

## **ADMINISTRATIVE POLICY AND PROCEDURE**

### **SUBJECT: PARAMETRIC AGGREGATE EROSION**

**DATE: June 9, 2025**

**AMENDED DATE:**

**REVIEWED DATE:**

### **STATEMENT**

MBASIA purchases insurance policies on behalf of Members, some insurance coverages include aggregate limits which may be eroded by Member claims. MBASIA bound a parametric earthquake policy with shared aggregate limits. The purpose of this policy and procedure is to outline the method for fund distribution in the event of aggregate limit exhaustion or other scenarios that require a sharing of limits between members. Because this policy's coverage trigger is earth shaking as opposed to building damage, MBASIA would know the full amount of the claim recovery shortly after the event.

The parametric policy includes certain maximum amounts that the insurer is liable to pay in the event of a loss. These are known as "Loss Limits" these limits are shared by all Members of MBASIA that participate in this parametric placement. For example, limits could be exhausted in the following situations:

- More than one agency is involved in the same loss event resulting in total payable claims in excess of the aggregate
- A series of unassociated loss events during the policy term involve more than one Member resulting in total payable claims in excess of the aggregate.

### **PROCEDURE**

The following Loss Limit Sharing Formula (LLSF) shall govern recoveries by Member Agencies from the parametric insurance carrier in any case where the total payable claims of affected Member agencies exceed either a per occurrence loss limit or an annual aggregate loss limit specified in the policy such that, in either case, the insurance coverage available is insufficient to pay all payable claims of affected Member Agencies.

In the event MBASIA members exhaust the Loss Limit available, the following Loss Limit Sharing Formula (LLSF) will be applied to each Member's recovery:

$$\frac{\text{Policy Loss Limit}}{\text{Total Amount Owed to All Members}} \times \text{Member Loss Limit} = \text{Member Payable}$$

**Example Scenario:**

Policy Loss Limit:	\$3,000,000
Member Limit A:	\$1,000,000
Member Limit B:	\$750,000
Member Limit C:	\$500,000

Triggered Losses:	Member 1:	\$1,000,000
	Member 2:	\$1,000,000
	Member 3:	\$750,000
	Member 4:	\$500,000
TOTAL:		\$3,250,000

LLSF Result:  $\frac{\$3,000,000}{\$3,250,000} \times \$1,000,000 = \$923,076.92$

In any event where it appears that the LLSF may require proration of Member Agencies' claims, the Board shall be, and is, empowered to instruct the insurer concerning the manner in which claims of affected Member Agencies shall be paid so as to achieve the objectives required by this Policy. However, in exercising this power, the Board shall give due consideration to the needs of affected Member Agencies for expeditious administration and prompt payment of their claims, and payment of proper claims shall not be unduly delayed because of the application of this Policy & Procedure.

In the event that the Loss Limit is eroded by separate events during the policy year, Members accepting payments agree to reimburse MBASIA for any reductions in reimbursements due to the application of the LLSF for events which occur later in the policy year.