial statements or otherwise affect the financial reporting of the Agency.

Independence

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Agency and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Agency's audit.

Conflicts of interest

There are no instances where any officer or employee of the Agency has an interest in a company with which the Agency does business that would be considered a "conflict of interest." Such an interest would be contrary to the Agency's policy.

Cash equivalents and investments

BRIM has certain cash equivalents in pools of the West Virginia Bureau of Treasury Investments (BTI) and West Virginia Investment Management Board (IMB). The management of these entities is not under BRIM's control. Cash equivalents and investment are reported by the BTI and IMB at fair value and are accounted for by BRIM accordingly, with changes in the fair value included in investment income. The earnings from these pooled investments are distributed to investment pool participants based on their pro rata participation in the pools.

Adequate disclosures required under GASB Statement No. 40 for deposits and investments have been included in the financial statements for risk disclosures. To our knowledge, none of the investments has permanently declined in value to an amount less than the carrying value in the financial statements. Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

Advance deposit with insurance company or trustee

All claims identified in prior years as being on the detail of claims paid by an insurance company, which do not represent claims covered by the retrospective rating plans, have been excluded from the section of the retrospective rating report that summarizes claims paid during the current year. Thus, the summary of claims paid by an insurance company only represents claims actually paid through the retrospective rating plans and no adjustments for such items need to be made to claims paid during the determination of advanced deposits held with an insurance company or trustee.

Claim liabilities

The liabilities for unpaid claims (and claim adjustment expenses) include estimates of amounts due on reported claims and claims that have been incurred but that were not reported as of June 30, 2015 and 2014. Such estimates are based on actuarial projections applied to historical claim payment data. Such liabilities represent the Agency's best estimate of amounts that are reasonable and adequate to discharge the Agency's obligations for claims incurred but unpaid as of June 30, 2015 and 2014.

The liabilities for unpaid claims and claims adjustment expense are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. We have made available to you all documentation and analyses used to develop management's best estimate. Although the estimate of the liability for unpaid claims and claims adjustments expenses at June 30, 2015 and 2014, are reasonable in the circumstances, it is possible that the Agency's actual incurred claims and claims adjustment expenses will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of claims and the related claims adjustment expenses may vary from the estimates included in the Agency's financial statements.

The loss reserve specialists used by management in estimating the loss and loss adjustment expense reserves had a sufficient level of competence and experience in loss reserving, including knowledge about the type of insurance for which a reserve has been established and an understanding of the appropriate methods for calculating such reserve estimates. We agree with the findings of specialists in evaluating the liability for unpaid claims and claims adjustment expense and premium deficiency analysis and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Reinsurance

The reinsurance contracts provided to you by the Agency represent all of the Agency's agreements with respect to its ceding and assuming reinsurance activities, and there are no modifications, either written or oral, of the terms of the Agency's reinsurance contracts or additional reinsurance agreements that have not been provided to you.

Pension and other postretirement benefits

We have disclosed to you all significant pension benefits promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes that constitute the plan. The actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes, including prescribed assumptions, are determined by State statute and the Consolidated Public Retirement Board.

We have disclosed to you all significant postretirement benefits other than pensions (OPEBs) promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes, that constitute the plan for each significant OPEB. The actuarial assumptions and methods used to measure OPEB liabilities and costs for financial accounting purposes, including prescribed assumptions, represent our best estimate of future conditions and are appropriate in the circumstances.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on Management's Discussion and Analysis and the Ten Year Claims Development Information, which have been measured and presented in conformity with the guidelines established by the applicable Governmental Accounting Standards Board Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

Supplementary information

We are responsible for the fair presentation of the Closing Book Forms (the "supplementary information") in accordance with Financial Accounting and Reporting Section of the State of West Virginia (FARS). We believe the supplementary information, including its form and content, is fairly stated in all material respects in conformity with FARS criteria.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Use of the work of a specialist

We agree with the findings of specialists in evaluating the incurred but not reported ("IBNR") liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the basic financial statements and the underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Other

We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.

BRIM does not have any component units or joint ventures.

The financial statements properly classify all funds and activities.

Components of net position (net investment in capital assets; restricted; and unrestricted), nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.

Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.

Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments or contributions to permanent fund principal.

Provisions for uncollectible receivables have been properly identified and recorded.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

There are no special or extraordinary items.

Risk disclosures associated with deposits and investment securities and derivatives transactions are presented in accordance with GASB requirements.

Investments, derivative transactions, and land and other real estate held by endowments are properly valued.

Our policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available, determines the fund balance classifications for financial reporting purposes.

Subsequent events

Subsequent to June 30, 2015, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to the Agency's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the basic financial position, results of operations or cash flows of the Agency.

We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and were, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of the Agency as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,

Mary Jane Pickens

Mary Jane Pickens, Executive Director

Stephen W. Schumacher, Chief Financial Officer

Stephen W. Panaro

Stephen W. Panaro, Controller

Appendix B
EY peer report

Appendix

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

System Review Report

To the Partners of Ernst & Young LLP
and the National Peer Review Committee of the AICPA Peer Review Board:

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the firm) applicable to non-SEC issuers, in effect for the year ended June 30, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) I and 2 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Ernst & Young LLP, applicable to non-SEC issuers, in effect for the year ended June 30, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency(ies)* or *fail*. Ernst & Young LLP has received a peer review rating of *pass*.

KPMG LLP

December 6, 2013

Appendix C

Industry trends: *National Association of Insurance Commissioners (NAIC) 2014 Property/Casualty & Title Insurance Industry Report*

Appendix

NAIC 2014 Property/Casualty & Title Insurance Industry Report

Property/Casualty Insurance Industry

The U.S. property/casualty insurance industry recorded a net profit of $56.4 billion in 2014, a 19.1% decrease compared to a net profit of $69.7 billion in 2013. The decline primarily stemmed from a 7.1% increase in net losses and LAE incurred, versus a 4.4% increase in net premiums earned, resulting in a 26.3% year-over-year decrease in net underwriting profits to $14.8 billion in 2014 compared to $20.1 billion in 2013. A combined ratio of 97.2% was 1.3-percentage points higher relative to the prior year, as the net loss ratio worsened by 1.7-percentage points to 69.0%, while the expense ratio was slightly better at 27.6% and the dividend ratio was flat at 0.7%. In addition to the lower underwriting income, investment profits were down 11.2% year-over-year to $58.1 billion, mainly due to a 37.2% decrease in net realized capital gains. An industry investment yield of 3.17% reflects the long-term effect of a low interest rate environment, whereby the U.S. Federal Reserve has given no indication that it will raise rates anytime soon. Despite the reduction in income, an already very well capitalized industry was further strengthened by a 3.1% increase in policyholders' surplus to $707.5 billion at December 31, 2014. Capital adequacy remained abundant, as seen in a net premiums written to policyholders' surplus leverage ratio of 71.6%. In addition, the increased capitalization has attributed to an uptick in mergers and acquisitions, with 153 mergers/acquisitions reported since the economic downturn in 2008. Operating cash flow was $49.6 billion and liquidity remained strong at 77.8%.

Table 1 - Property & Casualty Insurance Industry Results

($ in Billions)	Chg.	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Writings											
Direct Premiums Written	4.5%	$569.0	$544.8	$522.5	$500.6	$483.0	$481.2	$496.5	$508.7	$503.0	$491.2
Net Premiums Written	4.1%	$506.4	$486.5	$465.8	$446.6	$432.3	$428.3	$446.6	$455.6	$455.9	$438.7
Net Writings Leverage	0.7 pts	71.6%	70.9%	75.6%	77.2%	73.6%	79.2%	93.0%	83.2%	88.5%	97.3%
Operations											
Net Premiums Earned	4.4%	$497.7	$476.8	$457.9	$442.8	$430.6	$432.7	$450.5	$453.5	$447.7	$430.7
Net Loss & LAE Incurred	7.1%	$343.3	$320.5	$340.5	$352.0	$317.4	$313.4	$348.7	$308.6	$293.4	$321.8
Other Underwriting Expenses	2.3%	$139.8	$136.6	$130.8	$124.8	$122.7	$120.7	$122.7	$123.1	$119.8	$111.8
Net Underwriting Gain/(Loss)	(26.3%)	$14.8	$20.1	($13.8)	($35.5)	($8.8)	$0.9	($19.6)	$22.6	$34.5	($3.5)
Net Loss Ratio	1.7 pts	69.0%	67.2%	74.4%	79.5%	73.7%	72.4%	77.4%	68.1%	65.5%	74.7%
Expense Ratio	(0.4) pts	27.6%	28.0%	28.2%	28.3%	28.2%	27.6%	27.2%	26.8%	26.3%	25.6%
Dividend Ratio	-	0.7%	0.7%	0.6%	0.5%	0.7%	0.6%	0.6%	0.7%	0.9%	0.5%
Combined Ratio	1.3 pts	97.2%	95.9%	103.2%	108.3%	102.6%	100.6%	105.2%	95.6%	92.7%	100.9%
Loss & LAE Reserves	0.5%	$611.5	$608.6	$616.3	$613.3	$601.5	$596.9	$599.2	$576.2	$554.6	$542.9
1yr Develop to PY PHS	1.3 pts	(1.4%)	(2.7%)	(2.2%)	(2.2%)	(2.0%)	(3.9%)	(0.4%)	(1.6%)	(1.5%)	0.2%
2yr Develop to 2nd PY PHS	0.5 pts	(3.6%)	(4.1%)	(3.6%)	(4.1%)	(6.2%)	(3.7%)	(1.8%)	(1.6%)	1.2%	7.5%
Net Investment Income Earned	(0.7%)	$46.3	$46.6	$48.0	$49.0	$47.6	$47.7	$52.3	$55.6	$51.6	$48.0
Net Realized Gain/(Loss)	(37.2%)	$11.8	$18.8	$9.0	$7.8	$8.2	($8.2)	($20.7)	$9.1	$3.6	$12.2
Investment Yield	(0.2) pts	3.17%	3.34%	3.61%	3.74%	3.72%	3.92%	4.23%	4.44%	4.40%	4.40%
Net Cash from Operations	(14.0%)	$49.6	$57.6	$38.7	$18.0	$34.9	$31.9	$38.9	$72.7	$86.1	$77.9
Liquidity Ratio	-	77.8%	77.8%	81.6%	82.4%	80.5%	80.7%	85.8%	80.0%	85.7%	90.3%
Net Income	(19.1%)	$56.4	$69.7	$36.5	$18.3	$36.4	$30.2	$1.7	$63.3	$64.2	$44.9
Return on Revenue	(2.7) pts	10.2%	12.9%	7.1%	3.7%	7.5%	6.4%	0.4%	12.2%	12.8%	9.2%
Capital & Surplus											
Policyholders' Surplus	3.1%	$707.5	$686.3	$615.9	$578.4	$587.7	$541.1	$480.1	$547.5	$515.0	$451.0
Return on Surplus	(6.1) pts	8.0%	14.2%	6.8%	1.0%	8.7%	9.7%	(13.6%)	8.9%	14.2%	10.9%

Market Conditions

The U.S. property/casualty insurance industry benefited from a second consecutive year of underwriting profits, primarily due to low catastrophe losses, partly offsetting the decline in investment profits resulting from a pro-longed period of key interest rates held near zero. As a result, profit margins remained better than normal, evidenced by a return on revenue of 10.2%, which ultimately boosted policyholders' surplus to an all-time high of $707.5 billion—a 56.9% increase over the last ten years. The sustained growth in capital, along with continued soft market conditions—characterized by slight premium rate increases—strengthened the industry's capital adequacy to unprecedented levels. **Fig. 1**, illustrates capital adequacy in terms of net writings to policyholders' surplus. Net writings leverage for 2014 was just 71.6%.

Fig. 1 - Net Writings Leverage

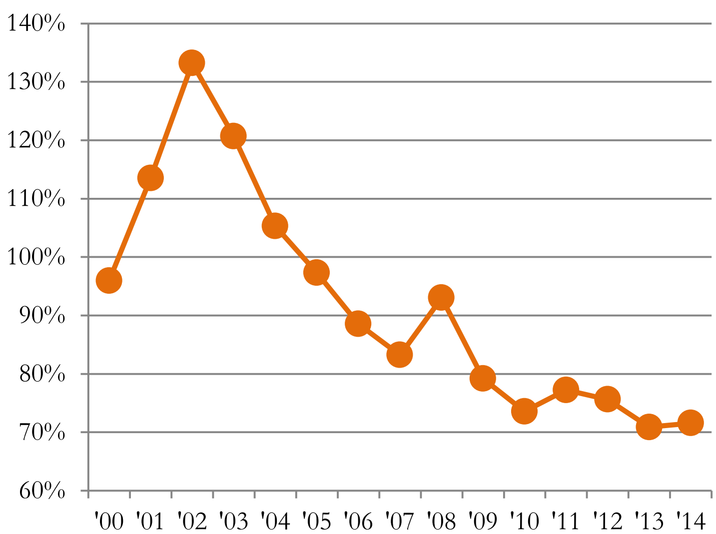
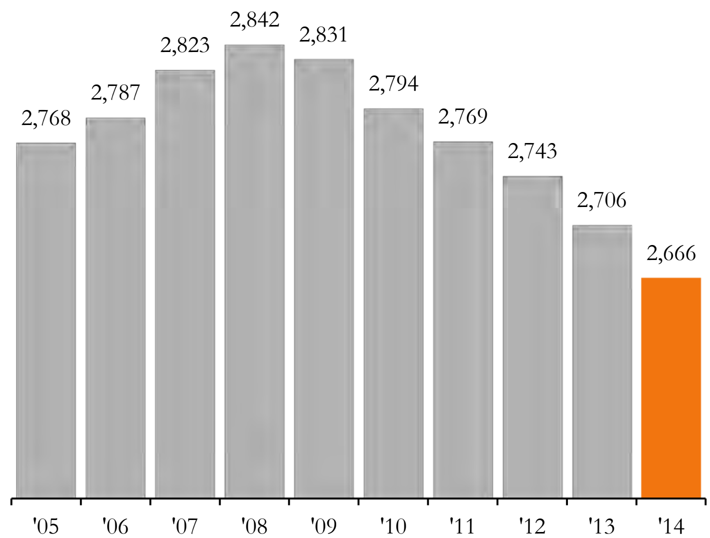


Fig. 2 - No. of Property/Casualty Filers



To a certain extent insurers are not only utilizing the excess capital to write more business, but there has also been a material increase in mergers and acquisitions. As seen in **Fig. 2**, the number of U.S. property/casualty filers have steadily declined since 2008, with an overall net decrease of 176 filers during this six-year span. Of this, 153 were due to mergers/acquisitions, while 89 insurers voluntarily exited the market, 88 remained active but in rehabilitation or liquidation, and 43 were active but have not filed or are exempt, partially offset by 197 new filers.

Premium

Direct premiums written increased 4.5% to $569.0 billion in 2014 compared to $544.8 billion in 2013. Sequentially, direct writings have increased for 19 consecutive quarters over prior-year-quarters, with an average 3.7% growth rate during this period. All three markets (Personal Lines, Commercial Lines, and Combined Lines) experienced year-over-year growth, led by a 5.3% increase in the Personal Lines market to $284.2 billion (49.9% of the total), followed by a 4.9% growth rate in the Commercial Lines market to $213.2 billion (37.5% of the total), and a 0.1% increase in the Combined Lines market to $71.6 billion (12.6% of the total). On a geographic basis, direct writings increased in all states, and territories, except Delaware, Iowa, North Dakota, South Dakota, American Samoa, Guam, and Puerto Rico. Geographic-based direct premium written, market share, and pure direct loss ratio (PDLR) data is shown in **Table 2** on the following page.

Assumed premiums written increased 11.1% to $431.8 billion in 2014 compared to $388.6 billion in 2013, of which 89.0% was comprised of affiliated assumptions and 11.0% non-affiliated business. U.S. intercompany pooling agreements comprised 65.8% of all reinsured business, followed by 24.8% affiliated U.S. non-pooled business. Non-U.S. assumptions accounted for 3.8% of total assumptions.

Table 2 - Direct Writings & Profitability by State, Territories, Etc.

State	Chg in DPW	2014 DPW	2013 DPW	2014 Market Share	Chg in PDLR	2014 Loss Incurred	2014 Earned Prem	2014 PDLR	2013 Loss Incurred	2013 Earned Prem	2013 PDLR
Alabama	2.7%	$7,508	$7,309	1.32%	6.69 pts	$4,310	$7,411	58.2%	$3,682	$7,155	51.5%
Alaska	0.3%	$1,739	$1,734	0.31%	3.61 pts	$663	$1,718	41.2%	$642	$1,708	37.6%
Arizona	5.5%	$9,116	$8,640	1.60%	9.73 pts	$5,379	$8,914	64.2%	$4,591	$8,431	54.5%
Arkansas	3.0%	$4,622	$4,489	0.81%	2.40 pts	$2,524	$4,492	57.5%	$2,442	$4,434	55.1%
California	6.4%	$65,082	$61,173	11.44%	6.47 pts	$35,478	$63,928	62.2%	$33,545	$60,212	55.7%
Colorado	7.9%	$9,990	$9,262	1.76%	7.68 pts	$7,161	$9,687	77.6%	$6,303	$9,012	69.9%
Connecticut	4.1%	$8,015	$7,698	1.41%	3.26 pts	$4,254	$7,888	58.2%	$4,145	$7,542	55.0%
Delaware	(5.7%)	$2,017	$2,139	0.35%	21.84 pts	$1,174	$1,987	63.8%	$862	$2,054	42.0%
Dist. Columbia	1.1%	$1,688	$1,670	0.30%	(6.23) pts	$624	$1,661	41.5%	$782	$1,638	47.8%
Florida	3.7%	$42,914	$41,377	7.54%	8.77 pts	$19,727	$42,415	51.4%	$17,334	$40,695	42.6%
Georgia	7.0%	$16,098	$15,044	2.83%	3.44 pts	$9,664	$15,644	65.2%	$9,054	$14,652	61.8%
Hawaii	5.4%	$2,301	$2,183	0.40%	4.70 pts	$926	$2,231	45.2%	$868	$2,146	40.5%
Idaho	4.2%	$2,295	$2,202	0.40%	5.05 pts	$1,264	$2,259	59.3%	$1,175	$2,167	54.2%
Illinois	2.9%	$23,047	$22,404	4.05%	0.70 pts	$13,306	$22,819	62.6%	$13,769	$22,251	61.9%
Indiana	4.2%	$10,194	$9,783	1.79%	(0.51) pts	$5,524	$10,023	58.5%	$5,638	$9,558	59.0%
Iowa	(0.1%)	$6,012	$6,020	1.06%	15.63 pts	$5,115	$5,931	88.6%	$4,300	$5,896	72.9%
Kansas	1.2%	$6,061	$5,989	1.07%	(7.12) pts	$3,326	$5,926	58.8%	$3,869	$5,866	66.0%
Kentucky	3.1%	$6,659	$6,455	1.17%	8.98 pts	$3,713	$6,568	60.0%	$3,230	$6,335	51.0%
Louisiana	4.0%	$10,629	$10,223	1.87%	0.59 pts	$5,205	$10,473	54.2%	$5,340	$9,970	53.6%
Maine	3.0%	$2,029	$1,970	0.36%	4.88 pts	$1,067	$2,008	55.6%	$983	$1,938	50.7%
Maryland	3.7%	$10,246	$9,880	1.80%	3.39 pts	$5,785	$10,037	61.0%	$5,559	$9,651	57.6%
Massachusetts	4.4%	$13,189	$12,632	2.32%	5.33 pts	$6,531	$12,890	54.4%	$6,071	$12,376	49.1%
Michigan	5.9%	$17,537	$16,564	3.08%	(4.41) pts	$12,645	$17,125	79.6%	$13,550	$16,137	84.0%
Minnesota	3.0%	$10,546	$10,238	1.85%	(4.17) pts	$6,207	$10,301	62.9%	$6,684	$9,962	67.1%
Mississippi	3.9%	$4,767	$4,587	0.84%	(14.46) pts	$2,714	$4,690	60.8%	$3,368	$4,472	75.3%
Missouri	4.0%	$10,240	$9,843	1.80%	5.27 pts	$5,684	$10,056	60.1%	$5,301	$9,670	54.8%
Montana	2.8%	$1,984	$1,930	0.35%	23.09 pts	$1,397	$1,924	76.3%	$1,010	$1,898	53.2%
Nebraska	1.6%	$4,305	$4,237	0.76%	22.47 pts	$3,969	$4,208	96.1%	$3,070	$4,167	73.7%
Nevada	5.7%	$4,283	$4,050	0.75%	(0.58) pts	$2,338	$4,199	62.7%	$2,513	$3,973	63.3%
New Hampshire	4.3%	$2,224	$2,132	0.39%	0.10 pts	$1,055	$2,177	51.0%	$1,065	$2,092	50.9%
New Jersey	3.6%	$19,668	$18,986	3.46%	2.47 pts	$11,114	$19,297	64.3%	$11,437	$18,504	61.8%
New Mexico	4.0%	$2,980	$2,866	0.52%	(6.29) pts	$1,607	$2,943	58.4%	$1,815	$2,804	64.7%
New York	4.0%	$41,812	$40,188	7.35%	15.01 pts	$23,061	$40,987	62.6%	$18,809	$39,549	47.6%
North Carolina	3.6%	$13,710	$13,231	2.41%	2.29 pts	$6,782	$13,431	52.9%	$6,562	$12,964	50.6%
North Dakota	(2.2%)	$2,511	$2,568	0.44%	(15.72) pts	$1,373	$2,470	57.2%	$1,828	$2,507	72.9%
Ohio	3.9%	$15,048	$14,487	2.64%	2.59 pts	$7,373	$14,781	52.7%	$7,101	$14,165	50.1%
Oklahoma	3.6%	$7,389	$7,129	1.30%	(33.11) pts	$3,555	$7,231	52.1%	$5,921	$6,946	85.2%
Oregon	4.3%	$5,910	$5,669	1.04%	0.03 pts	$2,828	$5,807	52.2%	$2,891	$5,536	52.2%
Pennsylvania	3.2%	$22,289	$21,589	3.92%	15.05 pts	$13,779	$21,928	68.2%	$11,310	$21,262	53.2%
Rhode Island	4.7%	$2,121	$2,025	0.37%	2.55 pts	$1,117	$2,091	56.8%	$1,081	$1,993	54.2%
South Carolina	4.7%	$7,872	$7,517	1.38%	12.41 pts	$4,518	$7,713	61.8%	$3,627	$7,346	49.4%
South Dakota	(0.5%)	$2,308	$2,319	0.41%	(0.38) pts	$1,356	$2,244	62.0%	$1,419	$2,275	62.4%
Tennessee	3.7%	$10,138	$9,774	1.78%	3.29 pts	$5,231	$9,926	55.9%	$5,004	$9,518	52.6%
Texas	6.5%	$47,449	$44,533	8.34%	2.43 pts	$24,837	$46,049	57.4%	$23,710	$43,129	55.0%
Utah	6.5%	$3,885	$3,649	0.68%	(2.93) pts	$1,871	$3,773	52.8%	$1,984	$3,560	55.7%
Vermont	0.9%	$1,396	$1,383	0.25%	8.28 pts	$658	$1,375	50.1%	$570	$1,363	41.8%
Virginia	3.8%	$12,127	$11,682	2.13%	5.63 pts	$6,213	$11,918	54.9%	$5,620	$11,414	49.2%
Washington	4.4%	$10,122	$9,700	1.78%	8.34 pts	$5,612	$9,951	60.4%	$4,954	$9,513	52.1%
West Virginia	1.4%	$2,873	$2,833	0.50%	5.12 pts	$1,339	$2,849	50.9%	$1,283	$2,805	45.7%
Wisconsin	3.8%	$9,494	$9,142	1.67%	2.67 pts	$5,528	$9,315	62.7%	$5,388	$8,972	60.0%
Wyoming	4.3%	$1,083	$1,039	0.19%	5.01 pts	$581	$1,058	57.6%	$534	$1,016	52.6%
American Samoa	(57.7%)	$0	$1	0.00%	11.81 pts	$0	$1	13.5%	$0	$0	1.7%
Guam	(0.2%)	$302	$302	0.05%	1.31 pts	$149	$297	52.5%	$148	$288	51.2%
Puerto Rico	(2.5%)	$1,815	$1,862	0.32%	34.95 pts	$1,239	$1,860	72.0%	$694	$1,875	37.0%
U.S. Virgin Islands	3.0%	$82	$80	0.01%	(8.59) pts	$21	$89	27.3%	$30	$83	35.9%
N. Mariana Islands	16.2%	$13	$11	0.00%	5.71 pts	$7	$13	56.3%	$6	$11	50.6%
Canada	(1.5%)	$4,003	$4,064	0.70%	5.75 pts	$1,833	$4,062	52.5%	$1,966	$4,205	46.8%
Agg. Other Alien	44.0%	$3,327	$2,311	0.58%	(6.00) pts	$1,714	$3,724	48.5%	$2,494	$4,579	54.5%
Totals	**4.5%**	**$569,060**	**$544,801**	**-**	**0.45 pts**	**$314,025**	**$558,769**	**56.2%**	**$298,929**	**$536,240**	**55.7%**

PREMIUM (CONT'D.)

Cessions totaled $494.4 billion in 2014 compared to $446.9 million for the prior year, to arrive at net premiums written of $506.4 billion (50.6% net retention). Net writings have increased for 19 consecutive quarters over prior-year-quarters, with an average 3.6% increase during this period.

Personal Lines

Net writings in the Personal Lines market increased 4.7% relative to the prior year to $259.2 billion, as premiums were higher in each of the three lines.

According to the U.S. Department of Labor, Bureau of Labor Statistics—February 2015 Consumer Price Index, the 12-month median price change in household insurance premiums and motor vehicle insurance was 5.2% and 4.4%, respectively. This coincides with net writing increases of 5.6% in the homeowners' line, a 4.7% in private passenger auto physical damage line, and 4.0% in private passenger auto liability line.

Commercial Lines

Top line of business growth in the Commercial market led to a 2.9% increase in all commercial lines to $187.2 billion. Workers' compensation premium growth led all lines with a 5.4%, or $2.4 billion increase to $46.0 billion, followed by a 6.1%, or $1.1 billion increase in commercial auto liability, and $1.0 billion increases in both commercial multiple-peril (non-liability) and other liability—claims-made coverages.

According to the most recent Commercial P/C Pricing Surveys by The Council of Insurance Agents' & Brokers (CIAB), premium pricing was slightly lower in 4Q-2014, particularly in large accounts, whereby pricing was marginally lower in each quarter of 2014. However, sustained pricing increases in smaller accounts, along with nominal changes in medium sized accounts helped stabilize premium rates overall during 2014. The CIAB indicated that the passage of the TRIA extension should settle the unease in the market.

Combined Lines

Net premium volume in the Combined Lines market was slightly lower at $54.7 billion for 2014 compared to $56.6 billion in 2013. The decline mostly stemmed from an 11.6% decrease in the reinsurance non-proportional lines and continued decreases in the mortgage guaranty line due partially to a sharp decline in loan originations during the fourth quarter.

Table 3 - Net Premiums Written

Market	% Chg.	$ Chg.	2014	2013
Personal Lines	4.7%	$11.6	$259.2	$247.6
Commercial Lines	2.9%	$5.2	$187.2	$182.0
Combined Lines	(3.2%)	($1.8)	$54.7	$56.6
All Lines	4.1%	$19.9	$506.4	$486.5
Personal Lines				
Prvt Psgr Auto Liab	4.0%	$4.3	$111.9	$107.5
Homeowners MP	5.6%	$4.1	$76.8	$72.7
Prvt Psgr Auto Phy Dmg	4.7%	$3.2	$70.6	$67.4
Commercial Lines				
Workers' Comp	5.4%	$2.4	$46.0	$43.6
Other Liab - Occur	1.3%	$0.4	$27.2	$26.8
Commercial MP (Non-Liab)	4.9%	$1.0	$21.6	$20.6
Commercial Auto Liab	6.1%	$1.1	$19.5	$18.4
Other Liab - Claims-Made	6.5%	$1.0	$16.2	$15.3
Commercial MP (Liab)	(1.1%)	($0.1)	$12.4	$12.6
Medical Prof Liab	(5.7%)	($0.5)	$8.0	$8.5
Commercial Auto Phy Dmg	9.2%	$0.5	$6.1	$5.6
Surety	2.5%	$0.1	$5.0	$4.9
Group A & H	(7.9%)	($0.4)	$4.3	$4.7
Multiple Peril Crop	(15.2%)	($0.8)	$4.2	$4.9
Farmowners MP	3.1%	$0.1	$3.6	$3.5
Ocean Marine	1.0%	-	$2.9	$2.9
Products Liability	(1.8%)	-	$2.7	$2.7
Boiler and Machinery	(1.0%)	-	$2.0	$2.0
Credit	(0.0%)	-	$1.2	$1.2
Fidelity	3.4%	-	$1.2	$1.1
Aircraft (all perils)	(5.8%)	($0.1)	$1.0	$1.1
Excess Workers' Comp	8.9%	$0.1	$0.9	$0.8
Private Crop	-	$0.6	$0.6	$0.0
Financial Guaranty	(31.2%)	($0.2)	$0.5	$0.7
Burglary and Theft	9.0%	-	$0.2	$0.2
Combined Lines				
Reinsurance-Nonpro	(11.6%)	($1.6)	$12.0	$13.5
Fire	1.6%	$0.2	$11.5	$11.3
Inland Marine	8.3%	$0.8	$11.0	$10.1
Allied Lines	(4.4%)	($0.5)	$10.0	$10.4
Mortgage Guaranty	(21.9%)	($0.9)	$3.4	$4.3
Other A & H	20.7%	$0.6	$3.3	$2.8
Earthquake	0.4%	-	$1.6	$1.6
Aggregate Write-ins	(6.5%)	($0.1)	$1.1	$1.1
Warranty	(34.8%)	($0.4)	$0.8	$1.2
International	10.9%	-	$0.1	$0.1
Credit A & H	(14.2%)	-	$0.1	$0.1
Federal Flood	67.3%	-	$0.0	$0.0

Sorted by CY NPW Descending

Underwriting Operations

A net underwriting profit of $14.8 billion was reported for 2014, the second consecutive year the U.S. property/casualty insurance industry recorded profits from underwriting operations. The profit for the current year was attributed to low catastrophe losses, as the industry continued to dodge any major catastrophe to have widespread insurable damage since the 2005 record breaking Atlantic hurricane season that included Hurricanes Katrina, Rita, and Wilma. However, underwriting profitability was down 26.3% in 2014 from a net underwriting profit of $20.1 billion recorded in 2013, partly due to a 7.1% increase in net losses and LAE incurred to $343.3 billion compared to $320.5 billion incurring in 2013. Further, the increase in losses and LAE exceeded a 4.4% increase in net premiums earned, adding 1.7-percentage points to the net loss ratio to 69.0%. Other underwriting expenses incurred totaled $139.8 billion, 2.3% higher relative to the prior year, however, a greater increase in net writings resulted in slight, 0.4-percentage point improvement in the expense ratio to 27.6%. With the inclusion of a flat policyholder dividend ratio of 0.7%, the industry combined ratio was 97.2% in 2014, 1.3-percentage points higher compared to 95.9% in 2013.

Table 4 provides the combined ratio by line of business for the last three years. All three markets reported combined ratios less than 100% for the last two years.

Personal Lines

The Personal Lines market recorded a combined ratio of 99.4% compared to 98.4% in 2013. The slight deterioration was attributed to 6.8%, or $11.8 billion increase net losses and LAE incurred to $185.4 billion that exceeded a 4.7%, or $11.3 billion increase in net earned premiums. A 1.5-percentage point increase in the net loss ratio to 72.9% resulted. A 0.4-percentage point improvement in the expense ratio to 26.0% was due to a 4.7% increase in net premiums written, compared to a 2.9% increase in other underwriting expenses incurred.

Commercial Lines

Despite several commercial lines with combined ratios above 100%, the overall combined ratio for the Commercial Lines market was 98.6% compared to 96.9% in 2013.

Table 4 - Combined Ratio

Market	Pt. Chg.	2014	2013	2012
Personal Lines	1.0 pts	99.4%	98.4%	102.6%
Commercial Lines	1.7 pts	98.6%	96.9%	105.0%
Combined Lines	(1.0) pts	80.9%	81.9%	100.8%
All Lines	1.3 pts	97.2%	95.9%	103.2%
Personal Lines				
Prvt Psgr Auto Liab	0.1 pts	103.6%	103.5%	103.2%
Homeowners MP	2.2 pts	92.5%	90.3%	104.0%
Prvt Psgr Auto Phy Dmg	1.4 pts	100.1%	98.7%	100.2%
Commercial Lines				
Workers' Comp	2.7 pts	101.4%	98.8%	111.2%
Other Liab - Occur	(4.6) pts	91.8%	96.4%	105.0%
Commercial MP (Non-Liab)	1.3 pts	95.8%	94.4%	114.6%
Commercial Auto Liab	(3.8) pts	103.7%	107.5%	106.3%
Other Liab - Claims-Made	16.2 pts	113.6%	97.4%	100.3%
Commercial MP (Liab)	0.5 pts	103.5%	103.0%	94.1%
Medical Prof Liab	2.6 pts	92.0%	89.4%	93.4%
Commercial Auto Phy Dmg	(3.1) pts	101.8%	104.9%	109.1%
Surety	(4.5) pts	68.2%	72.7%	76.8%
Group A & H	(3.3) pts	96.6%	99.9%	94.1%
Multiple Peril Crop	1.6 pts	104.9%	103.3%	104.0%
Farmowners MP	3.1 pts	97.1%	94.0%	99.5%
Ocean Marine	(4.0) pts	94.2%	98.1%	109.2%
Products Liability	(24.6) pts	130.6%	155.2%	102.2%
Boiler and Machinery	3.5 pts	75.9%	72.4%	80.1%
Credit	(1.1) pts	73.8%	74.9%	91.3%
Fidelity	(1.3) pts	91.6%	92.9%	99.3%
Aircraft (all perils)	(28.9) pts	70.5%	99.5%	98.5%
Excess Workers' Comp	32.6 pts	101.9%	69.3%	151.4%
Private Crop	NA	138.8%	NA	NA
Financial Guaranty	94.7 pts	91.3%	(3.4%)	181.2%
Burglary and Theft	17.0 pts	59.2%	42.2%	58.6%
Combined Lines				
Reinsurance-Nonpro	(9.1) pts	63.8%	72.9%	79.8%
Fire	7.3 pts	85.8%	78.5%	86.5%
Inland Marine	(0.5) pts	83.4%	83.8%	96.2%
Allied Lines	(1.5) pts	83.8%	85.3%	129.9%
Mortgage Guaranty	(25.9) pts	72.1%	98.0%	189.7%
Other A & H	(4.7) pts	127.8%	132.5%	133.0%
Earthquake	3.3 pts	33.8%	30.5%	36.7%
Aggregate Write-ins	59.0 pts	123.1%	64.0%	56.3%
Warranty	(6.5) pts	97.8%	104.2%	99.5%
International	24.1 pts	116.8%	92.6%	91.5%
Credit A & H	0.2 pts	45.2%	45.0%	49.5%
Federal Flood	NM	NM	NM	NM

NA = Not Available NM = Not Material

Underwriting Operations (Cont'd.)

A 2.7-percentage point deterioration in the workers' compensation line was attributed to an 8.4% increase in net losses and LAE incurred to $34.0 billion (accounted for 27.0% of total Commercial Lines losses and LAE), while net earned premiums increased at a lesser rate of 5.6% to $45.3 billion (24.6% of total Commercial lines earned premiums). The other liability-occurrence combined ratio improved 4.6-percentage points to 91.8% due to a 0.1% increase in net losses and LAE incurred while net premiums earned increased 5.7%. The other liability—claims-made line experienced a 16.2 -percentage point deterioration due to a sharp increase in net losses and LAE incurred that led to a 17.1-percentage point deterioration in the net loss ratio to 84.4%. Nominal year-to-year changes in the combined ratios for the other commercial lines had little effect on the overall market.

Combined Lines

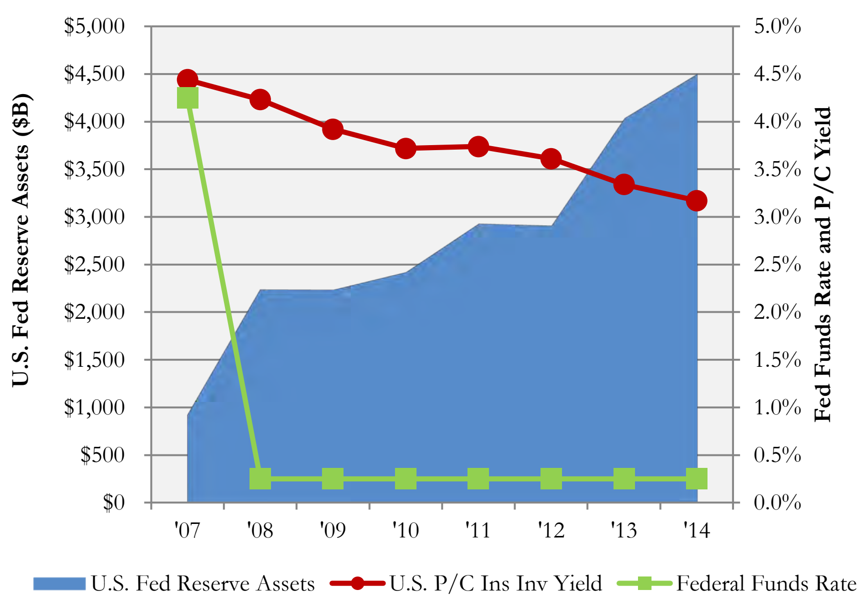
The combined ratio for the Combined Lines market is significantly influenced by the top four lines, reinsurance-nonproportional, fire, inland marine, and allied lines, which collectively comprised 81.5% of total net earned premiums within the Combined Lines market. Furthermore, these lines are typically impacted by catastrophic losses. Thus, low catastrophe losses in the last two years have attributed to a Combined Lines market combined ratios of 80.9% in 2014 and 81.9% in 2013.

Investment Operations

U.S. property/casualty insurance industry investment profits slid, with a net investment gain of $58.1 billion reported for the year, down 11.2% from $65.4 billion reported in the prior year. The decline was associated with a 37.2% decrease in net realized capital gains, primarily due to a 86.8% reduction in realized gains from affiliated common stocks and a 51.6% increase in taxes on capital gains. Net investment income earned was flat at $46.3 billion and investment yield (**Fig. 3**), continued on a downward trajectory due to a six-year period of low interest rates.

Since December 2008, in an effort to stave off the faltering U.S. economy resulting from the bursting of the housing bubble in mid-2007, the U.S. Federal Reserve (Fed) lowered the Federal Funds Rate to 0.25%, where it is continually held today. As a result, the U.S. property/casualty insurance industry's investment yield has fallen 190-basis points from a ten-year high of 5.1% in 2006, to a low of just 3.2% in 2014. In 2009, in an additional effort to restart the U.S. economy, which by this time had fallen into a what is now known as the "Great Recession," the Fed launched a three-round quantitative easing program (QE)—a bond-buying program that allowed the Fed to purchase Treasury bonds and mortgage-backed securities—which resulted in lower long-term rates. In December 2013, the Fed announced a tapering of QE contingent upon certain economic factors. In October 2014, the Fed made its final purchase under QE, and has accumulating $4.5 trillion in assets on its balance sheet through the end of 2014. Despite the end of QE, the Fed announced that it will continue to hold rates low in an effort to help support, an improved U.S. economy. Further, the Fed announced that it will hold onto the bonds for years, and will reinvest the proceeds, which will provide additional support to the economy.

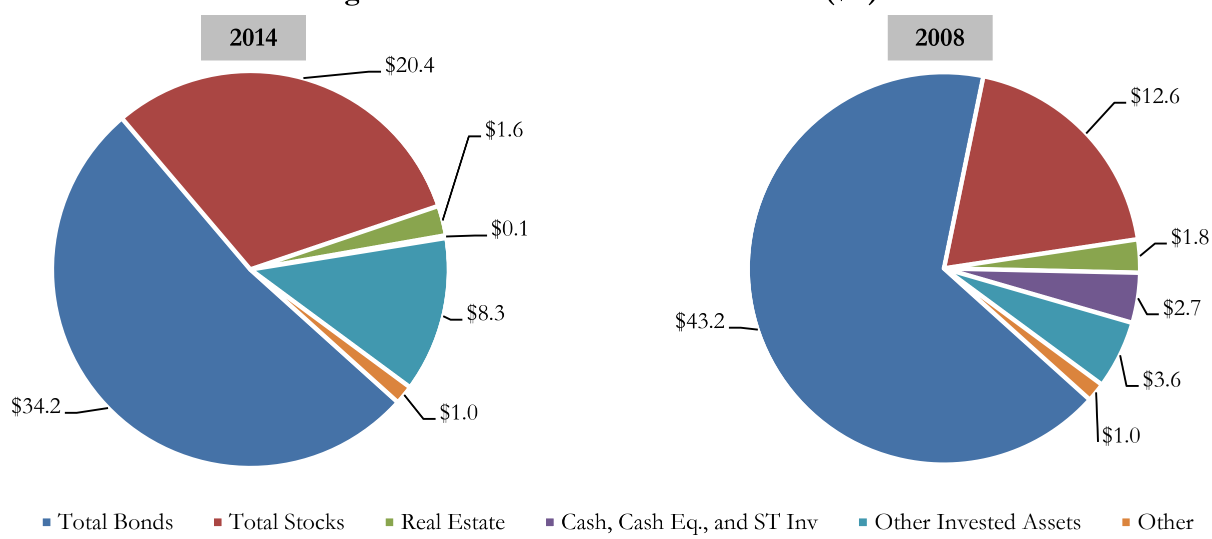
Fig. 3 - Investment Income



Investment Operations (Cont'd.)

Net investment income earned has shifted mainly from bonds in 2008 to a greater percentage earned from stocks and other invested assets. As seen in **Fig. 4**, total investment income earned from bonds was $34.2 billion in 2014 versus $43.2 billion in 2008 before the Fed lowered rates, representing a 20.8% decline. At the same time, total investment income earned from stocks rose to $20.4 billion in 2014 from $12.6 billion in 2008, for a 61.8% increase.

Fig. 4 - Net Investment Income Earned ($B)



Although investment income has shifted more to assets that generally carry higher risks, bonds continued to comprise 69.6% of the industry's total cash and invested assets, whereas stocks (common and preferred) comprised 36.4% of total cash and invested assets, of which 46.5% were affiliated stocks owned. The majority of bonds consisted of Industrial and Miscellaneous Obligations—41.2%, U.S. Special Revenue and Assessment Obligations—26.6%, and U.S. Governments—14.2%. Non-investment grade bonds accounted for 4.1% of total bonds. A slight uptick in short-term bonds was noted, as 54.2% of bonds mature in five years or less, compared to 2008 when just over half of total bonds matured in 5 or more years.

Net Income

The industry recorded a net profit of $56.4 billion for 2014, down 19.1% compared to the prior year's profit of $69.7 billion. The year-over-year decline was attributed to the decreases in both underwriting and investment income. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized capital gains (losses)—was slightly lower at 10.2% for the year versus 12.9% for the prior year (**Fig. 5**).

Table 5, on the following page, provides pre-tax operating profits or losses (excluding all investment gains) by market and by line of business. As seen, pre-tax profits were significantly lower, down 49.7% to $8.3 billion for the year, compared to $16.5 billion in 2013. The majority of the overall decline occurred within the following lines: reinsurance-nonproportional, other liability—claims-made, homeowners multiple peril, financial guaranty, and private pas-

Fig. 5 - Profitability

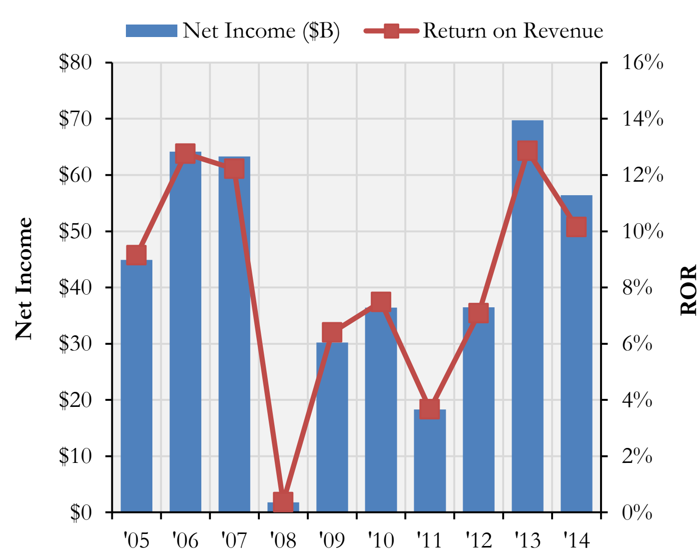


Table 5 - PreTax Profit

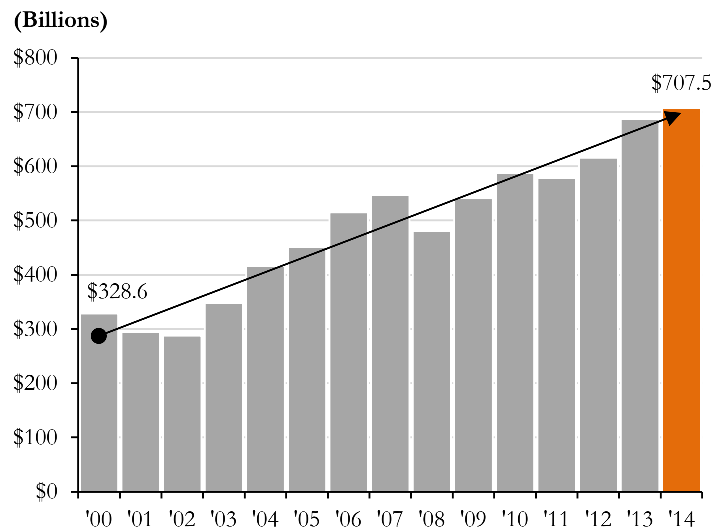
Market	% Chg.	$ Chg.	2014	2013
Personal Lines	(70.4%)	($3.0)	$1.2	$4.2
Commercial Lines	(42.2%)	($1.2)	$1.6	$2.7
Combined Lines	(42.8%)	($4.1)	$5.5	$9.6
All Lines	(49.7%)	($8.2)	$8.3	$16.5
Personal Lines				
Prvt Psgr Auto Liab	(11.7%)	($0.4)	($3.6)	($3.2)
Homeowners MP	(24.3%)	($1.6)	$4.9	$6.5
Prvt Psgr Auto Phy Dmg	(107.6%)	($1.0)	($0.1)	$0.9
Commercial Lines				
Workers' Comp	(33.9%)	($0.4)	($1.7)	($1.3)
Other Liab - Occur	941.6%	$2.4	$2.6	$0.2
Commercial MP (Non-Liab)	(1.6%)	-	$0.9	$0.9
Commercial Auto Liab	39.8%	$0.5	($0.8)	($1.3)
Other Liab - Claims-Made	(725.4%)	($2.7)	($2.3)	$0.4
Commercial MP (Liab)	(7.9%)	-	($0.5)	($0.5)
Medical Prof Liab	(32.7%)	($0.3)	$0.7	$1.0
Commercial Auto Phy Dmg	56.6%	$0.2	($0.1)	($0.3)
Surety	14.0%	$0.2	$1.5	$1.3
Group A & H	228.6%	$0.2	$0.1	($0.1)
Multiple Peril Crop	(29.0%)	-	($0.2)	($0.2)
Farmowners MP	(32.7%)	-	$0.1	$0.2
Ocean Marine	136.9%	$0.1	$0.2	$0.1
Products Liability	45.9%	$0.7	($0.8)	($1.4)
Boiler and Machinery	(12.9%)	($0.1)	$0.4	$0.5
Credit	(19.1%)	($0.1)	$0.3	$0.4
Fidelity	22.3%	-	$0.1	$0.1
Aircraft (all perils)	1,070.3%	$0.3	$0.4	$0.0
Excess Workers' Comp	(109.3%)	($0.3)	($0.0)	$0.3
Private Crop	-	($0.2)	($0.2)	$0.0
Financial Guaranty	(57.6%)	($1.3)	$1.0	$2.3
Burglary and Theft	(23.1%)	-	$0.1	$0.1
Combined Lines				
Reinsurance-Nonpro	(97.7%)	($3.1)	$0.1	$3.2
Fire	(26.5%)	($0.6)	$1.7	$2.3
Inland Marine	11.1%	$0.2	$1.7	$1.5
Allied Lines	9.8%	$0.1	$1.4	$1.3
Mortgage Guaranty	13.8%	$0.1	$0.6	$0.6
Other A & H	(7.6%)	($0.1)	($1.2)	($1.1)
Earthquake	(5.3%)	($0.1)	$1.0	$1.1
Aggregate Write-ins	(123.4%)	($0.6)	($0.1)	$0.5
Warranty	265.7%	$0.1	$0.1	$0.0
International	(432.2%)	-	($0.0)	$0.0
Credit A & H	(2.9%)	-	$0.0	$0.0
Federal Flood	(11.3%)	-	$0.2	$0.2

senger auto liability. On the other end of the spectrum, the other liability—occurrence line experienced the most improvement, followed by modest gains in several other commercial lines. The homeowners' multiple peril line, although down, comprised the majority of the total pre-tax operating profit.

CAPITAL & SURPLUS

Policyholders' surplus (adjusted to remove affiliated surplus) increased 3.1% during the year to $707.5 billion at December 31, 2014—a new record high (**Fig. 6**). The increase was primarily attributed to the net profit of $56.4 billion and net unrealized capital gains of $12.1 billion, less $39.2 billion in stockholder dividends and $11.6 billion in aggregate write-ins for losses in surplus. Return on surplus—a measure of net income and unrealized capital gains (losses), to average policyholders' surplus—was 8.0% for the year, down 6.1-percentage points from 14.2% recorded in the prior year.

Fig. 6 - Policyholders' Surplus



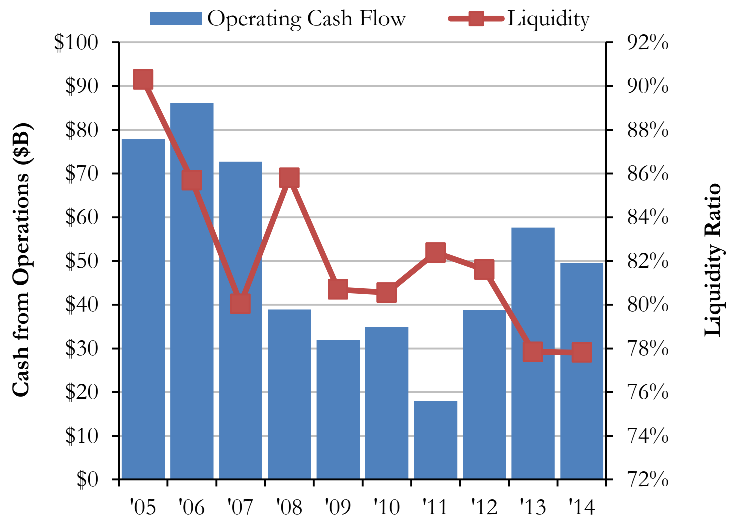
Surplus growth for the U.S. property/casualty insurance industry was mainly derived from profitable underwriting and/or investment operations. Unassigned funds totaled $510.2 billion, up 6.0% compared to the prior year-end. At the same time, gross paid-in and contributed surplus was $257.6 billion, slightly lower compared to the year before, and surplus notes amounted to $15.3 billion and aggregate write-ins for special surplus funds totaled $72.6 billion.

Cash & Liquidity

Net cash provided by operating activities totaled $49.6 billion in 2014 compared to $57.6 billion in 2013. The 14.0% decline was primarily due to a 16.7%, or $8.5 billion decrease net investment income and negative miscellaneous income of $4.3 billion, offsetting the majority of a 3.7%, or $17.8 billion increase in premiums collected net of reinsurance. In addition, cash outflows increased 2.6% year-over-year due to a 4.0%, or $7.5 billion increase in commissions and expenses paid and a 1.7%, or $4.6 billion increase in benefit and loss related payments.

Liquidity was flat at 77.8% at December 31, 2014, as a 2.6% increase in adjusted liabilities to $1.03 trillion was matched by an equal increase in liquid assets to $1.32 trillion.

Fig. 7 - Cash & Liquidity



Reserves

Loss and LAE reserves increased by 0.5% during the year to $611.5 billion at December 31, 2014, whereby $502.8 billion were unpaid losses and $108.7 billion unpaid LAE. A long trend of favorable reserve development continued, with a one-year redundancy of $9.8 billion and two-year redundancy of $22.5 billion. Nearly all lines attributed to the overall favorable development, however reserve development was adverse within the following lines: products liability-occurrence, commercial auto/truck liability/medical, and financial guaranty/mortgage guaranty.

Table 6 - Loss Reserve Development

Loss Reserve Development (SM)			Loss & LAE Reserves (SM)			
	1-Yr	2-Yr	% Chg	$ Chg	2014	2013
Homeowners/Farmowners	($940)	($1,899)	(0.1%)	($25)	$22,112	$22,136
Private Passenger Auto Liability/Medical	($420)	($1,510)	3.1%	$3,044	$101,792	$98,748
Commercial Auto/Truck Liability/Medical	$781	$1,172	3.9%	$988	$26,444	$25,456
Workers' Compensation	($1,028)	($3,374)	2.9%	$4,277	$154,242	$149,965
Commercial Multiple Peril	($166)	($541)	1.7%	$606	$37,164	$36,558
Medical Professional Liability - Occurrence	($698)	($1,222)	(2.1%)	($222)	$10,496	$10,717
Medical Professional Liability - Claims-Made	($37)	($1,712)	3.2%	$542	$17,592	$17,051
Sp Liability (Ocean Mar, Aircraft, Boil&Mach)	($442)	($740)	(3.0%)	($187)	$6,002	$6,189
Other Liability - Occurrence	($146)	($1,191)	1.0%	$907	$91,198	$90,290
Other Liability - Claims-Made	($883)	($1,342)	2.6%	$1,009	$40,550	$39,541
Sp Property (Fire, Allied, Inland Mar, EQ, B&T)	($851)	($1,636)	(3.0%)	($489)	$15,985	$16,474
Auto Physical Damage	($1,737)	($1,741)	5.9%	$319	$5,740	$5,421
Fidelity /Surety	($840)	($1,100)	(11.8%)	($598)	$4,462	$5,059
Other (including Credit, A&H)	($372)	($582)	7.9%	$483	$6,602	$6,119
International	($4)	($21)	(5.3%)	($14)	$256	$270
Reinsurance (Nonpro-Property)	($1,031)	($1,830)	(12.2%)	($1,109)	$7,968	$9,077
Reinsurance (Nonpro-Liability)	($1,226)	($1,451)	(7.0%)	($2,373)	$31,360	$33,733
Reinsurance (Nonpro-Financial)	($58)	($87)	(21.1%)	($119)	$444	$563
Product Liability - Occurrence	$336	$1,528	0.5%	$71	$15,367	$15,296
Product Liability - Claims-Made	($35)	($14)	(0.3%)	($5)	$1,435	$1,440
Financial Guaranty/Mortgage Guaranty	$193	($2,944)	(19.6%)	($3,512)	$14,423	$17,935
Warranty	($39)	($31)	(43.1%)	($120)	$159	$279

Reinsurance

Total amounts recoverable from reinsurers increased 6.2% to $881.1 billion from $829.6 billion in 2013. Authorized balances totaled $762.9 billion, a 6.6% increase relative to the prior year-end, of which 71.9% were affiliated balances that mainly stemmed from intercompany pooling agreements. Unauthorized recoverables totaled $107.0 billion (12.1% of total recoverables), which was relatively unchanged compared to the prior year, while certified balances increased 61.2% to $11.1 billion (1.3% of total recoverables) compared to $6.9 billion (0.8% of total recoverables) in 2013. Leverage related to net recoverable balances was 3.6-percentage points higher at 117.2% of policyholders' surplus compared to 113.6% for the prior year. Total amounts recoverable on paid losses and LAE was flat at $26.8 billion (3.8% of policyholders' surplus), whereby 79.6% were authorized balances, 17.5% unauthorized, and 2.8% certified. Total overdue reinsurance balances on paid losses and LAE was $2.9 billion or 10.9% of total amounts recoverable on paid losses and LAE. Authorized overdue balances comprised 68.3% of total overdue, followed by 31.6% unauthorized balances and 0.1% certified balances.

Professional Reinsurance Market

The Professional Reinsurance Market includes reinsurers that collectively comprised the top 75% of the industry's non-affiliated assumptions. In 2014, 32 reinsurers represented this market.

Assumed premiums written in 2014 totaled $133.4 billion (30.9% of total industry assumptions), of which $35.9 billion were non-affiliated assumed premiums (75.2% of total industry non-affiliated assumptions). As seen in **Table 8**, the profitable U.S. property/casualty insurance industry as a whole carried over into the Professional Reinsurance Market, with a net profit of $21.1 billion, considerably higher compared to previous years. This was reflected in an impressive return on revenue of 20.1% for 2014 and 30.8% in 2013. The profit for the current year mainly derived from a net investment gain of $22.7 billion, but was also attributed to a net underwriting gain of $4.1 billion. Investment yield was 5.1% and the combined ratio was 93.8% for the year. One-year loss reserve development was unfavorable by $3.6 billion, while the two-year development was a favorable $2.0 billion. Return on surplus was lower in 2014 at 9.4% compared to 19.7% in 2013 and 11.3% in 2012. Net cash provided by operating activities totaled $22.4 billion and liquidity was 97.7%.

Table 7 - Professional Reinsurance Market Summary

($ in Billions)	2014	2013	2012	2011	2010
No. of Reinsurers	32	29	31	29	30
Non-Aff APW	$35.9	$34.5	$35.9	$35.0	$30.9
Market Share	75.2%	75.0%	75.3%	75.1%	75.3%
Assm Prem. Earned	$125.7	$97.5	$84.4	$77.7	$78.2
Assm. Losses Incrd.	$72.9	$52.0	$55.4	$56.2	$46.2
Assm. Loss Ratio	58.0%	53.4%	65.7%	72.4%	59.1%
Net U/W Gain (Loss)	$4.1	$4.6	($3.4)	($5.5)	($1.1)
Net Inv. Gain (Loss)	$22.7	$25.8	$14.4	$14.4	$17.1
Net Income	$21.1	$26.6	$9.6	$8.2	$14.1
Return on Revenue	20.1%	30.8%	13.9%	12.7%	21.5%
Return on Surplus	9.4%	19.7%	11.3%	4.9%	12.8%
Investment Yield	5.1%	4.4%	4.3%	4.2%	4.8%
Net Loss Ratio	68.6%	60.7%	77.6%	82.8%	74.8%
Expense Ratio	25.1%	29.8%	28.3%	27.5%	27.5%
Dividend Ratio	0.1%	0.1%	0.0%	0.1%	0.1%
Combined Ratio	93.8%	90.6%	105.9%	110.4%	102.4%
Cash from Ops.	$22.4	$20.2	$14.4	$8.7	$15.6
Liquidity Ratio	97.7%	96.3%	100.4%	101.2%	99.7%
1-yr Reserve Dvlpmt	$3.6	$3.0	($0.0)	($0.9)	($0.1)
2-yr Reserve Dvlpmt	($2.0)	($3.5)	($0.9)	($0.7)	$0.3

Terrorism Risk Insurance Act

On January 12, 2015, President Obama signed the Terrorism Risk Insurance Program Reauthorization Act of 2015 (H.R.26), extending the program through December 31, 2020. Several provisions of the initial Act have changed in the 2015 extension, some of which can be found at: http://www.naic.org/cipr_topics/topic_tria.htm.

Catastrophe Update

Global

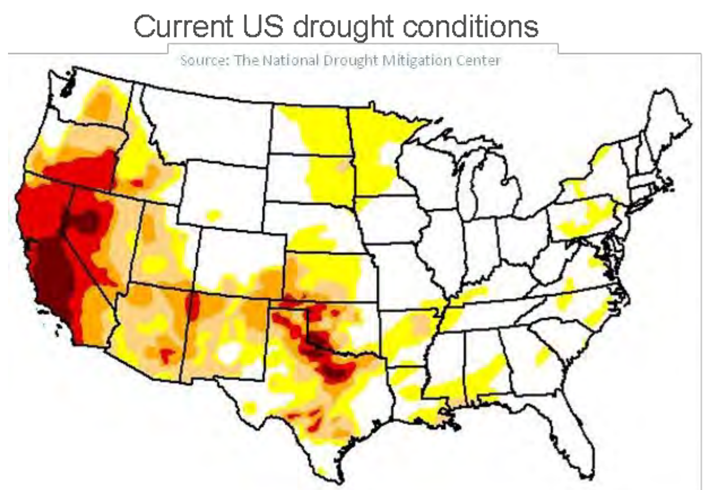
Total economic and insured global catastrophic losses for the year were below historical averages per, Munich Re's 2014 Natural Catastrophe Year In Review. Despite a reported 980 global loss events, in contrast to a 10-year average of 830. Overall total economic losses of $110 billion were reported compared to a 10-year average of $190 billion while insured losses totaled $31 billion versus a 10-year average of $58 billion. Almost 60% of insured losses occurred in North America with the vast majority occurring in the United States. Fatalities for the year totaled 7,700 compared to 21,000 for 2013 and an average of 97,000 for the past 10-year period. A mild year by historical measure, there was no single natural catastrophe event that overshadowed the rest and no natural disasters during the year resulted in economic losses in excess of $10 billion dollars.

A few notable non-U.S. events occurred during the year including, Cyclone Huhhud which made landfall in India as a category 4 hurricane. This event resulted in damage to over 80,000 buildings in addition to major damage to the country's infrastructure and agriculture with estimated economic losses were in excess of $7.0 billion. Europe experienced torrential rainfall over a two week period in May that caused damage to over 100,000 buildings as a result of flooding and landslides. With an estimated economic impact of $3.6 billion. On the other side of the planet, the southwestern region of Brazil experienced one of the worst droughts in the country's history which affected over 27 million people. The drought brought on extreme heat waves that led to extensive losses to crops. Economic losses from the drought topped $5.0 billion.

United States

The United States experienced 119 loss events during 2014 compared to 128 for the prior year, representing a decline of approximately 7.0%. U.S. insured losses for the year totaled $15.3 billion, compared to average insured losses of $12.8 billion for prior year, and represented approximately 49% of total global insured losses. Severe thunderstorms caused 98 deaths and an estimated $12.3 billion in insured losses with total losses reported in excess of $17.0 billion. This represented the seventh consecutive year where insured losses due to thunderstorms topped $10 billion. Winter storms resulted in 115 deaths during the year and caused $2.3 billion in insured losses. The U.S. continued an almost decade long absence of major hurricane activity as only two events were reported causing minor insured losses.

Per the National Oceanic and Atmospheric Administration, severe drought conditions persist in California despite recent heavy rainfalls, as the past year was the fourth driest year in the state's history. In 2014, California only received 60 percent of its yearly average precipitation and nearly every city is at least one year behind normal rainfall totals with some cities approaching to two years. There was hope that a moderate to strong El Nino season would arrive and lessen the extremes of the drought. However, it appears the El Nino is looking weaker than projected and will not bring the hoped for precipitation.



Title Insurance Industry

Premium

During 2014, due to limited inventory and stringent lending standards, the U.S. housing market recovery efforts slowed. The title industry, reported an 11.2% decline in direct premiums written to $11.2 billion. Little reinsurance is utilized in the industry resulting in gross and net writings that totaled $11.2 billion and a retention of 99.4%. The gross and net writings leverage ratios were similar at 264.1% and 262.4%, respectively.

Profitability

For the third consecutive year, the industry recorded a net operating gain. The 2014 gain totaled $799 million, a 16.5% improvement from the prior year. The improvement was largely attributable to a $1.3 billion decline in operating expenses incurred to $10.7 billion and an $87 million decrease in losses and LAE incurred to $742 million that outpaced a $1.1 billion drop in premiums earned to $11.4 billion. The combined ratio worsened marginally to 102.2% compared to the prior year's ratio of 101.5% and was represented by a 6.5% loss ratio and a 95.7% expense ratio.

A net investment gain of $262 million was reported for 2014, down 12.7% from the previous year, and was comprised almost entirely of net investment income earned. Ultimately, the industry reported an 11.3% improvement in profitability with a net income of $855 million.

Table 8- Title Industry Results

($ Millions)	Chg.	2014	2013	2012
Insurance Operations				
Net Premiums Written	(11.2)%	$11,156	$12,569	$11,246
Title Premiums Earned	(8.8)%	$11,389	$12,490	$11,233
Loss & LAE Incurred	(10.1)%	$742	$825	$851
Operating Exp Incurred	(10.6)%	$10,659	$11,919	$10,881
Net Operating Gain/(Loss)	16.5%	$799	$686	$498
Loss Ratio	(0.1)-pts	6.5%	6.6%	7.6%
Expense Ratio	0.8-pts	95.7%	94.9%	96.7%
Combined Ratio	0.7-pts	102.2%	101.5%	104.3%
Net Cash from Ops	(1.1)%	$698	$706	$844
Liquidity Ratio	(2.8)-pts	73.3%	76.1%	81.7%
Investment Operations				
Net Inv. Income Earned	(4.7)%	$261	$274	$321
Investment Yield	(0.2)-pts	3.6%	3.9%	4.7%
Realized Gain/(Loss)	(97.0)%	$1	$26	$36
Capital and Surplus				
Net Income	11.3%	$855	$769	$719
Net Unrealized Gain/(Loss)	(138.8)%	$(46)	$119	$176
Policyholders' Surplus	3.1%	$4,251	$4,122	$3,842
Return on Surplus	(3.0)-pts	19.3%	22.3%	26.2%

Capital & Surplus

Title industry aggregated policyholders' surplus increased 3.1% to $4.3 billion. The improvement was driven by net income of $855 million, a $135 million decline in non-admitted assets, and aggregate write-ins for gains in surplus of $90 million. Offsetting the increase in part was $747 million in dividends paid to stockholders and a $152 million rise in supplemental reserves.

Return on surplus worsened 3.0-percentage points from prior year to 19.3%. The deterioration resulted from increased unrealized losses that outpaced rises in net income and policyholders' surplus.

Cash & Liquidity

Net cash provided by operating activities totaled $698 million, a 1.1% decline over the prior year. The deterioration was due to an 11.2% drop in cash inflows to $12.3 billion that resulted from a $1.5 billion reduction in premiums collected and a $1.0 billion decline in miscellaneous income. Partly offsetting the decline in cash inflows was a $1.3 billion decrease in commissions and expenses that led to an 11.8% decline in cash outflows to $11.6 billion. Net cash used by investing activities totaled $245 million and net cash used by financing activities totaled $465 million for an overall decrease in cash, cash equivalents and short-term investments of $12 million.

The industry's liquidity ratio strengthened 2.8-points to 73.3%, attributable to a 2.2% increase in liquid assets and a 1.5% decrease in adjusted liabilities.

Appendix D
Property and casualty insurance outlook

Appendix

2015 EY US property-casualty insurance outlook

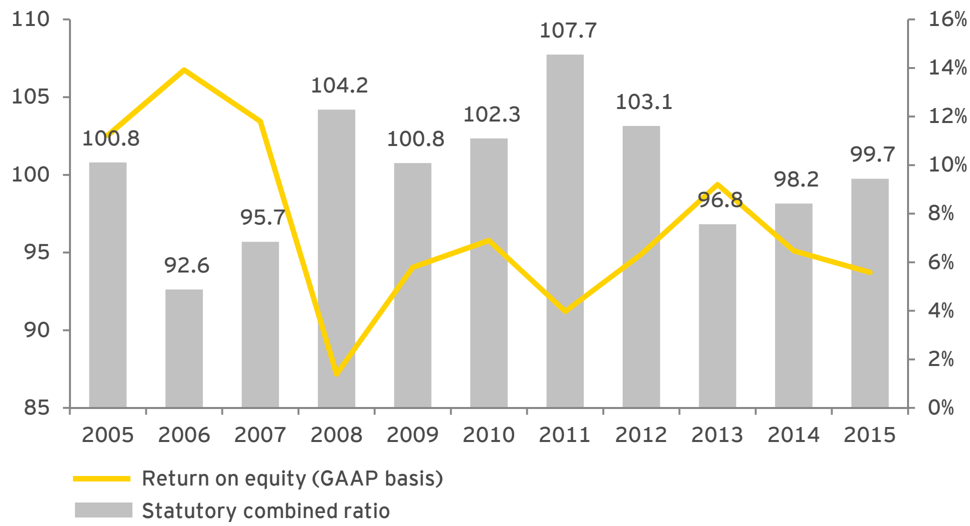
Market summary

Current economic and marketplace trends in the US suggest a continuation of modest gross national product (GDP) growth and a low rate of inflation in 2015. Despite this generally positive macroeconomic environment, increasing risk and economic uncertainty continue to prevail. Consequently, the US property-casualty market is confronted by contradictory signals of opportunity and challenge.
For example, corporate revenue growth is strong and job growth is increasingly improving, but job wage growth has lagged. Similarly, core US inflation has remained within the Federal Reserve's targeted range, but food and energy prices are volatile and medical inflation continues. Volatility in global economic conditions further complicates the macroeconomic environment. The anticipated interest rate recovery has stalled, and volatility in the financial markets may accelerate.

Building a better working world

On the surface, the property-casualty industry appears well on its way to a second year in a row of strong performance. Combined ratios and return on equity (ROE) have reached levels not seen since before the financial crisis (see figure 1). This strong performance has helped strengthen balance sheets, increasing both surplus and invested assets. However, as of year-end 2014, ROEs were beginning to fall from a combination of capital accumulation, competitive pricing, weak investment returns and rising loss expense.

Figure 1: Combined ratio vs. return on equity



In this environment, pricing is constrained by capital accumulating faster than insurance exposures. The benign catastrophe results over the last two years have pressured reinsurance rates, which have correspondingly depressed pricing in primary lines. Additional pressures are anticipated if alternative capital providers, such as hedge funds, further their expansion into the casualty insurance business using predictive analytics. Several years of profitable property catastrophe reinsurance risk assumption have bolstered the alternative providers in their expansion plans.

As margin pressures mount in the industry, this increases the emphasis on expense management through technology upgrades and better integration of business units. To reduce costs, property-casualty insurers that grew over the past decade via acquisitions will need to increasingly focus on the post-merger integration of their physical plant, people, processes and data resources. Weak investment returns are another factor in companies' declining profitability, since maturing investments are being reinvested at lower yields. This factor is compelling carriers to assume more credit and liquidity risk in their investment portfolios. To manage these strains on profitability, insurers need to continue to invest in technology solutions across the entire enterprise that respond more effectively to ongoing competitive pressures, increased risk and uncertainty.

Market leading performance in the property-casualty sector is being driven by investments in technology, distribution and risk management systems. As mission-critical information becomes more accessible, this is driving more assured data-driven business decisions in the C-suite. To segment and reach profitable customers, insurers also are using new technologies to develop and manage multiple distribution and communication channels. Nevertheless, new competitors leveraging more available and cost-effective solutions in analytics, communication and infrastructure may pressure the market's technology leaders in 2015. In response, leading companies are migrating from stand-alone technology projects to an environment of continuous technological improvement.

The likelihood of increasing burdens and jurisdictional competition will continue to characterize the regulatory milieu in 2015. Regulatory bodies have proliferated at the international, federal and state levels. All will likely increase their demands for information, reporting and compliance, External forces in 2015

Technology changes	Customer expectations	Regulations	Catastrophes	Capital adequacy	Pricing
↗	↑	↗	↘	↑	↘
Pace of change accelerating	Increasing customer needs	Conflicts arising between regulatory bodies	Benign CAT environment	Excess capital leading to increasing competition	Competitive pressures negatively affecting pricing

with regard to accounting, solvency, fair practices, transparency, governance and marketplace equity. In the US, jurisdictional competition is evidenced by the potential overlapping oversight of the National Association of Insurance Commissioners (NAIC), state insurance regulators and the new Federal Insurance Office (FIO). Navigating possible conflicting rules and regulations may increase both human resource and financial capital costs.

These various factors indicate that 2015 may present a more challenging market environment for property-casualty insurers. Companies that proactively manage these evolving events will differentiate themselves from those that respond reactively. In this regard, insurers need to invest in new markets, products and approaches to existing customers. To grow the top line will require organizational realignment, a commitment to innovation and the implementation of advanced data analytics. The recruitment and retention of superior management talent is a key challenge, given that the role of underwriters, claims and service personnel is evolving. With organic growth uncertain, management must explore acquisition opportunities, particularly more targeted strategic expansion as opposed to large-scale consolidation. The ability to successfully plan and operate in this fast-changing environment is crucial, as the variable growth US economy will pressure insurance company management to assume greater risk, while determining which of these risks is economically sound.

To remain industry leaders, successful property-casualty insurance companies will need to react to these macro and industry challenges in 2015 in the following ways:

1. Respond to increasing competition with strategic cost management and laser-focused pricing
2. Engineer an enterprise data excellence strategy
3. Improve customer connectivity by expanding distribution and customer service
4. Retool operations for new and evolving risks
5. Proactively address multiple regulatory requirements and potential tax considerations
6. Address investment performance and capital management

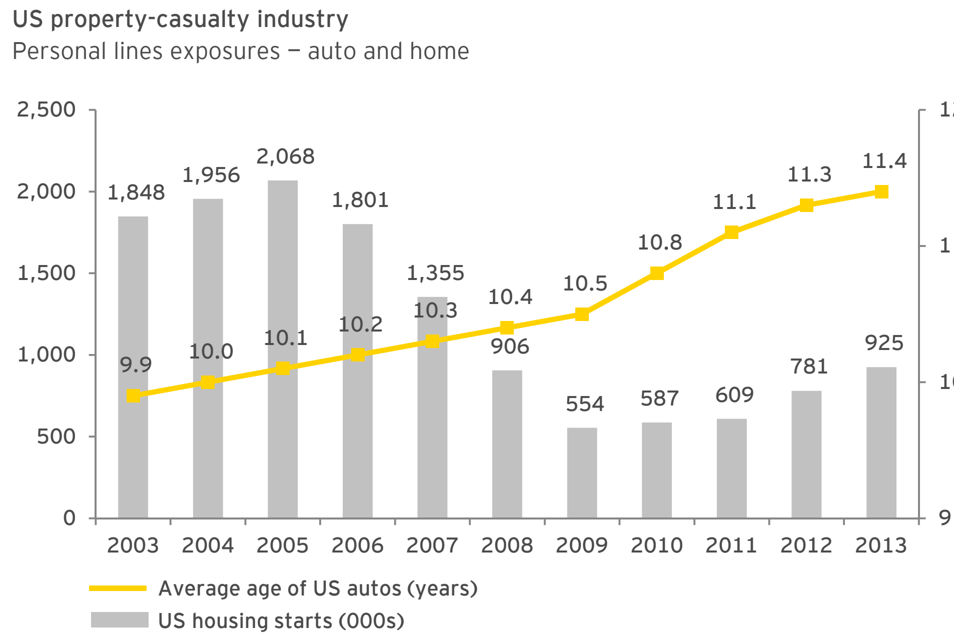
Respond to increasing competition with strategic cost management and focused pricing

In 2015, insurers are entering an uncertain operating environment marked by slower premium growth and increasing competition. Personal lines exposures remain below historical levels (see figure 2), further pressuring top-line growth. Maintaining good profit margins requires insurers to focus on cost, efficiency and more refined segmentation and pricing strategies. For the past three years, insurers have been able to maintain stable expense ratios due in large part to premium growth. However, if rates ease in 2015, premium growth may not be able to keep up with expense growth.

The continued expansion of aggregator and direct-to-consumer business models is enhancing insurance product cost transparency, while the need to operate multiple distribution and communication channels is increasing carrier expenses. Additionally, many insurers are just beginning to rationalize previously acquired operations and legacy systems. To improve efficiencies and be more competitive, insurers must attend to redundant operations, processes and data resources. Cost reduction is no longer just an operational issue; it is now a competitive necessity. More forward-thinking companies will aggressively tackle their costs.

Technology solutions are critical to achieving strategic cost management and customized pricing and segmentation goals. Sustainable competitive advantages flow from precise, segmentation and optimized customer pricing using internal and third party data. Micro-segmentation of customer risk attributes is equally important. Leading insurers also are improving their profitability through integrated cloud computing solutions that cost less than on-premise technology. They are further trimming expenses by implementing straight-through processing to reduce duplicate data entry across functions.

Figure 2: Property-casualty exposures



Source: U.S. Census Bureau; R.L. Polk Co.; U.S. Department of Transportation; EY analysis, 2014

Several approaches are available to insurers to improve cost effectiveness, such as selective offshoring, shared service centers, process optimization and third-party spending controls. Some insurers also have established onshore captive service centers in lower-cost geographies with educated workforces to replace their existing, higher-cost infrastructure.

In the effort to reduce expenses, insurers must not limit their ability to build new capabilities in today's competitive environment. Strategically, they must weigh prospective expense reductions against their respective goals and competitive differentiators. In turn, this should guide better decisions to reduce costs and improve business performance. Identifying the most effective long-term cost reduction opportunities is important in these deliberations.

Engineer an enterprise data excellence strategy

Property-casualty insurers in 2015 must embrace an enterprise data excellence strategy that addresses all aspects of their operating model. Data collection and analysis are necessary decision-making tools, particularly as more insurers compete on their respective levels of data superiority and/or develop new business models enabled by these capabilities. For example, customer acquisition and retention will improve through sharpened data acquisition and predictive modeling. Led by chief data officers, enhanced data analytics is sure to improve competitive positioning, as well as attract management at all levels capable of adopting the expanding uses of data analytics.

Improved data acquisition and predictive modeling capabilities will provide a more detailed understanding of customer risk profiles, generating more customized insurance coverage, better pricing and cross-sell opportunities suited to each buyer's needs. Customer loss analyses will speed claims adjudication processes, further improving customer retention and brand loyalty. The micro-segmentation of a customer's risk profile also presents the opportunity for an integrated customer solution, rather than the more discrete responses offered by less technologically astute competitors.

To effectively segment customer prospects for acquisition purposes requires leveraging both third-party data and internal data. Armed with this information and using sophisticated data analytics, insurers can predict which customer segments are most likely to respond favorably to specific insurance product solicitations. They are also able to better understand the different distribution channels best equipped to provide the solicitations, which can be tailored to consumers based on whether they are price-sensitive or more interested in customer services or security.

Insurers face the prospect of competition from non-traditional sources with sophisticated data analytics capabilities. For example, technology firms have become more comfortable with risk identification and selection because of the wide availability of significant third-party data sources. A case in point is mobile apps that allow ride-sharing businesses to provide commercial automobile insurance coverage to drivers for the period in which they are transporting passengers, instead of continuous coverage. Technology also has enabled some entities to provide small business coverage electronically without any agent or even carrier involvement. An industry that had been relatively protected may well be a target for disintermediation.

An effective enterprise data excellence strategy requires the recruitment, hiring and retention of top science and management talent. The industry's aging workforce complicates this need. In an increasingly competitive marketplace, management that combines technological data sophistication with risk mitigation skills can more effectively navigate and make midstream corrections.

Technology has enabled some entities to provide small business coverage electronically without any agent or even carrier involvement.

Improve customer connectivity by expanding distribution and customer service

Reaching the insurance customer in a variety of formats is increasingly becoming a competitive necessity, given the expansion of channel choices available to consumers from other industries today. Adding channels and offering alternative modes of communication improves client access, enhancing competition for the most profitable customers. To address competitive distribution challenges, insurers first need to expand their methods and modes of customer interaction.

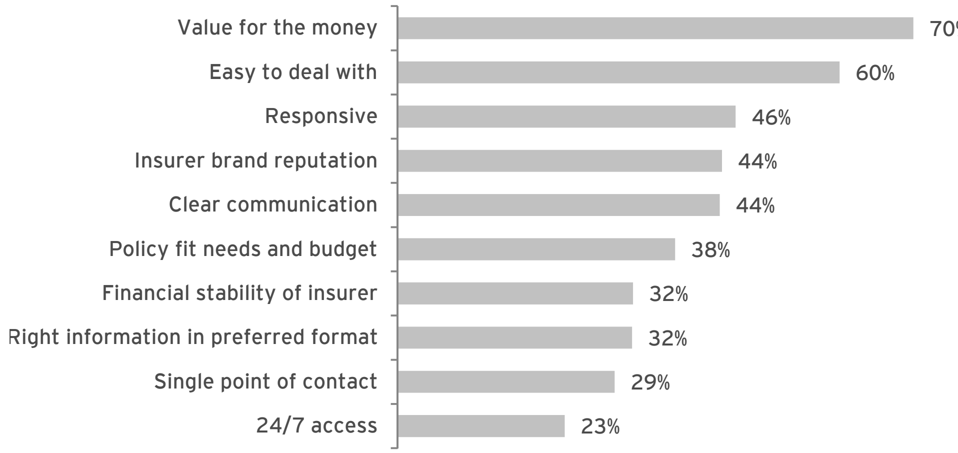
Competitive pressures have created the need for insurers to evaluate the effectiveness of their traditional customer connection points. In personal lines, some companies have strategically developed a suite of capabilities that meets the full spectrum of customer distribution and service needs. Other carriers are adding

Customer expectations are rising with regard to price transparency, real-time customer service and support and instant delivery.

Figure 3: Customer expectations

US property-casualty industry

Top 10 most important characteristics when shopping for a policy



Source: EY Global Consumer Insurance Survey, 2014

new channels, driven by their similar assumptions regarding the market's direction.

At the same time, customer expectations are rising with regard to price transparency, real-time customer service and support and instant delivery (see figure 3). These expectations also are influenced by customer interactions with retailers, where they seamlessly progress from information gathering to shopping, purchase and service. In this environment, insurers must improve the customer experience by providing additional distribution outlets and customer contact points.

To further sharpen their competitive edge, successful insurers will optimize the channel mix and provide channel partners with data analytics tools. Agents and brokers will find it easier to collaborate with an insurer that leverages data analytics. This will enable them to identify potential high-value lifetime clients and guide them to these prospects. Improved data and implementation technology also provides deeper insights into customer preferences, identifying the most profitable customers. Products and pricing can then be customized and/or bundled to address individual customer needs.

Effective integration of technology solutions will enhance an insurer's ability to track financial performance, customer satisfaction and the operational efficiencies of multiple distribution channels. New customer contact channels continue to emerge, including car dealerships, mobile phones, kiosks and social media. Integrating these channels to provide a seamless customer experience across an insurer's sales and service activities is the next competitive differentiator.

Retool operations for new and evolving risks

As insurers pursue top-line revenue growth in new products, the effective identification, analysis and mitigation of new and emerging risks is increasingly important. Throughout the global economy, new business models are replacing traditional services while altering customary risk patterns. In this new sharing economy, services provided by individuals inexperienced in risk mitigation and delivery issues are on the upswing. Consequently, the risk characteristics for these services will be different from the risks inherent in more traditional models, insofar as frequency and severity.

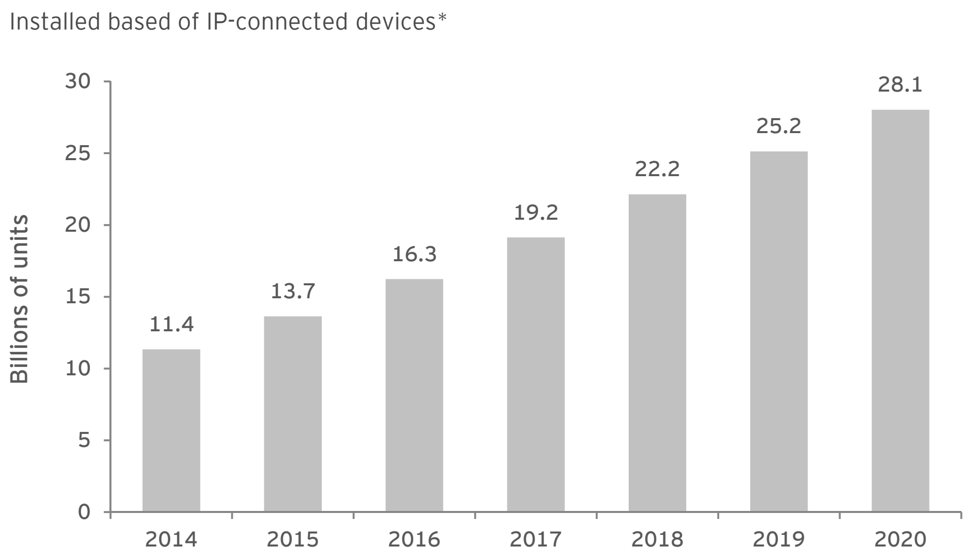
To address these challenges, insurers need to re-engineer their traditional business processes. Overhauling outdated underwriting processes will be critical, as new product time-to-market accelerates in response to shortened product life cycles. More modular and granular product development will assist management in responding to real-time customer feedback and fast-changing customer preferences.

Insurance coverage in the future will need to address new ways of activating and terminating the risk transfer, given the marketing of insurance products in short, distinct time frames in today's sharing economy. As consumer demand increases for shared services, insurers that best capture unique risk profiles to offer more customized products will be in a prime position to seize these new market opportunities.

Other new risks offer additional opportunities for growth. A case in point is the networked connectivity of machinery and appliances, known as the "internet of things." While this provides greater risk transparency, it also introduces increasing data collection challenges. Networked products, such as appliances that transmit failure reports, will help insurers to more precisely predict future appliance breakdowns. As massive amounts of information are gathered, evaluated and stored, insurer underwriting, claims and distribution processes will struggle to maintain pace.

Cyber-crime coverage is another area of opportunity, given the recent spate of highly publicized attacks at large and smaller companies. Networked products are sure to increase the risk of criminal intrusions, which will correspondingly fuel demand for cyber coverage. Bundling insurance products such as warranty coverage and cyber insurance could facilitate new cross-sell opportunities.

Figure 4: Worldwide "internet of things"



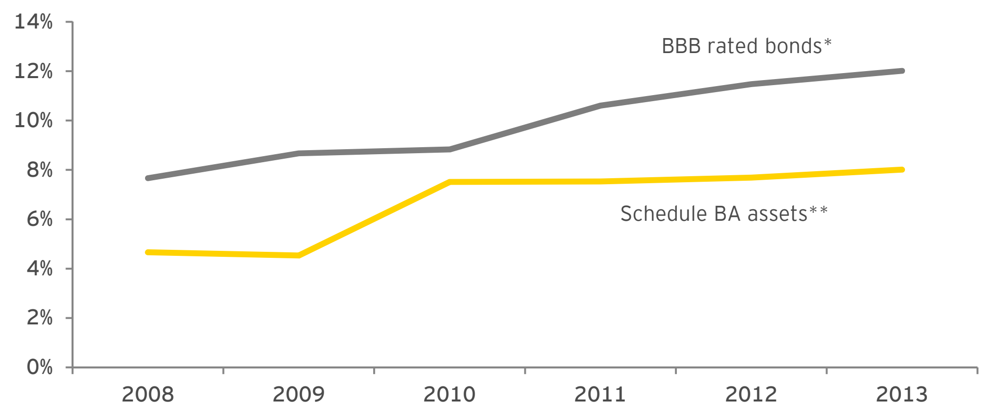
Source: IDC, "Worldwide and Regional Internet of Things (IoT) 2014–2020 Forecast"
**Excludes stand-alone sensors, smartphones, tablets, PCs and wearable devices.*

Proactively address multiple regulatory requirements and potential tax considerations

The growing volume and complexity of insurance regulations, in addition to the various overseers of these rules such as the NAIC and FIO, compel insurers to invest in more flexible technology, data analytics and skilled management. While more stringent regulations may impede growth, increase expenses and divert valuable human resources, the impact will be less for insurers that select appropriate technology and data solutions to address their broader risk management and reporting demands.

Insurers should monitor the proposed tax law changes currently in discussion in Congress, such as the Camp proposal.

Figure 5: US property-casualty industry invested assets



**Percent of total bonds*
***Percent of cash and invested assets*

Source: A.M. Best Company; EY analysis, 2014

Insurers need to expand their management pools with management talent that is well-versed in regulatory and reporting matters. Demands from multiple and potentially conflicting jurisdictions require solutions with enterprise-wide application. Investing in the efficient use of data to satisfy current and future regulatory demands will be more cost-effective if accompanied by judicious staff additions to respond to increasing regulatory information requests.

In 2015, insurers with more than $500 million in direct premium ($1 billion for insurance groups) are required to comply with the NAIC's requirement to submit annual reports of their Own Risk and Solvency Assessment (ORSA). The scope and detail of the data to be provided vary according to the nature and the complexity of the insurer. Nevertheless, insurers must provide the quantitative methods they used to assess risks and the impact of these risks on their balance sheets. They must also submit a description of the company's processes for model validation. Although ORSA requirements are an annual process, they may be iterative – should an insurance commissioner request additional detail, the insurer must be in a position to provide robust data, as well as a detailed understanding of risks, their interrelationship and how these risks can be mitigated. In addition, ORSA is likely to evolve to entail additional reporting challenges.

Insurers also need to be ready to respond to increased data requests from the FIO, which has indicated interest in developing standards for personal lines insurance, specifically governing pricing and rate regulation practices. The FIO's potential involvement in consumer protection initiatives, such as the affordability of personal lines insurance in underserved communities, would increase data demands in the future. At present, it is unclear if the information requests from new regulators will conform to standard statutory information or accounting conventions, increasing their potential impact on insurers.

Finally, insurers should monitor the proposed tax law changes currently in discussion in Congress, such as the Camp proposal. In the proposal's current draft are changes to how property-casualty insurer loss reserves would be treated for tax purposes.

Address investment performance and capital management

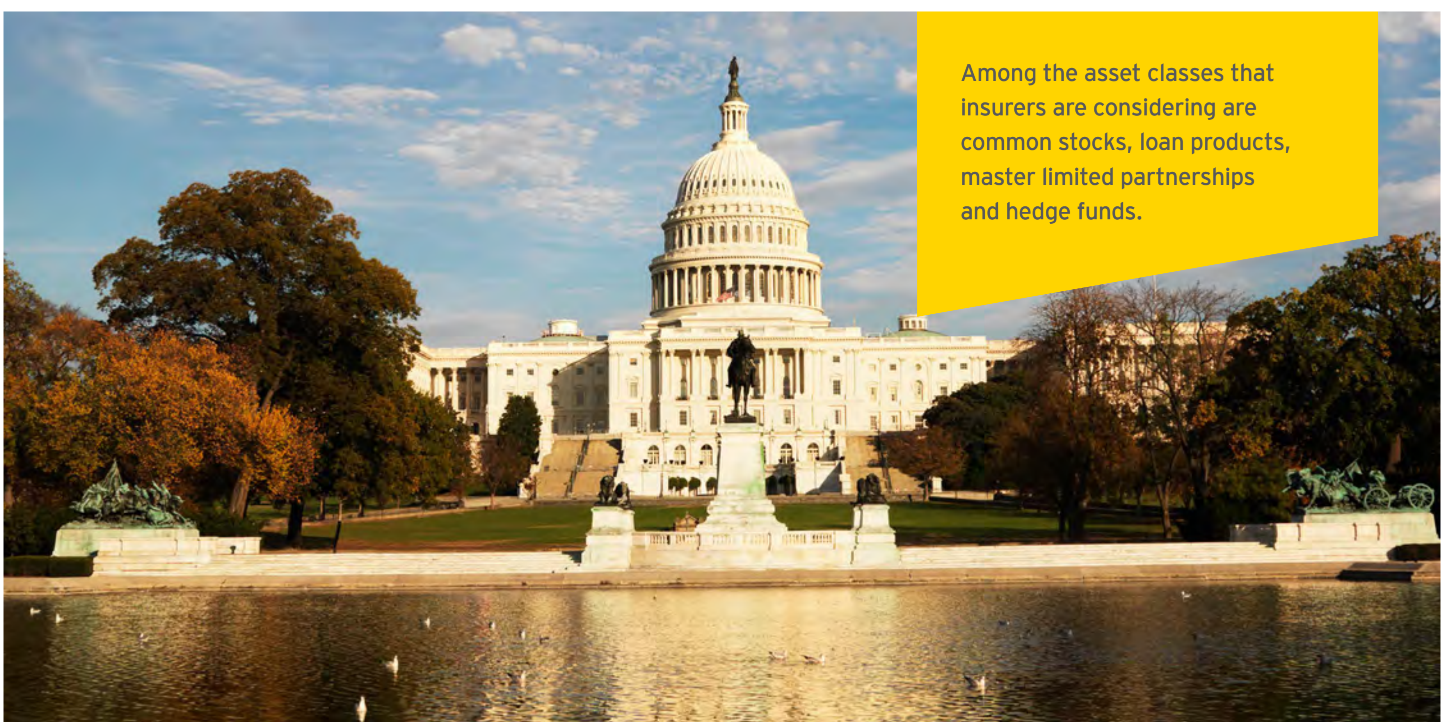
After a brief initial rise in interest rates in mid-2013, rates have since retreated. The concerns over a rapidly rising interest rate environment appear to have given way to anxiety over continued low rates. Although the property-casualty industry's investment income is improving modestly, this is primarily due to new cash flows and invested asset growth, as reinvestment yields continue to languish. While the industry's embedded yield appears to have bottomed out in 2014, it is not expected to rise appreciably in 2015.

As a result, insurers continue to seek enhanced yield and investment income through changes in credit quality, liquidity and maturity. However, the prolonged investment market challenges leave insurers with few ways to achieve these aims. One of the more significant shifts in bond allocations has been the migration toward lower-rated NAIC-2 category assets (BBB rated credits). Insurers also have taken on more liquidity risk by investing a greater portion of their bond portfolios into private placement securities. While these actions have enhanced overall yields at the margin, they have not mitigated insurers' credit exposures and concentration risks.

Given an abundance of capital, most insurers are re-evaluating their investment allocations to enhance performance and improve diversification. Among the asset classes that insurers are considering are common stocks, loan products, master limited partnerships and hedge funds. While these alternatives can improve an insurer's investment risk profile and provide added diversification, they require greater sophistication in risk modeling and monitoring, in addition to both internal and external reporting.

In today's increasingly demanding regulatory environment, these new investment allocations need to be modeled and better understood. To do this, insurers increasingly need global enterprise risk management capabilities, improved risk analyses and technology solutions that measure investment risk across multiple asset classes and economic scenarios.

To optimize capital deployment, insurers will continue to pursue capital management strategies such as share repurchases, extraordinary dividends and even merger and acquisition transactions. Management will rely on both internal and external capital models to balance their return objectives with regulatory, solvency and rating agency capital margin requirements. Expectations are for global political and economic volatility and uncertainty to continue to influence the capital markets in 2015, requiring insurers to take a more proactive approach toward managing their investment and capital management strategies.



Among the asset classes that insurers are considering are common stocks, loan products, master limited partnerships and hedge funds.

Notes

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Appendix E

EY critical insights – Cybersecurity

Appendix

EY critical insights
Cybersecurity

Topic summary

While cyber security has historically been a topic of discussion in board rooms, the increase in the volume and severity of attacks, coupled with the increased scrutiny by regulators, has significantly elevated its importance.

Those charged with governance including boards and audit committees are now expected to have an appropriate understanding of the business implications of cybersecurity risks on the company to enable them to evaluate:

- The suitably of the governance structure implemented by management.
- The cybersecurity risk management program implemented by management.

What to look for

Leading boards expect regular (e.g., quarterly) updates from management on information security and cyber threat intelligence that is both meaningful and actionable. The report should address the following:

- **Identification.** Which are the top three to five threats that are most relevant to the organization?
- **Protection.** Summarize the actions taken to manage these threats? Summarize what other actions management considered, but elected not to pursue.
- **Detection.** What mechanisms are being used to detect incidents? How does management evaluate and categorize incidents identified, and determine which to elevate to senior leadership? What activity has been seen since the last report?
- **Response and recovery.** How did the company respond to higher risk incidents?

Questions for the audit committee to consider

- Does management treat cybersecurity as an enterprise-wide business risk, not simply as an IT risk?
- How are the company's most critical information assets protected and have the related cyber risks been prioritized?
- Do management and the audit committee understand the various cybersecurity government resources available to businesses?
- What standards or framework (e.g., NIST, ISO) does the organization use to structure its response to cybersecurity risk?
- How are metrics (including big data and analytics) leveraged to address cybersecurity by management and the board?
- Are incident response plans in place in your companies should a material cybersecurity breach occur? Has management practiced its incident response plan and developed a crisis management plan for cyber breaches?
- What is the role of internal audit in cybersecurity?
- Has the board considered the talent implications and re-evaluated the expertise level at the company and board level to manage cybersecurity risk?
- Does the Board understand the insurance coverage in place and its impact on potential claims?
- How are employees trained and made aware of their role in managing cybersecurity risks? Are internal threats appropriately considered?
- Does the company have resources dedicated to monitoring cybersecurity-related regulatory changes that may affect the organization?

Relevant materials are available on the Center for Board Matters (www.ey.com/boardmatters)

How boards can get ahead of cybersecurity risks: Smart boards and audit committees know that the best offense for a cybersecurity attack is a strong defense. We outline three steps to prepare.

Cybereconomics and the board: Board involvement is critical in helping organizations manage and mitigate cyber risks.

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BOARD OF RISK AND INSURANCE MANAGEMENT

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Executive Director
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AGENDA
BOARD MEETING OF THE WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

September 15, 2015

Chairman Martin	Call to Order
Chairman Martin	Approval of Board Minutes June 23, 2015
Chairman Martin	In Remembrance Martin J. Glasser, Esquire
Chairman Martin	Introduction of New Board Member James A. Dodrill, Esquire

REPORTS

Nate Pearson Standish Mellon Asset Management	Account Update/Investment Update
Tom Sauvageot WV Investment Management Board	Account/Investment Update
Mary Jane Pickens. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report PCard Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

Chairman Martin Election of Vice Chairman

ADJOURNMENT

MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

September 15, 2015

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Chairman James A. Dodrill, Esquire, Member Edward Magee, Ed.D., CPA, Member Bob Mitts, CPCU, Member James M. Wilson, Esquire, Member Tonya Gillespie, CPA, Representing Mike Riley, Insurance Commissioner, Board Secretary and Ex-Officio Member
BRIM PERSONNEL:	Mary Jane Pickens, Executive Director Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Chuck Mozingo, Assistant Claim Manager Melody Duke, Underwriting Manager John Fernatt, IT Manager Stephen Panaro, CPA, Controller Jeremy Wolfe, Loss Control Manager Lora Myers, Office Assistant Ed Poe, Esq., BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES: `	Charles Waugh, AIG Claim Services Jim Harlan, AIG Complex Claims Director Bob Ayers, USI Insurance Services, LLC Brenda Samples, USI Insurance Services, LLC
GUESTS:	Nate Pearson, Standish Mellon Asset Management Tom Sauvageot, WV Investment Management Board

GUESTS (cont'd): Sandy Price, WVU Health Sciences Center
Mike Gansor, WVU Risk Management
Brian Gallagher, Marshall Health Sciences

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Martin at 1:07 p.m. on Tuesday, September 15, 2015, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Mitts moved the approval of the minutes of the June 23, 2015 Board Meeting. The motion was seconded by Mr. Wilson. There being no discussion, a vote was taken and the MOTION ADOPTED.

IN REMEMBRANCE

At this point, Chairman Martin paused to speak fondly of former BRIM Board member, Marty Glasser, who passed away August 16, 2015. Mr. Glasser served on the Board for 12 years.

INTRODUCTION OF NEW BOARD MEMBER

Before proceeding, Chairman Martin introduced and welcomed the newest Board member, James A. Dodrill, Esquire, Corporate Claims Counsel nationwide with Progressive Insurance, after which he presented a brief overview of his background and experience.

REPORTS

<u>Standish Mellon Asset Management - Account Update/Investment Update</u>

Chairman Martin thereafter recognized Mr. Nate Pearson, Interest Rate Strategist and Portfolio Manager with Standish Mellon.

(Prior to the meeting, the Standish report entitled "Presentation for: The State of West Virginia BRIM, September 15, 2015" was distributed to the Board members for their information and review.)

Mr. Pearson noted that former CEO Desmond McIntyre had stepped down and that the new CEO, also the CIO, is David Leduc.

Mr. Pearson began his report by stating that since the merger of Standish and the Bank of New York Mellon, operations had improved greatly in the area of asset management.

The market environment has not been as good as the investment environment. The 10-year yield is about 2.20. The markets have been dominated by two major forces: one, Central Banks, and the other being (commodities. He also noted that there had been slow growth in the GDP during the first quarter, but we can expect a modest trend growth for the remainder of the year. Manufacturing and mining production has declined, in spite of oil and gas prices coming down; the labor market data shows continued improvement and positive momentum regarding payroll data; measured inflation expectations continued to rise modestly, but commodity prices and inflation stabilized, improving global growth expectations.

Continuing with his report, Mr. Pearson stated that with regard to the economy, labor markets have done very well, adding above 200,000 new jobs and the unemployment rate declining to a cycle low of 5.3%.

He also noted that core inflation is trending in the 1% - 2% range, and headline inflation stayed in the negative territory due to the decline in commodity prices. The inflation expectations continue to rise.

Of note were his comments about the Federal Reserve, stating that it could raise rates this week; if not now, probably by the end of this year. However, it is expected that any increases will be small and gradual.

In terms of performance this year, the portfolio returned a 1.03% yield versus an index yield of 1.75%, so overall for performance, absolute returns are fairly low due to the current investment environment. The average duration of the portfolio is 3.6 years, and the current yield is still fairly conservative.

The underperformance to the Index was due to two variables: one, in 2014, we were short of the benchmark duration and, in his view, the yields were not moving significantly higher, and.the shorter duration for this environment was the best position. The other underperforming element is TIPS. The portfolio yield is about 120 points.

In concluding his report, Mr. Pearson stated that: the dollar is stronger, employment statistics continue to rise; the high yield bond market has held up very well, and although the Federal Reserve will most likely be raising rates, it will not be raising rates sharply--that it will be a very gradual process.

. Mr. Schumacher inquired if Mr. Pearson thinks the Federal Reserve will do some additional quantitative easing as opposed to raising rates, to which he responded that he didn't think so, but it also depends on the election next year. Mr. Schumacher also noted that some of the European yields remain lower.

West Virginia Investment Management Board – Account Update/Investment Update

There being no further questions of Mr. Pearson, Chairman Martin recognized Mr. Tom Sauvageot of the West Virginia Investment Management Board.

Mr. Sauvageot began by reviewing the asset allocation for BRIM—20% Cash, 30% Equity, 35% Fixed Income, 10% US TIPS, and 5% Hedge Funds—and briefly explained the role of each. He further explained that these are long-term reserves which have been in effect for about 10 years and that the 10% US TIPS was added for inflation protection.

With regard to performance over a 10-year period, Mr. Sauvageot noted that BRIM's returns have averaged about 5.6%, that cash has been closer to 1½% over the years, and that BRIM continues to outperform the policy index.

Mr. Sauvageot also noted that since coming out of the recession, the stock market has done very well and things tend to return to the mean. In addition, there's been a lot of reflection on China. China is a big player in the global market and is causing some unpredictability right now. He noted that since the reports are as of June 30th, they look better than how they would look today.

Also noteworthy were the performance indicators by fiscal year. Although BRIM's portfolio is fairly conservative, Mr. Sauvageot stated in the short run, there will be volatility, but over longer periods of time, it should produce a nice supplemental return to BRIM.

Turning to the WVIMB performance against the benchmark for specific asset classes, Mr. Sauvageot stated that they outperformed the Index in Equities across most time periods, noting that it will not always be like that, but right now, things have been going very well; that in the area of Fixed Income, they fell short in the first of ten years, outperformed in the three- and five-year periods, and just about broke even in the ten year.

During a brief commentary period, Mr. Sauvageot expressed his opinion that the WVIMB is taking a little bit more credit risk in the Index but they're taking a lot less interest rate risk in the Index. He also noted that he is comfortable with the yield being shorter, i.e., 1.79%

Hedge funds performance has been where we expected—not as high a return as equities but also not as high a risk and a higher return than fixed income.

There being no questions for Mr. Sauvageot, Mr. Wilson MOVED the acceptance of the reports from the investment managers; namely, the Standish report as of June 30, 2015 entitled "Presentation for: The State of West Virginia BRIM, September 15, 2015" and the report from the WVIMB entitled "BRIM – Investments, WV Investment Management Board, 6/30/2015", respectively. The MOTION was seconded by Mr. Dodrill. There being no discussion, a vote was taken and the MOTION ADOPTED.

(The above reports will be attached and made a part of the record.)

<u>Executive Director's Report</u>

The report of the Executive Director was received and filed, a copy of which is attached and made a part of the record.

Mrs. Pickens began her report by briefly giving an overview relative to providing a self-insured retention (SIR) program of $250,000 in indemnity payments per med mal claim occurring after June 30, 2005. In order to continue claims administration and the payout processes already performed by AIG, a Memorandum of Understanding between BRIM and Marshall University's Board of Governors and BRIM and West Virginia University's Board of Governors were executed, along with escrow agreements with the schools and the State Treasurer's Office (STO). Thereafter, escrow accounts were established between each medical school and the STO with a minimum asset requirement which would allow BRIM to request withdrawals from the accounts to recover the SIR amounts.

Mrs. Pickens then provided a status report regarding the two accounts, noting that the FY 2016 Renewal Agreements, which were sent recently to the appropriate contact at each university for signature, did not include the additional premium for the clinical practice plans. She also noted that passage of SB 532 by the state Legislative increased the medical malpractice coverage limit for the three med schools from $1 million to a $1.5 million limit for losses occurring after June 30, 2015.

Continuing, Mrs. Pickens reviewed AIG's litigation statistics as of September 10th, which are contained in the Executive Director's Report.

Having completed the AIG report, she went on to report on the PICF activities. In 2015, there was only one claim that became final during FY 2015, and it was paid in full in accordance with the statute.

She also stated that one claim had been awarded for FY 2016, but because there are several other claims pending that are expected to become final during FY 2016, payment on this claim will not be made until the end of the fiscal year. Because of this probability, the claims are expected to be prorated as set forth in the statute and rules.

Mrs. Pickens then gave an update on the cyber liability coverage, first announcing that Jeremy Wolfe, Josh Spence and Jim Weathersby are working on updates to BRIM's Standards of Participation, BRIM plans to add privacy and cyber security to the Loss Control Questionnaire for distribution in May 2016. This information with be used in connection with credits and surcharges on the premium due for FY 2018.

Continuing with the cyber liability policy, Mrs. Duke is following up with the 35 state entities that have not returned applications.

Turning to other matters, Mrs. Pickens also noted the following:

1. The Privacy Retreat was held on 9/8-10 at Stonewall Resort, attended by Mrs. Pickens and Robert Fisher, and contained a lot of discussion regarding preventing privacy/data security.

2. BRIM continues with the OASIS and KRONOS transition. Stephen Panaro is BRIM's liaison and is doing a fine job.

3. On November 9, 2015, at West Virginia State University's Student Union Building, a continuing education conference for insurance producers will be held. Mr. Andrew Pauley, Esquire, Michael Guzman, and Stephen Fowler, Esquire will be the guest speakers.

4. An RFP for Risk Management Information System software is to be released this week; the Property Appraisal RFP is to be released this week.

5. The Loss Control Department and the Hartford Steam Boiler and Inspection Services are sponsoring two boiler and safety seminars on 10/20 and 10/21 at WVSU, Institute, WV, and at the Days Inn, Flatwoods, WV, respectively.

6. Lora Myers was hired full time; Shannon Shaffer joined our staff as a temporary employee, with the main responsibility of answering the telephone; Jeremy Wolfe, Loss Control Manager, is almost ready to make an offer of employment to fill a Loss Control Specialist II position, and an internal Notice of Job Opening for an Insurance Underwriter was posted with a deadline for applying of 9/25/15.

7. Hard copies or links to the 2015 Annual Report were sent to The Governor, Secretary Pizatella, Legislative Auditor and Budget Director on August 31st.

8. Robert Fisher, John Fernatt, Chuck Mozingo, Jeremy Wolfe, Melody Duke and I will be attending the Annual Conference of the State Risk and Insurance Management Association to be held in Madison, WI on 9/20-14.

<u>BRIM Financial Report</u>

There being no questions, Chairman Martin called upon Mr. Schumacher to present the Chief Financial Officer's Report. The Unaudited Balance Sheet as of June 30, 2015 and the Unaudited Income Statement for the twelve months ending June 30, 2015 were received and filed, copies of which are attached and made a part of the record.

A CD containing the May and June 2015 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the February, March and April 2015 billings. The acknowledgement form is retained by the Finance Department.

During a brief conversation, Mr. Schumacher explained that he was waiting to receive numbers for OPEB and PEIA from FARS so that he could forward to E & Y in order for them to complete their report; however, the results contained in his report are correct.

The Premium-to-Net Asset Reserve Ratio was also discussed, and Mr. Schumacher explained that he has to receive his figures from E & Y in order to update the asset reserve ratio numbers. He anticipates being able to present his revised premium-to-net asset reserve ratio numbers at the next Board Meeting.

In closing, Mr. Schumacher announced that he was recently notified by the Government Financial Officers Association (GFOA) that BRIM was awarded the Certificate of Achievement for Excellence in Financial Reporting for BRIM's Comprehensive Annual Financial Report (CAFR) for the year ending June 30, 2014, which marks the 20th consecutive year BRIM has received the award.

Loss Control Report

There being no questions for Mr. Schumacher, the Loss Control Report was thereafter presented by Robert Fisher, Deputy Director/Claim Manager. The report was received and filed, a copy of which is attached and made a part of the record.

During his report, Mr. Fisher announced a new process—sending out Unmanned Aircraft Systems (drones) questionnaires to state agencies. Upon the return of these questionnaires, we will gather the information to evaluate the adequacy of BRIM's existing coverages, as well as what new coverages may be needed. He also mentioned that an application has been received, and we will follow up on what is needed to respond.

Mr. Fisher thereafter ended his report by reviewing the number of inspections conducted by AON and Hartford, as well as the number of various visits conducted by the technical staff.

There were no questions for Mr. Fisher.

COMPLIMENTARY COMMENTS FROM CHAIRMAN MARTIN

Chairman Martin interjected that since he has been involved with BRIM, there is no one who hasn't been more proud of our performance over the years, but one of the main things has been our risk management department. At one time, we could have been called the "Board of Insurance Management" because that's what we were. Then in the last several years, through Jeremy's, Robert's, and the BRIM staff's efforts, BRIM truly has become a risk management organization. In closing, Chairman Martin stated that they have done a wonderful job.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

Chairman Martin stated that since there is now a full board, he would like to call for nominations for a vice chairman. Mr. Wilson MOVED to nominate Bob Mitts. The motion was seconded by Dr. Magee. There being no discussion, a vote was taken and the MOTION ADOPTED.

ADJOURNMENT

The meeting adjourned at 2:25 p.m.

______________________________ ______________________________

Board Chairman Date

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

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Executive Director's Report

September 15, 2015

A. Marshall University and West Virginia University Medical Malpractice Program

Background on Marshall and WVU - Memorandum of Understanding and Escrow Agreement

In an effort to provide Marshall University and West Virginia University with some additional flexibility in their ability to administer their respective medical malpractice risk management programs, BRIM agreed to provide both institutions with a self-insured retention (SIR) of $250,000 in indemnity payments per medical malpractice claim, effective for claims occurring after June 30, 2005. The SIR portion also includes all allocated claims expense. Therefore, the actual SIR payments incurred by the schools on any individual medical malpractice claim may exceed the SIR indemnity limit of $250,000 per claim, depending on the amount of any additional allocated claims expense associated with each claim.

In order to continue the claims administration and payout processes that were already in place with AIG, BRIM developed an internal financial process that would allow BRIM to recover from the schools the SIR amounts that had already been paid up front by AIG. This repayment process was accomplished by executing a Memorandum of Understanding (MOU) between BRIM and each school and a separate Escrow Agreement with BRIM each school and the State Treasurer's Office (STO). The end result of the MOU and Escrow Agreement was that each school established an escrow account with the STO with a minimum asset requirement that allows BRIM to request withdrawals from the escrow accounts to recover the SIR amounts by providing documentation that supports the payments that have been made by AIG for the schools.

As of September 10, 2015, Marshall has deposited $300,000.00 into the escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $301.11. During FY 2016, disbursements totaling $284,888.48 have been paid thus far.

As of September 10, 2015, a total of $810,650.42 funds have been deposited into WVU's escrow account for FY 2016. The fiscal year-to-date cumulative interest totals $589.55. During FY 2016, disbursements totaling $811,313.70 have been paid thus far.

On September 4th, Renewal Agreements for Professional Liability Coverage were sent to our contacts at both Marshall and WVU for signature. The undiscounted premiums for both universities did not include the additional premium for the clinical practice plans, as they are separate. **(Marshall's practice plan premium total (consisting of one practice plan) is $80,208; West Virginia University's, (consisting of four practice plans) is $383,976.)**

By way of review, the Board members will recall that passage of SB 532 by the West Virginia Legislature increased the medical malpractice coverage limit for the three medical schools from the current $1 million limit to a $1.5 million limit for losses occurring after June 30, 2015. The new limit is indexed to the CPI and will adjust annually based on the CPI and should not exceed a $2 million limit. SB 532 also transfers the clinical practice plans affiliated with the medical schools from the SB 3 program to the State Spending Unit program, effective July 1, 2015.

The additional premium for FY'16 charged to the medical schools for the additional $0.5 million per claim limit is $1.2 million.

In addition, the premium increase for the schools' medical malpractice coverage on the underlying $1 million liability limit for FY'16 is 10.6%. Almost all of this increase is a result of an increase in the expense ratio due to a reduction of the credit given in FY'16 for excess funding from prior state agency program years.

The estimated medical malpractice premium for FY'16 related to these practice plans is approximately $0.5 million.

B. State Agency/Senate Bill #3 Litigation

Trials

Thus far in 2015, we have tried 9 cases, all to defense verdicts.

Paid Claims (August 2015 Data)

Claims Indemnity payments YTD total $28,175,462 vs. PYTD of $27,324,644, an increase of 3.1%.

Paid Claims (August 2015 Data) (cont'd)

Claims Expense payments YTD total $13,183,183 vs. PYTD of $11,519,575, an increase of 14.4%.

Outstanding Claims (August 2015 Data)

August 2015 Indemnity Reserves total $55,919,082 vs. August 2014 Indemnity Reserves of $52,959,755, an increase of 5.6%.

August 2015 Expense Reserves total $21,901,562 vs. August 2014 Expense Reserves of $21,804,448, an increase of 0.45%.

Claims Counts (August 2015 Data)

New claims YTD total 2041 vs. PYTD of 1935, an increase of 5.5%.

Closed claims YTD total 2183 vs. PYTD of 1948, an increase of 12.1%.

Open claims YTD total 1025 vs. PYTD of 1015, an increase of 0.99%.

C. Patient Injury Compensation Fund (PICF)

One claim was paid in July in an amount slightly in excess of $118,000. This was the only claim that became final during FY 2015 and it was paid in full. One claim has been awarded within the past two weeks at the $1 million maximum PICF amount; but because there are seven more claims pending that we expect to become final during FY 2016, and more claims could be received this fiscal year, payment on this award will not be made until the end of the fiscal year when a determination is made whether they must be prorated.

We have made some actuarial analysis around funding needs for the PICF, and ongoing discussion is occurring around funding.

D. Cyber Liability Insurance Coverage Update

Jeremy Wolfe is working with Josh Spence and Jim Weathersby at the Office of Technology (OT) on updates to BRIM's Standards of Participation, with the goal of adding privacy and cyber security to our Loss Control Questionnaire for distribution to our insured agencies in May 2016. Information provided in responses will then be used in connection with credits and surcharges on the premium due for FY 2018.

D. Cyber Liability Insurance Coverage Update (cont'd)

The Cyber Liability Policy was renewed on July 1, 2015, with a premium increase of a little over 10%. BRIM is still covering the premium but is going to work toward allocating premium to the various agencies covered.

Melody Duke is continuing to work with state agencies to have them added to the Cyber Liability Policy and following up with many agencies that have not yet sent in their applications. BRIM currently has about 125 agencies covered, with 9 applications pending submission of additional documentation. Melody and her staff continue to follow up with about 35 agencies that have not returned applications. Melody and I also met with a team from the State Auditor's Office to answer questions and to assist as they work on their application for coverage.

BRIM is now tracking the incident reports that come to us through OT's web portal and sending them quarterly to our broker, the carrier and breach counsel. Initially, we were sending them in real time as they came in, but we've moved to quarterly reporting. However, if any incident were to appear significant upon initial triage, we would involve the resources available to us under the policy sooner.

E. Privacy Management Team Meetings

Since the last Board Meeting, several meetings were held in preparation for the 2015 Privacy Retreat on 9/8-10 at the Stonewall Resort. Robert and I attended the retreat last week and found it to be helpful, with lots of discussion around identifying potential vulnerabilities and preventing privacy or data security incidents as well as having processes in place to react to them.

F. wvOASIS/KRONOS

BRIM was part of Wave 1 for the OASIS HR/Payroll system transition, which went live with the first payroll on June 12, 2015. At our June 23rd meeting, I reported on efforts at BRIM to be prepared for the transition and, so far, BRIM has survived the transition with no problems thanks in large part to Stephen Panaro and the time he put into learning about and testing the system before the go-live for Wave 1. There is some degree of controversy associated with the transition from twice monthly (semimonthly) pay to the 26-week (biweekly) pay cycle, but it has been a successful transition at BRIM.

G. Continuing Education Meeting for Producers – November 9, 2015

Melody Duke, Lora Myers, John Fernatt and I have been meeting to discuss an upcoming continuing education conference for insurance producers, which will be held on Monday, November 9, 2015, at West Virginia State University's Student Union Building. Our planning group engaged speakers including Andrew Pauley,

G. Continuing Education Meeting for Producers – November 9, 2015 (cont'd)

General Counsel at the Offices of Insurance Commissioner (OIC), to speak on regulatory issues and developments; Michael Guzman from Arthur J. Gallagher to present on cyber liability risk and coverage, and attorney Steve Fowler to present on legal developments and issues affecting producers. We also plan to have a session on risk management/loss control and liability around the use of drones, among other topics. We will submit the course for approval of continuing education credits.

H. Status of Requests for Proposals/Contracts

1. Information Technology – Risk Management Information System - to be released this week.

2. Underwriting - The Property Appraisal RFP - to be released this week.

I. Loss Control Division

Jeremy Wolfe has been working with Hartford Steam Boiler and Inspection Services to schedule their boiler and A/C Systems Safety seminars, which will be held as follows:

10/20 – all day – West Virginia State University Conference Center, Institute, WV

10/21 – all day – Days Inn, Flatwoods, WV

J. Personnel

1. Since our last Board Meeting, our summer intern, Justin Wojcieszak, has returned to Marshall University, and Ryne Eich has returned to teaching.

2. Lora Myers – Office Assistant I, became a full-time employee, working mainly in the Claim and Information Systems Departments.

3. Shannon Shaffer joined our staff as a temporary employee on August 3rd. Her primary duty is answering the telephone, but will also assist in opening the mail as needed.

4. Status of Loss Control Specialists Positions – Jeremy Wolfe conducted several first and second round interviews from a group of well-qualified candidates and was able to make an offer of employment that was accepted which will be reported in more detail in the Loss Control Report.

5. A Notice of Job Opening has been posted internally for an Insurance Underwriter in Melody Duke's Underwriting Division. The deadline for applying is September 25, 2015.

K. Miscellaneous.

The 2015 Annual Report for the West Virginia Board of Risk and Insurance was sent to The Governor and Secretary Pizatella on August 31, 2015. The Legislative Auditor and Budget Director were sent letters identifying the link to the report online.

State Risk and Insurance Management Association (STRIMA) – Annual Conference to be held in Madison, WI on 9/20-24. Robert Fisher, who is the President for FY '15, John Fernatt, Chuck Mozingo, Jeremy Wolfe, Melody Duke and I will be attending this year. Steve Schumacher, BRIM's CFO, will be in the office, and each of us will communicate regularly with staff here to make sure that communication remains in place and that appropriate guidance and approvals are provided in a timely manner.

Respectfully submitted,

Mary Jane Pickens
Executive Director

MJP:lld

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Chief Financial Officer's Report
September 15, 2015

A. P Card Report

CD copies contain the supporting detail for P card purchases for the months of May and June, 2015. These totals are:

May	$57,640.44
June	$42,492.96

B. Financial Results

- The financial results provided for the fiscal year ended June 30, 2015 are preliminary and subject to year-end audit results. Reserves reflect the draft estimates of AON's risk funding study as of June 30, 2015. AON's final report will be issued in early September. The completed risk funding study will be reviewed by Ernst & Young as part of their normal year-end audit work. The audit will be completed by mid-October when BRIM's final audited financial statements for FY'15 will be issued.
- Premium revenue for FY'15 is $6 million higher than the prior year. BRIM increased premiums primarily to cover an increase in actuarially projected claims costs for FY'15.
- Liability claims expense for FY'15 increased by $7.5 million over FY'14' totals. Increasing claims reserves have been putting a drag on BRIM's net operating results over the past four fiscal years and will continue to negatively impact cash flows going forward. Claims reserves have increased an average of $8.7 million/year over the last four years for a total increase of $34.7 million.
- Liability claims payments also increased $8.5 million in FY'15 after increasing $4.1 million in FY'14.
- Investment income for FY'15 declined by $10.2 million vs. FY'14. For FY'15, lower reinvestment rates continue to significantly reduce interest earnings on BRIM's fixed income portfolio. Equity returns also were much lower for FY'15. The overall investment earnings for FY'15 are the smallest since FY'04.
- The overall rate of return on BRIM funds invested was 1.4% for FY'15 vs. 4.8% for FY'14. The rate of return for FY'15 is the lowest since the inception of the trust in FY'06.
- The overall financial results show a net loss of $15.5 million for FY'15 versus a net loss of $4.5 million for FY'14. These losses are being driven by increasing claims reserves and larger claims payments in combination with dramatically lower investment earnings.

C. Premium to Net Asset Reserve Ratio

- The net asset reserve policy was approved by the Board on August 27, 2013. The policy's intent is to compare BRIM's ratio of premium revenue and net assets to a calculated combined ratio of premium revenue and net assets derived from a group of similar insurance-type entities. The resulting combined premium to net asset ratio establishes a benchmark and utilizes a band of +/- 10% around the calculated percentage. The resulting upper and lower bands are used to help guide the Board in assessing BRIM's overall financial condition relative to the acceptable range. The acceptable range assists in measuring an adequate level of capital for BRIM and also provides some flexibility in establishing premium rates from one year to the next.
- It is anticipated that BRIM will provide the Board with updated results for the premium to net asset reserve ratio at the next board meeting when the final audit results as of June 30, 2015 will also be presented.

D. Government Finance Officers Association (GFOA) Recognition

- We were recently notified by the Government Financial Officers Association (GFOA) that BRIM was awarded the GFOA's prestigious Certificate of Achievement for Excellence in Financial Reporting for BRIM's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. This is GFOA's highest form of recognition for excellence in governmental accounting and financial reporting. This marks the 20th consecutive year that BRIM has been acknowledged for this outstanding achievement.

Respectfully submitted,

Stephen W. Schumacher, CPA
Chief Financial Officer

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	June 30	
	2015	**2014**
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 19,504	$ 13,365
Advance Deposit with Carrier/Trustee	204,219	206,774
Receivables - Net	2,679	3,747
Prepaid Insurance	-	-
Total Short Term Assets	226,402	223,886
Long Term Assets		
Investments	137,824	147,378
Total Long Term Assets	137,824	147,378
TOTAL ASSETS	364,226	371,264
LIABILITIES		
Short Term Liabilities		
Accounts payable	895	229
Claims Payable	-	-
OPEB Liability	388	388
Agents Commissions Payable	870	939
Unearned Revenue	7,659	7,518
Current Estimated Claim Reserve	47,890	53,448
Total Short Term Liabilities	57,702	62,522
Long Term Liabilities		
Compensated Absences	76	76
Estimated Noncurrent Claim Reserve	113,070	99,756
Total Long Term Liabilities	113,146	99,832
TOTAL LIABILITIES	170,848	162,354
Prior Year Net Assets	208,910	213,366
Current Year Earnings	(15,532)	(4,456)
TOTAL NET ASSETS	193,378	208,910
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 364,226	$ 371,264

DRAFT - Unaudited - Management Purposes Only

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
For the twelve months ending

	June 30	
	2015	**2014**
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 58,204	$ 52,128
Less - Excess Insurance	(6,197)	(6,102)
Total Operating Revenues	52,007	46,026
Operating Expenses		
Claims Expense	64,470	57,007
Property & MS Claims Expense	4,425	4,620
Personal Services	1,366	1,419
General & Administrative Expense	2,111	2,479
Total Operating Expenses	72,372	65,525
Operating Income (Loss)	(20,365)	(19,499)
Nonoperating Revenues		
Investment Income	4,833	17,043
Appropriation Trf HB 4261	-	(2,000)
Total Nonoperating Revenues	4,833	15,043
Net Income (Loss)	$ (15,532)	$ (4,456)

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Loss Control Report to the Board
September 2015

We are pleased to report that we have been able to fill one of the two vacant loss control specialist positions. Morgan Stutler will begin work on October 5, 2015 and we will introduce her to you at a later meeting. We hope to fill the remaining vacant position in the spring of 2016.

As is our late summer custom, we are currently evaluating loss control questionnaires submitted by our state agencies. The results will be used to calculate loss control credits and surcharges for next fiscal year's premium. To date, we have completed **137** evaluations.

BRIM and Hartford Steam Boiler will sponsor two boiler safety and operational seminars this fall. We hope these seminars will continue to attract large crowds and that what is learned at the seminars will help keep boiler losses small and to a minimum as they have been for many years.

This month, we sent out Unmanned Aircraft Systems (drones) questionnaires to state agencies. The deadline for submission to BRIM is October 12, 2015. At that time, we will gather the necessary information for an evaluation of the adequacy of our existing coverage(s), as well as what new coverage(s) might be necessary for these systems. The Underwriting and Loss Control Departments are jointly working on this initiative.

BRIM is partnering with the State Fleet Management Office and the Office of the Insurance Commissioner's State Agency Workers' Compensation Program to conduct joint loss control visits with state agencies that have had frequent automobile claims. These visits are expected to commence during the month of October.

Jeremy Wolfe was a guest presenter at the State Fleet Management Office's State Agency Fleet Coordinator Seminar. Jeremy spoke to the group on *"Fleet Risk Management Techniques"*. We hope that what participants took away from the seminar will help their agencies evaluate and modify their existing fleet management programs with an eye toward loss prevention strategies.

During the months of July, August, and September, Aon conducted 166 inspections and Hartford conducted 597. The reports are being processed according to established procedures.

Since the last report, our loss control technical staff reports the following activity:

8 Loss Control Visits

These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

10 Standards of Participation Visits

These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

5 Presentation Visits

These are visits during which we provide active training and/or outreach to a group of individuals.

2 Continuing Education Visit

These are visits which are designed to provide the loss control specialists with education and training for professional development.

As is the case each year, the number of loss control visits is markedly reduced during the period in which we evaluate loss control questionnaire submissions.

Dated: 9-14-2015

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

STANDISH

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Presentation for:

The State of West Virginia BRIM

September 15, 2015

The State of West Virginia BRIM

Nate Pearson, CFA

Nate is an Interest Rate Strategist and Portfolio Manager responsible for research and analysis of US government securities, inflation-linked bonds and interest rate derivatives. He joined Standish in 2005 as a Liquid Products Trader. Prior to Standish, he worked at Darling Consulting Group as an analyst responsible for interest rate risk analysis and overall balance sheet management for institutional banking clients. Nate has an M.S.F. from Boston College and a B.S. from the University of New Hampshire. He is a member of the Boston Security Analysts Society, holds the CFA® designation and has 11 years of investment experience.

The State of West Virginia BRIM

I. Corporate Overview

II. Market Environment

III. Performance & Portfolio Review

IV. Global Economic & Investment Outlook

V. Client Service Update

VI. Appendix

The Story of Standish: "Best Ideas" Delivered

1933
Year Standish was founded

160.4 billion
USD in assets under management[1]

185 employees[2]

128 investment professionals
located in U.S., U.K. and Singapore[2]

U.S., regional and global mandates
With clients in **43** countries

Investment Strategies and Solutions

Absolute Return	Opportunistic Fixed Income
	Tax-Sensitive Absolute Return
Multi-Sector Relative Return	Global Core Plus
	Global Core/Non-U.S. Core
	Long Duration
	Short/Intermediate Duration
	U.S. Core Plus
	U.S. Core
Single Sector Relative Return	Cash
	Emerging Markets
	Global Corporate Credit
	Government
	Mortgages
	Securitized Strategies
	Stable Value
	Tax-Sensitive
	TIPS
	Total Emerging Markets
Solutions	ESG/SRI
	Insurance Client Strategies
	Liability Driven Investing
	Liquidity Strategies

Source: Standish as of June 30, 2015 .

[1] Assets under management (AUM) as of June 30, 2015. This figure includes assets managed by Standish personnel acting as dual officers of The Dreyfus Corporation or The Bank of New York Mellon, and high yield assets managed by personnel of Alcentra NY, LLC acting as dual officers of Standish. Standish, Dreyfus, and Alcentra are registered investment advisers; they and The Bank of New York Mellon are wholly-owned subsidiaries of The Bank of New York Mellon Corporation.

[2] Includes shared employees of Standish Mellon Asset Management (UK) Limited and MBSC Securities Corporation, both affiliates of Standish Mellon Asset Management Company LLC ("Standish"), Standish Mellon Asset Management (Singapore) Pte. Limited who provide non-discretionary research services to Standish US and may also serve as sub-adviser to Standish US for certain client mandates, and employees of Alcentra NY, LLC acting as dual officers of Standish. These individuals may from time to time act in the capacity of shared employees of Standish, performing sales, marketing, portfolio management support, research and trading services for certain Standish managed accounts.

In addition, Standish is also supported by BNY Mellon Asset Management Operations LLC ("BNYM AM Ops") which is a legally separate entity that provides services related to all aspects of IT and operations, including front, middle and back office services through a Service Level Agreement.

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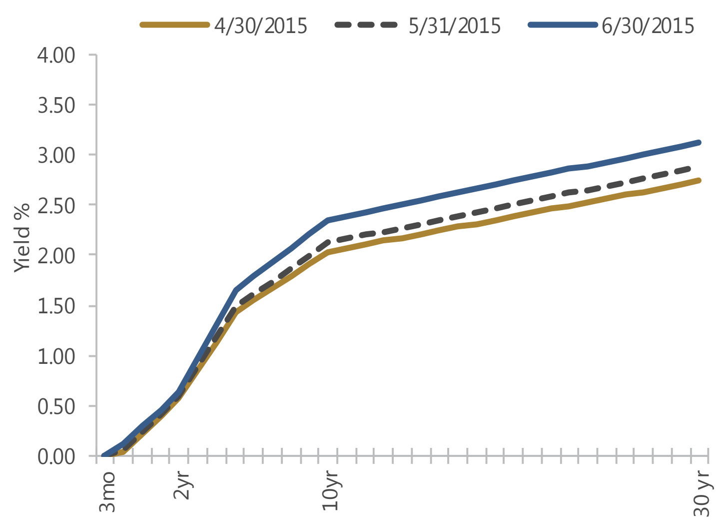
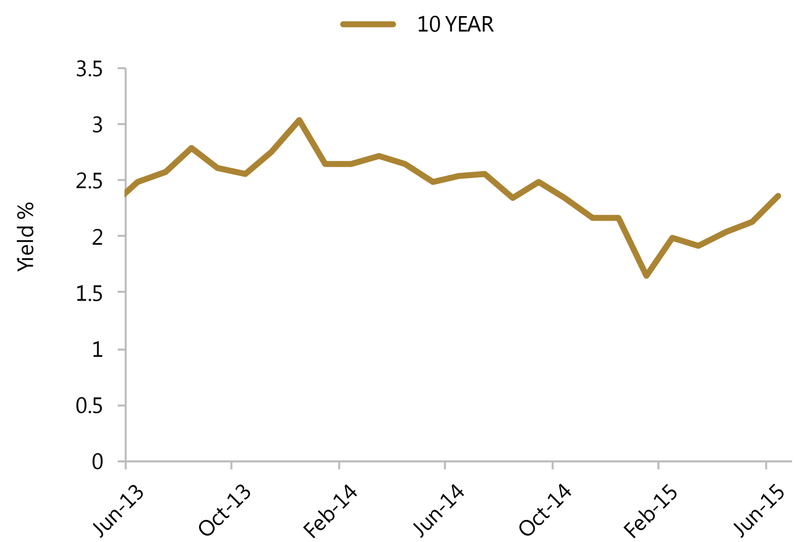
U.S. Treasury Yields

U.S. Treasury Yields



Source: Bloomberg as of June 30, 2015

U.S. 10 Year Treasury Yields



Source: Bloomberg as of June 30, 2015

- Global rates moved steadily higher throughout the second quarter as a result of the global reflationary trade and unwind of the European QE rate rally. US Treasuries sold off ten to fifty basis points led by longer-maturity bonds, reversing much of the 1st quarter move.

- Ten year yields continued the upward trend that began in late January. Globally, treasuries outperformed European sovereign bonds as German thirty year bonds sold off nearly one hundred basis points.

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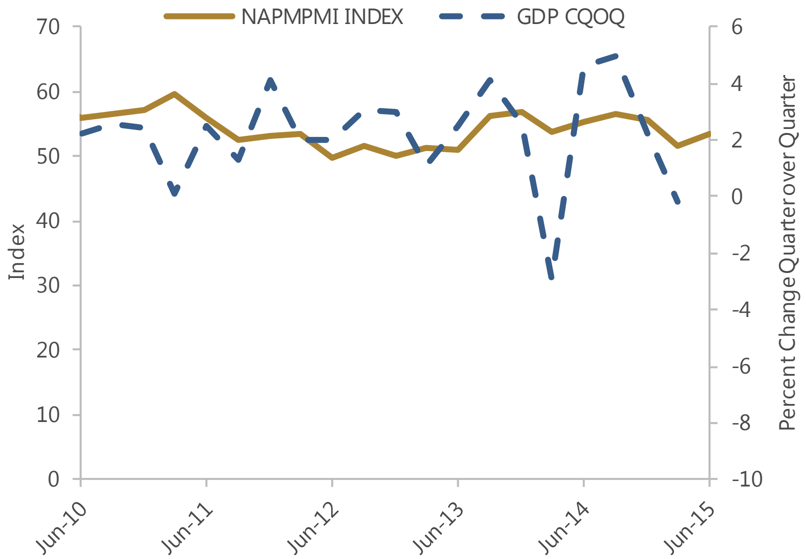
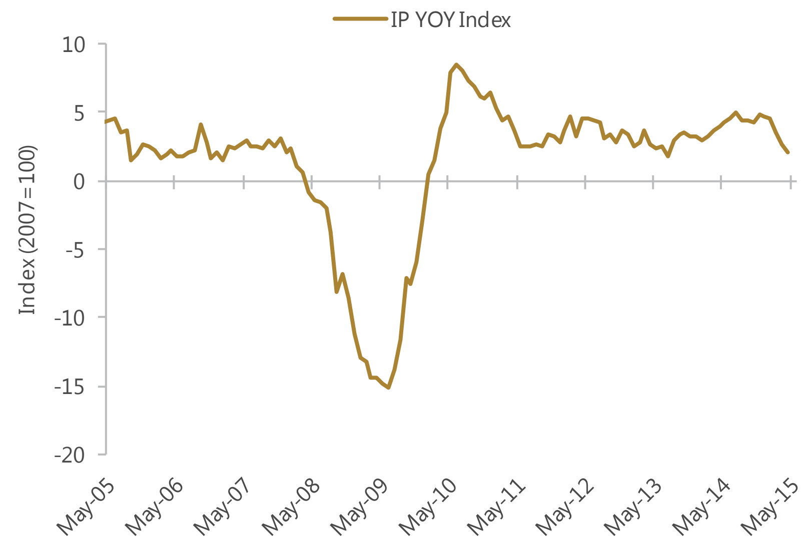
Real GDP & Manufacturing Activity

United States Purchasing Managers Index and Real GDP



Source: Bloomberg as of June 30, 2015

U.S. Industrial Production Year Over Year



Source: Bloomberg as of May 31, 2015

- Q1 growth was slightly negative as a result of harsh winter weather, West Coast port closures and problems seasonally adjusting the data. Q2 GDP is tracking in the mid-to-high 2% area and we expect modestly above trend growth for the remainder of the year.

- Industrial production continued to decline and has moved into negative territory on a month-over-month basis. Although the drag from the oil and gas industry has lessened, it continues to weigh on output in the manufacturing and mining sectors. The index continues to be supported by strength in auto sector.

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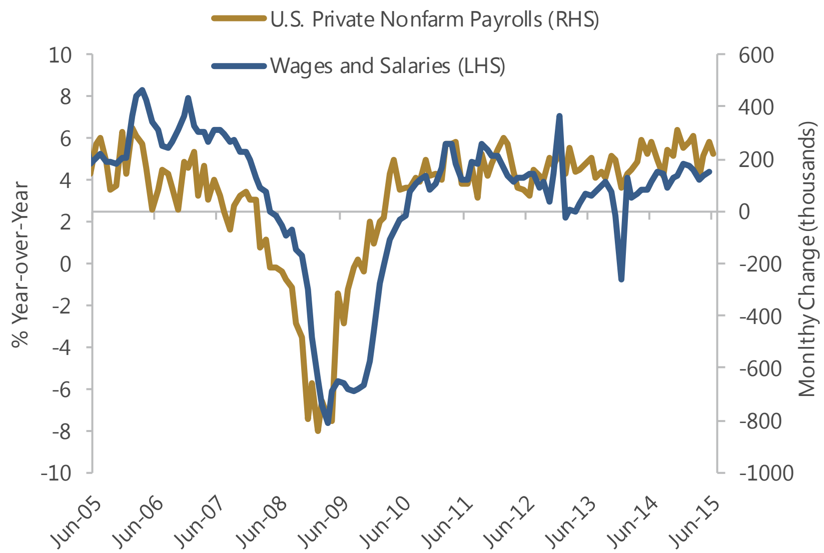
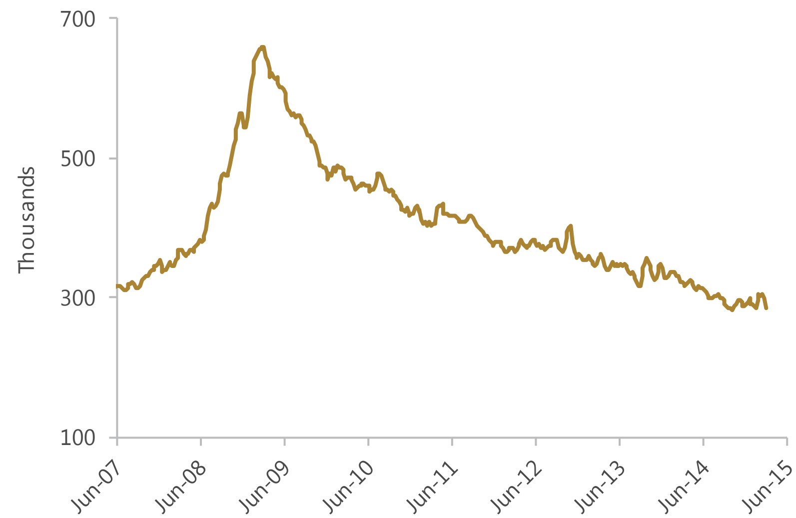
Employment

Private Employment and Wages and Salaries



Source: Bloomberg as of June 30, 2015

Weekly Jobless Claims 4 Week Moving Average



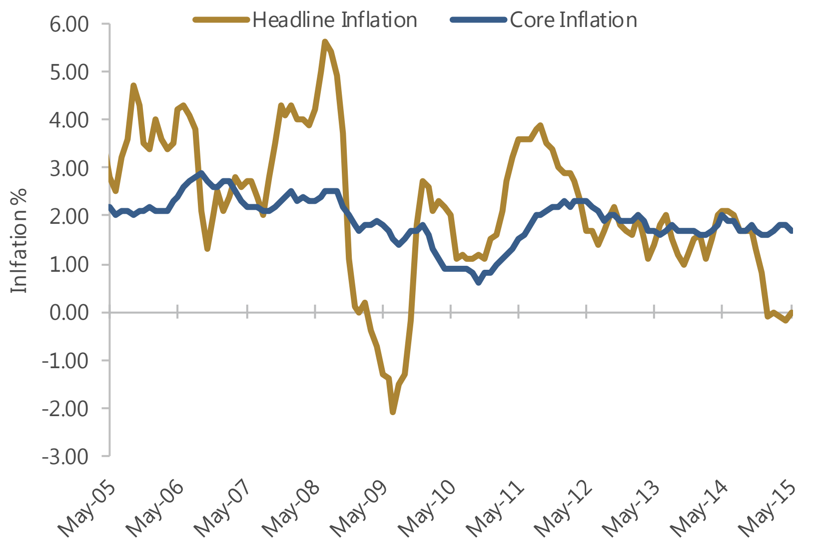
Source: Bloomberg as of June 30, 2015

- The labor market continued to show improvement with nonfarm payrolls averaging above 200K new jobs and the unemployment rate declining to a cycle low of 5.3%. The U.S. labor market is rapidly approaching full employment and there are signs that wage growth is beginning to perk-up, including the wage and salary component of personal income which is up 5% y/y.

- High frequency labor market data such as jobless claims continued to show positive momentum for labor conditions, confirming strength in payroll data.

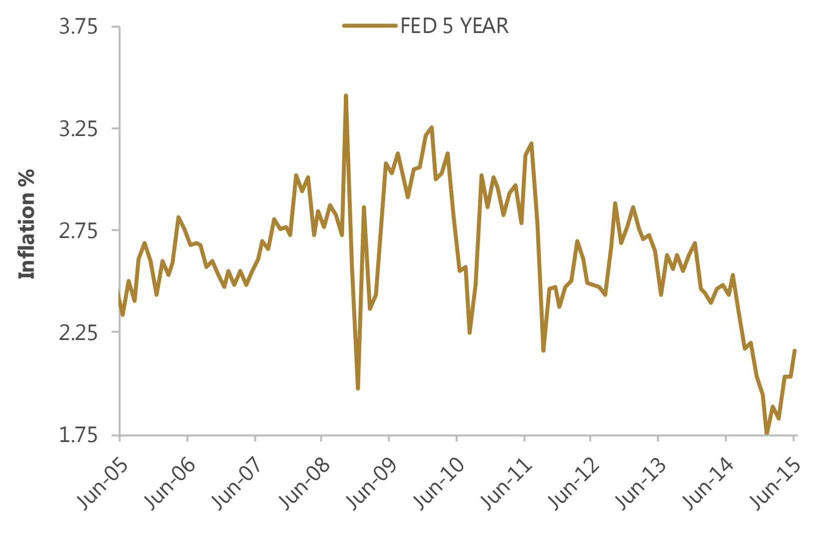
Core Inflation & Inflation Expectations

Headline versus Core Inflation



Source: Bloomberg as of May 31, 2015

5 Year Forward Inflation Expectations



Source: Bloomberg as of June 30, 2015

- Headline inflation remained in negative territory driven by the sharp decline in commodity prices, though core CPI moved sideways in the 1.7-1.8% range bolstered by shelter costs. Core PCE, the Fed's main inflation data point, noticeably diverged lower from CPI dropping from 1.4% to 1.2% mainly as a result of lower medical costs.

- Inflation expectations measured by TIPS continued to rise modestly from their lowest levels since the financial crisis. Commodity prices and realized inflation stabilized while global growth expectations improved, driving inflation expectations higher.

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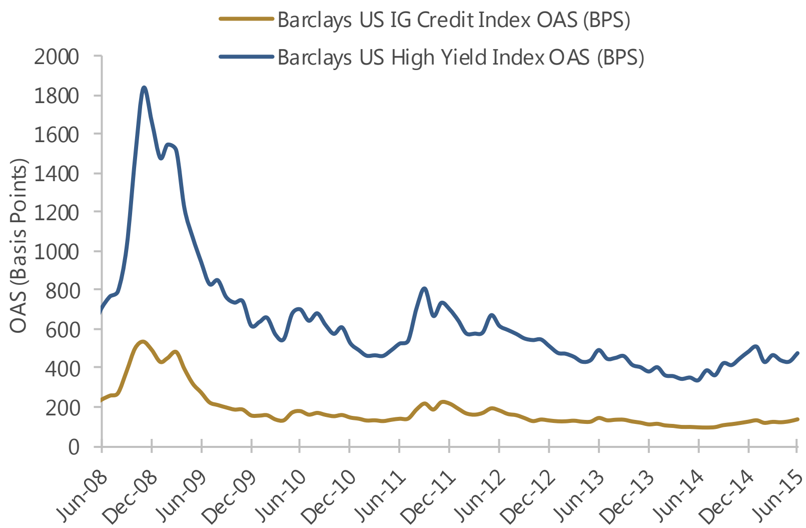
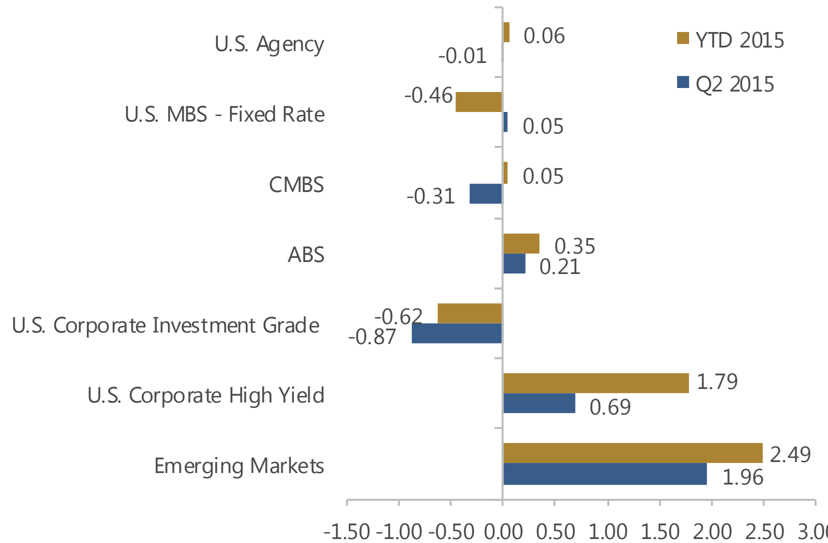
Sector Returns & Corporate Bonds Spreads

Corporate Bond Spreads



Source: Barclays as of June 30, 2015

Bond Market Returns - Excess Over Treasuries*



Source: Barclays as of June 30, 2015

- Investment grade spreads widened sharply in Q2 (+16 bps), at the same time as underlying US Treasury yields sold off (+43bps) delivering a dismal -3.16% total return for the BarCap US IG Corporate Index. Credit market weakness was broad based with relative outperformance in Financials and relative underperformance in the Industrials. Leverage levels continue to creep higher among the investment grade universe as the pace of debt growth is outpacing profit growth. On the positive side, revenues from US companies have shown the best growth in two years.

- The High Yield market held up relatively well during the second quarter, widening just 10bps, resulting in a perfectly flat (0.00%) total return – outpacing nearly all other bond markets.

*For a list of indices, please refer to disclosures at the end of this presentation.

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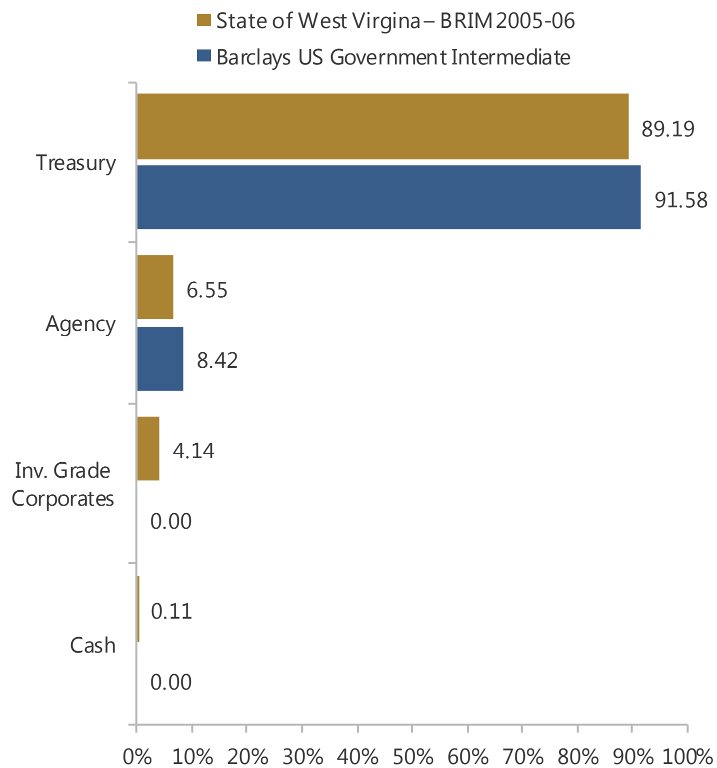
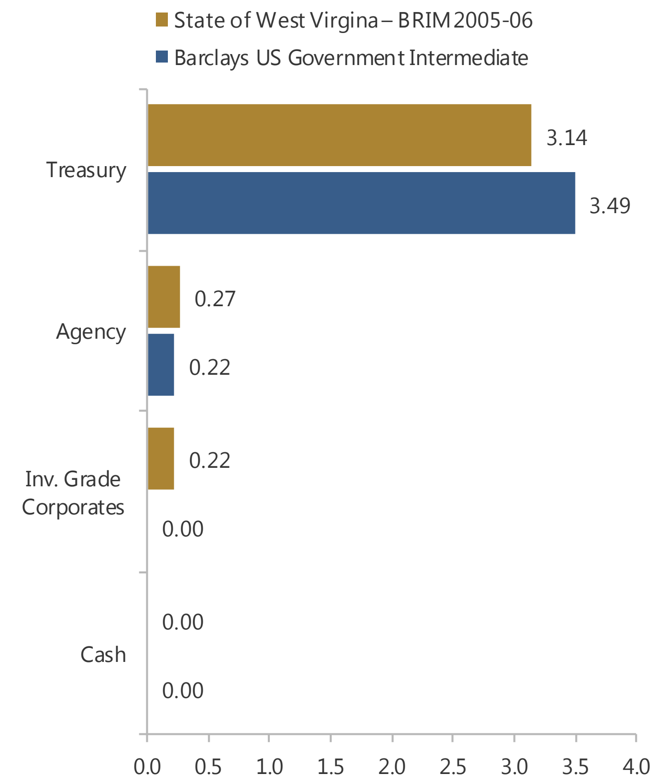
State of West Virginia – BRIM 2005-06 Sector Distribution vs. Benchmark

Nominal (%) as of 6/30/2015



Contribution to Duration (Years) as of 6/30/2015

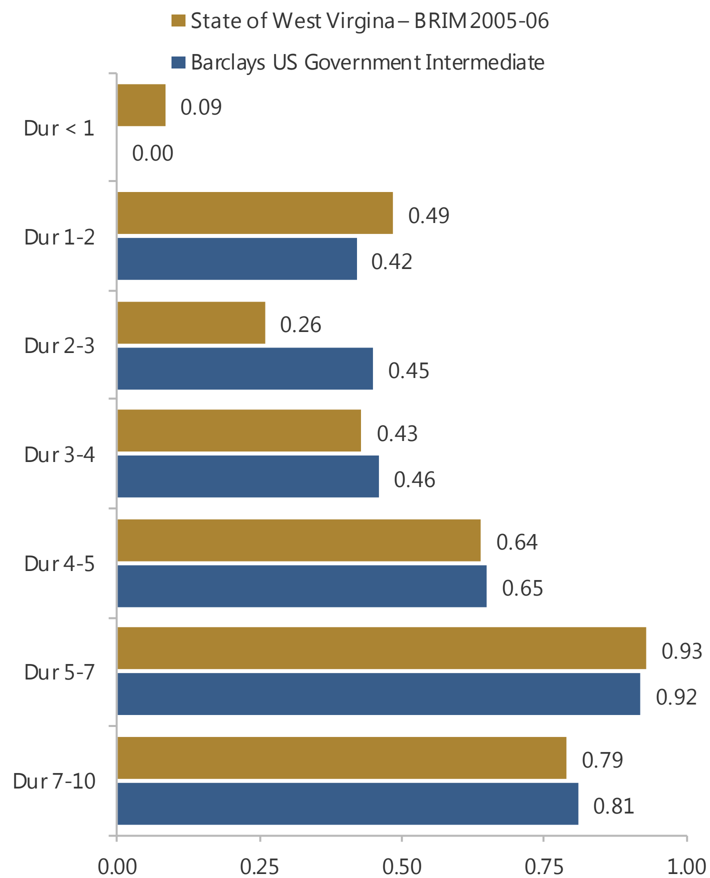


Portfolio performance as of 6/30/15

	3 months (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/05 (%)
Total Return					
State of West Virgina – BRIM 2005-06	-0.32	1.03	0.76	1.94	3.79
Barclays US Government Intermediate	-0.43	1.79	0.90	2.06	3.80
Value Added	0.11	-0.75	-0.15	-0.12	-0.01
Market Value: $4,419,124					

State of West Virginia – BRIM 2005-06 Duration

Portfolio vs Index as of 6/30/2015



Portfolio Duration: 3.62 years
Index Duration: 3.71 years

Outlook & Strategy – Interest Rate Strategies

Investment Environment	Portfolio Strategy
The first quarter economic slowdown appears transitory with above-trend growth expected for the remainder of the year. Supportive labor market trends and upward turn in inflation data should lead to Fed beginning rate normalization in 2015.	Strategic duration bias continues to be neutral to short performance benchmarks. Tactical positioning will shift in response to volatility and market valuations relative to expected outcome.
Mortgage valuations are unattractive, and spreads are not wide enough to compensate for the convexity risk	Underweight agency mortgages.
The fall in oil prices and illiquidity of TIPS has resulted in an overshoot of market based inflation expectations relative to the solid economic fundamental in place in the U.S. Stabilization in commodity prices should benefit TIPS.	Long inflation linked bonds versus nominal Treasury securities.

Risks[1]

- Persistent disinflation could lead to a collapse of inflation expectations and additional monetary policy accommodation.
- Premature monetary policy tightening may result in tighter financial conditions and deleveraging of carry trades.

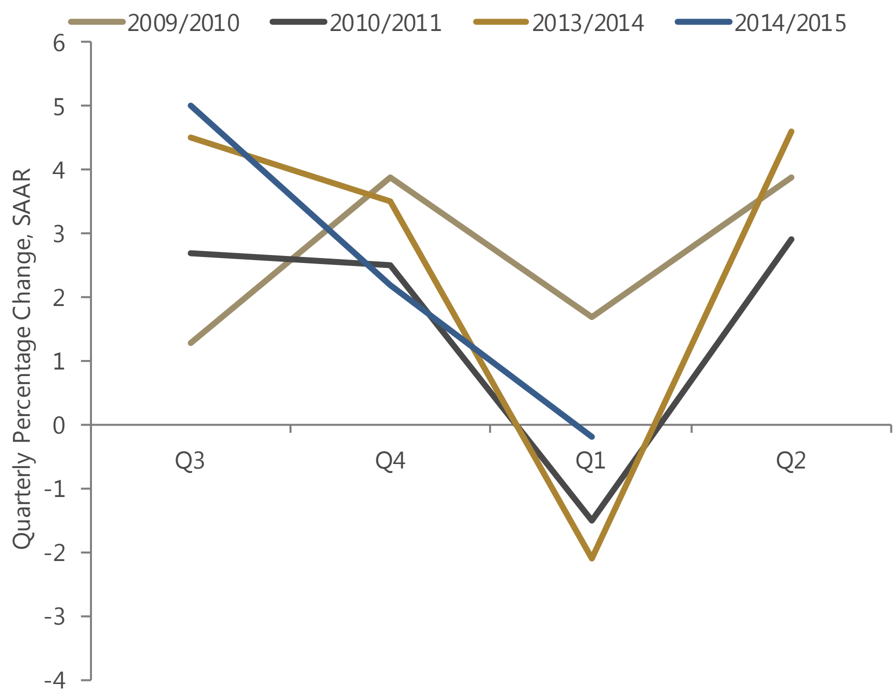
[1] This is not an exhaustive list. Portfolio holdings are subject to change at any time.
Note: As of June 30, 2015.

Global Economic Outlook for 2015

- After a disappointing start to the year, we are becoming more optimistic about the prospects for global growth in the second half of 2015 as some of key areas of weakness begin to improve.
- Specifically, the U.S. economy appears to be on firmer footing, while China is adopting fiscal and monetary stimulus to keep growth near their target of “around 7%.”
- Furthermore, stabilizing commodity prices should lessen disinflationary risk in Developed Markets and aid growth in Emerging Markets, particularly in the Middle East and Latin America.
- However, we are concerned that growth in the euro area may moderate as the largest boost from quantitative easing in the form of lower interest rates and the weaker euro may be behind us.
- In addition, Greece is likely to remain a source of uncertainty as leaders struggle to contain their debt problems, though it is unlikely to meaningfully alter the global outlook.
- Despite these issues, we expect the first rate hike by the U.S. Federal Reserve to come later this year even as the European Central Bank and the Bank of Japan continue to ease monetary policy.
- Overall, we are projecting global growth will increase 3.1% this year before accelerating to 3.6% in 2016.

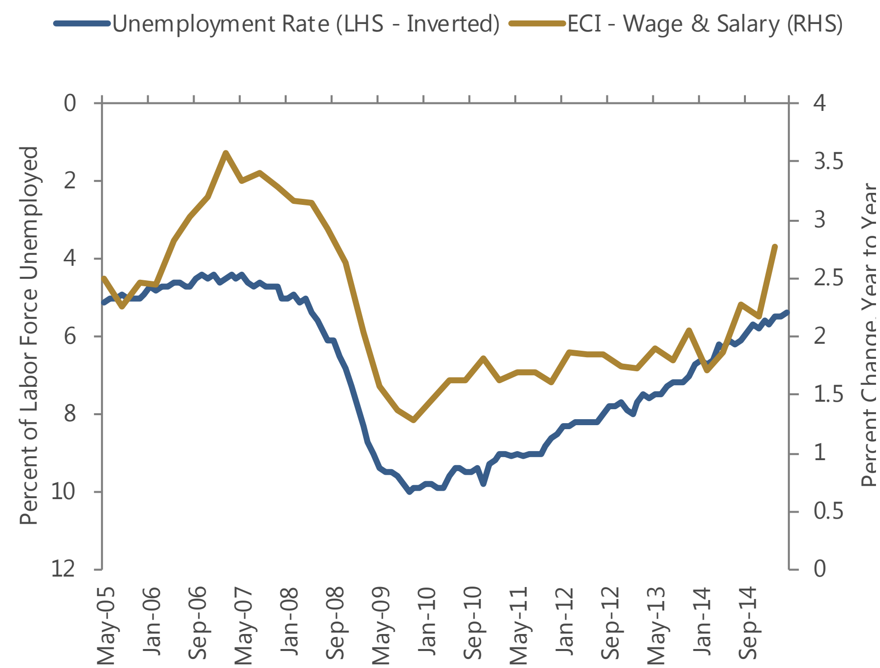
U.S. Appears to Be on Firmer Footing as We Head into Q3

Seasonal Pattern in U.S. GDP Bodes Well for Second Half



Source: BEA as of June 2015

U.S. Labor Market Leads Wage Growth



Source: Thomson Reuters Datastream as of June 2015

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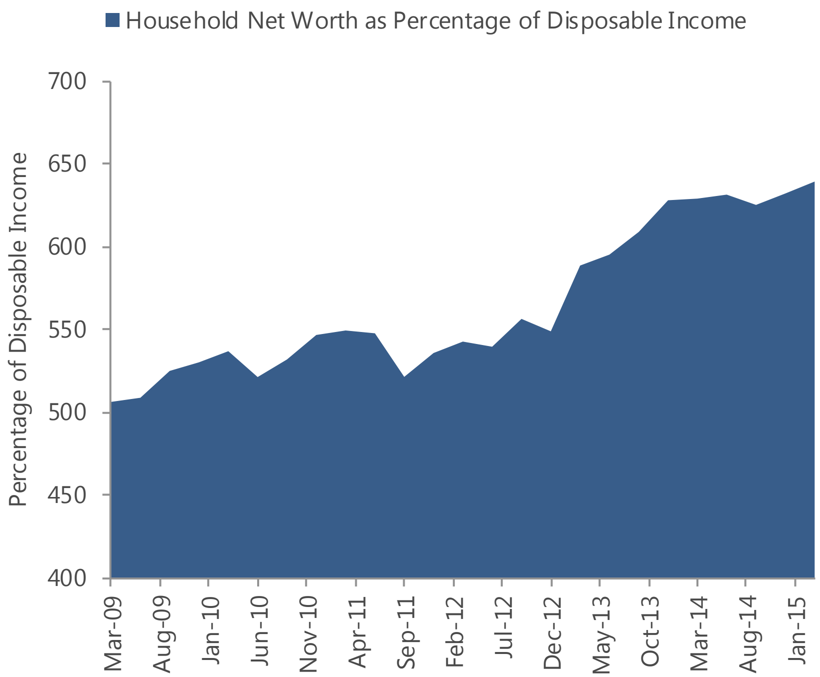
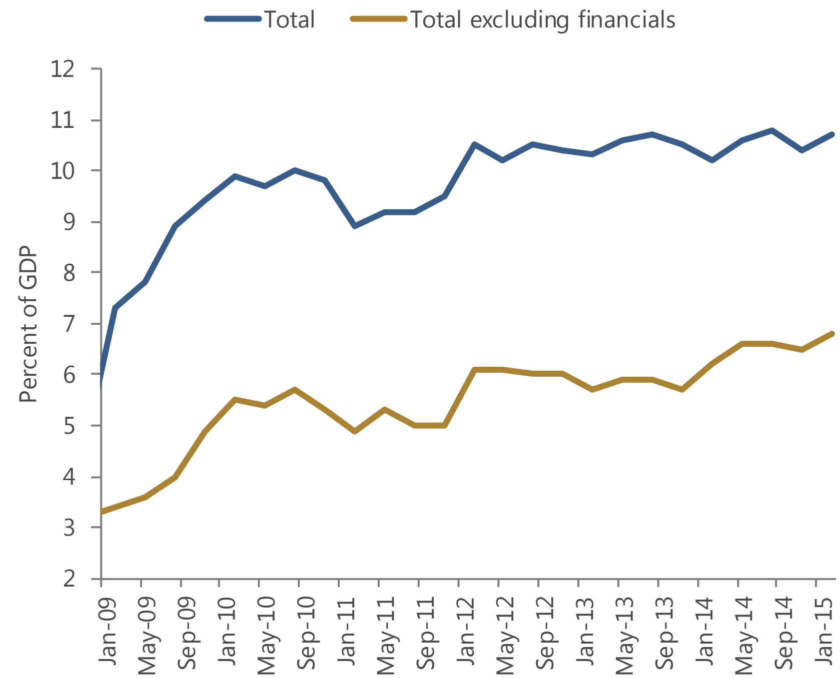
Fundamentals in Household and Corporate Sectors Remain Strong

U.S. Household Net Worth



Source: Datastream as of June 2015

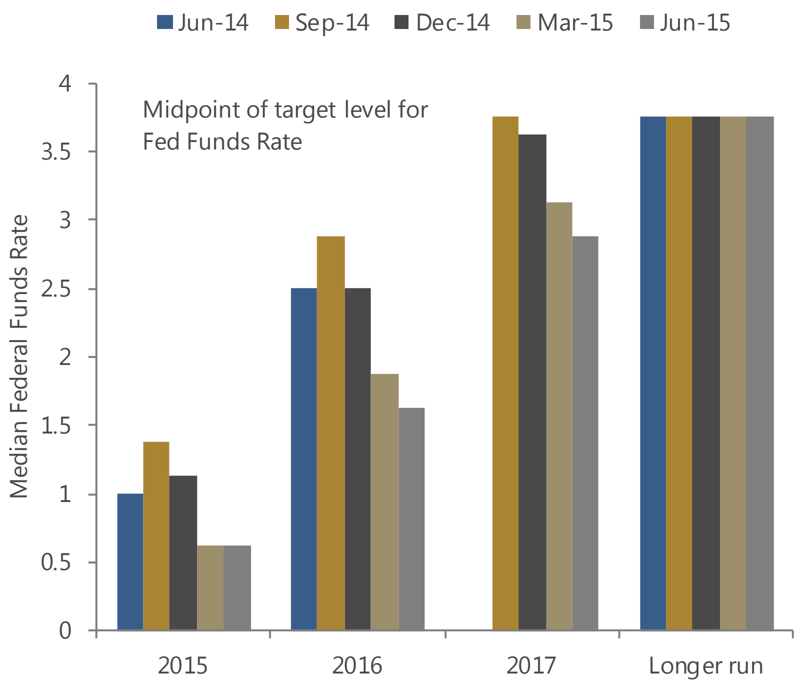
U.S. Corporate Profits



Source: Datastream as of June 2015

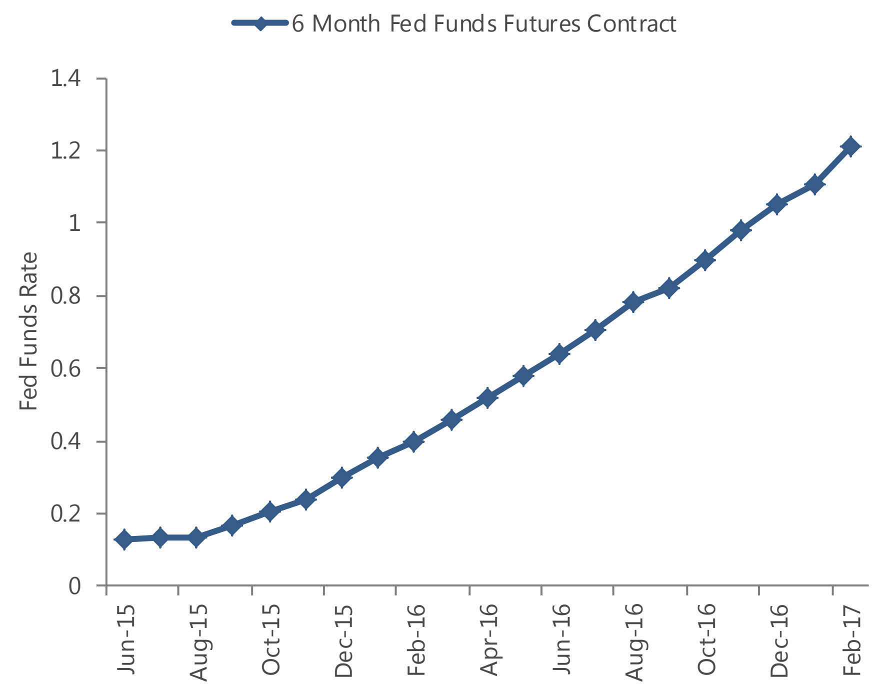
Fed Expects to Hike in 2015, But Move at a Gradual Pace

Median Fed Forecast for the Fed Funds Rate



Source: The Federal Reserve as of June 2015

Market Projections for Fed Rate Hikes



Source: Bloomberg as of June 30, 2015

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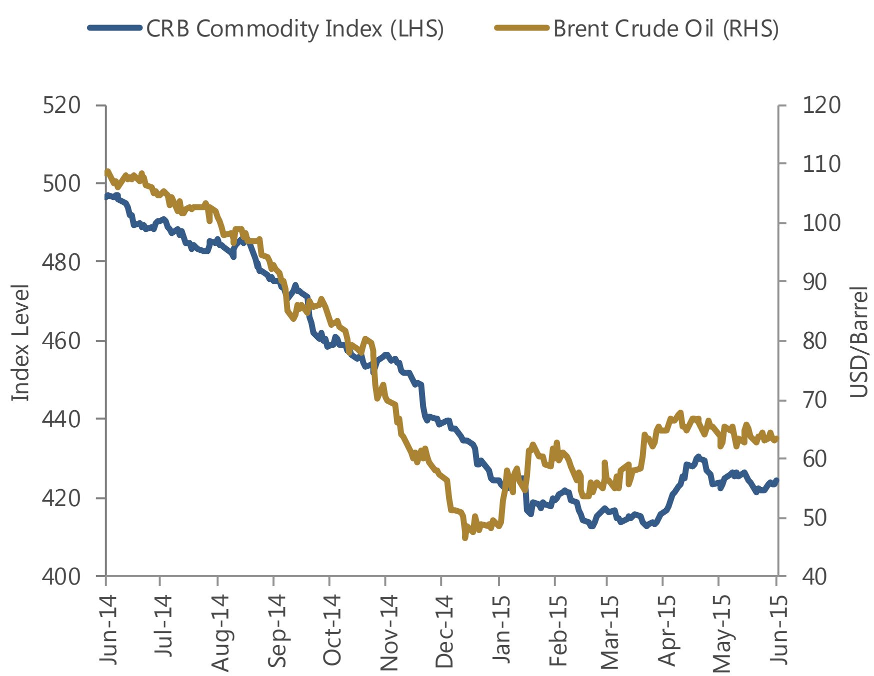
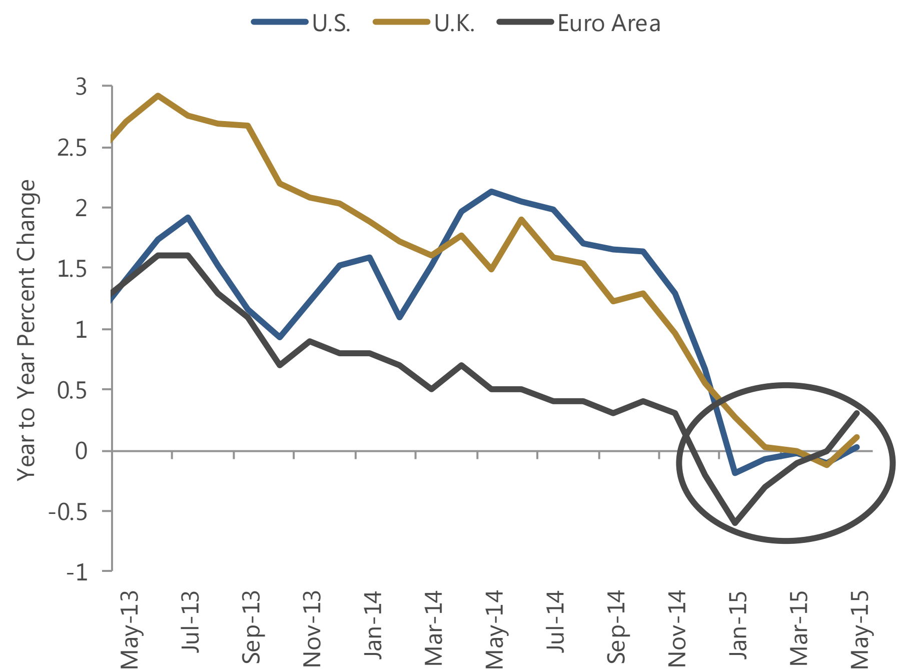
Stable Commodity Prices Should Lessen Disinflationary Risks

Commodity Prices Appear to be Stabilizing



Source: Bloomberg as of June 2015

Consumer Prices May be Bottoming in Developed Markets



Source: Bloomberg as of June 2015

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GEOQ3070915GA

State of West Virginia BRIM's Relationship with Standish Team

Portfolio Management Team

Robert Bayston, CFA
Managing Director and Senior Portfolio Manager
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Nate Pearson, CFA
Interest Rate Strategist and Portfolio Manager
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Client Service Team

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Nicholas Kolivas
Client Service Associate
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nkolivas@standish.com

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  Standish's thought leadership provides insight into the global bond market environment.
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  Our senior investment professionals present our thoughts and ideas on the economic trends facing fixed income markets.

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Guideline Checklist

STANDISH GUIDELINE CHECKLIST

Account Name: STATE OF WEST VIRGINIA ACCOUNTS **Account Number:** 7447, 7448, 7492, 3261, 3589, 3599, 3795, 637, 3647, 100000, 100550, 101287

Relationship Manager: Anthony Criscuolo **Date:** 8/2014

Quality Rating:					
AGENCY:		**DOWNGRADES TO BELOW MINIMUM QUALITY:**		Prompt written notice of downgrades with managers position on the issue and intended action	
Any NRSRO				Minimum Quality	AA-, as established by two or more of the nationally recognized bond ratings services;
S&P	X			Average Quality	AA-
Moody's	X			Short Term Securities	Money Market Funds rated AAA by major ratings agency allowed
Duff & Phelps				Split Rated (Best/Worst/Middle)	MIDDLE
Fitch	X			Concentrations	

INVESTMENTS	Type of Investment	Eligible	Prohibited	Comments	Date
General:	Tax-Exempt Securities		x		
	AMT Bonds		x		
Taxable Bonds	Treasuries	X			
	Agencies	X			
	TIPS	x			
	Corporates	X			
	Zero Coupon	x			
	Convertible Issues		x		
	Structured Notes		x		
	Surplus Notes		x		
	Preferred		x		
	Private Placement/144A		X		
	Preferred Stock		x		
Securitized:	Mtge-Related Sec.		x		
	CMBS		x		
	Asset-Backed Sec.		x		
	CMOs		x		
	CDOs		x		
	IOs and/or POs		x		

Guideline Checklist

STANDISH GUIDELINE CHECKLIST

Account Name: **STATE OF WEST VIRGINIA**

Account Number: 7447, 7448, 7492, 3261, 3589, 3599, 3795, 637, 3647, 100000, 100550, 101287

Type of Investment		Eligible	Prohibited	Comments	Date
Foreign-Related:	By issue country		x		
	Non-Dollar		x		
	Emerging Markets		x		
	Yankee	x		Yankee Bonds Allowed meeting all other min guideline restrictions.	
Derivatives:	Futures		x		
	Options		x		
	Currency Forwards		x		
	Leverage		x		
	SWAPS		x		
Other:	Trade Finance		x		
	Repo /Reverse Repo	x			
	Equity		x		

STANDISH GUIDELINE CHECKLIST

Account Name: **STATE OF WEST VIRGINIA**

Account Number: 7447, 7448, 7492, 3261, 3589, 3599, 3795, 637, 3647, 100000,100550, 101287

Issuer / Obligor Restrictions		With the exception of U.S. Government obligations and its agencies as referred to under "Eligible Investments" the exposure to any individual issuer is limited to 4.9% of the accounts market value at the time of purchase.
Maturity Restrictions:	Weighted average	
	Issue	No individual security can exceed 10 years from the date of purchase.
Loss Restrictions		
Other Restrictions		
Duration Restrictions:	Portfolio	Averaged duration of the portfolio shall remain within a 25% range versus the average duration of the Lehman Brothers Intermediate Government Index
	Issue	
Benchmark Index		Barclays Capital Intermediate Government Index
Qualified Institutional Buyer		
ERISA		
NOTES:		"Eligible Investments": The portfolio may invest in U.S. Government obligations or deposits issued or guaranteed as to interest and principal by the government of the United States or any agency or instrumentality thereof. Corporate obligations, with credit ratings of AA- or above as established by 2 or more of the nationally recognized bond rating services, are allowable investments. Hybrids prohibited.

Please sign to verify guidelines:

Signature

Date

Disclosures

This information is not provided as a sales or advertising communication. It does not constitute investment advice. It is not an offer to sell or a solicitation of an offer to buy any security. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Past performance is not a guide to or indicative of future results. Future returns are not guaranteed and a loss of principal may occur. This information is not intended to provide specific advice, recommendations or projected returns of any particular Standish Mellon Asset Management Company LLC ("Standish") product. Some information contained herein has been obtained from third party sources and has not been verified by Standish. Standish makes no representations as to the accuracy or the completeness of any of the information herein.

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This portfolio data should not be relied upon as a complete listing of the Portfolio's holdings (or top holdings) as information on particular holdings may be withheld if it is in the client's best interest to do so. Portfolio holdings are subject to change without notice and may not represent current or future portfolio composition. The portfolio date is "as of" the date indicated.

There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

The allocation distribution and actual percentages may vary from time-to-time. The types of investments presented in the allocation chart will not always have the same comparable risks and returns. The actual performance of the portfolio will depend on the Investment Manager's ability to identify and access appropriate investments, and balance assets to maximize return while minimizing its risk. The actual investments in the portfolio may or may not be the same or in the same proportion as those shown above.

Standish believes giving an proprietary Average Quality Credit rating to the holdings in a portfolio more accurately captures its characteristics versus using a single rating agencies ratings. Standish has a ratings/number hierarchy whereby we assign a number between 0 (unrated bond) and 21 (S&P or Moody's AAA) to all bonds in a portfolio based on the ratings of one or more of the rating agencies (with the lower of the 2 available agencies ratings prevailing), and then take a weighted numerical average of those bonds (with weighting based on each bonds percentage to the total portfolio assets). The resulting number is then compared back to the ratings/number hierarchy to determine a portfolio's average quality. For example, if Moody's AAA, S&P AAA= 21, Moody's A1, S&P A+= 17, Moody's Baa1 and S&P BBB+=14, Moody's B1 and S&P B+=7. The numeric average of the 4 equally weighted holdings is 14.75, rounded up to the next whole number of 15. 15 converts to an average credit rating of S&P A/Moody's A2.

To the extent the strategy invests in foreign securities, its performance will be influenced by political, social and economic factors affecting investments in foreign companies. Special risks associated with investments in foreign companies include exposure to currency fluctuations and controls, less liquidity, less developed or less efficient trading markets, less governmental supervision and regulation, lack of comprehensive company information, political instability, greater market volatility, and differing auditing and legal standards.

Further, investments in foreign markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations on removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in a foreign currency will be subject to changes in exchange rates that may have an adverse effect on the value, price or income of the investment.

These risks are magnified in emerging markets and countries since they generally have less diverse and less mature economic structures and less stable political systems than those of developed countries.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the portfolio. For example, investments made for the portfolio may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark. Accordingly, investment results and volatility of the portfolio may differ from those of the benchmark. Also, the indices noted in this presentation are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the portfolio may incur. In addition, the performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance.

The information regarding the index is included merely to show the general trends in the periods indicated and is not intended to imply that the portfolio was similar to the index in composition or risk.

Standish sector models use regression analysis such as multi-linear data inputs, panel data, and probit function. Variables that the models take into account are: PMI, US Core CPI, Fed Fund rate, 3-month Libor, 3-month T-bill rate, foreign purchases of US Government bonds, Commodity Indices , Capacity Utilization, Deficit as a percent of GDP, S&P 500 return, Chicago Fed Index, IGOV, US output gap, Europe Core CPI, US unemployment rate, EU unemployment rate, and slope of the yield curve. Assumptions made are that samples are representative of the population for the inference prediction; regression residuals are approximately normally distributed, uncorrelated, and have constant volatility; no high degrees of multi-colinearity in the independent variables; variable sensitivity remains constant in the short term; and no structural shift in the short term.

The World Economic Forum Global Competiveness Index measures competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country.

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This information is not provided as a sales or advertising communication. It does not constitute investment advice. It is not an offer to sell or a solicitation of an offer to buy any security. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Past performance is not a guide to or indicative of future results. Future returns are not guaranteed and a loss of principal may occur. This information is not intended to provide specific advice, recommendations or projected returns of any particular Standish Mellon Asset Management Company LLC ("Standish") product. Some information contained herein has been obtained from third party sources and has not been verified by Standish. Standish makes no representations as to the accuracy or the completeness of any of the information herein.

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As of July 1, 2007, Mellon Financial Corporation and The Bank of New York Company, Inc. merged into a newly created entity, The Bank of New York Mellon Corporation. BNY Mellon Asset Management is the umbrella organization for The Bank of New York Mellon Corporation's affiliated investment management firms and global distribution companies.

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S&P 500 Index is considered to be generally representative of the U.S. large capitalization stock market as a whole. It is an unmanaged capitalization-weighted index of 500 commonly traded stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of those stocks. The index assumes reinvestment of dividends

The S&P/Case-Shiller Home Price Indices are constructed to accurately track the price path of typical single-family homes located in each metropolitan area provided. The S&P/Case-Shiller Composite of 20 Home Price Index tracks changes in the value of residential real estate in 20 metropolitan regions.

Barclays Capital U.S. Treasury Index is an unmanaged index of public obligations of the U.S. Treasury.

Barclays Capital U.S. Agency Index is an unmanaged index of publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

Barclays Capital U.S. Mortgage-Backed Securities Fixed Rate Index is an unmanaged index of 15- and 30- year fixed rate securities backed by mortgage pools of Ginnie Mae, Freddie Mac and Fannie Mae.

Barclays Capital CMBS ERISA-Eligible Index is an unmanaged index of investment grade commercial mortgage backed securities that are ERISA eligible under the underwriter's exemption.

Barclays Capital CMBS ERISA-Eligible AAA Index is an unmanaged index of commercial mortgage backed securities rated AAA that are ERISA eligible under the underwriter's exemption.

Barclays Capital CMBS ERISA-Eligible <AAA Index is an unmanaged index of commercial mortgage backed securities rated between BBB and AA that are ERISA eligible under the underwriter's exemption.

Barclays Capital U.S. Credit Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes.

Barclays Capital U.S. Credit : Financial Index is an unmanaged index of publicly issued corporate debentures and secured notes in the financial sector.

Barclays Capital U.S. Credit : Industrial Index is an unmanaged index of publicly issued corporate debentures and secured notes in the industrial sector.

Barclays Capital U.S. Credit : Utility Index is an unmanaged index of publicly issued corporate debentures and secured notes in the utility sector.

Barclays Capital U.S. Credit : Non-Corporate Index is an unmanaged index of publicly issued sovereign, supranational, foreign agency, and foreign local government debentures and secured notes.

Barclays Capital U.S. Credit AAA Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated AAA.

Barclays Capital U.S. Credit AA Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated AA.

Barclays Capital U.S. Credit A Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated A

Barclays Capital U.S. Credit BBB Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated BBB.

Barclays Capital U.S. High Yield Index is an unmanaged index of fixed rate, non-investment grade debt.

Barclays Capital Emerging Markets Index is an unmanaged index of USD-denominated debt from emerging markets in the following regions: Americas, Europe, Middle East, Africa, and Asia.

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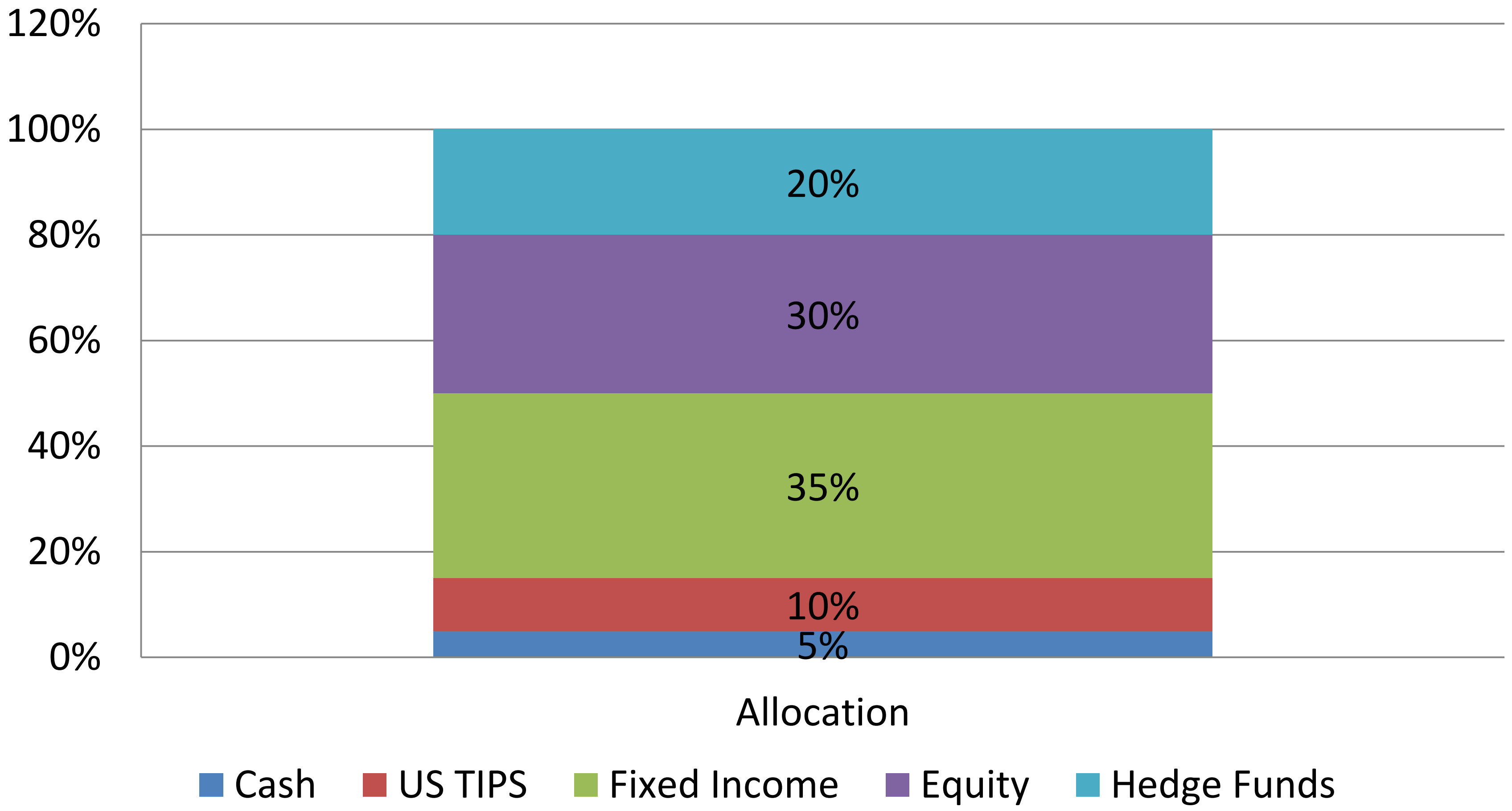
BRIM - Investments

WV Investment Management Board

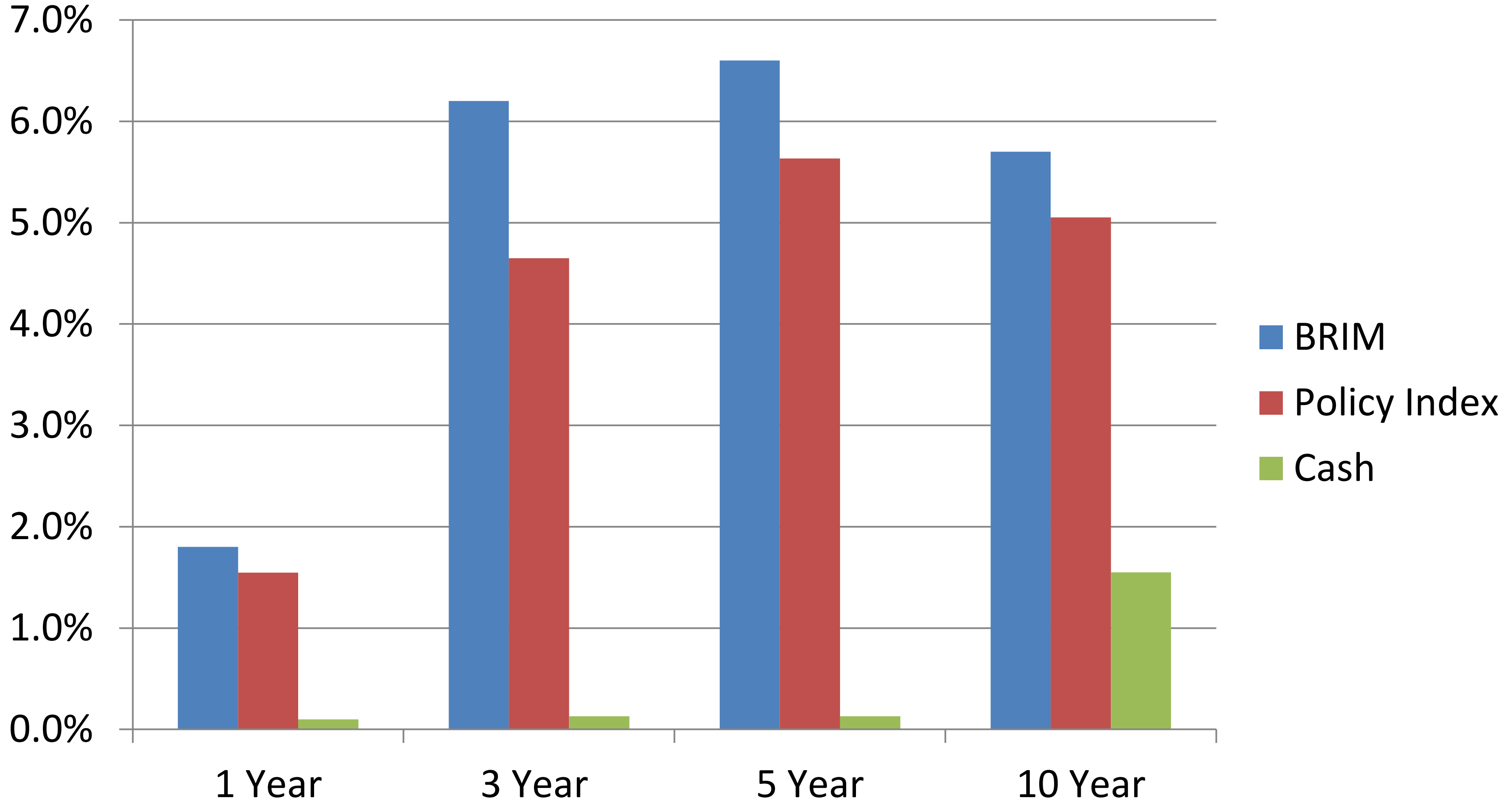
6/30/2015

Asset Allocation



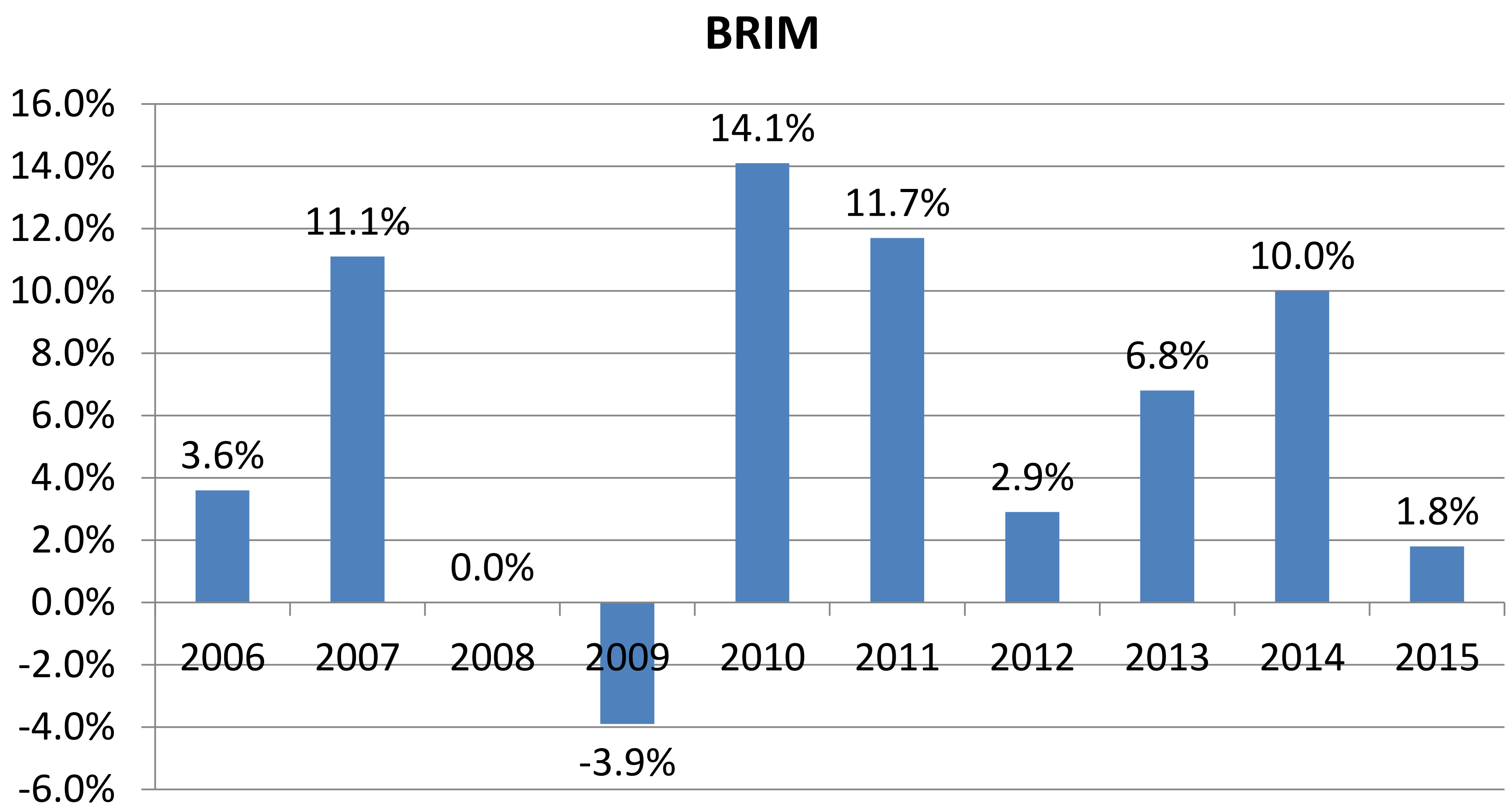
Performance

June 30, 2015



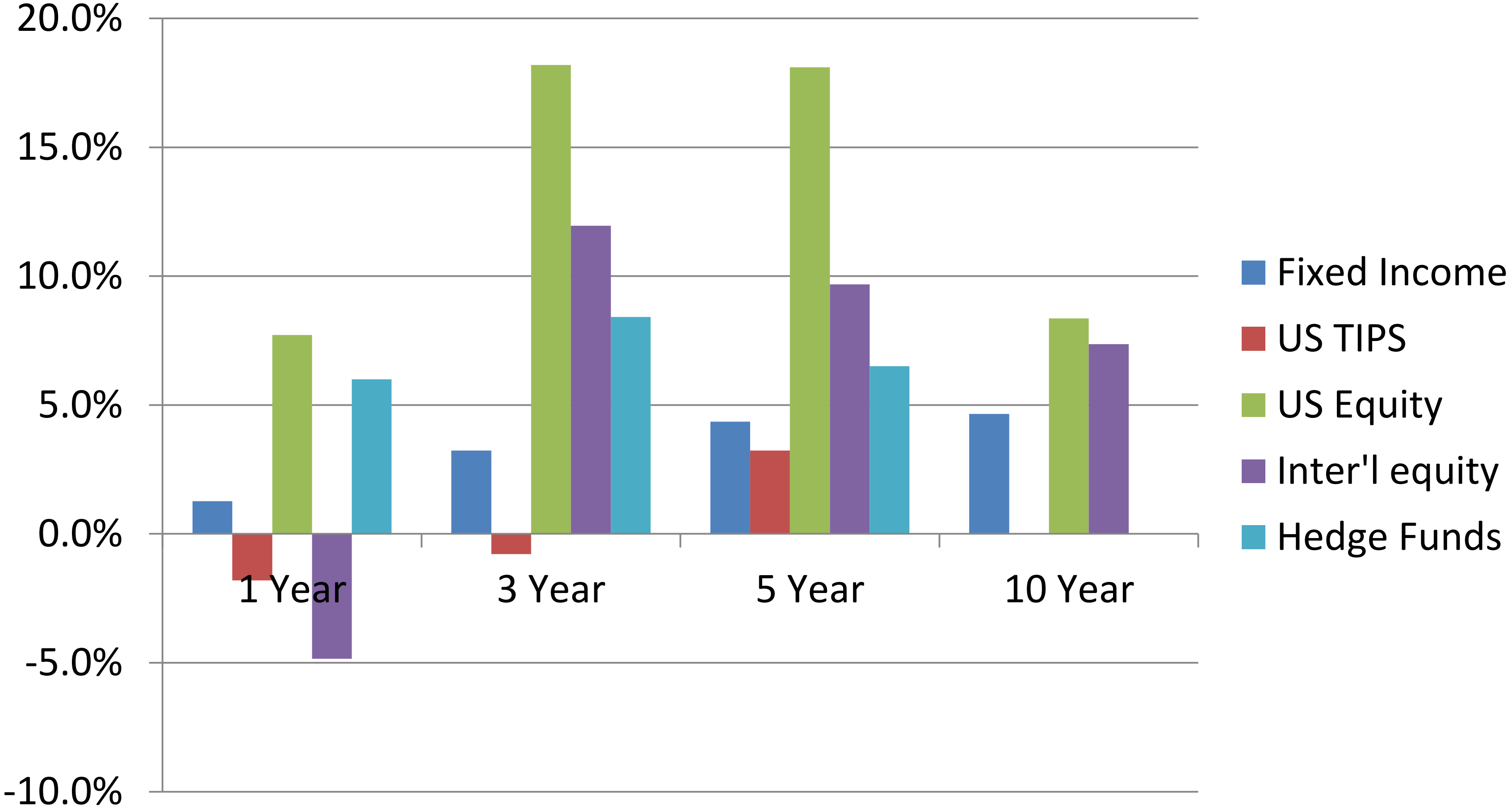
Performance by Fiscal Year

Years ending June 30

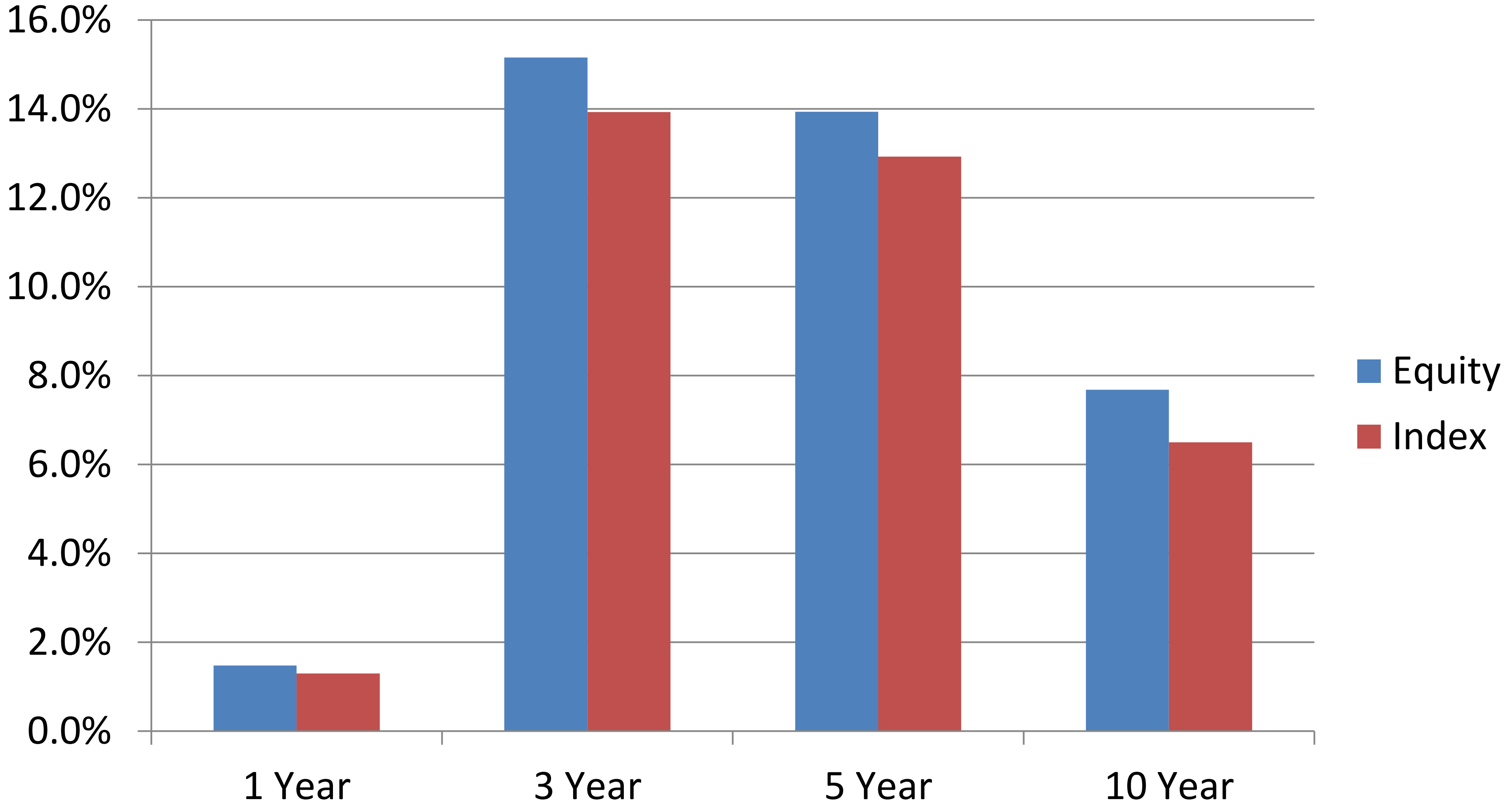


Asset Class Performance

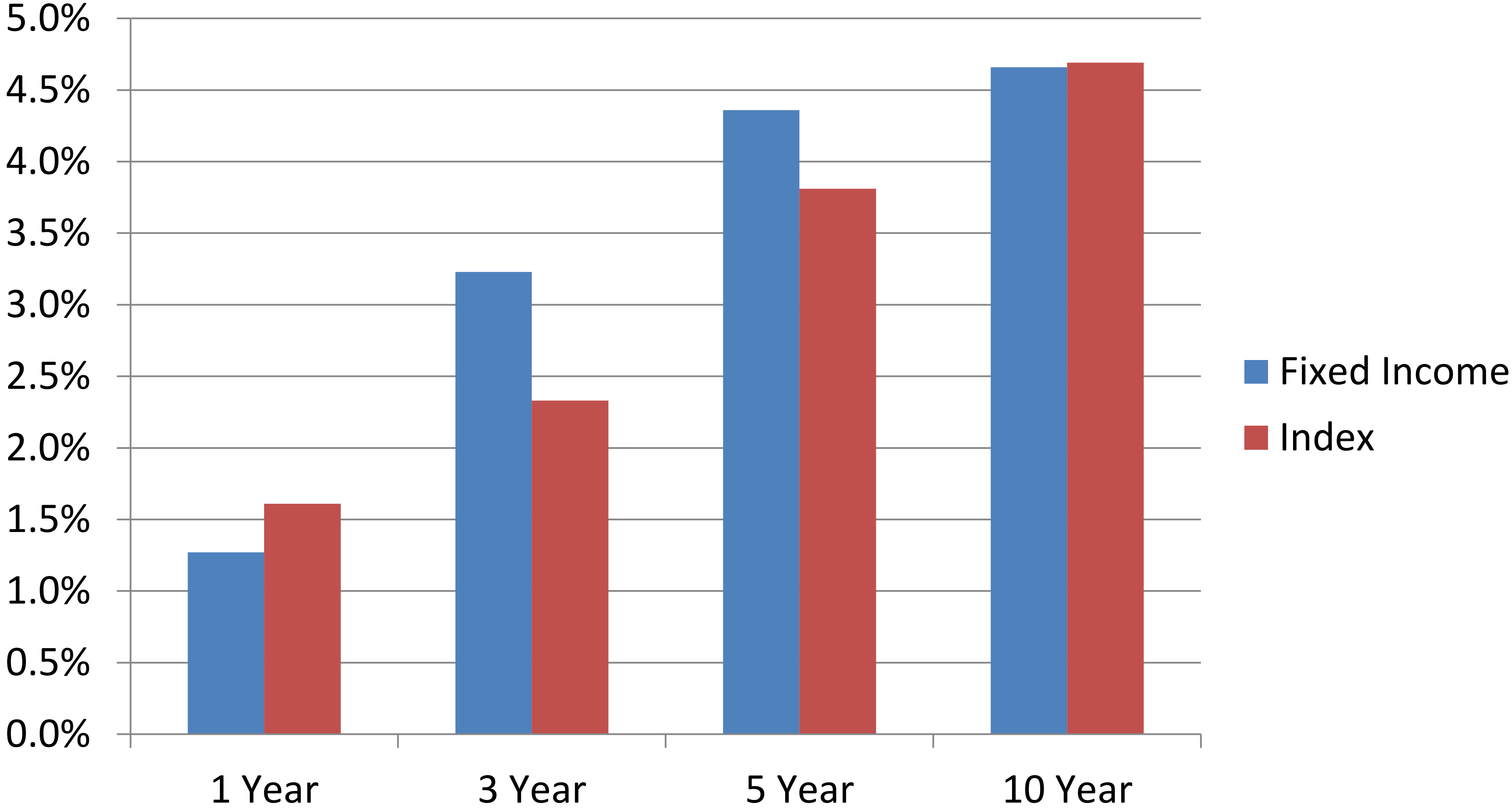
June 30, 2015



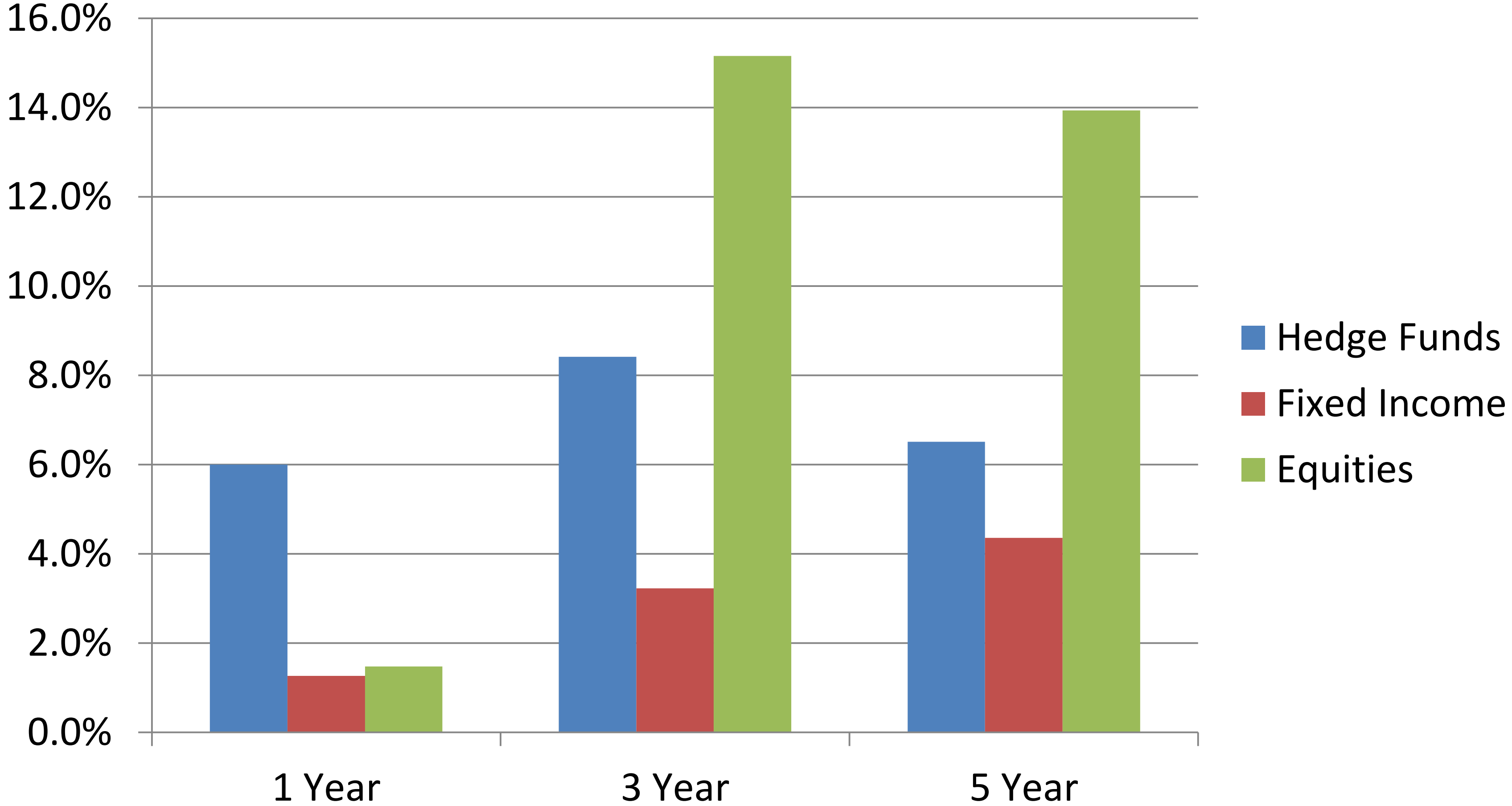
WVIMB Performance - Equities



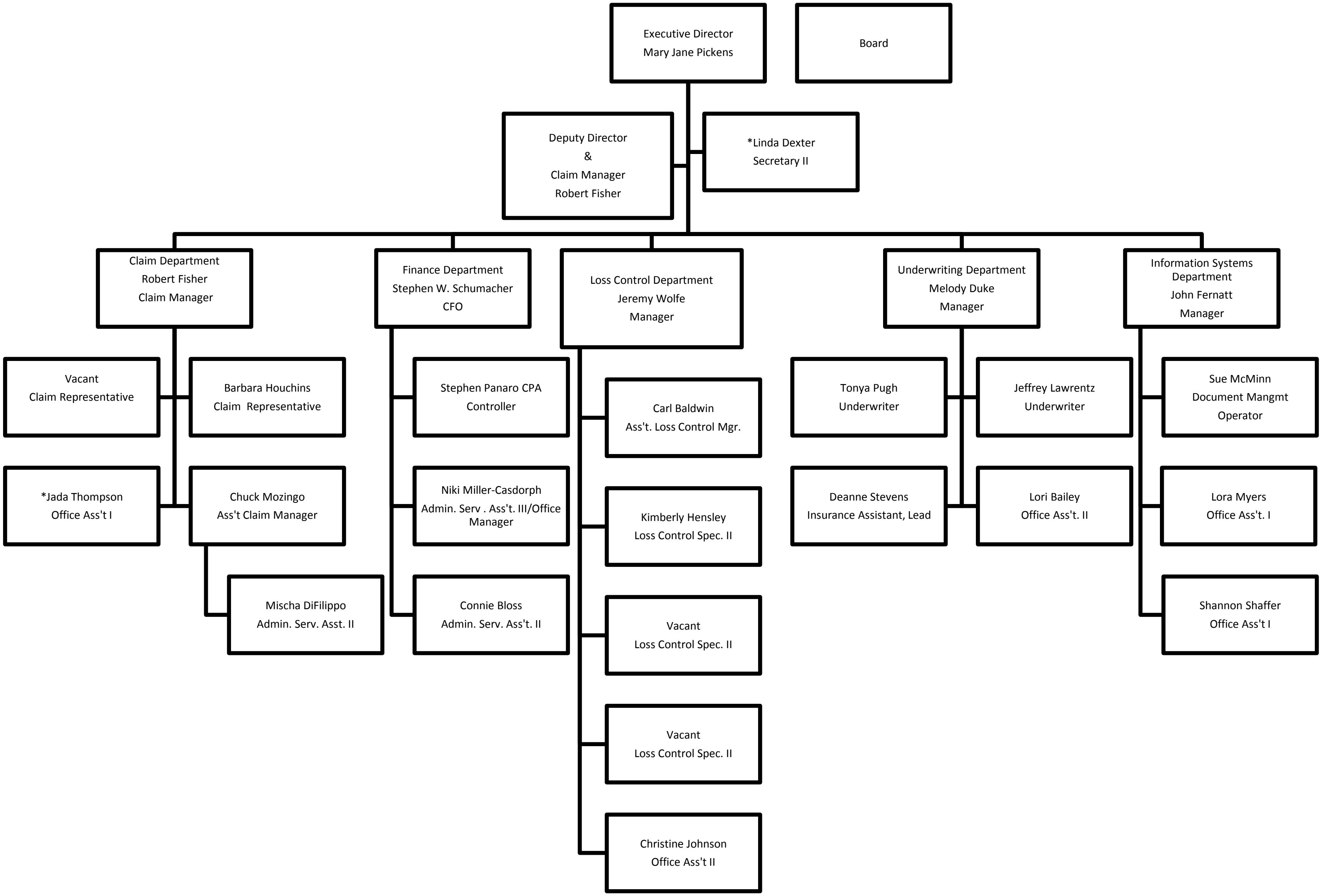
WVIMB Performance – Fixed Income



WVIMB Performance – Hedge Funds



Board of Risk and Insurance Management Organizational Chart



- Denotes Temporary Employment

June 30, 2016