

Policy on Capital Adequacy

The NMCIA Board understands that it is imperative that the financial position of the Pool remain strong for the benefit of its' members. This policy on capital adequacy is based on an analysis by PricewaterhouseCoopers of the levels of risk acceptable to the NMCIA Board as of August 2023.

Their assessment concluded that in the next one-year time horizon, there is a 0.5% chance (1-in-200-year event) that the financial risks (balance sheet and next year's business only) will result in more than \$54 million demand on program capital.

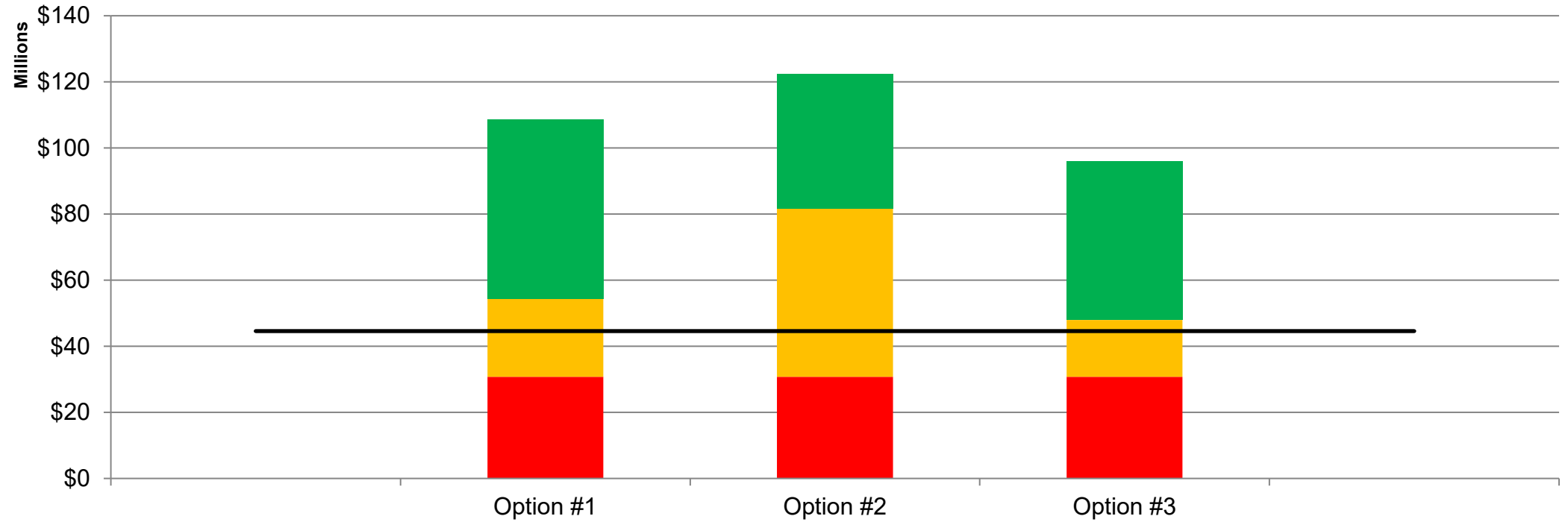
This policy is based on the following capital adequacy measures and guidelines voted on by the Board August 9, 2023:

- The minimum level of capital adequacy is defined as a 1-in-20-year capital event. If the net position is or projected to be below this level (\$31 million), immediate corrective action is required to restore the capital adequacy to the minimum level within 12 months.
- The desired risk capital target range is defined as having a lower bound (\$54 million) of a 1-in-200-year capital event and an upper bound (\$109 million) of 2 times a 1-in-200-year capital event. The lower bound is consistent with the 99.5% confidence level expectation contained in the global insurance regulation. The upper bound is established to recognize there is a point where funding can become excessive based on other financial needs of the membership. Staff will create a funding plan to reach the lower bound over a several year timeframe.
- Once the lower bound has been achieved, staff will create a funding plan to include guidelines on achieving a middle target amount (\$81.5 million) over a several year timeframe. The plan will include contingencies for funding sooner than the plan timeframe and criteria for how to allocate any funds that exceed the middle target.

¹The PricewaterhouseCoopers assessment document resides on the [Administration drive](#) with the Pool policy manual.

Passed by unanimous consent of the NMCIA Pool Board of Directors on December 21, 2023.

Target range options



Option #1

Minimum: 1-in-20 year level (\$31 million)
 Lower bound: 1-in-200 year level (\$54 million)
 Upper bound: 2 times 1-in-200 year level (\$109 million)

Option #2

Minimum: 1-in-20 year level (\$31 million)
 Lower bound: 2 times 1-in-50 year level (\$82 million)
 Upper bound: 3 times 1-in-50 year level (\$122 million)

Option #3

Minimum: 1-in-20 year level (\$31 million)
 Lower bound: 1-in-100 year level (\$48 million)
 Upper bound: 2 times 1-in-100 year level (\$96 million)