



# OPERATIONS MANUAL FOR PUBLIC ENTITY RISK POOLS

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This is a 2012 updated version of the manual first published in 1997 by the Pooling Section of the Public Risk Management Association. Bill Tackett, AGRiP Director of Membership Services, revised and added many segments of the original manual for this 2012 edition.

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**AGRiP**, the Association of Governmental Risk Pools, was organized in late 1998 as a membership organization for public entity risk and benefits pools in North America. It is a successor to the Pooling Section that operated for nearly 20 years under the auspices of the Public Risk Management Association.

**AGRiP was created for the following purposes:**

- To promote pooling as a practical extension of local government’s obligation to be a good steward of public funds.
- To act as an advocate for the advancement of intergovernmental pooling as the most appropriate risk and employee benefits financing mechanism for most local governments.
- To provide a forum for intergovernmental issues of mutual interest in the administration and operation of self-funded and group insurance purchasing programs, and other group programs associated with the funding and operation of intergovernmental pools.
- To identify legislative and regulatory issues affecting intergovernmental pools and to provide information to assist pools in addressing such issues.
- To act as a clearinghouse for the collection and dissemination of data and resources relating to intergovernmental pools and to encourage and support new research for tomorrow’s pools.

- **Introduction**

Intergovernmental pools were originally created to meet a need for risk and/or employee benefits financing in the public sector. Self-governing, public entity pooling has been in existence in the United States since the early 1970s, but most pools in the country were formed during the hard insurance market of the 1980s when insurance for public entities was very expensive and/or coverage was restrictive or nonexistent.

The Governmental Accounting Standards Board (GASB) Statement Number 10 defines a public entity risk pool as a “cooperative group of governmental entities joining together to finance an exposure, liability, or risk. Risk may include property and liability, workers’ compensation, or employee health care. A pool may be a stand-alone entity or included as a part of a larger governmental entity that acts as the pool’s sponsor. In risk sharing pools members pool or share their risks with each other. The risk pool is set up and funded through contributions (called premiums in private insurance transactions) that provide insurance-like coverage. Contributions are used to pay claims and claim related expenses and do not constitute an equity interest. If claim and administrative expenses are less for a particular claim year than the contributions collected then members may receive a refund or additional benefit from that claim year. Return of contribution may take the form of reduced rates for future claim years, direct refund payments, increase member services and so forth.”

Pools provide a wide range of risk transfer and risk management services. Pool members are owners and often have an equity position in the organization. They benefit from having more control over the way their money is spent, particularly in hard insurance markets, but in addition they generally receive loss control, safety and other risk management services that tend to make them better risks.

Today, intergovernmental pooling arrangements exist in every state except Hawaii. Approximately 500 pools are in operation with nearly 150 pools in California alone. The pools in AGRiP’s database in 2009 represent approximately 46,000 cities, counties, school districts, utility districts, water districts, transit districts and other public agencies. Both the number and growth of intergovernmental pools clearly establishes that they are far more than a passing fad. Despite the cyclical nature of the insurance market, most pools have successfully increased membership while maintaining loyalty among those entities that joined the pool initially. Public entity risk and benefit pools provide risk transfer services to local governments on a continuing basis, but in a vastly restructured format.

There are many advantages of joining a pool, including:

- Improved availability of coverages,
- Broader terms, conditions and limits,
- Services tailored to needs,
- More equitable rating bases, and
- Stability of rates and contributions.

The most visible benefit of joining a pool, especially during a hard market, is cost savings to members. Some of the areas of potential savings include:

- No profit loading,
- Improved loss control,
- Tax-exempt status,
- No premium tax,
- No commission, and
- Lower overhead costs.

For pool trustees, administrators and staff, the first step to ensuring effective operations is to review the mission of pools and how pools operate. Pooling is an alternative to purchasing commercial insurance individually. A group of public entities make payments, called contributions, to pay for losses, pool administrative costs and related services. Funds are used to pay losses above the individual deductible up

to the pool's maximum retention. Pools generally purchase excess or reinsurance to protect against catastrophic losses. Members receive safety, loss control, claims handling, legal, actuarial and other services that the pool may provide in-house or may purchase from third party providers.

The long-term success of an intergovernmental pool depends on continued support by its members. Some potential participants may hesitate at the prospect of a long-term membership commitment required by some pools, but this commitment to the benefits of cooperative self-funding allows pools to maintain the high standards essential to pool success. Local governments must understand the membership model of pooling and be philosophically committed to finding alternatives to commercial insurance. There must be a real consensus that the group wants to share its risk. There must be political support, particularly from influential members and high-ranking local officials. To ensure long-term commitment from members, pools should have several objectives that can provide guidance for providing services and developing programs to meet members' needs. Typical goals and objectives for pools may include the following:

- **To better define the scope and terms of coverage.** In an intergovernmental pool, levels of deductibles, coverages and various coverage policy terms are developed to suit the specific needs of pool members. The owner/consumer nature of a risk sharing pool gives pools members' greater latitude to decide on the risk exposures that their contribution dollars cover.
- **To provide stable coverage.** Historically, adequate coverage has been difficult to purchase from insurance companies during hard markets. Some types of coverages had not been available to local government members at all. Well run pools are insulated from the cyclical nature of the insurance industry. Even if a pool establishes limitations on certain coverages, it is unlikely to withdraw completely from an area as private carriers sometimes do.
- **To improve management and administrative services.** Improved management of services could be one of the most important benefits of a pool. Because the pool selects either in-house or third party providers in each service area, it can choose the best qualified option to provide specific services. For example, a claims-adjusting firm, which is not performing to a desired level of service, can be replaced without causing significant changes elsewhere in the program. Other service areas include: loss control, cash and investment management, legal defense, and management information systems.
- **To provide a broad range of services.** Pools can provide many services that may not be feasible for individual members, particularly smaller public entities and those with limited resources. The most common services that pools provide are loss control and risk management programs such as safety inspections and training programs. Often these services benefit the pool as a whole, as well as individual members. For example, enforcing risk management standards, evaluation potential loss exposures and continuously monitoring risk management programs are essential to reducing losses for the group.
- **To improve cash management and to benefit from investment earnings.** Intergovernmental pools differ significantly from insurance companies in terms of the flow of funds and financial objectives. Pools can adjust contribution payment schedules and invest reserves to benefit pool members. Without a profit motive, pools generally can use investment earnings and surplus funds to offset operating expenses or poor loss experience, to reduce future rate increases, or to return a dividend or contribution credit to members.
- **To provide cost savings to pool members.** Cost to pool members may be substantially lower during hard markets when compared to private insurance coverage. Private insurance can be expensive and difficult to obtain, in hard markets and more modest during soft market conditions. Even if costs escalate, pool members are able to directly relate increases to specific causes, such as poor experience or excess/reinsurance rate increases. During hard markets many communities using private insurance companies have experienced substantial premium increases even with good loss experience, but historically, pools have provided members with coverage and service at a reduced cost.
- **To compile data for risk management programs.** The pool helps participants identify priorities for cost-effective risk management by analyzing claims frequency and severity. Typically, the insurance industry has not provided sufficient claims data and other information desired by most public agencies.

Individual pools may establish other objectives based on the needs of their members. In turn, the structure of the pool and its services are determined by the pool's goals, objectives and mission. Because of many objectives that pools may fulfill, pool operations are as diverse as the number of pools. Some pools offer one line of coverage; some offer many lines of coverage; and some pools are actually an umbrella of several funds that each offer one line of coverage. Some pools employ in-house staff, others use contracted administrators. Some pools are heavily regulated by their state, while others are not regulated at all.

In light of the various pool operational structures across the country, individual entities and state regulators may have difficulties evaluating a pool's efficiency and effectiveness. In 1982, the Pooling Section of the Public Risk Management Association developed pool advisory standards that provide guidelines for good pool administration. These advisory standards have been revised several times since they were created and to provide a framework for evaluating pool operations. Provisions of the standards appear in **boldface type** throughout this manual. The AGRiP Pool Advisory Standards appear in Appendix: Exhibit J.

**This section provides a short synopsis on the fundamentals of key components in pooling operations, their value and use in public entity pooling.**

## Actuarial Services

Actuaries play a vital role in the operation and success of pools by providing analysis crucial to the financial viability of pools. Pools that retain risk should engage a professional actuary annually to provide an estimate of the required reserves for purposes of establishing the liability for unpaid claim costs. This liability is discussed in "Statement No. 10 of the Governmental Accounting Standards Board: Accounting and Financial Risk Reporting for Risk Financing and Related Insurance Issues." Paragraphs 22 through 26, 59, and 60 of GASB 10 pertain to financial reporting issues related to claim cost recognition for public entity risk pools.

In most instances, the pool's actuary also projects the retained losses for future policy periods. This projection should include not only the projected losses at the expected or mean level, but also the projected losses at higher confidence or probability levels. These projections serve as the basis for the funding/pricing decisions of the pool for the future period(s).

### What is an Actuary?

Actuaries use mathematics, statistics, economics, and finance to analyze the financial consequences of risk. In this case, the risk(s) analyzed are related to insurance pools. To achieve professional status as a property and casualty actuary, an individual must pass a series of professional exams. Additionally, the actuary must complete a professionalism course and two online courses related to risk management, insurance, and accounting.

There are nine actuarial exams covering a broad range of subjects: (1) Probability, (2) Financial Math, (3) Models for Financial Economics, Life Contingencies, and Statistics, (4) Actuarial Models, (5) Basic Techniques for Ratemaking and Estimating Claim Liabilities, (6) Regulation and Financial Reporting, (7) Estimation of Policy Liabilities, Insurance Company Valuation and Enterprise Risk Management, (8) Advanced Ratemaking, and (9) Financial Risk & Rate of Return. The typical actuarial student will invest between five and ten years of study to pass the required exams and earn an actuarial designation through the Casualty Actuarial Society. Members of the Casualty Actuarial Society use the designations of Associate of the Casualty Actuarial Society (ACAS) or Fellow of the Casualty Actuarial Society (FCAS). An ACAS has completed exams one through six and a FCAS has completed all nine exams. In addition to the ACAS or FCAS designation, the actuary may also be a Member of the American Academy of Actuaries (MAAA).

### **Actuarial Reserve Analysis/Determination of Financial Statement Liabilities**

An actuarial reserve analysis estimates a pool's outstanding liabilities resulting from past retained (net) exposure. The analysis should include the liability for losses and loss adjustment expenses as of the appropriate financial statement date. An analysis may also contain an estimate of ceded and/or gross liabilities for the pool as well. The liabilities to be funded consist of two components: case reserves and incurred but not reported (IBNR) reserves.

Case reserves are the reserve amounts shown on the loss run. They are typically estimated by a claim adjuster, lawyer or other insurance professional. They represent the amount of money estimated for future payments related to a particular case.

IBNR reserves can be thought of as composed of two parts:

- 1) Pure IBNR Reserves – estimated amount needed for claims that have happened but have not reported yet. History has demonstrated that there can be a significant time lag between when a claim occurs and when the claim reports to the pool. This time lag varies by coverage.
- 2) Reserves for Development on Known Claims – estimated additional amount needed to ultimately settle known claims in addition to the current incurred value for those known claims. The incurred value is defined as the paid amount plus the case reserves on the claims. The value of the known claims, in aggregate, increases over time in a majority of instances. These increases are part of the “life cycle” of claims until they are settled. The fact that claim values increase over the life of a claim does not imply any deficiency on the part of the claim adjuster or claim handler. The details of the claim emerge over time. For long-tailed coverages, even claims at very mature stages of development have shown additional incurred development.

Taken literally the term IBNR would seem to represent only #1 above, the Pure IBNR Reserves. However, when actuaries and other risk management professionals use the term IBNR, they typically mean the combined total of #1 and #2 above.

Actuaries typically calculate the total IBNR provision on a combined basis. The exception is for coverages written on a claims-made basis where separate estimates of the two parts are more the rule. The pure IBNR reserves are sometimes referred to as the tail liability in those cases. In many cases, the pool would not provide coverage for the tail liability. In those cases, the tail liability is not included as part of the carried reserves/liabilities of the pool.

An actuarial reserve analysis will, at a minimum, include an estimate of the required reserves (case reserves + IBNR) at the expected/mean level. It will likely also show a range around the estimated required reserves and/or the estimated required reserves at various confidence or probability levels. It is quite common for the balance sheet liability for losses and loss adjustment expenses to be at a confidence level above the expected level. For example, a pool may choose to set the balance sheet liability at the 70% confidence/probability level. This provides an implicit risk margin in excess of the expected level reserves. A 70% confidence level implies that the amount will prove to be sufficient in 70 out of 100 instances. The selection of the confidence level is determined by the pool board of directors and typically takes into consideration factors including, but not limited to, the surplus of the pool, the types of coverages provided, the pool's retentions by coverage, and specific jurisdictional issues.

The report may also show the discounted present value of the estimated required reserves. Paragraphs 24, 25, 59, and 60 of GASB 10 contain specific guidance related to the discounting of balance sheet liabilities for losses and loss adjustment expenses.

### **Actuarial Loss Projection/Funding Analysis**

An actuarial loss projection is an estimate of the retained losses that will occur during a specific time period in the future. In order to project the losses for the coming period, an actuary will review the historical losses and exposures associated with previous periods.

An actuary will first estimate the ultimate losses for each of the previous periods based on several actuarial methods. The incurred and paid loss development methods are the most common and basic



methods used. The loss development factors used will consider the pool's actual loss development history, if both available and credible. If the pool's actual loss development history is unavailable, industry benchmark loss development factors will be used. The estimated ultimate losses for the incurred and paid loss development actuarial methods are estimated by multiplying the actual losses as of the evaluation date of the data by the appropriate loss development factor.

A selection of the estimated ultimate losses for each period is made based on the estimates from these two methods as well as any other actuarial methods used. The selection will consider the strengths and weaknesses of the actuarial methods and factors such as the number of open claims, case reserve adequacy and changes in closing rates.

Next, inflation trend factors are applied to the estimated ultimate losses for each period to reflect the cost level of the period being projected. Inflation factors are also applied to the exposures for coverages where the exposure base is inflation sensitive. For example, payroll is an inflation sensitive exposure and therefore the exposure is trended as part of the projection process. Vehicle counts and head counts are not inflation sensitive and therefore trending is not necessary or appropriate.

For each historical period, the trended estimated ultimate losses are divided by the trended exposures to calculate trended pure loss rates for each period. The actuary then selects an expected loss rate for the projected period based on the various individual estimates, averages of those individual estimates, and judgment. The projected losses at the expected level are calculated as the selected loss rate multiplied by the projected exposure for the projected period.

Often, the actuarial loss projection study will contain loss projections at several different per claim retention levels. For example, a study may show the projected losses at retentions of \$250,000, \$350,000, and \$500,000 per claim. This will allow the pool to consider alternative insurance programs for the upcoming period. The projection may also consider any aggregate retentions or corridor deductibles as well.

An actuarial loss projection study should show the projected losses at the expected level as well as at higher confidence/probability levels. An expected level loss projection represents a point estimate only. It does not quantify the potential variability that may exist in that estimate. A confidence/probability level provides an analytical way to view the projected retained losses. It is common and prudent for pools to fund the projected period losses at a level higher than the expected level. This provides a margin for possible adverse loss experience. As with the carried liability for loss and loss adjustment expense reserves, the selection of the confidence level is determined by the pool board of directors with consideration for the factors mentioned previously.

The total funding for the projected period will, of course, incorporate the expenses of the pool including administrative expenses, acquisition expenses, claim handling expenses, and the cost of excess insurance/reinsurance. The retained losses are the largest portion of the total funding for most pools and are certainly the source of greatest uncertainty.

### **Individual Pool Member Pricing/Funding**

Although many pools rely on their actuary primarily for the total funding analysis, the actuary may also provide analysis related to individual pool member funding. This may take the form of allocating the total projected funding cost based on an allocation or experience rating type formula/model. Many pools allocate costs based on a combination of experience and exposures. The actuary can assist in the development of a balanced allocation process that is fair and equitable to pool members.

### **Other Considerations**

The actuary will rely on pool management to provide the loss, exposure and historical retention/policy information. The accuracy of the data provided to the actuary is critical. Also pool management should discuss with the actuary any significant programs or changes implemented. Examples include a new safety control program, a change in third party claim administrators, and changes to policy terms and conditions. All of these changes can have an impact on the actuarial estimates.

## **Broker Services**

Many pools purchase excess of loss reinsurance on various coverages afforded to their members. This coverage is offered by specialty insurance companies familiar with the operations of pools and the risk of loss they face.

Insurance Brokers serve as a valuable resource and intermediary for pools in the marketing and placement of reinsurance by presenting the pool's risk profile in its most favorable light. Brokers collaborate with the Executive Director and Board to help design the proper program and achieve the appropriate coverages, limits, and attachment point. It is an acquired skill to coordinate and blend all these elements at the best premium the market can offer.

### **Why can't we just go direct?**

Insurers most typically utilize independent agents or brokers to access their clients and prospects vs. a "captive agent" who only represents one insurance company (also known as a "direct writer"). Both direct writers and independent agents serve their clients. For example, State Farm is the largest direct writer in the country. On their web they answer the question, "What can my agent do for me?" by stating, "Help select an insurance plan that works for you... Provide valuable information about insurance, the risks that make it necessary, how to protect yourself to get the most for your money."

Direct writers have the vast majority of personal lines insurance in the country. However, for over 100 years the Independent Insurance Agency system has evolved into the prevailing means of distribution and standard for Insurers targeting commercial clients with complex risk profiles. The reason for this is best understood by understanding how successful Independent Insurance Agents (Brokers) work to differentiate themselves. The success or ability of a broker to achieve high marks on these points defines their value proposition:

#### **I. Representing the clients interest**

A broker spends considerable time understanding your pool's objectives, values, and mission. From there, a broker evaluates your portfolio offering against your capital (surplus) position and critiques your risk profile. "Risk" is everything that threatens your objectives.

A plan is established to secure reinsurance when a pool should not or cannot assume risk of loss relative to their capital position or when reinsurance (risk finance terms of insurer) is seen to be "cheap" relative to your pool's cost of capital or desired leverage. Once a pro-forma program design takes shape, a detailed market submission is developed, and insurance carriers are selected and approached. A market submission provides underwriters a comprehensive overview of the pools exposure, with items like: fleet schedules, payroll, property, historical loss data, and safety risk control protocols. Insurance carriers are approached that have the underwriting capability, appetite and requisite services to meet the desired objective.

Care should be taken in evaluating whether a broker is representing your interests or their own. All brokerage relationships should be reviewed and critiqued against established professional standards on a periodic basis. All successful relationships are based on trust. Trust is developed in truth. And truth is best served when a broker looks out for a client's interest before their own and by representing the truth in everything said and done. Reinsurance is not a commodity purchase and the strength of any carrier, broker, and pool relationship is grounded in trust and respect. Most generally, these relationships are strengthened over time. However, the antithesis is also true. Long term relationship often need to be tested and evaluated to make certain they have not become stale, ineffective, and are in step with the best the market can offer. While this is a subjective evaluation, subject to a great many considerations, it is a fundamental fiduciary responsibility of any Board Member and the Executive Director to review. There is no precise standard or practice for initiating RFP's, but any formal process should be transparent, and involve Board participation.

## **II. Access to insurance Carriers / market relationships**

Carriers are selected on their ability, interest, and financial capability. There are only a few insurance carriers that have an appetite for public entity business and an even smaller group with interest and/or capability in insuring a pool.

Insurance markets that write or entertain public entity business prefer brokers that have specialty knowledge of the sector. Successful brokers develop a rapport with markets by best defining what a successful relationship is and allowing markets to provide solutions uniquely tailored to the risk profile of a particular pool. Relationships are strengthened over time by a carrier's claims paying performance and ability to adapt and alter program design and pricing as conditions change- whether internal or external to the client.

Good brokers challenge strong relationships for "Best in Class" outcomes and reward carrier performance when the bar is met. Insurance Brokers help Executive Directors and Boards assess carrier performance relative to what competitive forces (other markets) might offer. Carriers that measure up are rewarded with renewals. Premium charged, while important, is only one element of the evaluation.

## **III. Specialty knowledge, counsel, and advice**

Brokers should be evaluated on their ability to place the optimal program design. Specialty technical knowledge on state regulations, tort claims environment, contract construction, and coverages are all necessary skills. Competitive market forces are sufficient to demand excellence, and these competencies should be seen as 'table stakes' for any brokerage firm secured.

Brokers should also be evaluated on the internal resources they have to make your pool successful. Many firms have resources, but for some, they are difficult to access, or priced separately. You should work to evaluate your brokerage team's ability to assist with benchmarking, program audits, program management, or any element of your business plan, development, or execution. Some brokers also have the ability to assist your pool in establishing surplus goals and customizing a program designed to achieve those goals.

# **Claims Administration**

For many organizations, a workers' compensation claim, a liability claim or a property damage claim is simply a cost of doing business. Claims (liability or property), injuries or illnesses (workers' compensation) are seen as a business expectation that is considered covered under your insurance policies, and managed by a risk management program.

Pools have the option of managing claims either "in-house" with pool employees or by contracting with a "third party administrator" or TPA. In either approach claims administration is designed to serve and protect the pool's financial interests by indemnifying the claimant at the lowest possible cost to the pool by managing the claims process from beginning to end with a team of adjusting staff, support personnel, and technology.

Claims management best practice is a combination of three R's: *Resources*, *Responsibilities*, and *Relationships*.

### **Resources**

Claims management staffing is dependent on the number of claims generated. Staff members typically include adjusters and support personnel. Competent adjusters are often educated and trained on either TPA or pool claim quality requirements, have attained professional designations, are experienced in using computer risk management information systems (RMIS), and can be proficient in other areas of expertise beneficial to your account (i.e. third party subrogation recovery.) Adjusters interact with the pool's managers/supervisors, employees, local area medical professionals and others to provide timely, accurate

and effective claims management from time of injury/incident through the return-to-work (workers' compensation) or indemnification (liability and property) process.

### Responsibilities

Ten key steps of claims administration.

**Reserving** - Adjusters perform a realistic, individualized analysis on each claim to determine the proper reserve. Also known as probable exposure, an adjuster will monitor that the appropriate treatment or service for the appropriate injury or incident is applied to that claim to reduce wasteful spending through unnecessary treatment or services.

**Coverage** - Claim adjusters determine the extent of insurance coverage and compensability on each filed claim.



**Initial Contact** - 24 hour/3 point contact is necessary to gain all the valuable facts of the injury or incident before time disallows for an accurate assessment of the injury or incident, i.e. relevant witnesses and employee recollection.

**Investigation** - Each new claim is promptly and thoroughly investigated for facts, fraud indicators, etc. claim adjusters conduct investigations and advise you of the results, offering an opinion on risk exposure and recommended action, i.e. litigation.

**Documentation** - Documentation procedures facilitate the production of investigative reports, activity reports, and status reports. Statistical data is then recorded electronically in a format that is used to support defense, litigation, subrogation, and claims payment keeping you apprised of each claims' status.

**Diary** – A claim adjuster follows-up on their prior action plan and prepares an updated and revised action plan outlining steps for claims resolution. This also helps to ensure that state-mandated procedures and/or notices, statutes of limitation, and excess reporting deadlines are appropriately met.

**Litigation Management** – all litigation files contain letters of assignment that detail the results of the investigation and a strategy for discovery; a clear methodology for disposition of the case is outlined in the file notes, and your opinions and counsel opinions are documented.

**Follow-Up/Controls** – Adjusters should meet regularly with appropriate pool personnel to review files and formulate strategies for claim resolution. In addition, review of critical claim files, ongoing litigation, and case strategy recommendations are part of best practices.

**Supervision** – A claim supervisor is directly responsible for overseeing all claims adjusting activity. His role is to provide direction to adjusters in the handling of claims and should be available for consultation on difficult or unusual claims.

**Excess/Special Reporting** – Notification should include any demand in excess of the limits such that appropriate notification of the carriers of any additional layers of coverage.

### Relationships

A pool or their TPA often has an extensive list of vendor partners vetted for best performance in service or product. For example, managed care PPO networks should have the best treating physicians and facilities available; surveillance and special investigators should understand proper rules and

regulations of their practice in their state; legal counsel should be selected and chosen on historical practice and success related to claims administration cases, etc.

## **RISK MANAGEMENT INFORMATION SYSTEM**

Technology plays an important role in aiding a claim adjuster to effectively manage their caseloads from report of injury or incident to treatment or repair. A RMIS is best used to gather, save, protect, organize, and search for all claims documentation and making claim detail readily available in a real-time application.

RMIS systems include a technical support group. A technical group is responsible for running customized reports and coding, support for all users, monitoring data quality/integrity, and monitoring performance. This group is often responsible for systems security and check issuance & printing.

## **ACCOUNTABILITY**

Audits and reviews are necessary to determine the best quality control over your claims administration program. Quality control is an important consideration for claims management. A claim audit can aid in judging performance in executing claim handling instructions and in reserving practices.

## **Claims Audits**

The claim audit provides an independent assessment of the pool's internal or external administrator's claim handling and the execution of its fiduciary responsibilities, compared to industry best practices. Analysis of reserving practices and individual file reserves is a common audit focus. If desired, the audit can also evaluate compliance with the claim protocols of individual pool members; assess the results of the claim handler for performance based compensation programs; determine if the fees and costs being charged for claim handling services are appropriate; or compare compliance against specific contractual requirements.

An effective audit will identify strengths within a claim administration program and also identify opportunities for program enhancement. It also re-affirms to your claim administrator that the pool is an ACTIVE participant in the program and monitoring their performance.

### **Why do a claim audit**

The primary three reasons are:

- Compliance
- Concerns
- Comfort

Many pools have a mandate in their bylaws to conduct an audit every 2-3 years to evaluate TPA performance against industry best practices or other metrics agreed to by the pool. This "compliance" audit assesses TPA performance on both a claim management and fiscal responsibility basis.

One of the most common reasons to conduct an audit is due to "concerns" of the pool. These concerns arise from real or perceived mismanagement of financial matters, poor claim handling, or complaints from members or their employees. Additional concerns would be anything else that would make the pool fear that its claim administrator was not managing the program appropriately or representing the pool poorly in the community.

Equally important is to provide the pool and its members a level of "comfort". Most pools have limited expertise in claim administration, and rarely is there one person who analyzes their program from a global perspective. Conducting an audit when the program appears to be running smoothly provides the pool and its members peace of mind through independent assessment. If nothing else, the audit confirms the pool's perception the program is being administrated as expected.

If problems do exist in the program, it provides a proactive identification of those issues and opportunities to correct them before additional pool time and resources are expended.

### **Who does a claim audit**

After deciding that a claim audit is required, identifying an organization to complete it is the next critical step. Customarily, proposals to do the audit are solicited through a “Request for Proposal” (RFP), generated by the pool that; outline the scope of the audit, set forth the expectations for the auditor, identify the number of files to be audited and their location, and request a proposal.

When considering a provider to complete the audit, efforts should be made to identify an organization that is actively engaged in claim industry best practices auditing. The provider’s qualifications should be provided to the pool, along with a list of references for projects completed over the past 2-3 years. Those references should be contacted to determine the quality, timeliness and satisfaction with their work. Ideally, the firm should have experience in auditing entities similar to those in the pool. Auditors who are also claim administrators should be viewed warily. The pool must be confident that whichever provider is selected does not have a conflict with the firm being audited and can provide a truly independent assessment, meaningful analysis and recommendations. The goal of the audit should be an objective assessment, based on supportable documentation that will provide direction for the claims program.

### **The claim audit process**

Critical to the success of the audit and complete fulfillment of the pool’s expectations is a pre-audit discussion with the lead auditor. This provides the pool an opportunity to share any concerns and clearly identify audit goals. Any specific timeframes will be reinforced during this discussion. A timeline for all audit steps, through report delivery, should be requested from the auditor at this time, if not previously received. A courtesy notice of the upcoming audit should be provided to the claim administrator. The auditor should identify a statistically relevant number of files to be audited and then identify specific files to be audited and share the list with the pool. The pool should identify any specific files to be added to the list if they choose to do so.

Following mutual agreement with the claim administrator for the time and place of the audit, it will be completed. The pool should be invited to participate in a “debrief” on the last day of the audit to discuss preliminary findings with the auditor and claim administrator. Participation in this meeting is highly encouraged.

### **Claim audit report**

Within the established timeframe, a draft of the audit report should be provided to the pool. The draft will be reviewed and, once approved, the final version will be issued. The audit report should be easily understandable for readers without claim or risk management backgrounds. It should set forth the reason for the audit, activities the auditor undertook, and a summary of the auditor’s findings. It should include both a quantitative and qualitative assessment of the claims administrator’s performance and the individual file score sheets to document and support the findings. Finally, it should contain prioritized recommendations for improvements and enhancements to program.

### **Implementation and monitoring**

Once the audit is accepted, the pool should evaluate the findings and determine if the recommendations should be adopted and what steps need to be taken to implement them. Usually, at this point, the pool will share the final report with the claim administrator and task them with establishing their own corrective action plan, if indicated, and share that plan with the pool.

The corrective actions identified by both the pool and claim administrator should be implemented as soon as practical. Oversight of the implementation and results should be monitored by both the pool and claim administrator, with adjustments made as needed. Ideally, a formal audit should be conducted within the following year to ensure the corrective actions have been taken and to evaluate progress.

An active and regular audit cycle should be a part of your pool management plan. It provides an objective, independent assessment of program performance. It also provides expertise and industry knowledge that is usually not available within the pool organization.

## Financial Audits

Financial statement audits help governmental be a good steward of public funds, as they provide independent third-party assurance about the financial information provided by the public entity pool.

Depending on the jurisdiction in which the pool operates and their requirements, the financial statements will be audited under auditing standards generally accepted in the United States and most likely will be supplemented by the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Public entity pools are considered special purpose entities and are accounted for as enterprise funds.

An audit of an entity's financial statements can be broken down into two parts, the actual planning and performance of the audit and the financial statement reports which the independent auditors express their opinion upon. Obtaining a qualified independent public accounting firm to perform the audit adds additional assurance to third parties reviewing the audited financial statements.

The results of the audit planning and related testing should provide the auditor with the necessary evidence to issue an opinion over the financial statements. The audited financial statements are a tangible item that can be provided to existing and potential members, creditors and governing bodies that summarize the public entity pool's financial position and performance and provide assurance related to the information being reported.

In performing a financial audit, several areas will generally be stressed by the independent auditor including the following:

- Communication – Communication is key during the audit process. Communication with governing bodies, management and staff of public entity pools help auditors obtain an understanding of the entity and design an effective audit strategy.
- Independence – Auditors should be independent with respect to financial interests, family relationship and non-audit services.
- Audit Planning – Understanding the entity audited is the basis for a financial statement audit. This allows auditors to identify key components and tailor audit procedures unique to the entity being audited. Internal controls will be documented and evaluated to assess risks of error and/or fraud that could potentially cause material misstatements to the financial statements and allow the auditors to design effective audit procedures over account balances.
- Materiality – Audits are designed to provide reasonable not absolute assurance regarding the reasonableness of information presented by the public entity pool. The materiality limit of an audit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause the auditor to modify their opinion on the financial statements. Materiality will be utilized both quantitatively and qualitatively by the auditors to determine areas within the entities to perform audit procedures.
- Internal Control and Compliance – Auditors will obtain an understanding of internal control which will allow them to sufficiently plan an audit and determine the nature, timing and extent of audit procedures to be performed, not for the purpose of expressing an opinion over internal controls; however, if identified during the audit, auditors will investigate and discussed with management any deficiencies in internal control and report to the governing body of the public entity pool. In addition, auditors will test compliance on matters which could have a direct and material effect on the financial statements. If issues of non-compliance were identified during an audit, its impact would be determined and discussed with management and reported to the governing body of the public entity pool.
- Substantive Testing – Auditors will obtain supporting documentation for certain account balances, perform analytical procedures on certain account balances and inquire with management and other in the entity as a basis for issuing an opinion for the entity's financial statements.

The final financial statements will generally include the following:

- Management Discussion and Analysis (“MD&A”) – The MD&A provides narrative discussion and analysis of the financial activities of the public pool entity. If two years of financial information are discussed in the MD&A, three years of financial information is required to be presented. If one year of financial information is discussed, two years of financial information is required to be presented. It should be noted; the MD&A is required supplemental information and is not audited.
- Independent Auditors Report – The Independent Auditor’s Report provides the auditors opinion over the financial statements presented. Generally, the following opinions may be issued:
  - Unqualified – An unqualified opinion is the highest level of assurance provided by the independent auditor. It communicates that the auditor believes that the financial statements are reasonably stated and are free from material misstatement.
  - Qualified – A qualified opinion would be issued by the auditor because of certain issues affecting the entity including but not exclusive to departures from generally accepted accounting principles, inadequate disclosures, lack of reasonable justification for a change in accounting principle, scope limitations due to lack of sufficient audit evidence, uncertainties relating to a going concern, or an emphasis of an accounting matter. Depending on the magnitude of the issue, the auditor may disclaim an opinion over the audit or certain portions of the audit.
- Statement of Net Assets – The Statement of Net Assets is a snapshot of financial position of the public entity pool at its fiscal year end. The Statement of Net Assets is comprised of three sections, assets, liabilities and net assets. In addition, assets and liabilities should be classified as current and non-current.
- Statement of Revenue, Expenses and Changes in Net Assets (“SRECNA”) – The SCRENA of a public entity pools provides information regarding the activities of the pool over the pool’s fiscal year. The SCRECA is broken down into four major parts;
  - operating revenues,
  - operating expenses,
  - non-operating revenues and expenses (generally relating to investment income and interest expense), and
  - a roll forward of net assets from the beginning to the end of the fiscal year, including net income, capital contributions and capital distributions.
- Statement of Cash Flow - The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity’s ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing.
- Notes to Financial Statements – Notes to the Financial Statements provide information essential to a full understanding of the fund financial statements. Notes to the Financial Statements generally will include the following
  - Summary of significant accounting policies affecting the pooling entity,
  - Footnotes describing activities for significant financial statement line items and
  - A description of the nature of risk transfer or the pooling agreement,
  - A description of the number and types of participants,
  - An explanation of the basis used to estimate liabilities for unpaid claims,
  - A description of the nature of acquisition costs that are capitalized, the method used to amortize such costs, and the amount of acquisition costs amortized for the period,
  - A description of the importance of excess insurance or reinsurance transactions to the public entity risk pool,
  - A presentation of a total claims liabilities reconciliation,



- Independent Auditor's Report on Compliance and Other Matters on Internal Control over Financial Reporting Based on an Audit of the Financial Statements – This report is required under *Governmental Auditing Standards* and will communicate to the governing body and third party any deficiencies in internal control or issues of non-compliance identified during the audit.
- Required Supplementary Information – Required Supplementary Information for a pool will generally be limited to 10-year loss development information, which illustrates how the pool's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Trust as of the end of each of the past ten years. This information is could be useful to various interested parties that must make assessments about a reporting entity.

A financial audit as described above performed by a qualified and independent public accounting firm is a useful tool to both the public entity pool and its members. The financial audit is designed to provide state officials, customers, creditors, suppliers, and the general public with a general overview of the pool's finances and to demonstrate accountability for the funds it receives and to help members of the pool ensure the public entity pool is being "a good steward of public funds."

## **Litigation Management**

Litigation management is one of the most important services a member relies upon from their liability pool. To successfully manage litigation and meet members' expectations, the pool must provide expert oversight.

Expertise is essential, both in claims staff and defense counsel. Public entity litigation, especially in federal court, can be complicated and should be handled by experienced claims professionals, with regular supervisory oversight and input. The "roundtable" loss reserving method that involves evaluation of the claim file by two or more staff or contract personnel responsible for claims, each suggesting a reserve amount, is useful in cases identified as high risk. Additionally it is useful for members of the claims and supervisory staff meet with defense counsel to review the case status and develop potential strategies. Involving experienced individuals in a focused discussion can test defense strategy, strengthen relationships with the client entity and verify appropriate reserving.

Expertise is also an essential element of the pool's panel of defense attorneys. Public entity litigation involves a wide variety of divergent legal issues including law enforcement, employment, personal injury and civil rights. The pool must develop a defense panel based upon the specific expertise and experience of each attorney and assign cases accordingly. It is in the pools best interest to have a diverse panel of defense firms from which to choose the right attorney to defend each case. Once the case is assigned for defense, the appropriate level of claims staff oversight aids in case management. Claims staff may attend initial client meetings and witness interviews as well as selected depositions in order to assess the individuals involved and actively participate in developing defense strategy.

As litigation progresses, there should be regular contact between claims staff and defense counsel. Defense counsel may be asked for a written suit report on a scheduled interval, for example every 90 days, and when significant developments occur. Defense counsel reports can aid in review of legal strategy as well as potential settlement and verdict estimates which are used for reserve evaluation. The claims staff is responsible for keeping defense counsel within budget and review of defense counsel bills.

The final essential element of litigation management is review and evaluation of both the process and case outcome. Once a case is concluded it is easy to move on to the next big case. However it is beneficial to take the time to gather claims staff to review the litigation management process and outcome. Review should include an evaluate the legal elements of the case such as motion for summary judgment, offers of judgment, use of mediation, settlement offers and use of witnesses. Additionally evaluation could include any missed opportunities to serve the member during the litigation in areas such

as communication and media relations. Refer any questionable practices by the pool member discovered during litigation to the pool loss control staff for intervention and improvement. While best practice standards require an outside claims audit every three years to receive an objective evaluation, an ongoing review by pool staff and/or contract personnel of defense costs, legal strategy, reserving practices and decision making aid in improving key aspects of claims and litigation management.

## **REINSURANCE**

### **What is Reinsurance?**

Reinsurance is insurance that insurers purchase to reduce risk. In other words, it is insurance for insurance companies, public entity pools, or other types of pooled risks such as captives. Reinsurance makes the losses pools retain more predictable, because it allows the law of large numbers to apply to that portion of the business that the pool retains. As a result, the pool's actuary can better predict the pool's losses, and provide more accurate estimates of the prices the pool needs to charge its members for coverage.

### **Purposes of Reinsurance**

Pools generally purchase reinsurance for one or more of the following reasons:

- Financial Stability – to make their losses more predictable of time.
- Increase the Limits Offered by the Pool.
- Catastrophe Protection – to protect against a large single loss event.
- Financial Relief – to reduce the pool's financial leverage (i.e. pass future liabilities to a reinsurer in order to reduce the pool's total liabilities relative to surplus).

Pools may also consider the expertise and services offered by a reinsurer, e.g. a reinsurer may offer claims handling expertise, or loss control services. Reinsurance can also facilitate a pool's entrance into a new line of business by reducing the risk associated with an expansion into a new area. It can also be used to exit a line of business.

### **Parties to the Reinsurance Contract**

Reinsurance is an agreement where, for a reinsurance premium, a reinsurer, agrees to indemnify an insurance company or pool, often referred to as the reinsured or ceding company, against all or part of the loss which the latter may sustain under a policy [or memorandum of coverage (MOC)], or policies (or MOCs) it has issued.

- The reinsured is the policy issuing company or pool that is being indemnified.
- The reinsurer is the company agreeing to indemnify the ceding company.

The contract of reinsurance is separate and distinct from the original primary insurance policy. Although the reinsurer has an interest in the subject matter of the original policy, the legal relationship is between the reinsurer and the policy issuing company. There is no contractual relationship between the reinsurer and the original insured. The contractual relationship exists solely between the reinsured and the reinsurer. Therefore, if a pool's MOC covers a loss, but the reinsurance does not, the pool is left holding this difference in conditions. This applies to the ability of the reinsurer to pay as well, i.e. if the reinsurer becomes insolvent, the pool is not relieved of the obligation to pay what would have been the reinsurer's share. Accordingly, it is critical that the reinsurance contract function properly, and the reinsurer is financially strong. It is advisable that pools seek reinsurance contract expertise in drafting reinsurance agreements, and obtain detailed financial analysis on potential reinsurance and have on-going procedures for monitoring reinsurers' financial health.

## Types of Reinsurance

Reinsurance may be categorized in several different ways, including treaty versus facultative, and proportional versus nonproportional.

### 1. Treaty versus Facultative

Traditionally, facultative reinsurance is defined as reinsurance of a specific individual policy or risk. For example, an insurer may purchase coverage on a specific location, like a lumber yard or chemical factory, because the location has an unusually large exposure to loss. Treaty reinsurance is defined as reinsurance of a portfolio of business, i.e. a group of policies. These traditional definitions have blurred in the pooling market. Facultative underwriters have actively written public entity pools, not just one member or one location within a pool but all members and locations. The facultative market's coverage of public entity pools traces back to the perspective that captives, which are often formed by individual companies and are similar to pools, were covered by facultative underwriters. Facultative underwriters also viewed associations, which often originally formed pools, as within their target market. Today, the major distinction is that the facultative market tends to be less agreeable to using treaty reinsurance wording, which more accurately reflects the substance of reinsurance transactions involving coverage for an entire pool. The use of facultative reinsurance wording to cover a pool can result in confusion, and may not provide the pool with the same protection and authority that is found in treaty reinsurance wording. For example, facultative reinsurance wording may not address the right of the pool to add members during the year.

### 2. Proportional vs. Nonproportional

Proportional reinsurance is not very common in the pooling market, but has been used on some large deals.

There are two types of treaty reinsurance, proportional and non-proportional. The most common type of proportional reinsurance is quota share reinsurance, whereby the reinsured and reinsurer share in the premiums and losses of every policy on a fixed percentage. With quota share reinsurance, the reinsurer typically pays the reinsured a ceding commission to cover the reinsured's expenses and possibly other costs. For example in a 65% quota share, the reinsured cedes 65% of their premium/losses and retains 35% of the premium/losses. If the reinsurer pays a 25% ceding commission to the reinsured, the net cost of the reinsurance would be 65% of gross premium times (1 minus 25%), or 48.75% of gross premium. Another type of proportional reinsurance is surplus share reinsurance. Surplus share is similar to quota share, except the percentage ceded typically varies by the size of each risk accepted by the reinsured. As the percentage ceded moves towards 100%, the structure can be used to nearly guarantee a specified level of return for the pool.

Non-proportional reinsurance can be offered as an aggregate stop loss or excess of loss treaty. An aggregate stop loss provides coverage after a reinsured's total losses exceed a specified attachment during a period of time. For example, a pool could purchase aggregate stop loss coverage for workers compensation for losses that occur during a specific year. Once losses for the year exceed a specified attachment, the reinsurer would pay all losses thereafter, up to the reinsurer's limit of liability under the reinsurance agreement. As pools have aged, fewer and fewer pools purchase aggregate stop loss coverage. The reason is that as a pool's losses become increasingly predictable, aggregate excess coverage either is seen as unnecessary or the market charges materially more than the expected losses. Since reinsurers charge a load for their expenses and profit, once losses become predictable the pool has an incentive to retain the risk.

**The great majority of the reinsurance purchased by pools is excess of loss reinsurance.**

Excess of loss reinsurance provides coverage above a pool's specified retention on each individual occurrence or claim up to the reinsurer's limit of liability. The pool retains all losses under its retention. For example, if coverage is provided for \$750,000 excess of \$250,000 per occurrence, and the pool has 10 separate occurrences with losses of \$100,000 each, the pool would retain all \$1 million of losses and the reinsurer would pay nothing. If, instead, the pool had five occurrences with losses of \$600,000 each, the pool would retain \$1,250,000 (five times \$250,000) and the reinsurer would pay the remaining \$1,750,000.

Pricing for excess of loss reinsurance is generally quoted as a rate that is multiplied times an exposure measure, such as total insured values, payroll, net operating expenditures, or the pool's premium for the specified line of business. The initial premium for the reinsurance is paid based on an estimate of the exposure measured and then is adjusted based on actual at the end of the coverage term.

**Reinsurance versus Excess Insurance**

There can be confusion between the purchase of excess insurance and reinsurance. Excess insurance coverage exists where an insurer issues an excess insurance policy ("follow-form" or not) to provide coverage excess of a pool's retention. With reinsurance, there is no excess policy. Instead, there is a reinsurance agreement that should be mutually agreed to by the reinsurer and reinsured. In a reinsurance transaction, the parties are generally assumed to be sophisticated, equal parties in negotiating the reinsurance agreement wording, as opposed to the excess insurer simply issuing their excess policy. Another significant difference between reinsurance and excess insurance is that with reinsurance it is the pool that controls the claims handling and claims handling decisions, typically with the reinsurer having the "right to associate." With excess insurance, the excess insurer controls the claims handling. The majority of excess liability coverage written for pools is written on a reinsurance basis. Much of the property coverage written for pools is on a reinsurance basis as well. Having claims handling authority, and the associated right to assess coverage and determine the worth of claims, is considered a critical role by most pools, it is generally preferable to obtain excess coverage on a reinsurance versus an excess insurance basis.

One exception is workers compensation. The bulk of workers compensation excess coverage for pools is written on an excess insurance basis, because workers compensation coverage is defined by statute. This exception does not apply in states where pools are formed as mutual insurers or reciprocals – in those states pools are required by statute to purchase reinsurance as opposed to excess insurance.

**Cash Call Provisions**

Reinsurance agreements are typically contracts of indemnity, i.e. they indemnify a pool after paying a claim. Usually, agreements include "cash call provisions", which provide that if a claim is greater than a specified amount, the pool will have the right to obtain a prepayment from the reinsurer so that the pool will not need to front the reinsurer's portion of the loss.

**Reinsurance Coverage Triggers**

A reinsurance "trigger" is the definition of the business and/or event that is covered. There is a wide variety in how coverage may (or may not) be triggered. For example, the reinsurance contract may cover policies issued during a specified period of time (referred to as "risks attaching" coverage), or losses occurring during a specified period of time (referred to as "losses occurring" coverage). Reinsurance coverage may be triggered by one or more members, risks or locations being involved in a single occurrence, or may require more than one member, risk or location be involved in a single occurrence. Underwriters may refer to the latter as "catastrophe coverage", but essentially it is coverage written with a "two risk warranty". For example, a property loss at a single location, say a \$50 million school building burns down, would not be covered if the excess coverage had a two risk warranty where a "risk" was defined as a single location. Accordingly, it is critical to determine what triggers reinsurance coverage based on a given contract's wording in order to analyze what scenarios would not be covered.

One way to avoid having this problem is to have your reinsurance contract expert propose the reinsurance wording, instead of working with the reinsurer's proposed wording.

### **The Reinsurance Market**

Reinsurance is a global market, with multiple distribution networks. In order to obtain the most competitive terms it is advisable to market the pool's reinsurance coverage to all markets that are interested in writing coverage for pools. Those markets and their associated distribution avenues are shown below:

**Direct Reinsurers** – These markets generally access pool business through retail brokers or hybrid brokers (brokers that are both retail brokers and reinsurance intermediaries).

**Excess Insurers writing reinsurance** - These markets generally access pool business through retail brokers or hybrid brokers (brokers that are both retail brokers and reinsurance intermediaries).

**Broker Market Reinsurers** – These markets generally access pool business through reinsurance intermediaries or hybrid brokers (brokers that are both retail brokers and reinsurance intermediaries).

**Lloyds of London** – Lloyds of London requires the use of a Lloyd's broker. In most cases, there is a U.S. retail broker, reinsurance intermediary, or hybrid broker who represents the client to the Lloyds broker.

### **Reinsurance Pricing**

Reinsurance pricing is usually actuarially driven in that reinsurers use actuarial models to price the business. Similar to an actuarial study that is done to determine a pool's reserves and pricing, there are many variables that go into reinsurance pricing and even more assumptions that are made in the process. Reinsurers typically complete two types of rating approaches, exposure rating and loss rating, and then blend the two approaches to determine the price the quote. Exposure rating starts with the estimated loss cost based on some measure of exposure, such as number of students for a school pool. Loss rating uses historical losses to project losses associated with a particular reinsurance structure. For example, if the reinsurance coverage is a \$750,000 excess of a pool's \$250,000 per occurrence retention, the reinsurer will project the losses associated with the band between \$250,000 and \$1 million of limits. Some examples of assumptions that go into the process are:

- How much weight is given to the exposure versus loss rating approaches?
- How much weight is given to different years? For example, recent years may be given more weight, based on the fact that they represent the most recent picture of a pool's loss experience. Alternatively, recent years could be given less weight, based on the fact that they are greener, i.e. a smaller percentage of the ultimate losses for the recent years are known.
- What factors are used to breakdown losses by layer? For example, one reinsurer may expect that the relative losses in a \$250,000 excess of \$250,000 layer are much higher than another reinsurer by using different industry factors to group expected losses by layer.
- What assumption is made about future claims cost inflation?

Just as it is advantageous for pools to propose the reinsurance coverage wording that will be used in a deal, it is advantageous for a pool to run their own reinsurance pricing analysis. Typically a pool will use the actuaries at the pool's reinsurance broker, to analyze the cost/benefit associated with the pool's reinsurance options, as well as to negotiate the pricing assumptions reinsurers' use.

## **Risk Management Information Systems for Risk Pools**

It is critical that the daily operations of public entity risk pools are conducted in a fashion that is beneficial to the overall objective of the pool, which is to serve its members. The tracking of a wide range of critical data and the management of innumerable business processes are at the core of a pool's daily operations. For a long time the tools available to pool staff for such tasks were quite basic, like Excel spreadsheets, or Access databases. Management of critical processes was manual. Now, software systems can be leveraged for automation, data consolidation and increased efficiencies.

Three critical areas of pool operations are accounting, claims management and underwriting. There are data and processes critical to each of these areas that staff must manage in order to meet the needs of members. Accounting systems are somewhat commoditized and a number of off the shelf solutions can meet the needs of a pool. Claims management and underwriting systems are often characterized under the heading of Risk Management Information Systems (RMIS). RMIS solutions of the past focused on data management, mostly for loss and claims information, and did not quite fit the need for business processing across the disciplines of both claims administration and policy processing.

Modern day solutions go well beyond what legacy RMIS systems could do. Specific solutions are designed to address the individual needs of processing claims and issuing policies. Such systems provide automation, data consolidation and reporting that frees up staff to focus on the member.

Today's solutions should have a front end portal to manage the renewal process online. An internal user can view and make necessary changes to the renewal application and then automatically extend it to the pool member for review and return back to the pool. The pool has a more accurate and timely view of changes to data for reinsurance and actuarial purposes. Similarly, the quoting and endorsement process, as well as access to data, reports and policy documents can all be managed online.

Older RMIS systems focused heavily towards data management, today's solutions add to that and offer process automation and workflow so that claims are processed efficiently and effectively for the member. From online claim intake to day to day processing of reserves, payments, checks, document management and much more, today's claims administration systems must be effective enough to free the adjuster to focus on the member. Additionally, compliance and reporting requirements can be extensive, and a good claims system can manage required data effectively and allow transmission of reporting requirements to occur seamlessly.

## **Underwriting**

Underwriting is the process by which the pool evaluates and prices coverages offered (separate and apart from other considerations such as "rate stability funds" discounts, dividends and grants that pools can consider when offering coverage to a new member or a renewal to an existing member). Underwriting services can be performed in-house by pool employees or through a third party provider arrangement.

Underwriting aids the pool in pricing the coverage provided to its members. Typically, a percentage of the premium charged (called contributions in public entity pooling) is based on a per exposure unit, with that unit serving as a measure of loss potential. Examples of exposure units would include each \$100 of payroll for workers compensation coverage; number of buildings, or square feet of buildings for property, and number of vehicles or miles driven for auto coverage and so forth. Property underwriters can also consider "COPE" or construction (type), occupancy, protection (sprinkler systems etc) and external environment. Underwriters also consider loss experience and the type of loss exposure being covered. Public entity pools often cover loss exposures that are unique to public entities and are not good candidates for class rating systems.

Pools are subject to underwriting risk; the risk that losses and expenses will be greater than the contributions and investment income earned during the term of the coverage or contract. A Pool's coverages can also be subject to underwriting scrutiny if a pool seeks to cede any portion of the risk assumed to an excess or reinsurer.

The AGRiP Advisory Standards require written, objective underwriting and/or rating procedures that relate to the exposures covered and the losses experienced by pool members.

## **I. Government Regulations**

Intergovernmental pools represent a full range of regulated and unregulated organizations formed to amalgamate public entity risk as an alternative to traditional insurance companies.

The majority of public entity risk and benefit pools operate in a single state, provide a wide variety of risk transfer and risk management services, but tend to serve agencies that have a core of similar exposures. The tremendous growth in public entity pooling periodically attracts the attention of lawmakers and generates efforts to regulate pools or to create more uniform methods for evaluating and monitoring pool solvency.

Each state has the authority to regulate municipal risk transfer and risk management pooling. In some states, government agencies can form pools as a governmental joint power authority while in others an interlocal agreement or trust for the purpose of pooling shared risk. Other states require the establishment of a chartered insurance company to form a pool to share risk. Thus, there is substantial variation from state to state in the rules that govern pool operations. Differences also exist with respect to terms and conditions imposed on operations and the extent to which pools must report on their activities. Accordingly, it is very important to know your state regulations.

States that highly regulate pools feel it is critical that a public entity pool should satisfy all or a majority of the insurance rules and regulations of the state. The specific authority granted to the insurance department to regulate pools varies among the states. In general, state insurance departments monitor and regulate insurers through approval of certificates of authority, examinations, hearings, enforcement, insolvency programs and required reports.

### **A. The pool files applicable formation documents and revisions with appropriate local, state and national authorities.**

Many pools operate in states with minimal or no regulation. In those instances foundation or organic documents may extend no further than interlocal agreements or joint powers authority filings.

In states where pools are regulated the goal of your state regulator in the formation of a risk pool is to require proper funding along with a sound business plan, appropriate rules, bylaws and articles of incorporation.

Working with your state regulator can be a critical step in the formation of your pool. It can be every bit as important as choosing the right consultants, actuaries, accountants and other professionals to help form the pool. The more closely regulated your pool, the more important it is to work closely with the state regulator to be certain that you are conforming to state requirements. Involving the regulators can be beneficial. It allows them to develop a level of comfort with the concept and the team of professionals associated with the pool. Experience with similar pools and knowledge of state regulations should be a critical consideration when assembling your team of professionals.

### **B. The pool maintains documents reflecting its federal and state tax status, and if applicable, files applicable tax returns in a timely manner.**

Most pools are exempt from federal income tax, and those that are considered public entities by their state are also exempt from state taxes. If your pool is tax-exempt, you should keep files to document the pool's tax status. If your pool is not tax-exempt, you should document that it files tax returns annually.

### **C. The pool files timely report in whatever form required by the state of domicile and maintains copies of the reports.**

Reports required by states vary widely. Some states require no reports; others require only an annual audit. Not only does this vary on a state by state basis but can also vary depending on the type of coverage provided. Pools providing Workers Compensation coverage typically have more regulation and therefore more reporting requirements. It is possible that, depending on lines of coverage, two different pools operating in the same state may face different regulation and reporting environments.

If the pool operates in a heavy regulatory environment the role of regulators is more pronounced. After the pool is formed and operations have commenced, the role of regulators shifts to monitoring the financial strength of the pool by focusing on reserves, surpluses and actuarial data. Perhaps the single most important part of this regulatory process is the annual statement.

If your state requires your annual statement be prepared in the format required by National Association of Insurance Commissioners, you must transmit it to NAACO on computer disk. There are commercially available software programs that will help you complete the annual statement as prescribed. The document is about 100 pages and includes a balance sheet, income statement, and detailed schedules on the investments owned by the insurance company, detailed exhibits on losses along with information on reinsurance purchased and sold by the company.

In addition to the standard reports, there are additional reports that may be required by the NAIC, A.M. Best, your state insurance commissioner or another state agency. Information regarding state filing requirements is available in Best's Guide to Statement Filing available from A.M. Best Company. Very few public entity risk and benefit pools receive ratings from rating companies.

A.M. Best gathers the data it needs from the annual report to provide financial rating. With A.M. Best, there are rating groups that specialize in different types of companies. One of these groups deals with insurers who have never had a financial rating before. These new insurers must supply A.M. Best a more detailed explanation of their operations and their state environments. A.M. Best analyzes all of the data and provides a financial rating.

Regulators do not limit their review of an insurance company to annual statements. On a quarterly basis it is necessary to forward to the appropriate regulatory agencies a quarterly statement. With the assistance of your auditors, it takes one or two days to complete quarterly reports.

**D. If the pool is subject to state operating rules, it complies with such rules, and its records reflect compliance.**

Periodically, the insurance commissioner completes a thorough on-site examination of insurance companies. This type of examination typically only affects intergovernmental pools that are formed as mutual insurance companies. The audit includes two examiners working on-site for approximately two weeks to review your entire operation. The examiner's report includes a historic overview, a detailed scope of examination, a discussion of the affiliated entities, and a review of the reinsurance carried a detailed review of your financial data, a summary of its results, a conclusion, and a summary of any comments or recommendations. A draft report is issued to allow for an initial review. There is an opportunity to discuss objections to the report prior to the issuance of the final draft. The examination process takes approximately six months between initial contact to set up the examination, the actual examination and receipt of recommendations.

While the vast majority of public entity pools are not required to undergo an on-site examination, it may still be required to comply with operating rules established by the state insurance department, risk management department or other agency. If so, your pool should keep copies of reports and other records reflecting compliance.



## II. Governing Documents

Various management and organizational issues need to be addressed and policies should be documented to ensure that your intergovernmental pool operates effectively. Many of these issues are clarified in organizational bylaws, member participation agreements, policies and other documents.

### A. The pool maintains signed originals of the formation documents and revisions.

When individuals and/or groups of individuals in the private sector desire to start a new business venture, they develop either a partnership agreement or articles of incorporation. The agreement sets forth the purpose and intent of their endeavor. In the public sector, governmental entities exist because of enabling legislation, which specifies their public responsibilities, adopted by state legislatures. Depending upon your state's statutes, public organizations may join together for common purposes such as joint purchasing of equipment or services.

In order to accomplish this mission, the entities desiring to join together must create and adopt an agreement setting forth the purpose and intent and responsibilities of the parties. These agreements come under a variety of names, including interlocal governmental agreements, joint powers authority and trusts. When created and approved by the entity's governing body, the agreements become enabling documentation necessary for the joint endeavor to proceed. The agreement sets the foundation for the operational policies and procedures of the organization and the basis for resolution of future problems.

Some managers suggest that the basic agreement be very limited, allowing for a very broad and all encompassing set of bylaws; others believe that the basic document contain as much of the policies and procedures as possible. Regardless of the form you decide upon, the basic agreement or the bylaws should consider the following items:

- Your state's enabling legislation
- Purpose and intent of agreement
- Effective date of agreement
- Term of agreement
- Powers of the organization
- Ability to:
  - Acquire, collect, hold and dispose of money or assets
  - Receive loans or grants and to incur debts and liabilities
  - Sue and be sued
  - Enter into contracts
  - Hire employees, agents or subcontractors
  - Appoint a treasurer and invest assets
  - Jointly self-insure
  - Purchaser insurance or reinsurance
  - Establish rules, policies and procedures
  - Form committees and subcommittees
  - Issue binding directives upon the membership
- Types of alternative risk financing to be undertaken
- Type of entities to be allowed membership, representation, and voting rights
- Method of financing the operation
- How membership fees, contributions or assessments are determined
- Operating budget
- Reporting requirements to members
- Accessibility of members
- Board of directors' composition and selection process
- Board of directors' powers

- Officers and their selection
- Meeting frequency, rules of conduct and quorum requirement
- Creation of a management committee
- Number of members
- Authority
- How members selected
- Meeting frequency
- Responsibility for minutes of meetings and distribution of minutes
- Pool legal counsel selection
- Indemnification of pool staff, board of directors and officers
- Insurance coverage to be purchased
- Development of joint protection program
- Types of accounts and records to be maintained
- Responsibilities for money
- Pool responsibilities to members
- Member responsibilities to pool
- Member withdrawal or expulsion
- Membership commitment
- Termination or dissolution of the pool
- Requirement for development of bylaws
- How notices to members shall be transmitted
- Provision for amending agreement
- Signature page

The pool should maintain the original, signed copies of these documents. If the pool revises any of its formation documents at any time, it should attach the signed revisions to the original documents.

If your pool does not routinely distribute copies of the formation documents to members, it should make the documents available upon request.

#### **B. The pool maintains signed originals of the pooling agreement with every member.**

Pools should require that each member sign a cooperative agreement or membership participation agreement, which is separate from coverage documents. This agreement addresses issues such as:

- Contributions and assessments
- Withdrawal and expulsion procedures
- Duties and responsibilities of members
- Dividend distribution

These issues are also addressed in the pool bylaw that gives the pool the authority regarding these issues. The participation agreement communicates the policies to the members and documents that the member has agreed to them. The pool should maintain a signed copy of the agreement from each member and give a copy to the member. If the pool revises its membership participation agreement at any time, it should attach the signed revisions to the original documents.

#### **C. The governing documents must comply with applicable laws.**

Your agreement creating the pool needs to cite the applicable laws of the state of domicile that allow the organization to be created.

Identify the overall purpose for formation and the type of alternate risk financing your agreement will be addressing. Is your pool created for the purpose of providing alternative risk financing for one specific type of risk transfer or is it created for a broader range of coverages (e.g. property, casualty, workers'?

compensation, public official liability, employee benefits or medical)? What other services or programs will the pool be providing to the membership: claims adjusting and settlement, risk management, loss control or others? Whatever your choice, make the purpose broad enough to allow future operational decisions to be accomplished without requiring an amendment to the basic agreement.

**D. The governing documents contain provisions that address the following provisions.**

**1. Membership eligibility criteria.**

Determine which types of public entities will be allowed membership in the pool. Is the organization limited to one special type of public entity (schools, cities, counties, special purpose districts or other) or multiple types of public entities?

**2. Obligations of members.**

What obligation does membership in the pool demand? In this section, set forth members' responsibilities to the pool and to their fellow pool members. A few suggestions would include:

- Designate a representative to the pool.
- Designate an employee of the district to be responsible for risk management.
- Designate an employee to be claims administrator.
- Require each member to maintain its own claims log.
- Require prompt payment of membership fees and assessments.
- Describe resulting action for suspension, cancellation or expulsion.
- Provide information and assistance to the pool as is necessary.
- Cooperate with the pool regarding those matters covered in the agreement and the bylaws.

**3. Membership termination.**

At some point in time a member or members may wish to withdraw from the organization. Since the basic agreement is the foundation for membership, the agreement should also address the procedures to be followed in withdrawing from membership.

It is important to remember that a withdrawing member should continue to be responsible for its share of pool liabilities even after withdrawal. These liabilities can include unfunded claims of the withdrawing member, unresolved claims and IBNR claims for the period in which it was signatory to the agreement. It also should be liable for any continuing insurance premiums, if any, on policies that must remain in force. Consider whether you will be refunding any funds contributed or paid to the pool or whether it is entitled to any share of the assets of the pool during its membership period. A contractual agreement with the exiting member can require the member to leave its funds in the pool for the payment of "tail" and IBNR losses. Include a clause that makes the former member assessable in the event of insufficient funds for such losses, and stipulates that handling of such losses remain with the pool until closure.

If you have an initial membership commitment, the document should address the withdrawal procedure, if any, during that time. What will you do in the event a member is merged into another nonmember agency, or the member dissolves?

If a member submits its intent to withdraw, determine when will that withdrawal become effective: immediately, next year, or at the end of its membership commitment.

Another issue you need to address when forming the organization has to do with suspension, cancellation or expulsion of a member. This can become exceedingly important to the overall financial health of the organization when you have a member who continues to have significant

adverse loss experience and cannot clean it up. How are you going to terminate that membership? What will you do if the member refuses to comply with adopted risk management and loss control programs, and how will you do it?

There are a number of underwriting conditions you may wish to use. A larger self-insured retention or deductible to offset the adverse loss experience, raising membership fees and excluding coverage for certain types of risks are possible examples. Any one or all of these techniques can be used and may trigger voluntary withdrawal. On the other hand, you need to be prepared to deal with the member that does nothing to improve and benefit the overall organization. So you need to have some fairly clearly established procedures in place to deal with the situation.

The pool should have the right to expel a member for failing to meet its responsibilities to the pool either in the form of an adverse loss ratio, nonpayment of fees or failure to comply with risk management and loss control recommendations as adopted by the governing board. Withdrawal or termination should not relieve a member from its responsibilities during membership, including the requirements to pay future assessments made against a fiscal year during which it was a pool member.

#### **4. Selection procedures and qualifications for the pool's governing body.**

Membership representation is an important consideration not only to the organization itself, but also to an entity considering membership. In order to maintain good member relations, you will want to consider how a member entity may have a voice in the governance of the organization. Public entity trustees are either elected, appointed or a combination of elected and appointed. While some public entity pools have delegate boards (each member has a seat on the board and all have an equal vote) representative boards (members elect a set number of trustees regardless of the number of members in the pool) are a more popular governance model. In some pools sponsors play a role in trustee selection.

Some pools use one member, one vote. However, some larger members may feel threatened by a coalition of smaller districts. There has to be a level of trust among the membership that the pool is operated for the good of the entire membership and not for any one specific interest group.

If the pool your organization is a member of has a delegate board you will need to consider who has a voting right at your meetings. Each member should be required to designate an individual to represent it at the organization's meetings. The member should also designate an alternate representative in the event that the designated individual is unable to attend a meeting or a vacancy occurs in the designated representative position. Require each member to notify the pool office who its representatives are.

#### **5. Powers and duties of the governing body and committees.**

Because a pool is a cooperative arrangement between various public entities, the document should contain a clause setting forth what powers and authority has been given to the board of directors, including delegation of governance powers to an operations committee if one is established. That committee should be elected from the full board of directors.

Although much of the day-to-day operations of the pool may be delegated to an employed director or a third party administrator, the actual oversight should be the responsibility of either the full board of directors or their designated executive committee. The makeup of that committee should be clearly established in the agreement. Address the number of members composing the committee, their terms of office, how they are selected, their authority and how often they should meet.

Appointments due to vacancies on an executive committee should be addressed in the pool bylaws. Some governance models permit the president to appoint a member to complete the

unexpired term. Some pools fill vacancies by election of a member at the next meeting of the board of directors, others by appointment to the position until the next regularly scheduled election of officers. Whatever procedure fits your membership, it should be set forth in the document.

Another issue is the number of times the executive committee should meet. This will depend on how active a role the board of directors believes the committee should play in the day-to-day governance of the pool. Some committees meet monthly, others meet quarterly, and some semiannually. Frequency also depends on the confidence of the board of directors in the employed director or third party administrator and provisions in the pool's bylaws and/or on appropriate state regulations concerning the governance of public affairs.

**6. Indemnification for liability of members of the governing body, officers, committee members and staff of the pool.**

Does the pool self-insure officers and directors liability and the negligence of pool staff or will it purchase commercial insurance for those purposes? Whatever strategy the pool chooses, the bylaw should state explicitly what the pool's indemnification covers. Many organizations do not indemnify directors, officers, or other individuals from claims or obligations resulting from criminal acts, acts of gross negligence or acts intended to commit harm.

**7. Use and ownership of assets of the pool and how the pool may distribute surplus to its members.**

The pool has tangible personal and real property. When it has surplus automobiles and computers, will it trade-in the items, give them to charities, or give them to members? When the pool has surplus monetary reserves, will it distribute dividends or give premium credits? Will all members, even those with high loss ratios, receive the surplus money?

**8. Assessments, if any.**

Occasionally, pools may encounter a shortage of funds in a particular year because of unusually large claims or other circumstances. To deal with this, many pools have the ability to assess their members' additional fees. If you pool is assessable, the process it uses to determine member assessments must be fair and equitable to all members. Member assessment policies should be described in governing documents and should be clearly communicated to all members, with documentation that members have received notification and agree with the policies. If a pool becomes assessable after the pool begins operations, the governing documents must be revised to reflect the changes. It is essential that the documents state explicitly when the pool becomes assessable, especially if the policy is retroactive to a previous date. In this situation, communication with members is crucial to avoid problems later.

**9. Actuarial review.**

The governing documents should give clear policy direction regarding whether to use actuaries for rate making and review of adequacy of reserves, and how often actuarial reports should be commissioned.

**10. Financial audits.**

The basic formation document should address who is to be responsible for the money and assets of the organization. Designate a treasurer and develop procedures for replacing the person

should the need arise. The provision should also contain a statement of the accounting practices and/or procedures to be used and whether or not you will have an annual audit by and independent CPA or state auditor. You will also want to consider how soon after the close of business the audit will be completed.

#### **11. Dissolution of the pool.**

The agreement or the bylaws should include procedures for the dissolution of the pool in an organized fashion and define the powers the board of directors has in this regard.

#### **E. The practices of the pool are in compliance with its governing documents.**

The pool may develop great policies and procedures, but someone should check regularly to determine that the pool is complying with its governing documents. If it is not, either the documents or the practices should be changed.

### **III. Staff & Service Providers**

Should the pool hire staff or contract for services? Neither answer is right for all pools and in fact even pools that maintain a staff sometimes use service providers for particular tasks or functions.

Many pools that have sufficient funds or members decide to hire full or part-time staff to accomplish administrative activities of the pool, including daily member relations, program development, oversight of financial affairs, new member processing, risk management programs, contract administration and evaluation, and special projects. Even minor problems in these areas can become awkward political issues for the organization if not handled properly. Some pools feel that these areas require the level of attention and sensitivity that can be provided by staff directed by a person who reports to the board of directors.

Other pools, however, do not have the resources nor desire to maintain a staff. Contracted administrators that provide general administrative services can be as efficient as in-house staff and sometimes can prevent many problems associated with employment. Indeed, like other organizations, pools sometimes find that employment and personnel issues can occasionally consume as much time and attention as providing services to members. In some cases, contracted administrators assign a dedicated staff to a pool, so the pool has the services of a full-time staff without the employment issues.

In addition to general administrative services, pools require a number of specialized professional services, such as investment management, legal defense, safety training, claims adjusting and financial accounting. In most cases, contracting for several of these services is the more flexible and efficient approach to meeting program needs. Contracting allows for a change in the service providers as needed by the pool organization and makes it easier to respond to changing workloads. For example, special nonrecurring needs in safety training programs are easily addressed by a consultant capable of devoting additional personnel to your account, which avoids the many consequences of permanently increasing staff of the pool.

Audits, actuarial services and program evaluation should always be done by outside contractors to insure objectivity and to maintain credibility.

#### **A. If the pool employs a staff, there is documentation of the pool's authority regarding employment of staff and required governing body action relating to terms of employment, scope of staff authority, conflict of interest and indemnification for liability.**

Adequate documentation for the pool regarding required governing body action relating to staff employment is usually found in the pool formation document, bylaws, personnel policy, and board resolutions. The amount of detail regarding staff employment should increase from the formation

document through the bylaws and personnel policy to ad hoc resolutions on individual issues. In every event, meeting minutes and annual budgets should clearly and accurately report board approval for staff positions and compensation.

Amending the formation document is usually cumbersome and expensive, so it should contain only general staff employment direction that the pool directors or trustees later elaborate in bylaws, policies and resolutions. Regarding pool staff, the formation document need only authorize: “The board shall provide for the management and operation of the pool,” or “The board shall employ an executive director, who shall be given general administrative responsibility for pool activities.”

The bylaws are a good place for the governing body to provide general policy about staff employment. Typically, bylaws may contain any provision not in conflict with law or the formation document for managing the business and regulating the affairs of the pool. Bylaws are usually approved by a majority of the pool directors or trustees at a properly scheduled meeting at which a quorum is present. The bylaws can provide, for example:

*Appointment and Removal.* The pool board of trustees, (or if the pool board uses a committee structure, the executive committee) shall recommend the appointment of an executive director who, unless a written contract provides otherwise, shall be appointed by the board for an indefinite time and be removed, with or without cause, at the will of the board.

*Scope of Authority.* The executive director shall be the chief executive officer and administrator of the pool. The executive director in general shall supervise and control all of the business and affairs of the pool, shall carry out the order of the board and shall be responsible to the board for the efficient administration of the affairs of the pool, and shall have such other powers and duties as may be determined by the board.

*Staff Employment.* The executive director shall hire all necessary employees.

*Compensation.* The executive director and staff shall receive such compensation as fixed by the board.

*Conflict of Interest.* No pool director, officer, employee or agent shall accept, directly or indirectly, any compensation, gratuity or reward in connection with any pool contract from any other person beneficially interested therein, or otherwise violate the provisions of state conflict of interest laws.

*Indemnification for Liability.* The pool shall indemnify every person who was or is a party or is or was threatened to be made a party to any action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, or employee of the pool. The board, or in the case of a board member, the remaining members of the board, must find that the acts or omissions of the person requesting indemnification were, or in good faith purported to be, within the scope of his or her official duties.

The personnel policy should treat staff employment in as much detail as the governing body deems necessary. The personnel policy can go into great detail on topics such as:

- Scope of work and work expectations
- Required licenses or certificates
- Training
- Dues in professional organizations
- Compensation, including salary and increases, cost of living adjustments, and bonuses
- Performance reviews and evaluations
- Advancement

- Leave time such as annual leave, sick leave, and holidays
- Benefits such as life and health care benefits, retirement, reimbursement for expenses and parking
- Acceptance of gratuities and conflict of interest
- Civic duties such as voting, jury duty, national guard or reserves
- Employee procedures
- Equal employment opportunity employer
- Arbitration of disputes
- Confidentiality
- Non-compete agreements
- Termination

As governing board policy, the personnel policies should be approved with the same formality, as are the bylaws, generally, by a majority vote of the board at a properly scheduled meeting with a quorum present.

Ad hoc resolutions by the governing board give pool staff policy guidance on personnel issues. The resolutions should be in writing and their approval reported in board meeting minutes. Through ad hoc resolutions, the pool governing body can consider employee information and privacy issues before problems arise. Such issues can include pre-employment inquiries regarding citizenship, arrest records, convictions, HIV status, and disabilities. Credit-related information issues are included in the Fair Credit Reporting Act and federal and state discrimination laws, but a pool may consider policy on garnishments and wage levies. General privacy issues involve use of lie detectors, searches, phone tapes or recordings, drug testing and HIV testing. Personnel information disclosure issues regard employee access to personnel files, union information requests, reference requests from other employers, and release of confidential information to other third parties. Employee health issues include substance abuse, contagious diseases in the workplace, smoking and employee assistance programs. Employee work place safety issues are in compliance with state and federal occupational safety ad hoc basis issues surrounding formation of a bargaining unit and union representation. Finally, the pool governing body may want to affirm compliance with state and federal laws through either ad hoc resolutions or inclusion in the pool personnel policy.

After the board creates staff positions and approves salaries, the pool administrator or personnel committee develops job descriptions, advertises positions, interviews applicants and makes hiring decision. In employing staff, the administrator should focus on a written, clear understanding between the pool employer and the staff employee. The employment laws of each state differ, but an employment contract may be as simple as a confirmation letter:

“This is to confirm our recent conversation and our offer, and your acceptance, of employment as ←-----→ with the ←-----→ risk pool, starting on ←-----→. Your starting salary is \$←-----→. The position is subject to the laws of the state of ←-----→ and the charter, rules and regulations of the risk pool.”

Other employment agreements may be more formal and identify the parties, refer to the statute, resolution or policy authorizing the contract, state mutual assent to employment, term of employment, supervision by designated official, compensation, benefits, other outside employment, facilities, supplies, assistance, confidentiality, non-compete, modification, renewal or extension of contract, termination of employment and arbitration of disputes.

**B. The pool maintains signed original service provider contracts for administrative services, insurance brokerage, claims administration, risk control and investment management.**

The pool may engage a wide range of service providers, including:

- Accident reconstructionists
- Accountants



- Actuarial consultants
- Claims administrators
- Claims auditors
- Claims consultants
- Defense counsel
- Employee benefits consultants
- Expert witnesses
- Financial auditors
- General coverage counsel
- General legal counsel
- Investment managers or consultants
- Insurance brokers
- Payroll auditors
- Pool administrators
- Property appraisal services
- Risk control/safety presenters
- Seminar/program presenters
- Underwriting managers

Each service provider arrangement should be reviewed periodically for compliance with each of the items listed below. It may also be helpful to have all contracts reviewed routinely by the pool's general counsel.

### **III SERVICE PROVIDER CONTRACTS**

**Service provider contracts contain provisions that address, but are not limited to, the following provisions.**

Suggested language for each provision is presented below.

#### **1. Term.**

*Term.* The term of this agreement shall be for <--> months, from <--> through <-->, unless sooner terminated as provided herein. At the end of each 12-month period, the parties shall review the <contract price/hourly rate> specified above, and shall agree to the <contract price/hourly rate> for the succeeding 12-month period.

#### **2. Scope of services and responsibilities of the provider.**

*Scope of Services.* The contractor shall provide the following services: (List Services.)

#### **3. Compensation.**

*Payment.* The pool shall pay the contractor as follows: <-->. All payments received by contractor for work performed on this agreement shall be accounted for, disclosed to the pool as they are earned or received, and credited towards satisfaction of the pool's payment obligation.

#### **4. Periodic reporting.**

*Quarterly Reports.* The contractor shall provide the pool with quarterly activity reports as of ←--→. These reports shall detail the progress and status of all work completed under this agreement.

*Annual Report.* The contractor shall prepare and present to the pool a formal, annual report of activities as of ←--→. This report shall describe the past year's activities, achievements, progress towards goals, and mutually agreed upon objectives.

## **5. Ownership and confidentiality of pool information and data.**

*Ownership of Information.* Records, data and information collected by contractor during the course of this agreement shall belong to the pool and shall be turned over to the pool on request. These records shall be maintained by the contractor for a minimum of ←--→ subsequent to the end of the term of this agreement.

*Release of Information.* Contractor shall not permit the use or release of any information, report, document, work product or opinion to any person, organization or entity except with the express prior approval of the pool.

*Publication of Information.* The pool shall have a royalty-free, nonexclusive, and irrevocable license to reproduce, publish, use and authorize others to do so, all report materials furnished to it in the course of or under this agreement. Contractor shall not publish any such material without the prior written consent of the pool.

## **6. Compliance with pool and state conflict-of-interest policies and regulations.**

*Compliance With Laws and Conflict of Interest.* Contractor shall fully comply with all federal, state, and local laws, rules and regulations, including nondiscrimination and conflict of interest, which may be applicable to the services performed by the contractor under this agreement.

## **7. Indemnification of the pool for the provider's negligence and proof of errors and omissions insurance.**

Adequate limits of insurance should be required. Minimum limits may be contained in the pool's enabling legislation, other statutes or in the pool's governing documents. The pool should maintain a filing system of policy expiration dates and use it to monitor compliance with its rules for certificates of insurance.

*Indemnification.* Contractor shall hold harmless and protect, defend and indemnify the pool and its member entities, officials and employees from any and all claims, suits, causes of action, expenses, legal fees and other costs arising out of ←--→.

[Limited form: "...the negligent activities of the contract."]

[Intermediate form: "...the project, except that arising out of the sole negligence of the pool."]

[Broad form: "...the project."]

*Professional Liability Insurance.* Contractor shall procure and maintain for the duration of the contract professional liability insurance with endorsements and / or other insurance to indemnify for the activities and services of this agreement, with a carrier subject to the approval of this pool. Minimum limit of coverage shall be \$←--→. If coverage is on a claims-made form, the retroactive date shall be prior to or coincident with the date of this agreement, and the policy shall state that coverage is claims-made and state the retroactive date. Claims-made form coverage shall be maintained by the contractor for a minimum of three years following the termination of this

agreement. The contractor shall annually provide the pool with proof of renewal. If renewal of the claims-made form of coverage becomes unavailable, or economically unavailable, the contractor shall execute a form of guarantee acceptable to the pool to assure financial responsibility for the liability of services performed.

*Insurance.* Contractor shall procure and maintain for duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the contractor, its agents, representatives, employees or subcontractors.

- a. *Minimum Scope of Insurance.* Coverage shall be at least as broad as
  1. Insurance Services Office Commercial General Liability coverage ("occurrence form CG 0001, Ed. 11/85 or latest version).
  2. Insurance Services Office form number CA 0001 (Ed. 1/87) covering Automobile Liability, code 1, "any auto" and endorsement CA 0029 (Ed. 12/88). Changes in Business Auto and Truckers Coverage forms-Insured Contract or latest version.
  3. Workers' Compensation insurance as required by the Labor Code of the State of ←--→ and Employers Liability Insurance.
- a. *Minimum Limits of Insurance.* Contractor shall maintain limits no less than:
  1. Commercial General Liability: \$←--→ combined single limit per occurrence for bodily injury, personal injury and property damage. The general aggregate limit shall apply separately to this project/location or the general aggregate shall be twice the required occurrence limit.
  2. Automobile Liability: \$←--→ combined single limit per accident for bodily injury and property damage.
  3. Workers' Compensation and Employers Liability: Workers' compensation limits as required by the Labor Code of the State of ←--→ and Employers Liability limits of \$←--→ per accident.
- b. *Deductibles and Self-Insured Retentions.* Any deductibles or self-insured retentions must be declared to and approved by the pool. At the option of the pool, either: the insurer shall reduce or eliminate such deductibles or self-insured retentions as respects the pool, its officers, employees and volunteers, or the contractor shall procure a bond guaranteeing payment administration and defense expenses.
- c. *Other Insurance Provisions.* The policies shall contain, or be endorsed to contain, the following provisions:
  1. Commercial General Liability and Automobile Liability Coverages.
    - i. The pool, its officers, employees and volunteers, shall be covered as insureds as respects liability arising out of activities performed by or on behalf of the contractor including the pool's general supervision of the contractor, products and completed operations of the contractor, premises owned, occupied or used by the contractor, or automobiles owned, leased, hired or borrowed by the contractor. The coverage shall contain no special limitations on the scope of protection afforded to the pool, its officers, employees or volunteers.
    - ii. The contractor's insurance coverage shall be primary insurance as respects the pool, its officers, employees and volunteers. Any insurance or self-insurance maintained by the pool, its officers, employees or volunteers, shall be excess of the contractor's insurance and shall not contribute to it.
    - iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the pool, its officers, employees or volunteers.
    - iv. The contractor's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.

2. **Workers' Compensation and Employers Liability Coverage.** The insurer shall agree to waive all rights of subrogation against the pool, its officers, employees and volunteers for losses arising from work performed by the contractor for the pool.
  3. **All Coverages.** Each insurance policy required by this clause shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party, reduced in coverage or in limits except after 30 days prior to written notice by certified mail, return receipt requested, has been given to the pool.
- d. *Acceptability of Insurers.* Insurance shall be placed with insurers with a Best's rating of no less than A:VII.
- e. *Verification of Coverage.* Contractor shall furnish the pool with certificates of insurance and with original endorsements effecting coverage required by this clause. The certificates and endorsements for each insurance policy are to be signed by a person authorized by that insurer to bind coverage on its behalf. The certificates and endorsements are to be on forms provided by the pool. Where by statute, the pool's workers' compensation-related forms cannot be used; equivalent forms approved by the insurance commissioner are to be substituted. All certificates and endorsements are to be received and approved by the pool before work commences. The pool reserves the right to require complete, certified copies of all required insurance policies at any time.
- f. *Subcontractors.* Contractor shall include all subcontractors as insureds under its policies or shall furnish separate certificates and endorsements for each subcontractor. All coverages for subcontractors shall be subject to all of the requirements stated herein.

(Insured language taken from Procedure Manual for Contract Insurance Requirements, published by PRIMA.)

## **8. Assignability.**

*Account Representative Substitution.* One reason for the selection of contractor by the pool was the designation of particular account executives. Contractor shall not substitute other account executives for the account executives designated without the express prior written approval of the pool. In addition, contractor shall provide other account executives in the event it is requested to do so by the pool.

## **9. Competition between the service provider and the pool during and after the term of the contract.**

*Competition.* For the original term of this agreement and for a period of ←-→ years thereafter, contractor shall not enter into or engage directly or indirectly in this state in any business which is in any way similar to and competitive with the business of the pool.

## **10. Cancellation, including runoff provisions if a claims contract.**

*Modifications.* Either party may request changes in the terms and provisions of this agreement. No change shall be binding upon the parties unless it is mutually agreed to in writing by the parties and made a part of this agreement. This agreement, however, may be modified by either party at the anniversary date with ←-→ months advance written notice to the other party.

*Cancellation.* This agreement may be canceled at any time upon ←-→ months advance written notice to the other party. The pool may cancel this agreement for cause by giving one months advance written notice. Material failure of contractor to perform under this agreement shall constitute cause.

**Claims run-off.** If this agreement is canceled or not renewed within ←-→ month from date of termination, the pool shall either require contractor to conclude the handling of all open claims and those claims subsequently reported as provided herein, subject to all reporting and service fee agreements set out herein, or the pool shall require contractor to return all open files at the termination of the contract and contractor shall be entitled to payment for all services rendered up to that time. In either event, open incident and claim files shall be duplicated and returned to the pool at no extra cost except cost of transporting files. Closed incident and claim files shall be stored in their existing states at the time of closure for a period of ←-→ years, after which time all files shall be returned to the pool.

**11. The method of compensation of the Producer and/or Broker/Agent engaged by the pool for sales and/or marketing is communicated to pool governing body, pool staff, current members and/or prospective members in a clear, concise and timely manner.**

The focus is disclosure of incentive (production) based compensation. The pool board should adopt appropriate documents such as governing board adopted policies and procedures, or contracts and agreements with providers that mandate this policy. Timing of disclosure should be address so that Producer and/or Broker/Agents discloses the cost of compensation (commission if applicable) to the pool governing body, pool staff, members, and/or prospective members in a timely fashion.

**12. The pool utilizes a transparent, competitive selection process for the procurement of goods and services based upon relevant documents directing this activity.**

This Standard compliments the Service Providers' Bill of Rights Standard below, specifically number 3 of Standard 13

**13. The pool has a Service Providers' Bill of Rights.**

The pool board should adopt a Service Providers' Bill of Rights that is generally consistent with the AGRiP Model Service Providers' Bill of rights (see below).

AGRIP Pool Service Providers' Bill of Rights  
**(Adopted by the AGRIP Board: August 20, 2006)**

The Association of Governmental Risk Pools (AGRIP) has established standards that pool service providers (PSP's) should expect in serving AGRIP pool members. The basic rights that PSP's should expect while providing services to governmental risk pools, include the following:

1. PSP's should expect to be treated consistently with dignity, respect, and professionalism.
2. PSP's should not be expected to provide gifts, perks or other benefits to members of a pool governing body pool board or staff members (or any person or organization associated with them) as a condition of doing business with the pool.
3. PSP's should expect fair and equitable treatment in the procurement process. Every competitive bidding process should be open, well defined and transparent. Pools should recognize that there is a direct cost to the PSP in preparing every service proposal.
4. PSP's should expect to have a written service agreement with each client pool, specifying all terms and conditions of their contractual relationship.

5. PSP's should only be expected to provide services contained within the scope of their service agreement.
6. PSP's should be paid in a timely manner for services rendered in accordance with the provisions of their service agreement.

By establishing these standards, it is not the intention of AGRIP to become an arbitrator for contract disputes between PSP's and AGRIP member pools.

**D. The pool obtains independent legal advice (general counsel to the pool governing board) regarding governance and operational issues as necessary.**

As with any organization, legal counsel has a very important and vital role in the overall operations of a pool. Consideration should be given to the type of counsel, availability to serve the needs of the pool, and expertise in matters of public affairs and insurance. It should be clear whether the attorney should attend all meetings, or just those when requested by the governing authority or administrator. Consideration needs to be given to the potential conflict of interest that may arise if the selected counsel also advises a member.

## **IV Member Services**

One of the primary benefits of joining a pool instead of financing risks through other means is that pools generally provide a wide range of services that generally are not available from other sources. These services help public entities manage their risks and maintain better control of their risk financing.

**A. The pool communicates policy decisions, actions of the governing body and other activities to its members through annual reports, regular newsletter and/or other media.**

An information and communication program is a valuable technique for promoting pool activities, retaining members and providing pool-wide information, education and training to control losses.

Pools should regularly publish or make available over the internet a newsletter or magazine. The publication serves several purposes:

- Board communication. The publication could provide members with a summary of actions and decisions by the governing body and committees.
- Meeting and event announcements. The pool can announce and promote its upcoming meetings and training programs.
- Member news. The pool can recognize the accomplishments and achievements of individual members.
- Risk management/loss control. Articles can be included on timely loss-control and risk management issues.
- Legislative/rules update. Summaries of significant legislative and administrative rule changes that impact pool members can be provided.
- Compliance requirement reminders. Reminders of mandated reports and filings can be announced.
- Claims summaries. Pool claim staff can summarize claim frequency and severity on a periodic basis and highlight claims of special interest or concern.
- Litigation updates. Pool legal staff can provide summaries of recent court decisions that impact the pool and its membership.
- Pool administrative procedures. The pool can use the newsletter to alert members to administrative procedures concerning such matters as underwriting, rating and claims.

Many pools publish an annual report that provides a brief description of the current state of the pool and summarizes the pool's accomplishments in the past year. The annual report can also include a brief financial report, which can be expanded in other financial reports or statements. Annual reports are effective communication tools to keep members informed about the pool's condition, but they can also be used as marketing tools to provide an overview of the pool to prospective members.

With technological advances in recent years, many pools have developed the capability to communicate with members through the Internet with electronic mail and Web page. This exciting medium allows instantaneous two-way communication between the pool and its members.

**B. Even if the pool is not subject to open meetings laws or public records laws, the pool keeps minutes of all meetings of its governing body and substantive committees and distributes or makes them available to all members.**

Pools should keep written records of meetings. Members should be able to know how their governing boards operate. Many pools routinely send copies of minutes to all members. If your pool does not, it should establish and publicize a procedure that allows members to obtain copies if they desire. As discussed in the previous section, pools also routinely summarize board decisions and actions in newsletters and other publications.

**C. The pool develops and conducts educational programs for its members addressing safety, risk management and other appropriate topics and encourages member participation in such activities.**

One of the most useful services that pools can provide for their members is training and educational programs, either for the staff of an individual member or on a regional basis throughout the state. Programs can be delivered in person, by computer software, through videos and DVD training or over the internet. These programs can address risk management and safety principles, litigation and new legislative requirement trends, and pool coverages, services and procedures. Typical seminar topics can include:

- American With Disabilities Act requirements
- Employment law
- Law enforcement and correction facility liability
- Land use and zoning loss control
- Park and recreation safety and liability
- Social services/public health services liability
- Workers' compensation loss control
- Waste management liability

An effective component of educational and training seminars is the issuance of certificates of completion that recognize individual members' efforts in controlling losses and in support of the pool's programs.

Pools can develop lending libraries of video material concerning risk management and loss control issues and use teleconference technology to conduct education and training programs.

In addition, pools can make their research and legal staff available to individual members to conduct research and provide technical assistance. Typical technical assistance areas might include open meetings law, data privacy, ADA requirements, contracting issues, zoning/conditioned use permits, and personnel policies and procedures. The delivery of technical services is designed to avoid pool losses. It is also a unique and sophisticated membership service that clearly sets pools apart from traditional insurance.

Finally, member technical assistance and research activity results can be used to develop a series of pool technical bulletins and reports. These reports are designed to provide members with loss control and

risk management assistance. The publications can also provide suggested policies, procedure and checklists designed to avoid losses.

**D. The pool provides risk control services, supports risk management among its members, and promotes risk control guidelines among its members.**

Pools provide their members with a comprehensive package of risk management and risk transfer services, which are a benefit of pool participation.

The pool staff and/or service providers should conduct a comprehensive operational review of each member to identify loss exposures. The identified exposures are then evaluated and analyzed, and specific risk management recommendations are provided. Pools should make this service available to members on an ongoing basis. Thus, as new exposures are identified, the pool can assist members to manage them. Risk control standards or guidelines developed by the pool can help individual members prevent and reduce losses, but they also benefit the pool as a whole by reducing the number of claims the pool must pay and possibly reducing premiums the pool pays for excess insurance because of a better loss history among members.

The following are examples of other specific risk management services:

*Identify Non-pool Coverage Needs.* The pool staff and/or service provider should identify those exposures that are not covered under the pool's coverage agreement, and recommend purchase of specific policies for these exposures. Typical exposures where specific policies are purchased include boiler and machinery, bonds, surety, fidelity, excess money and securities, and large builder's risk. The pool staff and/or service providers should review these insurance policies and comment on the adequacy of coverage. In addition, the pool should schedule renewal dates of the policies to avoid a lapse in coverage.

*Evaluate Special Risks.* Public entities are involved in numerous special events, which are either sponsored and conducted by the public entity or held on public property under the sponsorship of a third party. Special risks include community events, fairs, sporting events, health care services and mutual aid or joint powers organizations. Pools should evaluate special risks and provide information concerning the extent of any pool coverage for the event and options to retain or transfer these special risks.

*Evaluate Retained Risks.* Where the member has decided to retain risk, the pool and/or service provider can furnish loss-control recommendations and help develop procedures for the member to internally finance expected losses.

*Avoid Risks.* The pool may suggest that a member avoid certain risks entirely, or may recommend that the member discontinue some service or activity. For example, a pool may recommend that a member sell a hospital or nursing home due to adverse workers' compensation losses. Another method to avoid risk is to seek legislative relief. The pool or its sponsoring association can lobby for changes in liability for certain public entity functions, which allows the member to successfully reduce or avoid risks.

The pool encourages members to transfer risk contractually whenever appropriate.

Pooling is a risk transfer mechanism that allows its members to transfer a portion of a risk of loss exposure away from the member and onto the pool. The amount of risk transferred is determined by the coverage document. In much the same way pools retain some of the risk of loss exposures that are transferred to them from their members and they in turn transfer risk onto excess risk takers and reinsurers.

Risk transfer can include shifting or limiting the duty owed to the party that is harmed through contractual removal or limitation and/or by transfer of the liability. One way pools can support risk management among members and promote effective risk management is to train and support members in



the transfer of risk of loss exposures via insurance requirements they place on contractors, professionals and users of facilities.

It may in be in the best interest of the member to transfer a risk, regardless of whether or not the pool provides coverage. The pool staff and/or service providers can assist in placing coverage and/or reviewing coverage adequacy, terms and conditions. When the member enters into contracts for service, the pool staff and/or service providers can assist in the contractual transfer of risk. The pool will review contract language and suggest appropriate indemnification and hold harmless provisions. The pool staff and/or service providers can also review certificates of insurance to make certain that the insurer meets appropriate ratings (AM Best), proper coverage with appropriate limits has been secured, and the public entity has been included as a named insured on the contractor's policy.

The following examples can be used to aid members in their use of insurance requirements for contractors, professional service providers and facility users to strengthen language making private insurance secured by contractors, professional service providers and users of facilities primary; and to more completely transfer risk of loss exposures away from the member and the pool.

Sample Language for

**STANDARD AGREEMENT INSURANCE REQUIREMENTS:**

Contractor agrees to maintain, on a primary basis and at its sole expense, at all times during the life of any resulting contract the following insurance coverages, limits, including endorsements described herein. The requirements contained herein, as well as NAME OF MEMBER review or acceptance of insurance maintained by Contractor is not intended to and shall not in any manner limit or qualify the liabilities or obligations assumed by Contractor under any resulting contract.

**Commercial General Liability** Contractor agrees to maintain Commercial General Liability at a limit of liability not less than \$\_\_\_\_\_ Each Occurrence, \$\_\_\_\_\_ Annual Aggregate. Coverage shall not contain any endorsement(s) excluding nor limiting Product/Completed Operations, Contractual Liability or Cross Liability.

**Business Automobile Liability** Contractor agrees to maintain Business Automobile Liability at a limit of liability not less than \$\_\_\_\_\_ Each Occurrence. Coverage shall include liability for Owned, Non-Owned & Hired automobiles. In the event Contractor does not own automobiles, Contractor agrees to maintain coverage for Hired & Non-Owned Auto Liability, which may be satisfied by way of endorsement to the Commercial General Liability policy or separate Business Auto Liability policy.

**Worker's Compensation Insurance & Employers Liability** Contractor agrees to maintain Worker's Compensation Insurance & Employers Liability in accordance with state requirements.

**Additional Insured** Contractor agrees to endorse NAME OF MEMBER as an Additional Insured with a CG 2026 07 04 Additional Insured – Designated Person or Organization endorsement or CG 2010 10 01 Additional Insured - Owners, Lessees, or Contractors – Scheduled Person or Organization or CG 2010 07 04 Additional Insured - Owners, Lessees, or Contractors – Scheduled Person or Organization in combination with CG 2037 07 04 Additional Insured - Owners, Lessees, or Contractors- Completed Operations, or similar endorsements, to the Commercial General Liability. The Additional Insured shall read "NAME OF MEMBER."

**Waiver of Subrogation** Contractor agrees by entering into this contract to a Waiver of Subrogation for each required policy herein. When required by the insurer, or should a policy condition not permit Contractor to enter into an pre-loss agreement to waive subrogation without

an endorsement, then Contractor agrees to notify the insurer and request the policy be endorsed with a Waiver of Transfer of Rights of Recovery Against Others, or its equivalent. This Waiver of Subrogation requirement shall not apply to any policy, which includes a condition specifically prohibiting such an endorsement, or voids coverage should Contractor enter into such an agreement on a pre-loss basis.

**Certificate(s) of Insurance** Contractor agrees to provide NAME OF MEMBER a Certificate(s) of Insurance evidencing that all coverages, limits and endorsements required herein are maintained and in full force and effect. Said Certificate(s) of Insurance shall include a minimum thirty (30) day endeavor to notify due to cancellation or non-renewal of coverage. The Certificate Holder address shall read:

**NAME OF MEMBER**

Attn: Official

Department

ADDRESS

**Umbrella or Excess Liability.** Contractor may satisfy the minimum liability limits required above for Commercial General Liability or Business Auto Liability under an Umbrella or Excess Liability policy. There is no minimum Per Occurrence limit of liability under the Umbrella or Excess Liability; however, the Annual Aggregate limit shall not be less than the highest “Each Occurrence” limit for either Commercial General Liability or Business Auto Liability. Contractor agrees to endorse NAME OF MEMBER as an “Additional Insured” on the Umbrella or Excess Liability, unless the Certificate of Insurance states the Umbrella or Excess Liability provides coverage on a “Follow-Form” basis.

**Right to Revise or Reject** NAME OF MEMBER reserves the right, but not the obligation, to revise any insurance requirement, not limited to limits, coverages and endorsements, or to reject any insurance policies which fail to meet the criteria stated herein. Additionally, NAME OF MEMBER reserves the right, but not the obligation, to review and reject any insurer providing coverage due of its poor financial condition or failure to operating legally.

\*Please note: language such as CG 2026 07 04 refer to a form created by the Insurance Services Office. AGRiP members may request additional information including examples of Use of Member Owned Property and others.

#### **E. The pool conducts annual loss prevention and risk control surveys and/or inspections.**

The importance of comprehensive loss-control services cannot be overstated. It is only through an ongoing commitment to loss control that pools can reduce the frequency and severity of loss. Pools that sacrifice loss control will eventually experience loss-funding difficulties that will result in unpopular rate increases. Eventually the downward spiral of adverse losses couples with rate increases will put the pool in peril.

Loss-control services also serve as a “selling point” to prospective members. Since pool members share losses, a pool candidate can take comfort in knowing that all existing pool members are practicing loss control. Thus, it is recommended that pools develop and implement a loss control policy that should state the pool’s commitment to controlling losses on a long-term basis. The following are the basic elements of a loss-control service program for pool members:

*Management, Leadership and Administration.* Member involvement and commitment to safety and loss control is paramount. The pool’s loss-control efforts should emphasize training key staff members to establish and maintain individual member loss-control programs. The pool’s overall loss-control

programs can then direct, assist and augment an established loss-control program for each member. Pool services can be specifically tailored to meet the current needs of the member. This allows for unique services depending upon the size, complexity and level of sophistication of each member.

The process starts by requiring each member to establish a safety policy. Pool services should emphasize management, leadership and administrative issues associated with the member's long-term safety program.

Federal and state occupation health and safety rules will also serve as a catalyst for members to embark on safety efforts.

*Hazard Management.* A basic goal of loss control is to manage identified hazards and loss exposures. Pool services can assist members in identifying and evaluating hazards that can be followed up with suggested hazard-control procedures.

*Loss Management.* Pool services should help control reported losses to mitigate damages and avoid similar claims in the future. The pool can assist members in developing procedures to record and investigate accidents and incidents. To avoid a similar loss in the future, the pool should assist the member in developing follow-up loss control strategies. The assistance is usually in the form of written recommendations.

*Planned Inspections.* Pools should provide qualified personnel to perform on-site facility inspections for pool members. Pool policies should require at least annual inspections of higher risk facilities. Pools should provide members with an inspection report that should analyze the inspection results and recommend specific hazard controls along with some implementation assistance. Reports should also address areas in which members may be out of compliance with state or federal occupational health and safety regulations. The pool staff and/or service provider should follow up with the members to verify implementation status of the recommendations. If the member is subject to OSHA the pool can provide assistance in preparing the OSHA inspections. Following an OSHA inspection, the pool can assist with the implementation of OSHA recommendations or help the member appeal any contested OSHA citations.

*Rules and Regulations.* Rules and regulations provide the basis for member conduct and ensure a level of safety. Pool staff and/or service providers can provide sample rules and regulations and assist in member adoption and implementation.

*Hazard Communication.* Pool services can provide assistance to the members with regard to hazard communications including employee right-to-know and EPA chemical hazard information.

*Orientation/Training.* Each member's loss control program should provide for employee training. The pool should provide members with assistance, including examples of lesson plans and other written material, for employee orientation and training programs. Members should set up meetings to orient new employees to safety rules, regulations and procedures; to update all employees on changes in safety rules; to enhance employee awareness of safety and loss control procedures. Employee position descriptions should include safety program responsibilities and employee performance evaluations should address safety and loss control results

*Personal Protective Equipment.* Pools can assist members regarding the use of personal protective equipment and by establishing cost-sharing programs for its purchase. The use of such equipment can have an immediate and positive impact on pool losses.

*First Aid/Medical.* Pools can assist members in setting policy and procedures for on-site first aid and medical care. Pool staff and/or service providers can help in setting policy and training requirements.

*Return-to-Work/Light Duty.* Light duty and return-to-work programs are extremely important tools in reducing the severity of workers' compensation claims. Pools should require members to establish these programs to bring injured employees back to work as quickly as possible. The pool staff, workers' compensation claims administrators and/or medical case managers can assist in tailoring light duty positions to conform to the restrictions of the injured employee within the member's work environment.

*Emergency Preparedness.* Disaster plans are useful techniques to lessen the severity of property and liability losses. Pool staff and/or service provider can assist in emergency management planning.

*General Promotion.* Pools can help their members promote safety and loss control programs via employee newsletters, safety meetings, health fairs, employee wellness programs and employee incentives for practicing workplace safety techniques. Pools can provide members with examples of general promotion material tailored to meet an individual member's needs.

**F. If property coverage is provided, the pool maintains accurate records of members' property values.**

Accurate property values should be kept. Members should be able to review their property values and challenge inaccurate values.

The primary reason that public entities join an intergovernmental pool is for risk transfer coverage. Pools generally provide more stability of coverage and rates than insurance companies do, and they afford their members greater control of and participation in the risk financing process. To ensure that the pool remains an effective alternative, it needs to establish certain procedures, document its actions and communicate with members regarding the coverages it has in place.

**V. Coverages**

**A. The pool regularly reviews insurance market trends, competition, coverage and pricing.**

The review should be systematic and documented. Many pools annually review of market trends, competition, coverage and pricing. Pools that have staggered policy dates for members may review market trends and competition every month or quarter. Changes in credit and equity markets can effect the strength of private insurance companies including excess and reinsurers.

**B. The pool has written, objective underwriting and/or rating procedures that relate to the exposures covered and the losses experienced by pool members.**

Clearly state underwriting and rating procedures and follow those, documenting exceptions. Be prepared to defend a challenge to deviations from your objective procedures.

The annual contribution required of each pool member is a function of the coverages provided by the pool. For example:

- Workers' compensation historically and logically relies upon payroll as a primary factor in calculating each participant's annual contribution.
- The value of real property is a common and workable factor in determining contributions from programs including property and casualty coverages.
- The use of operating or general fund budgets as a contribution base for liability coverage is another common standard for public entity risk and benefit pools.

- An apparent relationship exists between liability risk and scope of operations as measured in operating budgets.
- Contributions for automobile coverage are measured by the number, type and use of vehicles in possession of each pool member.

A composite rate, which considers all these factors, can be developed for multiline coverages.

Many pools promote loss control by adjusting annual contributions after the pool has developed sufficient loss data. Unforeseen and unavoidable catastrophic losses experienced by an individual member are generally excluded from these loss adjustment factors. Conversely, an entity that experiences a significant number of claims in an area that could be controlled should have those losses counted as part of its loss adjustment factor. This clearly reflects a poor risk management program.

Contribution formulas can be adjusted for members assuming different levels of deductibles. Some pools have standardized this factor at a single level such as \$10,000 regardless of the coverage or the financial resources of the different members. However, certain programs have offered members a choice of deductible levels. When this is done, one of two decisions must be made. First, the pool can reduce the contribution level for members assuming a higher deductible in recognition of the savings created for the pool. The second option is to collect the standard contribution, as though the deductible was the minimum level, but then segregate a portion of the contributions for the benefit of those members. For example, if 10 members select a higher deductible, \$200,000 of their collective contributions could be used to purchase additional reinsurance coverage for their benefit only.

**C. The pool provides appropriate coverage documents to its members.**

Coverage documents are contracts. Give members written policies that clearly state the coverage they purchased and exclusions where they are still exposed.

**D. The pool communicates changes to its members.**

Coverage documents give members valuable legal rights. Changes to those rights should be communicated in a timely manner.

**E. The pool has a resolution process for claims and coverage disputes with its members.**

Generally, coverage disputes should be settled without court intervention. The pools bylaws and/or governing board should decide beforehand the process for settling coverage disputes with members. If claims administration is delegated to pool staff or an outside claims firm, an administrative appeal of a reservation of rights letter could be made to the pool's executive committee or board before the member can go to court. Alternatively, the pool may decide that disputes should be settled by binding arbitration.

**F. The pool provides certificates or other evidence of coverages to all members.**

If your members need certificates of coverage, you need a means by which to provide this information. Determine early who is responsible for issuing certificates, the wording, and to whom you will and will not issue them. Consult with your legal counsel to be certain you are not extending coverage you did not intend to extend and that you are providing exactly what you did intend to provide.

**G. The pool documents and implements all decisions regarding insuring or self-funding pool operational risks, including but not limited to errors and omissions, general and auto liability, workers' compensation, property, employee fidelity and fiduciary liability.**

Your members' claims are not the pool's only exposure. There are also operational risks that arise in the course of doing business. The pool's operational risks include:

- Injuries to your employees in the course and scope of their employment
- Losses by theft, fire, water and other causes to the office furnishings and equipment as well as to the building, property
- Injury to other parties on your premises or arising out of the activities of the pool
- Liability from decisions made by the pool's governing body or staff
- General liability
- Auto liability
- Employee fidelity
- Fiduciary liability

The preceding list may not include all of your exposures, but exemplify the need to protect the pool from unexpected losses.

The primary issue is not whether or not to protect the pool from these exposures but rather how to go about doing so. Basically, you must decide if you will self-fund or insure through a commercial carrier. If you self-fund, how will claims be handled? Some of the issues stemming from claims management are confidentiality of information and potential leaks of information, objectivity of investigation/outcome, politics of settlement, denial or compromise of claim and appearance of favoritism or bias. These issues are particularly sensitive regarding claims for workers' compensation, errors and omissions or employee fidelity. In small organizations like most pools, problems can arise when co-workers handle these types of claims for each other. If you self-fund, you may want to consider using a third-party claims administrator that can be objective in evaluating data, and keep the confidentiality of affected employees. A TPA can also avoid any appearance of a conflict of loyalty and embarrassment to staff.

Although these issues can pose challenges to internal handling of claims, those challenges are not insurmountable. Some suggestions on how to deal with this include designating one employee to handle all employee or pool-related claims. Establish protocol in writing before the first claim arises. Establish protocol in writing before the first claim arises. Establish procedures for investigation, record keeping and report settlement. If confidentiality is an issue, determine the procedure for those who will handle investigations and reporting and those who will type the reports. Will other people have access to the computer directory on which this confidential information is stored? Is that a problem? If you use a computer network and there are shared printers, can confidential information be intercepted at the printer?

The pool's bylaws or formal board policy manual should direct the governing board in their decision to retain or transfer risk involving errors and omissions, employee fidelity or fiduciary liability loss exposures.

Another solution may be to develop a relationship with an outside adjusting firm that will be retained to handle any claims dealing with operational risks. Some things to consider when making this decision are frequency of expected claims versus the severity of claims and the cost of a staff person including salary, benefits, clerical time and supplies. These factors would be weighed against the cost of using an outside provider.

If you have selected commercial coverage, these issues are less likely to arise because all are investigated by the carrier's staff and you have limited involvement.

## **VI. Funding**

The funding of the pool is obviously of vital concern to the members, not only from the perspective of the overall financial well being of the entire group, but also the individual member's costs. Funding determination is also a critical part of the decision-making process when a potential member is considering joining a pool.

What is the level of capitalization necessary for an individual pool program? Each year a certain amount of dollar resources are required to conduct business. The presence of a surplus is highly desirable.

A surplus is the same as the fund balance, or any excess of assets over liabilities for current expenses. Surplus funds can be invested and can become a source of additional income for the program. The presence of an unreserved fund balance will smooth out costs to members in the event the pool experiences sharp increases in claims or if certain costs increase, such as the cost of consultant services or excess insurance policies. The surplus could also be used to investigate the possibility of expanding the program. Some pools may choose to place limits on the size of a surplus held by a pool and may return surplus funds to members in the form of a dividend or credit.

Specific capital contributions of members, over and above regular contributions, can be used to create an initial surplus. Moreover, funds may be committed from surplus of an existing pool, or borrowing arrangements, such letters of credit, and certificates of participation or sale of bonds.

The emergence of a surplus can result in questions of property ownership. If 20 members created a program that now has a surplus of \$250,000, what is the individual right of any given member to that surplus? Specifically, does that member have a right to return of surplus dollars if pool membership is discontinued? The most common approach to this situation is to establish that all surpluses will remain the property of the pool. Such a policy creates an incentive for ongoing membership and avoids the complex questions of how to properly size each member's share of the surplus. If the pool is dissolved, surplus assets may be available for distribution, or final assessments may be made to pay any liabilities existing at any time. Since members cannot be assured that a final assessment to pay dissolution expenses will be made, those members remaining in the pool should be given the potential to receive any surplus available.

Surplus funds are over and above the reserves that pools must keep to fund any potential losses. Generally, pools experience a lag in the liability claims payout period. For example, in a single year, total liability losses of \$200,000 might be incurred, but only \$80,000 actually paid out during that year. The remainder is paid out as known claims are settled and as additional claims are reported and settled. Estimates should be made of these total liabilities, and cash should be invested in a reserve account until final claims settlements are made.

These loss-funds are needed to offset liabilities and are not surplus. Accounting for pool operations on a cash basis, rather than an incurred basis, can create a dangerous financial situation. The development of surplus can facilitate various program alternatives at a later date as well as promote favorable regulatory review, where such requirements exist.

**A. The pool has a policy requiring an Actuarial study to determine reserve adequacy is conducted and a report is issued annually, signed by a Fellow of the Casualty Actuarial Society or a member of the American Academy of Actuaries, independent of the pool.**

Actuarial studies are more than unsophisticated estimates made of future losses, based on past losses. Suitable studies need to take a variety of factors into account, including any changes in claim payment or claim reserving procedures, industry trends, significant changes in the law and change in the exposure base. Such studies should also address all issues required for disclosure by "Statement 10 of the Governmental Accounting Standards Board: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues."

These actuarial studies should not only review funding levels for prior losses, but assist in setting rates for future periods as well.

Such estimates need to be made by a professional actuary experienced in the particular type of exposure being evaluated. The person should be either a Fellow of the Casualty Actuarial Society or a Member of the American Academy of Actuaries. An FCAS has passed all 10 examination parts, but may have no experience in a given line of coverage. An MAAA must have three years experience in any area in which he or she issues an opinion.

Pools should set out the terms and conditions of the study in an engagement letter or contract with the actuary. Put such arrangements in writing to assist in communicating what is expected from both parties

and to serve as the basis for an amiable resolution of any disagreements that might subsequently arise. Engagement letters or contracts should include the following elements:

- Names and addresses of the parties
- A description of the data that the pool will provide
- A description of the analysis that the actuary will perform, including the types of exposures to analyzed
- A description or example of the type of report the actuary is to produce at the conclusion of his analysis, including whether it will show all of the detailed calculations made in the analysis
- A description of the type of recommendations the actuary is expected to generate
- The price of the services to provided, particularly stating whether the services will be provided for a fixed fee or on an hourly basis, whether there will be any type of cap on the hours or the total fees, and whether expenses will be included in the basic fees or billed separately and in addition to the fees
- A timetable for the submission of the data and completion of the draft and final reports
- The number of presentations included in the base price, the cost of additional presentations and whether these fees include presentation transportation costs
- A hold harmless clause and suitable errors and omissions insurance requirements
- Authorization to copy and use the report for appropriate business purposes

**B. The pool allocates funding for losses, loss development, incurred but not reported losses, loss adjustment expenses, unallocated loss adjustment expenses and adverse experience at a level set by the governing body based on advice of a Fellow of the Casualty Actuarial Society or a member of the American Academy of Actuaries.**

The pool must fund not only for the case reserves set on individual claims, but also for the expected amount the reserves will develop (or increase) as the claims progress and for claims that are expected to be reported later. In addition to the expected claims, the cost of handling or adjusting the claims must be estimated and funded for, as well as some reasonable margin above the expected costs of the claims and claims handling expenses. This margin can be set by the pool's governing body, but should be based on professional, independent actuarial advice. Commonly, these contingency margins are expressed in terms of confidence levels. For example, the actuary is confident that 70 percent of the time the ultimate incurred losses will not exceed the actuarial levels. A single confidence level cannot satisfactorily be set for all pools, as the appropriate level depends on such factors such as:

- The age of the pool
- Types of coverage the pool provides
- The pool's claims handling and reserving philosophy
- The number of members in the pool
- The number of claims filed each year

Pool governing bodies make the final determination of the pool's confidence level. Once the determination is made, the confidence level is used as the pool's funding goal.

Funding for current year, as well as funding for prior years, should be considered. Funding assumes an investment rate in determining present value and uses trending factors appropriate for the risks as set by the governing body based on the advice of a Fellow of the Casualty Actuarial Society or a Member of the American Academy of Actuaries.

Because claims do not have to be paid immediately, the money needed to pay them can be reduced by the expected interest earnings until they do need to be paid, or "discounted to present value." In other words, the investment earnings are projected and assumed to be part of total membership contributions. Therefore, total claims needs in the amount of \$200,000 might result in premium collections of \$180,000 with the balance to be earned through investment earnings made available for claims settlements. The presumed advantage is to further reduce the annual contribution required by members and create additional savings.



The interest rate that should be used to project investment earnings and to calculate the discount is a pool's expected rate over the life of the outstanding claims to be covered. The reasonableness of the expected rate of return should be confirmed by reviewing the rates of return recently experienced by the pool on its investments. If the pool plans to change its investment approach in the future, this may be considered, but should not be the exclusive factor considered. The same number and type of claims will increase in cost year after year due primarily to an increasing propensity by the public to make claims and an increase in the amount claimed and won. Trending factors are available from the actuarial community to reflect these elements in the computation.

The practice of discounting contributions is appealing and widespread; however, it may not be advisable for all pools in all circumstances. First and foremost, the ability to achieve projected interest earnings cannot be assured. Any shortfall in earnings could result in mid-year assessments. These payments would not be scheduled by members and could cause budget disruption within individual jurisdictions. Second, full funding of projected loss needs combined with investment earnings represents a more conservation and prudent form of financial planning for public agencies.

Funding should consider rates calculated at least partially on the basis of members' loss experiences. Actuaries like to use industry-wide data, because they are usually thought to be more reliable and credible. However, an individual pool's own experience may turn out to be substantially different than the industry, particularly if it exercises outstanding risk control or claims handling techniques and/or skills. This individual pool loss experience, whether positive or negative, should be considered by the actuary in determining funding levels and/or rates.

**C. The pool has a strategy to deal with catastrophic losses to prevent financial impairment. Pool Board policy contains a strategy for maintaining net assets to facilitate response to unanticipated events such as a change in market conditions that force increased retentions, potential failure to pay by excess or reinsurers, loss of excess or reinsurers, catastrophic events within retention or unusual claims not foreseen and not excluded.**

Identify ways to protect your pool from catastrophic claim losses and operational risks, and develop a plan to protect your assets.

First, look at the coverage areas provided to your members. Identify your largest exposures. What is a worst-case scenario for losses, and what effect would that have per line of coverage, and how many large losses can the surplus absorb? For example, if you are providing property coverage in an area that could be subject to a catastrophic loss from flood, hurricane or earthquake, how much could your pool be exposed to if there was a large loss? Another area where you may have a large exposure is police legal liability or public officials coverage.

Consider how to transfer some of that risk, possibly by the purchase of excess coverage or reinsurance. This is like buying insurance for your insurance. Your pool can pay a portion of the loss with the reinsurer picking up the balance, or the reinsurer may pay everything over a certain dollar amount.

Once you have decided to transfer some of the risk, you need to decide how much to transfer and to whom, and determine a procedure to track, for historical purposes, the decision-making process and the carriers.

Operational risks include loss exposures related to the pool's human resources, property, plant and equipment costs and resources. Typical loss reduction and loss prevention techniques include separation, duplication and diversification. Individual pools need to evaluate their operations to determine the nature and extent of loss exposures they face. Some loss exposures can be adequately addressed through reduction and prevention techniques, however in all instances risk transfer should be carefully considered.

**D. If the pool purchases excess and/or reinsurance or uses other forms of risk transfer or risk sharing, it maintains files of all related current former binders, correspondence, policies, endorsements and certificates and makes copies of such policies available to all members who so request.**

Once you have determined that you are going to transfer a portion of your risk by purchasing excess and/or reinsurance, or by joining an excess or reinsurance pool, you must decide how to accomplish this task. Reinsurance can be purchased from professional reinsurers, from syndicates and reinsurance pools. Some reinsurers use direct writing and deal directly with the pool. Others use intermediaries (brokers) who negotiate reinsurance agreements. A broker will take your coverage request to the market and come back with available options. If you select this route, factor in the commission you will have to pay the broker. You may pay a fixed rate per year, a percentage based on the book of business or some other negotiated method of payment.

Generally speaking there are two types of reinsurance, Facultative and Treaty. In facultative reinsurance, the reinsurer underwrites each loss exposure separately. The pool would submit individual loss exposures to the reinsurer and the reinsurer accepts or rejects the individual loss exposures. In a Treaty agreement an entire class or portfolio of loss exposures are covered by predetermined agreement.

Treaty and facultative reinsurance can be subcategorized based on whether the liability for losses is shared proportionally (pro rata) or non-proportionally (excess of loss). Pro rata reinsurance involves the proportional sharing of the amounts of insurance, policy premiums and losses between the pool and the reinsurer. Quota share reinsurance is a type of pro rata reinsurance in which the pool and the reinsurer share the amounts of insurance, policy premiums and losses using a fixed percentage. Quota share reinsurance is most frequently found in property insurance but can also be used in liability coverages. Excess of loss reinsurance, also known as non-proportional reinsurance, indemnifies the pool for losses that exceed a specified dollar amount. This type of reinsurance can be purchased on the following basis: per risk excess of loss, catastrophe excess of loss, per policy excess of loss, per occurrence excess of loss and aggregate excess of loss.

When considering whether to join an excess or reinsurance pool you should keep in mind that these pools are risk financing mechanisms and not insurance (a complete transfer of risk). These pools are typically not evaluated by rating agencies. There may be a long term commitment and the pool may be required to make a capital contribution and hold an equity stake in the excess pool. Other considerations include: withdrawal procedures and any accompanying penalties; voting rights and governing body organization; are the pool members subject to assessments and on what basis are assessments made, what are the members' exposure with regard to the excess pool's SIR and any aggregate retentions.

Another choice is to solicit bids yourself through a request for proposal to interested parties. In the RFP, include not only the amount and type of coverage you want, but details such as who would be responsible for issuing certificates of coverage to members and other interested parties, matters of invoicing and timing of the renewal information to be received. (see Exhibit K for a list of RFP/RFQ examples)

Having gone through the processes described above, you will again have choices to make. If you have gone the RFP route, you need to evaluate the proposals when they come back. It is best to be organized and objective in this process, so that if it is ever necessary to explain your decision, the documentation is available. One method that can be used is a chart or grid with the vendors along the side and the standards against which you will compare them along the top. Include those items of importance to you and appropriate to the RFP, such as loss control, actuarial, underwriting, coverage limits available, deductible levels available, assistance with policy administration or claim tracking.

After evaluating the vendors and developing a scoring or rating system, either narrow the field of contenders or choose the winner. Remember, the lowest price may not be your best value; however, your governing documents may require you to select the low bidder. Before making a final selection, it is important to evaluate the carrier for quality, stability and financial solvency.

Once the selection has been made, keep careful records of all correspondence, binders, certificates of coverage and policies as a historical trail for successors to follow.

**E. If the pool purchases excess and/or reinsurance, the pool makes periodic evaluations of the quality, stability and financial solvency of all insurance providers.**

Check an insurer's rating in AM Best, Standard & Poors, or a similar guide. Because these publications are compiled annually, it would be wise to check further if you have any reservations. Your insurance broker or state regulatory agency can provide a good starting point for gathering information.

**F. The pool insures or self-insurers its administrative and operational risks, including errors and omissions, general and auto liability, workers' compensation, property, employee fidelity and fiduciary liability.**

Good risk management practices include the recognition of loss exposures and a strategy to reduce the frequency and severity of the losses associated with those exposures. Several factors determine the best risk financing approach for the risks listed above; including the size of the pools unallocated fund balance (or surplus) whether a pool employs personnel directly or uses third party providers and so forth.

**G. If the pool purchases insurance to cover its operational risk exposures, it maintains both current and historical files of policies.**

Regardless of what approach you take, it is important to document the decision-making process as well as where the risks are insured. Keep current policy information and historical information, which may be needed years in the future for your state regulatory agency inquiries, auditors, actuaries, EEOC complaints, pool member inquiries and litigation discovery, to name a few.

## **VII. Financial Management**

One of the most important activities of any organization is financial management and reporting. This is especially important for pools, whose success and very survival depend on adequate collection of contributions and management of reserves. When local public officials joined together to form pools, few of them imagined that financial success their efforts would see in a relatively short time. It is not unusual for even smaller pools collect multi-million dollar contributions each year. Some larger pools maintain investment portfolios, comprising reserves and surplus funds that exceed \$100 million on even \$200 million. In light of this growth, pools should develop policies and procedures for managing these funds, and more importantly, for reporting the pool's financial condition to the pool's members and governing body.

**A. The governing body of the pool adopts an annual budget in sufficient detail so as to facilitate meaningful monitoring of expenditures by the board or designated committee. The governing board or its designated committee reviews budget to actual expenditures detail reports regularly to assure expenditures are appropriate.**

An integral part of any annual operation plan is the budgeting process. A pool's budget is virtually a living document that the board and staff have to live with and work within. The best way to create a budget that both agree with is to start the budget process at least six months in advance and include regular board input. While this may seem to drag the process out longer than necessary, it will actually make the process much less stressful, and when it comes time for the board to discuss and approve the budget, there will be very few surprises.

In developing and managing the budget, the governing body needs to make a basic decision regarding whether or not the budget can be changed throughout the year or the actual budget figures are fixed, but can be amended with year-end projections. Many pool administrators prefer the latter approach because it allows them to compare the pool's financial state throughout the year with projections made during the budget process.

To minimize unexpected fluctuations, the annual budget should be developed in conjunction with development of the pool's annual work plan so that the budget can take into account any new projects or programs that entail additional expenses or may bring in new revenue. The governing body, using actuarial reports and other tools, should also determine a target amount of funds that the pool will pay into its reserves. If the pool desires a surplus, it should be reflected in the budget as well.

**B. The pool has a written policy that addresses preparation of pool financial statements in accordance with generally accepted accounting principles as applied to pools or as required by state law.**

To ensure consistency in pool financial statements and compliance with any applicable state laws, pools should maintain policies relating to preparation of the statements. These policies can be contained in pool operational manuals, minutes of meetings or other documents.

**C. The pool's account policy addresses adherence to accounting standards promulgated by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, and any applicable state regulatory body.**

An integral part of any financial management program is adequate and appropriate statements and reports submitted to members, the governing body and any applicable state agencies. Adhering to the various Governmental Accounting Standards Board or GASB pronouncements, particularly GASB Statement 10 which establishes accounting and financial reporting standards for risk financing and insurance-related activities of state and local governmental entities, including public entity risk pools and Financial Accounting Standards Board or FASB standards seems to be common practice for most pools. If your pool has to meet some state regulatory requirements, submit material on time. It is also a good idea to require the agency sign for any documents that have mandatory deadlines, then, if need be, you can prove when the document was received and by whom.

The governing board should develop a policy stating which reporting standard it will follow and how it will ensure that these standards are met. These policies can be contained in pool operational manuals, minutes of meetings or other documents.

**D. An annual audit of the pool's financial records is conducted by a qualified independent certified public accountant or state audit agency that issues a signed opinion regarding the financial statements.**

All pools should contract with an independent auditor to conduct an annual financial audit. To avoid any perception of conflict of interest and to ensure objectivity, the financial auditor should be chosen by the governing body of the pool and not by the staff. The pool's governing body or a committee should meet with the auditor annually or at least every other year. In addition, the governing body should periodically review the auditor and accept bids from other firms, possibly every three years.

Minutes of meetings should document that the governing body reviewed and received the audited financial statements and other reports issued by the auditor.

**G. The audit includes an independent auditor's report on internal controls that provides a report on the status of previous year's recommended actions which is distributed to the board.**

Most auditor reports include a management letter that addresses financial management concerns. This letter should also include a report on staff actions or policies to prevent accidental or intentional mismanagement of funds. Often, governing bodies find assurance in a simple statement that existing internal controls are adequate.

Regardless of your pool's renewal date policy (one common renewal date or various renewal dates), pools tend to receive large amounts of contributions on a daily basis. Therefore, pools should establish and maintain policies for internal controls that address specific procedures including financial statement preparation, accounts payable and accounts receivable, bank deposits, data backup, signature requirements and separation of duties. These policies could be contained in a pool operations manual, policy manual or other document.

**H. The pool responds to any reportable conditions in the report on internal controls within a reasonable period of time.**

If the auditor identifies ways that financial management should be changed to afford tighter control, you must respond to any noted deficiencies in a timely manner. However, you should not feel obliged to agree with every recommendation. It is perfectly acceptable to disagree with the auditor's recommendations, providing you have a defensible argument and supporting documentation. Most importantly, staff must communicate to the pool's governing body and document any actions taken in response to the auditor's recommendations, whether steps were taken to correct the deficiency or a decision was made that the current procedures are adequate and the pool will not take further action.

**I. Financial reports of the pool are distributed to or otherwise made available to the board, audit committee and pool members at least annually.**

You can keep your members apprised of the pool's financial condition in several ways: sending out annual financial reports and/or financial summaries via brochures and newsletters or live updates at annual or other regularly scheduled meetings. If you do not routinely send financial reports and statements to members, you should establish and publicize a procedure that allows members to obtain copies upon request. Regardless of the method, keeping your membership aware of the pool's financial condition is imperative to the long-term stability of your pool.

## **INVESTMENT POLICIES**

**A. The pool has written investment policies that address the following provisions.**

As stated previously, many pools maintain large investment portfolios that sometimes may account for a substantial portion of the pool's annual revenue. Because of this, the pool must develop detailed policies regarding the management of the pool's investments. These policies can be contained in the bylaws or other governing documents, a pool operations manual, minutes of meetings, resolutions or other documents. For most pools, the largest part of invested funds are reserves that are needed eventually, so any mismanagement of investments that could result in a shortfall in reserves could be potentially devastating to the pool.

The pool's investment policy should be ratified by the governing body and should clearly state what investments are appropriate and who has the authority to invest pool funds. Investment activities should be reported to the full board and to any relevant committee charged with oversight at least quarterly.

**1. Explicit delegation of authority regarding investment decisions to appropriate employees or outside investment managers.**

The governing bodies of pools are not involved in the pool's day-to-day operations; however, investment decisions must be made almost on a daily basis. The pool's investment policies should be very explicit regarding who has authority to make decisions at various levels. For example, some pools maintain three funds.

- **Operational fund:** These funds are used for daily operations and are generally placed in low-yield instruments such as interest-bearing checking accounts or money-market accounts. The pool's administrator has complete authority regarding these funds.
- **Short-term investments.** Pools may encounter unanticipated expenses or may not need some funds until later in the year. To keep funds available in those circumstances, they maintain funds in certificates of deposit, short-term bonds, or other instruments that produce higher yields than money in the operational fund, yet are still somewhat liquid and relatively low risk. The pool's administrator generally has complete authority regarding these funds, as well.
- **Long-term investments.** Funds that will not be needed until far into the future, such as claims reserves and surplus funds, are placed in whichever instruments the pools can use that would produce the highest long-term yield. Generally, money can only be moved into and out of this fund with approval by the governing body.

If the pool contracts with a money manager to handle investments, policies must explicitly describe the authority that will be placed with the contractor, the pool administrator and the board.

## **2. Appropriate internal controls.**

Like the pool's general financial management policies, investment policies should establish procedures to prevent accidental or intentional mismanagement of funds. Policies for internal control of investments could be similar to or part of the pool's financial management policies.

## **3. Safekeeping and custodial procedures.**

Whether your pool is using an independent investment manager or the local bank's trust department, the pool's investment policies should clearly define safekeeping and custody procedures that should be included within the agreement.

### **A process to monitor its investment activities.**

The pool's investment policies should establish a procedure by which staff regularly monitors investment activities, particularly if the pool contracts with a money manager or investment consultant or broker. Most service providers submit monthly statements of investment activities. Staff should also continuously monitor state and federal requirements to ensure that the pool stays in compliance.

## **4. Allocation of assets and portfolio diversification consistent with state and federal regulations and prudent investment practices.**

Most pools, because of their quasi-governmental entity status, tend to be fairly conservative with their investments/investment policy. As pools accumulate a large member surplus, many have adopted less conservative investment policies, including real estate and mutual funds. Regardless of the investment, your investment policy should specify what type and how much of the pool's investment portfolio can be allocated to higher yield/higher risk investments. Many pools are considered public entities and are restricted by the state from investing in certain types of instruments.

## **5. Allocation of assets and portfolio diversification consistent with state and federal regulations and prudent investment practices.**

An annual review of your investment and cash management policies, along with a periodic review of your investment policies, along with a periodic review of your investment results, will ensure that the pool's investment manager, pool staff and governing body have a clear understanding of where changes need to

be made in order to meet the pool's long-term investment goals. The pool's investment policy should require at least an annual review of the policy.

**6. Periodic reviews of investment results and comparisons with set goals and external indices.**

Investment policies should require the governing body to review investment results throughout the year to ensure that financial goals are being met and so that changes can be made if the goals will not be met. Investment results should also be compared with other external indices, such as the stock market averages or yields from other types of funds to determine whether the pool's investments are producing their highest potential returns.

**7. Distribution of reports of investment activities to the pool's governing body at least quarterly.**

As part of the periodic review by the governing body, reports of the pool's investment activities and investment results should be distributed to members of the governing body at least quarterly. If these reports are not routinely distributed to members, the pool should establish and publicize a process for making the reports available to members upon request.

## **VIII. Business Continuity**

**A. The pool has developed and implemented processes and procedures relating to protection of electronic data.**

Processes and procedures relating to protection of electronic data need to include, but is not limited to: both internal electronic data storage regardless of the storage format or media and electronic data that is transmitted outside the organization via web sites, email and so forth.

**The pool governing board adopts an asset inventory and control policy.**

Pools should consider performing a risk assessment on assets to identify those that are particularly at risk or vulnerable to loss. Written policies for managing assets that fall below the pool's capitalization policy can assist in risk management of assets that may be more vulnerable to loss. Implementation of specific measures based on written policies to should periodically be reviewed for risk assessment to determine if the additional controls implemented are effective in managing the identified risks.

**The pool governing board adopts a records management policy.**

Records management is the practice of maintaining records from creation to disposal and includes classifying, storing, securing, preservation and destruction of records. A record can be either a tangible object or digital information. Records should be stored in such a way that they are accessible and safeguarded against damage or unintended deletion.

## **IX. Claims Management**

Whether your pool administers its claims in-house or contracts the services of a third party administrator to handle its claims, you need to preserve the essentials of good claims handling. Remind yourself of the reasons why you are no longer with a commercial insurance company and you will make every effort to avoid the shortcoming of a commercial program.

**A. The pool has written procedures that include settlement authority structure, internal review and audit procedures, and loss reserving and monitoring.**

The first essential component is the participation and control by the members in the claims process. There needs to be a process by which the pool members closely communicate with the claims provider, so that there is a genuine involvement by the members in the claims process. (See Appendix: Exhibit A – IRMA Bylaws, Section 4.02, Objection to Settlement; Member Right to Defend).

Secondly, have well-defined claims processing standards that are delineated in a claims manual and taught to all claims personnel. (See Appendix: Exhibit B – IRMA Claims Manual, Table of Contents, and Exhibit C – IRMA Claims Manual, Section IV, Claim Handling Standards.) Include in the manual the qualifications of the claims personnel – their education, training and claims experience. (The claims professional needs to understand the business of the public entity they are servicing appreciate the uniqueness and be sensitive to the kinds of claims that arise out of the public entity operations.) Additionally, the manual should define the claim handling process from inception of the accident report to the final disposition of the claim, from the number of claims files to be handled by individual adjusters to the needed investigation in order to determine liability and the frequency and degree of communications with the pool member. If you cannot spell out your performance expectations, you have no way of measuring internal or external performance. Both the claims professional and the pool member must know what is expected of them and what they can expect from each other during the course of the claims process.

The claims function needs a written claim policy – a defined mission that describes the pool’s claims philosophy. (See Appendix: Exhibit D – IRMA Claims Policy.) It must acknowledge, in writing, that while we need to always keep an eye on the bottom line, there are any number of claims that need to be defended despite the costs. This is an essentially unique function of intergovernmental pooling – to resist and defend certain claims that have been determined to be frivolous and without merit, and should only be disposed of in a court of law.

In addition, the pool’s claims policy needs to set out well-recognized and financially accurate standards for claim reserving and claim payments.

Finally, and probably most important of all, your internal claims manual and your board’s claims policy need to be periodically monitored in between regularly scheduled independent claim audits. Monitoring and enforcing of your claim policies and procedures needs to be the joint responsibility of the claims management staff and the pool members. The monitoring responsibility can take many forms that should include regular reporting of results through the pool’s committee system and the full board of directors.

In order to reinforce the partnership principle between staff and pool member in the claims process, your regularly scheduled claim audits should include a membership attitude survey. (See Appendix: Exhibit E – Member Survey of Attitude Towards Claims Handling.) The audit should not only review claim files to determine compliance with traditional claim standards, but should also monitor the customer’s attitude towards the claims handling process; whether the pool member believes that it is truly a partner in the claims handling process; and whether the claims services are meeting the member’s expectations. This practice could establish another unique feature of intergovernmental pooling.

Whether you handle your claims in-house or contract the claims handling to TPAs, you need to adopt the same criterion outlined in the AGRiP Advisory Standards to minimize your claims operational problems and protect the pool members as best you can. If you choose to delegate the claims responsibility to a TPA, you should not delegate your accountability for good claims handling. You need to design a claims organization with a claims philosophy and procedure that is understood and followed by the TPA. No contract is self-executing; you need a person, be it the pool administrator or some other pool employee, with sufficient time and expertise to see that the TPA is fully living up to the terms and conditions of its contract on a day-to-day basis. If you do not include this kind of employee in the process, you can expect problems down the road.



**B. The pool maintains a comprehensive claims management information system, including tracking of claims and distribution of status reports to members on a regular basis.**

As claims operations become more automated, you need to assess your computer data bank. Check with your loss control specialists to make sure your in-house claims unit or TPA is capturing the important information that allows proactive risk managers to spot trends and develop meaningful reports.

**C. The pool maintains litigation management program that includes, but is not limited to, establishment of a list of qualified attorneys when applicable, establishment of reporting procedures, and ongoing monitoring and case management, including evaluation of legal expenses.**

Many, if not most, members of a pool join because of the opportunity to control and participate in the claims process. In essence, this provides them a chance to control their own loss history. Your pool's claims set-up needs to preserve the rights and responsibilities of the members' involvement in the system. This is especially true for files in litigation. Only through the teamwork and communication of the member claims staff and defense counsel can a partnership in excellence be achieved. A litigation management policy should be developed (See Appendix: Exhibit F-IRMA Litigation Management Policy and Guidelines) which clearly defines the roles of the participants in a litigated file. It should also describe the interaction of all parties with the goal of prompt disposition. Finally, you need to make sure your litigation management policy clearly expresses your expectations regarding fees and expenses and review of the legal services. Without this policy your chances of effectively managing your litigation efforts is greatly diminished.

**D. In addition to the tests conducted during the course of a financial audit, a claims audit is conducted at least once every three years regardless of whether claims are handled by in-house staff or by an outside service provider.**

The AGRiP Advisory Standards call for a claims audit every three years. (See Appendix: Exhibit I-IRMA Bylaws, Section 3.09(E), Claims Auditor.) This should be done more often if claims have recently come "in-house", if this is the first audit of a new TPA or there were particular problems spotted at the last audit that need to be revisited sooner.

**E. The claims audit includes, but is not limited to, the following provisions.**

1. Determination that claims were handled in a timely and efficient manner.
2. Determination that the claims administrator adequately communicated with the pool, its members and claimants.
3. Determination that case reserving practices were reasonable.
4. Determination that loss experience reports accurately reflect case reserves and payments.

**F. The claims audit is conducted by a qualified firm or individual engaged by the pool that is independent of the pool and its claims service providers or insurers.**

When selecting a qualified claims auditor, the independence of the firm you select is critical. Be wary of firms that also provide claims handling services. You need to feel confident that the provider you select does not have a "hidden agenda". Only an auditing company that is truly independent from the pool and the claims operation can give you the objective facts and constructively critical opinions needed to improve.

Assess the qualifications of the audit team. How long has the firm been in business? How many audits have been completed? How much experience does the firm have with entities similar to your own? What

references does the firm have? Make sure to follow up on them. Finally, will the company being considered for your audit take the time to get to know you and your unique operation, so that the findings and recommendations are specific to you, and not dulled by generalizations?

**G. The claims auditor issues a report on the condition of the pool's claims handling and reserving practices noting significant exceptions and/or deficiencies.**

Once an auditing firm is chosen and the audit is completed, the auditor should provide a comprehensive report. For the auditing firm, it is not only providing a claims opinion but also a management letter. This letter is the auditor's opportunity to address the areas that are unique to intergovernmental pooling and to you as a client. Staffing issues, quality service from your TPA or in-house claims staff, significant deficiencies and the results of an attitude survey of your membership - these are all areas that the auditors can present facts and recommendations.

**H. The pool adequately addresses all exceptions or deficiencies noted in the claims audit within a reasonable period of time.**

Your governing board and committees need to make decisions on how to proceed, particularly for those areas identified as deficient or needing marked improvement.

All expectations or deficiencies in the audit and accompanying management letter should be addressed within a reasonable time (60 days) by staff and / or TPA to the governing board. The response should specify time frames for corrective action. Alternative plans should be identified by the governing board and staff and / or TPA, if the corrective actions are unsuccessful or improperly implemented.

The members of your pool joined for a variety of reasons. For many, the quality of claims services was a prime motivator. In essence, claims are where "the rubber meets the road." Your staff or TPA claims representative has the *greatest* service and personal impact on you member out of all the pooling services. The claim staff needs to be regularly reminded of this fact. The uniqueness of a pooling member must be part of the claims staff's regular educational sessions. At the same time, your members need to understand the principles of good claims practices. Many times there is a fine line between these good claims practices and a member's desire for extensive personal service. It is only when both parties make the effort to learn about each other that a satisfactory common ground can be reached.

## **X. Professional Development**

To operate efficiently and effectively, pools should ensure that their in-house or contracted staff has the qualifications, skills and training necessary to perform their duties. In addition, pool staff and governing board members need to keep current with the constantly changing environment in which they must operate. To accomplish this, pools should encourage or require, professional development among staff and governing body members and more importantly, include funds in the budget to support such policies.

### **A. Members of the governing body of the pool participate in relevant professional conferences and seminars presented by organizations other than the pool.**

National and statewide associations and private sector companies provide many seminars and other educational meetings each year. Some training programs focus specifically on pool operations, governance issues and other topics of interest to members of a pool's governing body. However, attendance at general risk management seminars and meetings can also be beneficial to the pool. Often the greatest benefit of attending an educational program is the opportunity to meet trustees and directors from other pools and to form networks that facilitate sharing of information, problems, and solutions.

Many pools require members of its board or executive committee to attend a certain number of educational programs each year, giving individual members the ability to choose the meeting they wish to attend. The pool then budgets sufficient funds to cover travel expenses, registration fees and other costs.

In addition to educational programs conducted by other organizations, pools should provide an orientation for new members of the governing body to familiarize them with the pool and their related duties and responsibilities. Professionals not employed by the pool can be brought in to train large boards.

### **B. Pool staff participates in relevant professional development programs.**

Pooling as a whole is a very dynamic industry that has seen significant changes. As much as pooling is changing, the individual functions necessary to administer the pool are changing even faster. Technological advances, legal and regulatory developments, and other factors bring about changes in the ways that staff does their jobs. To keep up with these changing developments, the pool should establish policies to encourage or require staff members to participate in professional development programs. These programs should address pooling and general risk management topics, as well as individual disciplines, such as word processing, data processing, desk-top publishing, claims management, accounting and finance, marketing and management. Professional development policies should apply to in-house staff and contracted administrative staff, if the pool does not employ its own staff.

### **C. The pool chief executive officer regularly attends relevant state and national professional conferences and seminars.**

If participation in professional development programs is important for pool staff members, it is crucial for the pool's chief executive officer. Educational meetings and seminars allow CEOs to learn about current trends and to form networks with other pooling professionals.

A large number of conferences are available for consideration each year. Those sponsored by AGRiP, PRIMA, RIMS, and other risk or benefits organizations are especially worthwhile. There may also be statewide organizations (such as California Association of Joint Powers Authorities and PARMA in California, and the State Association of County Risk Managers in New York) that would be very focused on issues within a given state.

There are also a number of other organizations that present relevant conferences and seminars, such as the American Management Association, National Association of CPCUs, All Industry Insurance Days, Insurance Institute of America, American Institute of Property and Liability Underwriters, International

Foundation of Employee Benefit Plans and a variety of service providers in the pooling industry, including health and safety service providers and claims service providers.

**D. Pool staff members obtain educational degrees, relevant professional designations and other certifications.**

When hiring staff, pools should give extra consideration to applicants that have relevant degrees or professional designations. Pools should also encourage current staff members to obtain professional designations and certifications. Appropriate educational and professional designations might include:

- Master of Business or Public Administration (MBA or MPA)
- ARM, AIC, CPCU, or other designation by the Insurance Institute of America
- Certified Safety Professional administered by the American Society of Safety Engineers
- Fellow of the Casualty Actuarial Society
- Member of the American Academy of Actuaries
- Insurance Advisor

Many pools reimburse staff members for the cost of books, registration fees, tuition and other expenses. This is not only a benefit for the individual employee, but in the long term can improve the quality of the pool's services and the overall professionalism of the pool.

**E. Pool staff members participate in relevant professional organizations.**

Fields such as risk management, claims, safety and insurance have a number of appropriate organizations. There are also several state pooling organizations, including the California Association of Joint Powers Authorities, the Pooling Subsection of the Washington PRIMA chapter and the Illinois Governmental Association of Pools.

Although attendance at meetings is the most common form of participation, if pool resources are adequate, the pool should also encourage staff members to increase their involvement through volunteer work such as:

- Serving on committees
- Running for an elected position on the governing board
- Speaking at educational and training seminars
- Writing for professional publications

Participation in these organizations benefits not only the individual, but also the person's pool and the pooling profession as a whole.

**F. The pool provides adequate funding to support professional development.**

Encouraging or even requiring staff members to participate in professional development does not necessarily show that a pool is serious about helping its staff members develop the tools they need to do their jobs. However, budgeting funds for staff development not only increases the likelihood that staff will participate in professional programs, it sends a clear message that professional development is more than just an organizational desire. It becomes an organizational plan!

## **XI. Governance**

It has been said that those who fail to plan, plan to fail. Even if your pool does not undertake a lengthy strategic planning process, it should have some type of blueprint that guides the actions of the governing body and staff.

When pooling was in its infancy, the goals of most pools were fairly simple: to serve as an alternative source of insurance when coverage was not available from insurance companies. Because of the hard insurance market, pools filled a distinct need. After the market softened, pools filled other needs and focused on services that usually were not provided by insurance companies. Now that pooling has become the dominant force in public entity risk financing, pools are looking in new directions, sometimes providing programs and services that are only remotely related to insurance. As pools embark on these new ventures, they should have a plan to lead them. Major decisions based on temporary market conditions or changing situations in the pool may have negative long-term effects.

A strategic plan and a work plan provide a framework for the pool's board or executive committee to judge whether or not to start or continue particular projects. They allow the governing body to control the pool's direction without micro-managing the day-to-day activities. Finally, strategic plans provide long-term guidelines that can prevent influential members, or groups of members, from promoting their own agendas in any given year.

### **A. The pool governing board assures that its members receive a regular orientation program and manual for new and returning board members that includes review of the organizational governance structure, operations, legal and fiduciary responsibilities, budget and accounting system, actuarial funding, financial and investment policies.**

AGRiP has examples of orientation documents produced by public entity pools that are available for review by AGRiP members. Mr. Jim Brown, author of the Governance Excellence Model or G.E.M. in his book on board governance writes that governing board members should reflect on organizational results, and the rationale for deviations from projections. Mr. Brown also believes that governing board should understand owner expectations, and define and refine the vision, mission and values of the organization. Orientation documents should consider including these topics in their orientation documents such that the organizational culture and history are clearly communicated along with operational issues that governing board members need to understand.

### **B. The pool develops and maintains a long-range or strategic plan that contains a mission statement and clearly defined goals and objectives.**

Long-term or strategic plans should be created by the governing body with input from administrative staff. Traditionally, strategic planning is most effectively accomplished with an independent facilitator. Most management consultants are experienced strategic planning facilitators, and some risk management consultants specialize in strategic planning for pools. Informal planning among staff and board members can also be effective. Even with a facilitator, strategic planning should not be an elaborate affair. Some pools spend time planning the next five years as though the plan had some type of value in its very preparation.

The plan should include a mission statement of the pool's primary reason for existence. The "Purpose" statement from the pool's bylaws can be used or modified for the mission statement or the mission statement can be entirely different. It should be clear, simple and fairly short.

Similarly, the strategic plan itself need not be long, but it should clearly state the pools long-term goals and objectives to provide useful guidance in the future. In developing the long-term plan, you should take into consideration the needs of the individual members as well as the overall needs of the pool itself. Always remember why members joined the pool, and create a plan to retain their membership.

The pool's long-term plan should be approved by the governing body and communicated to members. If the plan is not distributed to all members, the pool should use its newsletter or other means to publicize the plan's existence and establish a procedure to make the plan available to members upon request.

**C. The pool regularly reviews and revises its long range or strategic plan.**

A long-term plan should map out the pool's mission and broad goals, but the pool should have the ability to respond to unforeseen circumstances without straying from the plan. Do not miss out on opportunities of where you pool might be five years hence.

A strategic plan must be a living, changeable document. The pool's governing body should review the plan annually to ensure that the goals are being met and to determine whether the current goals are still relevant or whether they should be modified. If your plan has a defined term, such as five, years, the governing board should extend the plan each year so that it remains a five-year plan.

**D. The pool regularly develops a short-term or operational work plan based on its long-range or strategic plan.**

After a long-range plan is created, it must be put into action. This is where most organizations fail in the planning process. Everyone has heard of an organization that undertook a lengthy planning process only to let the plan gather dust on a shelf. At this point, the pool needs to clearly define the roles of the governing body and staff. Ideally, the board or executive committee establishes goals, and the staff determines how to meet those goals. The board decides "what" and the staff decides "how". Thus, the staff should develop an annual work plan that identifies activities and programs to accomplish the overall mission and goals established by the governing body. A work plan may include:

- a. Identification of projects and programs
- b. Activities related to the programs
- c. Timeline for completion, including when work on a project will begin and when it will be completed
- d. Committees or individuals who will oversee the program
- e. Key staff members responsible for the completion of the project

For internal use, staff may also expand on the work plan by listing tasks that need to be accomplished for each activity.

The work plan and the pool's annual budget should be developed simultaneously so that the budget can reflect all the revenues and expenses of the pool's activities identified in the work plan. The governing board should review and approve the annual work plan to ensure that it is consistent with the pool's mission and accomplished the established goals and objectives.

**E. The pool's governing body and staff regularly reviews the work plan to ensure that activities are completed and goals and objectives are met.**

Just as the pool's long-range plan needs to be reviewed annually, the pool's work plan should be reviewed periodically throughout the year. The executive committee or board does not necessarily need to be concerned about individual deadlines or activities, but it needs to be aware if a program or project will not be completed and the result is that one of the pool's goals will not be met. The overall role of the governing body is to ensure that the mission and goals of the pool are met, and any review of the work plan should be done with this purpose in mind.

**F. The governing body has a policy in regard to how they are to receive reports on/or from executive staff, key functional areas and service providers.**

It is the board's responsibility to received information needed to review, discuss and make decisions. Organizational governing boards that use a collaborative decision making process are aided in their governance by having information that is timely, accurate and comprehensive. The governance policies used to direct staff and providers should include how to report information to the board.

## **XII Ethics**

### **A. The pool has a Code of Conduct applicable to the pool governing body, staff (whether directly employed by the pool or under contract) and service providers.**

The AGRiP Advisory Standards covering Ethics policies recognize that members of public entity pools are public organizations, such as schools and transit districts, and that public entity pools are governed by boards made up of public officials. Thus, adherence to a defined policy, such as the AGRiP model policies, encourages public trust and proper decision making within the pool. A model Code of Conduct and a Pool Service Providers' Bill of Rights adopted by the AGRiP Board of Directors are available to download on the AGRiP web site.

## **Appendix**

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**\*Please Note** electronic versions of the above exhibits (and additional similar resources) are available to AGRiP members upon request.



## **EXHIBIT A**

### **Section 4.02**

#### **Objection to Settlement; Member Right to Defend**

(A) *Right to Appeal Settlement.* Whenever IRMA proposes to settle any pending claim or lawsuit for an amount in excess of ten thousand dollars (\$10,000.00), the affected MEMBER shall be given written notice thereof (the "Reserve Notice") of IRMA'S establishment of a settlement reserve amount for the pending claim or lawsuit. The affected MEMBER may object to the settlement reserve amount by so notifying the Executive Director in writing within fourteen (14) days after the Reserve Notice is given and, if the matter is not resolved within five (5) days after IRMA receives such written objection, may appeal such matter as provided in Section 4.04 hereof. IRMA will attempt to give the MEMBER details of the terms and conditions of any proposed final settlement in excess of ten thousand dollars (\$10,000.00) whenever it is reasonably possible. If IRMA proposes to settle any pending claim or lawsuit for ten thousand dollars (\$10,000.00) or less, the affected MEMBER shall not have any right to appeal such decision.

(B) *Procedure for Exercising Right to Independently Defend.* Whether or not a MEMBER exercises its individual right of appeal stated above, a MEMBER may exercise its right to independently defend the claim or lawsuit. In such event, the MEMBER shall, within fourteen (14) days after receipt of the Reserve Notice, notify the Executive Director in writing of such decision. Upon such written notice, IRMA shall discontinue providing a defense to the MEMBER for the particular claim or lawsuit and the MEMBER shall independently undertake its defense. Thereafter, if the claim or lawsuit is resolved by the MEMBER through settlement or judgment for an amount less than IRMA'S established settlement amount ("Established Settlement Amount") for that claim or lawsuit, the MEMBER shall be entitled to receive from IRMA the amount of such settlement or judgment and the MEMBER'S Actual Allocated Costs (as defined in the Definition Section hereof) up to the level at which the aggregate of such settlement or judgment and Actual Allocated Costs equals IRMA's Established Settlement Amount. If the lawsuit or claim is resolved by the MEMBER through settlement or judgment for an amount greater than IRMA's Established Settlement Amount, the MEMBER shall receive from IRMA funds equal to the Established Settlement Amount for payment of that claim or lawsuit and the MEMBER shall be solely responsible for that portion of the settlement or judgment, as well as its Actual Allocated Costs, which exceeds such Established Settlement Amount. This obligation of the MEMBER shall be in addition to any other payment required by IRMA.

(C) *Evidence of Settlement.* If a MEMBER properly exercises its right under (A) or (B) of this Section and questions the availability of IRMA's proposed settlement, IRMA may establish the amount at which it could have settled the claim or lawsuit through any reasonably reliable evidence (including, without limitation, statements of IRMA's attorneys).

## **EXHIBIT B**

### **CLAIMS DEPARTMENT MANUAL TABLE OF CONTENTS**

Section I	Claims Policy
Section II	IRMA Coverages
Section III	Organization Structure Organization Chart Job Descriptions
Section IV	Claim Handling Standards
Section V	Mail Flow
Section VI	Litigation Management Litigation Management Policy IRMA Approved Defense Counsel Selection Guidelines
Section VII	Vendor Selection Criteria and Approved List
Section VIII	Appeals Procedure Appeals Procedures, IRMA Bylaws, Section 4.04 Appeals Committee Procedure
Section IX	Catastrophic Claim Team Guidelines
Section X	Procedure for Questionable Compensability Workers Workers Compensation Claims
Section XI	Excess Notification Arkwright Discover RE Genesis Northland Safety Mutual (1987-88) Safety Mutual (1994-Present) Transamerica (Wexford Underwriting Managers) Travelers
Section XII	Open File Review & Closed File Audit Procedures
Section XIII	Procedure for Resolving Seibert Conflicts
Section XIV	Purging Procedure for Closed Claim Files
Section XV	Claims Checkwriting Procedures
Appendix A	Form Letters
Appendix B	Claim Forms

## EXHIBIT C

### Section IV

#### CLAIM HANDLING STANDARDS

##### FILE CREATION

Claim files will be created and assigned within 48 hours after receipt of a claim. The Director or his/her designee will review the information received to determine if a claim file is to be created.

**Lawsuit/Application for Adjustment of Claim:** Priority is given to claims received in suit. A new file will be created, or the suit papers will be matched with the existing file, and assigned within 24 hours. The claims representative assigned will immediately contact the plaintiff attorney to request an extension of time to answer or otherwise plead, if appropriate, or discuss the necessity of the hearing, and if possible, resolve (or temporarily resolve) the issues disputed.

**Employers' 1<sup>st</sup> Report of Injury (Form 45):** The 1st report will be screened by the Director or his/her designee for lost time. The claims technician may also be asked to screen cases for lost time. If there is no lost time, the claim will be assigned to a claims technician as a medical-only file. If a lost time case, a claim file will be created and assigned to the claims representative for investigation.

**Assignment:** a) The Director or his/her designee will complete the file set up sheet and give it to the processor within 24 hours after receipt. b) The processor then has 24 hours to set up the file and give it to the assigned claims representative. c) The claims representative will commence investigation within 24 hours after receiving the file from the processor.

**Data Entry:** The *assigned* date on the computer is the date the Director or his/her designee assigned the claim to the processor for set up. The *entry* date is the date the file is set up in the system by the processor and given to the claims representative. For reassigned files, the *assigned* date is the date the new claims representative receives the file.

**Acknowledgment Letter:** In every case, the member will be sent an acknowledgment letter within 48 hours of receipt of claim. In workers compensation cases, the injured employee will also receive an acknowledgment letter.

**Wage Statement:** A wage statement will be requested from the member on all lost time cases.

**Reserve:** The claims representative will assign an initial reserve within 14 calendar days after receiving the file.

**Incident Report:** An incident report is when an occurrence takes place (liability or workers compensation) and the injured party does not make a formal claim. An incident file will be set up for future reference. If a formal claim is made, the file will be assigned to a claims representative for investigation.

**Claim File Folder Management:** For occurrences involving multiple suffixes to be set up, the main investigative material will be stored in suffix 01 (master file). All subsequent suffixes will have their own file folders (free standing).

##### INVESTIGATION

**Claimant Contact:** Telephone contact is required within 24 hours after the claims representative receives the assignment. Personal contact should be attempted on all cases of a catastrophic nature. Telephone contact is not required on workers compensation med-only cases, or 1st party property cases less than \$1,000. Prior to contacting a member employee on a claim, authorization must be obtained from the claims coordinator.

**Member Contact:** The member's claims coordinator must be contacted in all cases where more information is needed or facts need to be verified.

**Statements:** Recorded statements are required in all cases of a questionable nature, or those involving conflicting facts, serious injury, prior injury to the same body part or 3rd-party potential. Statements of witnesses must be taken within 30 days after assignment of the claim to the claims representative, and statements of claimants should be taken simultaneously with first contact, or within 24 hours after receipt of the assignment.

**Reports:** Police reports must be obtained in every case involving the police. Medical reports are required in all BI cases with settlement value above \$250, or if questionable circumstances or injury. Weather reports are required in cases where weather is a factor. Medical report or verbal report from physician confirming disability and causal relationship of injury to work/accident is required on workers compensation cases.

**Estimates:** All third-party property damage claims less than \$750 require at least two estimates. All third-party property damage claims over \$750 require an appraisal. All first-party property claims over \$2,500 require an appraisal.

**Expert Opinion:** Depending on the nature of the loss occurrence, an expert opinion may be warranted. Prior to the retention of an expert, the Claims Director or his/her designee should be consulted. Experts will be required to submit an estimate of costs prior to commencement of work.

**Index Bureau:** All new bodily injury or lost time workers compensation claims will be reported to the Central Index Bureau upon file creation, or when enough information is obtained to report to the Bureau. After indexing, the processor will stamp the copy of the Form 45 or the BI index sheet and drop same to the file.

**Outside Investigation:** Outside investigation is required to be completed within 14 days on all claims: a) where there could be evidence at the scene to resolve the dispute and; b) involving catastrophic claims. This outside investigation should be done by the claims representative whenever possible.

**NOTE:** The procedure for handling catastrophic claims (all lines) can be found in Section IX.

## **UTILIZATION/MANAGEMENT OF INDEPENDENT ADJUSTERS**

**Authority for Referral:** Concurrence of Director or his/her designee is required.

**Referral Process:** The assignment will be made by telephone and confirmed by follow-up letter. The precise scope of the investigation, including time frame, will be outlined.

**Reporting Standards:** A typed summary report is to be submitted within 15 days of assignment. Exception to this reporting period must be documented.

## **INVESTIGATION STANDARDS--SERIOUS CLAIMS (WORKERS' COMPENSATION)**

The following serious claims require more extensive investigation than the usual, routine claims. In addition to the basic investigation, the following is necessary:

**Stress-Mental (Psych) or Physical (Heart):**

- Obtain employment records (including health benefit claims information).
- Recorded statement from claimant with emphasis on details of the events preceding the onset of illness and prior medical history.
- Obtain all prior medical records.
- Recorded statements from claimant's spouse (if possible), co-worker(s), supervisor(s) and all known witnesses.
- IME and/or expert review of medical records for opinion on causal relationship of work to illness.

**Occupational Disease:**

- Obtain employment records (including health benefit claims information).
- Recorded statements from claimant with emphasis on details of the events preceding the onset of illness and prior medical history.
- Obtain all prior medical records.
- Recorded statements from claimant's spouse (if possible), co-worker(s), supervisor(s) and all known witnesses.
- IME and/or expert review of medical records for opinion on causal relationship of work to illness.

**Fatality:**

If due to illness:

- Obtain employment records (including health benefit claims information).
- Obtain all prior medical records.
- Recorded statement from claimant's spouse concerning events preceding onset of illness, information concerning status of dependents and prior marriages.
- Obtain copies of marriage license and dependents' birth certificates.
- Recorded statements from co-worker(s), supervisor(s), and all known witnesses.
- IME and/or expert review of medical records for opinion on causal relationship of work to illness.
- Activity check of spouse on yearly basis to confirm marital status.
- Work with the employer to ensure that OSHA reporting is done in an appropriate and timely manner.

If due to injury:

- Recorded statement from claimant's spouse for information concerning status of dependents and prior marriages.
- Obtain copies of marriage license and dependents' birth certificates.
- Recorded statements from co-worker(s), supervisor(s) and all known witnesses.
- Activity check on spouse on yearly basis to confirm marital status.

**NOTE: The procedure for handling questionable compensability workers compensation cases can be found in Section X.**

**DISABILITY MANAGEMENT**

**Claimant/Physician Contact:** If the claimant is off on temporary total disability (TTD), the claims representative will contact either the claimant, member, or treating physician on a weekly basis (or at longer intervals if indicated by medical reports). Reports will be requested as needed.

**Activity Checks:** Activity checks will be conducted only as needed, after discussion between the claims representative and the Director or his/her designee. The member shall also be included in the discussion if warranted.

**IME:** IMEs will be utilized on an as needed basis to assess appropriateness of treatment, to confirm disability, or to determine extent of permanency.

**Medical Rehabilitation Nurse:** Cases will be assigned on an as needed basis, with concurrence of the Director or his/her designee. The assignment will be made by telephone and confirmed by follow-up letter. The precise scope of the nursing services, including time frame, will be outlined.

**Criteria for rehab nurse involvement includes but is not limited to:**

- Serious head injury.
- Injury requiring extensive hospitalization.
- Injury requiring home health care.
- Injury requiring extensive lost time.

**Return-to-Work Program:** Work closely with the members to bring the claimant back to work within the parameters of the return-to-work program.

## **DOCUMENTATION**

**Documentation Standards:** The claim file (hardcopy file and computer system notes) must be an accurate reflection of the work performed. File contents in the hard copy file are to be placed in chronological order (most recent on top). For workers compensation claims, medical bills will be kept on the left side of the hard copy file. All recorded statement tapes will be kept in the hard copy file. The forms and form letters have been revised and are available for the claims representative's use to increase efficiency. Form letters requiring variable information from the claims representative will have a copy of the letter placed in the hard copy file.

**System Diary Notes:** All file activity must be documented in the diary notes. Each entry must be initialed and dated by the claims representative. All "new" diary entries must be given a new date and page (to avoid run-on diary notes). Independent thought process must be documented but personal, subjective comments should be avoided. Diary notes must reflect the method and date of contact (and attempted contact) with members, claimants, and witnesses, etc. If a statement is not taken from a claimant, witness, etc. (where one would be normally required), the reasons must be documented. The liability, damages and rationale of every settlement, regardless of amount, must be explained and supported in the diary notes, or in a detailed notation in the hard copy claim file.

**Correspondence:** All correspondence must be typed onto Agency letterhead and must be of professional quality. All correspondence must be proofread and signed by the writer.

**Reserve Settlement Authority Worksheets:** Worksheets are to be completed in detail, tabbed and placed in the hard copy file. All requests for authority above the claims representative's level must be approved and signed by the person/persons with the appropriate authority level. The worksheets can be used for claims within the claims representative's authority, but are not mandatory. However, if not used, the notes must reflect the thought process used in arriving at the reserve/settlement figures.

**Case Status Reports:** An initial case status report must be completed by the claims representative within 90 days. Subsequent reports will be completed on a 90 day basis. If the indemnity reserve is \$10,000 or

above, a copy of the report will go to the Member. The Executive Director will receive a copy if the indemnity reserve is above \$50,000. The information for the report can be conveyed either on the system or on the case status report form.

## **CLAIMS RESERVING**

**Philosophy:** IRMA'S goal is to establish each case reserve to the ultimate or most likely outcome as early as possible. Stairstepping (incremental increases to cover short term expenses) must be avoided. The Member will receive written notice of any settlement reserve set over \$10,000.

The setting of these reserves, and their written notice, shall also be considered advance notice of settlement, in accordance with the IRMA Bylaws, Section 4.02(A).

The Board of Directors has granted to the Executive Director full authority to establish reserves and their procedures, consistent with well-recognized claims standards and periodic claims audits.

### **Authority Levels:**

- Executive Director                      \$50,000 or above  
    (total reserve authority)
- Claims Staff                               Reserve authority levels to be determined at the discretion  
    of the Executive Director

**Timeliness Standards:** Initial reserves must be updated within 90 days. The reserves should be established at 12 months. Reserve levels must be evaluated by the claims representative upon all file reviews. If warranted, the reserves should be either increased or decreased to reflect the most likely outcome of the case. In workers compensation cases, the PPD reserve will be established when the claims representative has received sufficient file documentation to reflect the permanency exposure.

## **QUALITY CONTROL**

**Authority Levels:** All claim files will be subject to random periodic review by the Claims Director or his/her designee. Files with a total reserve of \$50,000 or more will be subjected to periodic review by the Claims Director, his/her designee, or the Operations Committee.

**Periodic Audit:** Regular claim audits will be performed by independent auditors at the discretion of the Executive Director.

**Diary System:** A formal diary system must be established by the claims representative. Files will be reviewed on a 30 to 60 day basis. Longer diaries can be established on certain files, but the reason for the longer diary must be clearly documented. The Claims Director will maintain a formal diary for all files requiring reporting to the excess/reinsurance carrier. The Executive Director, Claims Director, or their designee, may maintain a formal diary for any other file (at their discretion).

**Open File Review:** See Section XII

## **SETTLEMENT**

**Philosophy:** It is IRMA's philosophy to:

- a) settle cases in which liability or permanent disability is clearly indicated, adhering to the statutory guidelines;
- b) compromise those cases of questionable liability, disability or compensability;
- c) defend those cases which are noncompensable or where there is no liability.

A "cost of defense" type settlement is always a consideration but must be used sparingly. The loss reserve notice will have been the notification to the member or any claim that may settle above \$10,000. Settlement authority and concurrence is on a per claimant basis.

The claims staff will provide a documented phone call or a written memo or letter to our member for settlements over \$10,000. This notification should be done shortly before or immediately after settlement has been reached.

**Loss Authority Levels:**

- Executive Board over \$100,000
- Operations/Claims Committee over \$50,000 to \$100,000
- Claims Staff Loss authority levels to be determined at the discretion of the Executive Director

**NOTE: First party property losses over \$50,000 need only to be reported to the Operations/Claims Committee and the Executive Board.**

**Timeliness Standards:** Settlement checks will be processed as soon as proper documentation is received, or has been verified, by the claims representative or defense counsel. A check will be released by the claims representative or defense counsel upon receipt of signed release.

**RELEASES**

A signed release is required for all BI settlements in excess of \$2,500 per claimant and PD settlements in excess of \$10,000, or if claimant is represented by counsel.

Contracts are required on all workers compensation cases settled in which an application has been filed.

Standard wording: Claims representatives and defense counsel will utilize IRMA's standard release form (or wording). The standard language may be modified by defense counsel if necessary.

Claims Director approval is necessary prior to execution of a covenant not to sue or loan receipt agreement (Mary Carter Agreement).

Appropriate release wording will be used on settlement checks.

**EXPENSE PAYMENTS**

**Bill Payment Authority Levels:**

- Executive Director Above \$10,000
- Claims Staff Expense payments authority level to be determined at the discretion of the Executive Director

**TTD 1st Payment:** 1<sup>st</sup> payment is due on the 14<sup>th</sup> day of disability. Subsequent checks will be sent on a 7 day basis, only after confirmation of continued disability (physician authorized). Check is to be made out to claimant but sent to Member. Member will coordinate with payroll and/or salary continuance. Exceptions will be on a case-by-case basis. Always contact the Member prior to issuance of the first TTD check.

**Bill Review:** All bills will be reviewed for appropriateness and reasonableness by the claims representative assigned to the file. For bills in excess of a claims representative's authority, the bill should be submitted (with an itemized tape for legal expenses) to the next level of authority. An authorization sheet is not necessary. The bill should also be signed or initialed by the claims representative, indicating



that they agree with payment of the bill. The person granting the expense authority should also sign the bill and reflect that authority to pay the bill is granted via the computer diary notes.

**Follow-up:** No file with subrogation potential will be open without activity for 90 days. Exceptions must be clearly documented in the diary notes.

**Use of Counsel and/or Collection Agency:** Counsel and/or collection agency will be utilized only when necessary. IRMA claims personnel are to exhaust all means available to them before turning over a subrogation file to an outside source. Counsel and/or collection agency's fees for subrogation will be on a contingency basis; any exception must be clearly explained and documented.

**Write-Off:** Any write-off can be done only when all efforts to recover have been exhausted without results. Any write-off over the claims representative's settlement authority must be approved by the appropriate management person. The reason for any write-off should be documented in the diary notes.

## **SUBROGATION**

Subrogation is an essential activity for the IRMA claims program. Unlike other programs administered by a third party where subrogation is typically a low priority activity, RhL4 through self-administration can maximize the recovery potential by giving a high priority to subrogation. It is the members' interest to preserve the loss fund. IRMA'S ability to do this can be enhanced by a strong subrogation policy. AU claims personnel are required to make a special effort to identify subrogation potential, to thoroughly investigate possibility of recovery, and to pursue recovery aggressively.

**Investigation:** All claims will be evaluated for subrogation potential. If potential exists, investigation of the 3rd party (or product) will be completed in conjunction with the standard accident investigation.

**Notice:** If the investigation suggests potential for liability of a third party, that party and/or the insurance carrier will be put on notice of a possible claim.

**Subro Settlement Authority:** Same as settlement (if no reduction is taken). If the amount collected is not a full recovery, the appropriate management person must approve the write-off amount.

## **EXCESS NOTIFICATION (See Section XI)**

## **FILE CLOSURE**

**Timeliness Standards:** Files ready for closure will be processed within 30 days. All payments (including expense billings) must be made prior to closing. Billings received after the file is closed should be paid off the closed file.

**Notification of Rights (to Claimant):** For claims denied, a written denial letter must be sent. For unrepresented claimants, the statute of limitations must be defined, and the date clearly noted, only on those files in which the denial letter is being sent within 60days of the expiration.

**File Contents Necessary for Closure:** See Closed File Audit Procedure.

**Closed File Audit Procedure:** See Section XII.

**Destruction Date:** All closed files will be assigned a destruction date of seven years from date of loss, or two years from date of closing (whichever is greater). Cases involving minors will be retained until the

person reaches 20 years of age. Destruction dates will be entered into the computer as well as on the file jacket.

**Claim File Storage and Purging Procedure:** At least once a year, the claims department will purge closed files based upon the above destruction date criteria. A computer run will be generated to identify those files to be purged and destroyed. One report will be run for the closed files IRMA inherited from Gallagher Bassett. Another report will be run for the open files that IRMA has originated.

**Purging Procedure for Closed Claim Files:** See Section XIII.

**Bill Audit:** All medical bills in excess of \$5,000 will be forwarded to an approved medical review firm for auditing purposes. Claims Director, or his/her designee, will be notified of any bills audits.

**Automated Medical Bill Audit Program:** All worker's compensation medical bills that have been approved for payment by the claims representatives will be keyed into the system and electronically sent to Corporate Systems for repricing. The treatment and diagnosis codes on the bills will be entered and crosschecked for U.R.C. (Usual, Reasonable and Customary) charges against other health care providers with the same zip code location. Bills will also be audited for "Patterns of Treatment" to determine if the treatment history is consistent with the diagnosis. If the bill is repriced, a two-page letter of explanation will go out to the health care provider, listing the details of the reduction and the reasons etc. The provider will then have the option to either "write off" the balance or call the IRMA office for further explanation. See Claims Tutorial for details.

**Timeliness Standards:** All bills will be reviewed, paid or returned for correction within 30 days of receipt. Bills sent out for audit should be paid (if applicable) as soon as the audit results are received.

## **EXHIBIT D**

### **CLAIMS POLICY STATEMENT**

#### **A. Program Description: IRMA Claims**

In 1990 the IRMA organization entered into its twelfth year of successful operation growing from its original 17 charter members and 1,400 claims to 51 members and 2,200 claims. During the same period, pooling continued to grow in popularity and importance nationally from a very few pools in the late seventies, to some 275 pools in 1990. With public risk pooling becoming a permanent financial alternative to the commercial insurance market for public entities, the need for public risk management became a necessity. No longer could government depend on commercial insurance to solve its liability issues; it had to look to the broader principles of risk management for answers. As pool membership grew, so did the members' knowledge and experience creating a greater self-reliance on professional staffs and self-administration of the several key functions of public risk management.

It is this background that has propelled IRMA towards its present posture and desire to improve its current product and services to its members.

The IRMA Self-Administered Claims Program will further enhance the quality of a custom claims program and allow the members more effective participation and control. The claims services should reflect the unique nature of public risk and be able to respond to the changing needs of the members.

No longer is the public entity a captive of the rigid commercial insurance industry. Today the pool member has a direct voice in the outcome of their accident claims. A real partnership exists in the claims handling process and other key elements of a quality risk management program. This has resulted in a better understanding and a much better result of the final outcome of the member's claims.

#### **B. Claim Handling Philosophy/Ethics Statement**

IRMA intends to move promptly, and aggressively, to process its members' claims, investigate the cause(s), determine the liability, and dispose of the claims in a fair and equitable manner. We recognize that we have a responsibility to resist payment of those claims where we are not liable or the demand to settle is clearly beyond the norm of fair and reasonable compensation.

The IRMA Claims Unit will uphold high ethical standards in the administration of claims. The Claims staff will perform in a manner that promotes professionalism within the organization.

It is IRMA's operating objective to attract and retain claims personnel of above average quality, by offering competitive compensation, good training, comfortable working environment, and opportunities for advancement.

#### **C. Claims Reserving**

Philosophy: IRMA'S goal is to establish each case reserve to the ultimate, or most likely outcome as early as possible. Stairstepping (incremental increases to cover short term expenses) must be avoided. The Member will receive written notice of any settlement reserve set over \$10,000.

The setting of these reserves, and their written notice, shall also be considered advance notice of settlement, in accordance with the IRMA Bylaws, Section 4.02 (A).

The Board of Directors has granted to the Executive Director full authority to establish reserves and their procedures, consistent with well-recognized claims standards and periodic claims audits.

#### **D. Claims Settlement**

It is IRMA's philosophy to:

- a) settle cases in which liability or permanent disability is clearly indicated, adhering to the statutory guidelines;
- b) compromise those cases of questionable liability, disability or compensability;
- c) defend those cases which are non-compensable or where there is no liability.

A "cost of defense" type settlement is always a consideration but must be used sparingly. The loss reserve notice will have been the notification to the member of any claim that may settle above \$10,000. Settlement authority and concurrence is on a per claimant basis.

Loss authority levels:

Executive Board	over \$100,000
Operations/Claims Committee	over \$50,000 to \$100,000
Executive Director	up to \$50,000

E. Claim Practices and Procedures

IRMA's claims philosophy, reserving and settlement authority levels, and other claims practices set out in the Claims Department Manual will be in accordance with this policy.

## EXHIBIT E

### Member Survey of Attitude Towards Claims Handling

#### IRMA In-House Claims Follow-Up Questionnaire

	Superior (4)	Above Average (3)	Below Average (2)	Poor (1)
A Timely acknowledgment of receipt of claim(s)				
B Timely response to questions / concerns				
C Quality of phone discussions (e.g. friendly, informative)				
D Keeping your municipality advised				
E Consistent handling of claims				
F Depth of investigation				
G Turn around time				
H Courtesy of the claims processor				
I Resolution of claims				
J Timely issuance of payments and TTD				
K Availability of supervisors				
L Notification and direction of letters				
M Clarity of process and procedures				
N Clarity of appeals process				

2. Please indicate the effectiveness of the claims representative in coordinating litigation between IRMA, the litigation counsel, and your office:

\_\_\_\_ Superior (4)    \_\_\_\_ Above Average (3)    \_\_\_\_ Below Average (2)    \_\_\_\_ Poor (1)

3.

- a. Please indicate whether the person completing this questionnaire is the same individual who responded to the original IRMA claims processing questionnaire in November 1991.

\_\_\_\_ Same Person    \_\_\_\_ Different Person

- b. Do you believe the quality of claims service provided by IRMA in-house staff during the past 12 months has:

\_\_\_\_ Improved    \_\_\_\_ Deteriorated    \_\_\_\_ No Change

- c. Please provide details regarding your response to "b." above:

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4. Compared to your experiences (while acting on behalf of the IRMA member) dealing with insurance company claims staff or third party administrator (TPA) staffs, how do you rate your experience with IRMA in-house claims people in terms of their responsiveness, effectiveness, attitude and fairness in handling your claims?

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5. Overall, what has been your impression of the services provided by the IRMA in-house claims unit?

\_\_\_\_ Superior (4)    \_\_\_\_ Above Average (3)    \_\_\_\_ Below Average (2)    \_\_\_\_ Poor (1)

6. We invite you to make any additional comments concerning your experience with the IRMA in-house claims unit, expanding on the areas where performance was deemed superior or poor:

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7. Please identify areas needing improvement and explain how improvement can be achieved (if the problem concerns a form, please attach a copy with your recommendation for improvement highlighted):

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Name of Person Completing Survey

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Date

---

Title

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IRMA Member

*Please return survey by November 11, 1992 in self-addressed envelope.*

## **EXHIBIT F**

### **LITIGATION MANAGEMENT POLICY AND GUIDELINES**

#### **I. INTRODUCTION**

IRMA was founded in 1979 largely in response to the lack of available and reasonably priced insurance coverage for municipalities. IRMA'S philosophy was then and continues to be that of aggressive defense of frivolous claims, prompt settlement of meritorious claims and aggressive use of all available defenses including the Tort Immunity Act in a cost effective manner.

The purpose of this Litigation Management Policy and Guidelines is to outline IRMA'S philosophy of claims litigation, describe the roles and relationships of the parties to the litigation process, and to supplement the I17M.A By Laws and other policies established by the Board of Directors.

In recent years, the total cost of administering and resolving litigated claims has risen at an alarming rate. Despite this fact, IRMA remains determined to provide first-rate defense counsel as an essential part of quality risk management.

In an effort to mesh the quality of our protection with reasonable cost control measures, we have established a protocol for litigation management, which will serve the best interests of the member, retained counsel and IRMA. We will define the parameters within which counsel and claim personnel will operate during the course of litigation. It is our firm belief that an active and well-understood relationship between W's professional claim staff, its members and attorneys who handle our litigation is essential to the continued success of IRMA.

The best possible protection for our members will be provided when counsel, the members, the claims unit and Executive Director combine their skills and resources, and effectively communicate from the inception of a suit to its ultimate disposition. It is imperative that every expense attributed to the defense or resolution of lawsuits be reasonable and necessarily incurred. We simply cannot avoid the reality that the members' "loss experience" is composed of the same factors we hope to better control-loss and expense.

Therefore, we must eliminate duplication of effort on the part of attorneys and claim specialists. Jointly, we expect to identify and clarify pertinent issues at the earliest possible stage of litigation. Thereafter, it is incumbent on this "team" to proceed immediately toward an expeditious, efficient and just conclusion of a lawsuit. Disposition at the earliest possible date is highly desirable and in the best interest of our members.

In certain circumstances where the legal issues present particularly sensitive or local community issues unique to an IRMA member party-defendant, that member may request, in writing, that the IRMA Executive Director consider utilizing the background, special legal knowledge and local experience of that member's designated local attorney to proceed with the litigation phase of the controversy, or assist as co-counsel to the IRMA defense counsel assigned to the lawsuit.

Obviously, these objectives require cooperation by all concerned. IRMA is ready to fulfill its obligations; we look forward to working with counsel and our members as they fulfill theirs.

IRMA'S policy and objectives will address the following essential parts of a sound litigation management process: the role of the claims unit; the role of the defense attorney; interaction of the parties, with a goal of prompt disposition; fees and expenses; review of legal services, and the role of the Executive Director.

#### **II. THE ROLE OF THE CLAIMS UNIT**

The IRMA claims unit is not simply to be considered a claims processor, reacting to a third party--claimant, attorney or doctor. The claims unit is charged with the responsibility to vigilantly and proactively anticipate and initiate all reasonable action needed to control the claim, and its cost, for IRMA and its members. It is for these reasons that the claims unit will always retain primary responsibility for

the management of litigation from inception through final disposition. The claim unit's Representative assigned to handle the suit will work closely with counsel selected by IRMA and the member and will continually monitor all assignments. The Claims Representative will not abandon control of the litigation to counsel.

If the case cannot be settled prior to suit, the Claims Director will assign an attorney approved by IRMA and in accordance with direction of the Executive Director to handle the member's defense. The referral will be confirmed in writing and accompanied by guidelines for handling the litigation.

The claims unit will conduct as complete an investigation as is necessary to evaluate the member's exposure, and thereafter promptly pursue resolution of the claim. If the claims unit is unable to develop all necessary evidence and information through their investigative efforts, counsel will be asked to suggest or secure specific discovery needed to complete the investigation.

It is the claims unit's responsibility to negotiate and settle claims. This will be done through direct communication with plaintiff's counsel; however, defense counsel and the member will be kept apprised of the status of negotiations.

When settlement is not possible or feasible, the claims unit will work closely with our defense attorney to prepare the matter for trial as quickly as possible. In cases of actual litigation, the claims unit shall provide detailed quarterly reports of such claims to the Executive Director and the Operations Committee.

### III. THE ROLE OF THE DEFENSE ATTORNEY

The attorney handling IRMA litigation owes the IRMA member the highest degree of care and good faith during his or her professional representation. IRMA's contractual duty to provide a defense to the member encompasses the expectation-by both the member and IRMA-that defense counsel will take whatever measures are necessary to avoid or limit liability, and to aid in the narrowing or avoidance of damages.

In all matters, IRMA expects that counsel will abide by the ABA's Code of Professional Responsibility and by the rules of the Bar to which counsel is admitted.

Once litigation begins, IRMA expects an aggressive approach to the case. Contact with the member and opposing counsel should be made immediately. Indeed, counsel is urged to seek voluntary cooperation from the member and plaintiff's attorney so that essential facts and discovery can be exchanged informally and promptly. The need for depositions should be discussed with the claims unit and, if necessary, should be scheduled and completed as soon as possible. Important evidence should be obtained promptly through the most efficient and cost-effective means available. Generally, an aggressive gathering of information by the attorney, working with the claims unit and the member, will aid the prompt and efficient disposition process.

However, it is essential that the effort of counsel be in proportion to the seriousness of the matter in question, and that counsel confer with the claims unit to determine how to bring each case to a speedy conclusion. Neither the member nor IRMA are well served by exorbitant costs incurred in an easily-defensible matter.

Not all cases require the active participation of senior partners or multiple attorneys. Associates should be assigned where the complexity of litigation does not exceed their experience.

Where appropriate, as soon as issues are joined, counsel should see that the case is placed on the trial calendar. Delay in terminating litigation will generally not be in the best economic interest of IRMA.

We recognize that mass tort litigation and multi-defendant cases can present special problems. When appropriate, counsel is expected to participate in all ways possible to assist in the speedy termination of litigation.

### IV. EXECUTIVE DIRECTOR

The Executive Director shall have responsibility for the evaluation, selection, assignment and dismissal of defense counsel, subject to the provision of the Bylaws.



The process for implementing the above responsibilities of the Executive Director shall be monitored by the Operations-Claims Committee and shall include the following general guidelines:

- The Executive Director shall report the need to add addition counsel to the approved Trial Counsel List to the Operations-Claims Committee.
- A report of several prospective law firms will be developed by the Executive Director, using the criteria of the Approved Attorney Selection Guidelines.
- The Executive Director will evaluate proposals, conduct interviews, as needed, and report the final decision to the committee.

At least annually the Executive Director and Operations-Claims Committee will evaluate the defense counsel approved list using some or all of the criteria in the annual report titled "Annual Defense Counsel Evaluation." If, in the opinion of the Executive Director, a particular defense firm(s) is not in compliance with the Attorney Selection Guidelines or other established standards, the Executive Director shall have the option of either removing the firm from the approved list or placing this firm on a "watch list" which would be a probationary measure allowing the Executive Director to monitor performance on a periodic basis. The firm's continuation on or removal from the Approved Attorneys List will then depend on future compliance with the Selection Guidelines and remedial steps taken by the Executive Director. The Executive Director shall have the overall, primary responsibility to monitor the costs and performance of the claims unit and defense counsel, and the overall responsibility for the coordination of all claims and claims litigation. As the overall policy administrator of IRMA, the Executive Director shall attempt to resolve all disputes between the member, claims unit and defense counsel so as to assure the orderly implementation of the policy and guidelines outlined herein, consistent with the Bylaws and policies of IRMA.

#### V. INTERACTION OF ALL PARTIES WITH THE GOAL OF PROMPT DISPOSITION

The efficient resolution of claims will depend on the extent of cooperation and assistance the "defense team" extends to each other. Although we expect each professional to be responsible for his or her assigned tasks, these duties cannot be accomplished in a vacuum. The key to success in this process is communication.

The defense attorney, member and claims unit share the common goal of prompt disposition of all lawsuits. An exchange of views is encouraged in order to identify pertinent issues, and outline the most effective course available to resolve the claim in the best interests of IRh4.A. Even though independent judgment must be exercised by attorney and claims unit, the obligation to ensure the maintenance of open lines of communication is held equally by counsel, member and the claims unit. Each party must be available to receive and exchange views whenever necessary.

Initially, the claims unit and member should provide counsel with all investigative evidence and information gathered prior to the defense assignment to avoid duplication of effort Counsel should thereafter promptly advise the claims unit of all pertinent information obtained. Should additional activity be necessary, the claims unit must determine how the task will be accomplished most efficiently and by whom. Communication must then continue with a constant view toward timely resolution of the claim.

Disposition is most often accomplished through settlement. The primary responsibility and authority for settlement remains with the claims unit subject to the provisions of the Bylaws. However, the assistance of counsel will always be sought in communicating settlement offers to plaintiff's attorney.

When any disagreement occurs between the parties that cannot be resolved, it is the mutual responsibility of the claims unit, the attorney or the member municipality to communicate the issues to the Executive Director for appropriate direction and final determination.

#### VI. FEESAND EXPENSES

Attorney's fees and related charges are by far the greatest expense in the litigation cycle. Since legal fees are included in a member's "experience," it is essential that all expenses incurred in the defense or resolution of litigation be reasonable and necessary.

Counsel may find it necessary to research certain issues of law during the course of a lawsuit. A brief outline of the issues involved and an estimate of the associated expense should be submitted to the claims unit prior to performing the research. Since the cost of research is included in overall expenses, IRMA should receive the conclusions, results, and any memoranda produced as a benefit of this work.

Statements for legal services must comply with the approved fee schedule for each firm. Statements for services should be submitted when the cost of services reaches \$2,500.00 or at intervals of six months, whichever comes first. All statements must be itemized with expenditures in 1/10 of an hour increments. The date, description of the services rendered, and identity of the persons providing such service must be provided for each entry. Appropriate documentation must be provided for out-of-pocket costs and disbursements. Each interim and final statement will reflect current period outstanding fees plus cumulative paid fees and expenses from the inception of the legal activities of the file. The claims unit will review all statements for services rendered and make inquiries on any questionable items to the attorney and Executive Director.

## VII. REVIEW OF LEGAL SERVICES

Occasionally, IRMA may audit and review the legal product of retained defense counsel. It is expected that counsel will cooperate with IRMA and make available all files requested for review. The review will address the overall quality of the work performed including the following:

1. Services performed by retained counsel:
  - A. Was contact promptly made with the IRMA member and claims unit?
  - B. Did the firm follow the initial instructions and guidelines set forth by the claims unit of IRMA?
  - C. Were responsive pleadings filed in a timely manner?
  - D. Did retained counsel report recommendations for handling to the claims in a timely manner?
  - E. Did counsel perform any authorized research, and did IRMA exclusively receive its benefits?
  - F. Did the firm promptly perform and report on reasonable and necessary discovery?
  - G. Did retained counsel effectively communicate with all necessary parties at all stages of the litigation?
  - H. Did retained counsel aggressively move the case to a conclusion, and was there a constant attempt to seek early disposition?
2. The Fees for legal services rendered compared with the work performed:
  - A. Were the billings within the approved fee schedule?
  - B. Were the billings itemized to 1/10 of an hour?
  - C. Were billings submitted at appropriate intervals?
  - D. Was IRMA charged for original work product when the work could routinely be stored on a word processor?
  - E. Were the services performed or the fee charged commensurate with the complexity of the case assigned?

## VIII. CONCLUSION

This policy statement attempts to outline what is expected of the claims unit and defense counsel. Adherence to these principles will result in the most efficient and equitable disposition of litigation, a cost effective benefit to the members of IRMA, and represent a fair, but firm, litigation posture to our member municipalities.

## **EXHIBIT G**

### **Section 4.04**

#### **Appeal Procedures**

(A) Right to Appeal. When there is an impasse between a MEMBER and a decision of the Executive Director or a Board committee, the MEMBER shall have the right to appeal the decision only in the manner set forth in this Section (unless otherwise specifically provided herein).

- (i) An Appeal shall be commenced by the MEMBER serving written notice on the IRMA Chairman requesting an appeal and setting forth the reason(s) for which the appeal is requested. This notice must be served within ten (10) days after the MEMBER is notified of the decision being appealed.
- (ii) The Chairman shall, within ten (10) days after receipt of the above notice of appeal, assign the matter to an Appeals Committee to conduct a hearing on the appeal. The Appeals Committee will consist of three (3) non-Executive Committee members of the Board of Directors selected by the IRMA Chairman.
- (iii) The Appeals Committee shall convene the hearing within fifteen (15) days after the selection of the Appeals Committee.
- (iv) The Appeals Committee shall provide the MEMBER with the opportunity to present written and/or oral information supporting its position. At that time, the Appeals Committee may require other information and request the appearance of witnesses to assist the Appeals Committee with its investigation and recommendations.
- (v) The Appeals Committee shall, within ten (10) days after the close of the hearing, issue written findings and a recommendation to affirm, reverse or modify the decision of the Executive Director or Board committee.
- (vi) A copy of the Appeals Committee's findings and recommendations shall be filed with the IRMA Chairman and shall be placed on the agenda of the Executive Committee for its next meeting, and shall be given to the appealing MEMBER. Such MEMBER will be invited to attend such meeting of the Executive Committee.
- (vii) The Executive Committee shall review the Appeals Committee's findings and recommendations and accept or reject, in whole or in part, such findings and recommendations. However, the Executive Committee may only overturn a recommendation by the Appeals Committee by a vote of two-thirds of the Executive Committee's voting members. The IRMA Chairman shall, within ten (10) days after the Executive Committee's decision, notify the appealing MEMBER of the Executive Committee's decision.
- (viii) Within ten (10) days after such notification is given to the appealing MEMBER, the appealing MEMBER may request a hearing before the Board concerning the Executive Committee's decision. This request shall be in writing and addressed to the IRMA Chairman. Such hearing shall be placed on the agenda of the next regular or special meeting of the Board. The Board's decision on the matter being appealed shall be final.

## **EXHIBIT H**

### **SECTION IX**

#### **GUIDELINES FOR ACTIVATING IRMA CATASTROPHIC CLAIM TEAM**

##### **I. PURPOSE**

The catastrophic claim procedure outlined below will ensure that our members and IRMA staff are promptly and appropriately mobilized to allow for the maximum degree of communication and coordination in the critical stages of the claim.

##### **II. DEFINITIONS OF CATASTROPHIC CLAIM**

The following is a list of cases that could require the activation of the Catastrophic Claim Team: fatalities, paraplegic or quadriplegic type of injuries, severe burns, amputations or permanent loss of use of a major extremity of the body, head/brain injuries, 5 or more claimants in a single occurrence, or any other injury that may require temporary total disability or continued time off of work for an extensive period of time. In addition, a catastrophic claim can be any claim that the member or the staff identifies as being of a particularly sensitive nature or could have widespread ramifications for the entire IRMA membership.

##### **III. PROCEDURE**

###### **A. Notification of claim received by IRMA Claims Department**

1. Member Delegate or Claims Coordinator calls Director, Claims Administration.
2. Member faxes completed appropriate IRMA Loss Notice to IRMA.
3. Establish designated contact person for the member.

###### **B. Establish IRMA Catastrophic Claim Team**

1. Director, Claims Administration meets with Executive Director to discuss the loss and identify other necessary team members (based on type and severity of loss).
2. IRMA team members assemble to discuss claim and outline immediate needs.
3. Designate the IRMA team leader to coordinate the team activities.

###### **C. Contact & Communication with Member**

1. IRMA Catastrophic Claim Team sets up conference call with member contact person.
2. Discuss latest developments.
3. Develop immediate action plan.
4. Discuss media control.

###### **D. Implement Action Plan**

1. IRMA Representative(s) meets with member contact person(s) on-site.
  - a. Identify necessary documentation to be secured by member.
  - b. Preliminary member needs identified.
  - c. Clarify expectations of all parties.
2. IRMA notifies outside specialists for on-site visit/inspection (as necessary).

E. IRMA Catastrophic Claims Team reconvenes to discuss initial findings:

1. Modify action plan and review with member (confirm in writing).
2. Set reserves.
3. Notification to excess carrier (as applicable).
4. Disband team or reconvene at a future date.

#### **IV. RESOLUTION/REPORT**

The IRMA Claims Director will have prepared a report within 30 days after receipt of the claim for the Executive Director. This report will be included on the next Operations Committee agenda for information.

The report will identify the actions taken, ongoing items, and future projections, as outlined in sections D and E above.

## **EXHIBIT I**

### **Section 2.09 (E)**

#### **Claims Auditor**

The Board of Directors shall engage an independent claims auditor no less than once every two fiscal years to provide a written report concerning IRMA's claims processing and reserving practices.

**AGRiP**  
**Advisory Standards Recognition**  
**(SELF-EVALUATION FORM)**  
**(JANUARY 2011 VERSION)**

<b>I. GOVERNMENT REGULATIONS</b>
----------------------------------

The AGRiP Advisory Standards covering Government Regulations address the legal requirements placed on pool formation and operation.

- I-A. Pool files contain signed formation (foundational or organic) documents (such as articles of incorporation, interlocal agreements, etc.). These files also contain records that these documents and any subsequent revisions were properly filed with appropriate local, state and national authorities.
- I-B. The pool maintains documents reflecting its federal and state tax status, and if applicable, timely files applicable tax returns.
- I-C. The pool files timely reports in whatever form required by the state of domicile and maintains copies of the reports.
- I-D. This requirement may be met by listing any required reports. Please cite the date of the most recent report.  
The pool complies with all regulatory requirements and its records reflect compliance.

<b>II. GOVERNING DOCUMENTS</b>
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- II-A. The pool's governing documents comply with applicable laws and the pool maintains signed originals of the pooling agreement with every member.

- II-B. GOVERNING DOCUMENTS:

The following table is designed for you to tell us about your governing documents. Please cite specific sections or provisions of governing documents dealing with the following criteria. For example if your pool was formed under an interlocal agreement and if membership in the pool is addressed in the interlocal agreement you would simply cite the relevant section of the interlocal agreement to answer number 1.

The governing documents contain provisions that address:	<u>Section or Provision of Governing Document</u>
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1. Membership eligibility criteria
2. Obligations of members
3. Membership termination
4. Selection procedures and qualifications  
for the pool's governing body
5. Powers and duties of the governing body

- and committees
- 6. Indemnification for liability of members of the governing body, officers, committee members and staff of the pool
- 7. Use and ownership of assets of the pool and how the pool may distribute surplus to its members
- 8. Assessments – if used by the pool
- 9. Actuarial reviews
- 10. Financial audits
- 11. Dissolution of the pool

II-C. The practices of the pool are in compliance with its governing documents.

Explain how this requirement is met.

### III. STAFF AND SERVICE PROVIDERS

III-A. If the pool employs its own staff, there is documentation of the pool's authority regarding employment of staff. Such documentation addresses authority for terms of employment, compensation (including bonuses), employee benefits (including leave), performance management, expense reimbursement, scope of staff authority, conflict of interest and indemnification for liability.

III-B. Unless provided by its own staff, the Pool maintains signed original contracts with service providers, including sponsoring organizations, for Administrative services, Insurance Brokerage, Risk Control, Investment Management, Claims Administration, and Sales and Marketing.

Explain how this requirement is met by describing the services being provided. *If the services are provided “in-house” rather than by a contractor enter “in-house” under “contractor”.*

	<u>Contractor</u>	<u>Services Provided</u>	<u>Effective Date of Current Contract</u>
1. Administrator			
2. Insurance Broker			
3. Risk Control			
4. Investment Manager			
5. Claims Administrator			
6. Producer and/or Agent for Sales, Marketing, or Service			

III-C. SERVICE PROVIDER CONTRACTS:

The requirements of Section III-C may be met by citing specific sections of the service provider contracts listed in III-B that address the following provisions and requirements or state why such provisions and requirements do not need to be addressed. *If the services are provided “in-house” rather than by a contractor enter “in-house” under*



“contractor”.

III-C-1. Term of Contract

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-2. Scope of services and responsibilities of contractors

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-3. Compensation of the Provider or Contractor

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-4. Periodic Reporting to the Pool

Contract Section(s)

1. Administrator

2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-5. Ownership and confidentiality of pool information and data

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-6. Compliance with pool and state conflict of interest policy and/or regulations

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-7. Indemnification of the pool for the provider's negligence and proof of errors and omissions insurance

Contract Section(s)

1. Administrator

2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-8. Assignability

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-9. Competition between the service provider and the pool during and after the contract

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager
5. Claims Administrator
6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-10. Cancellation, including runoff provisions for claims contractors

Contract Section(s)

1. Administrator
2. Insurance Broker
3. Risk Control
4. Investment Manager

5. Claims Administrator

6. Producer and/or Agent  
for sales and/or marketing, or service

III-C-11. The method of compensation of the Producer and/or Broker/Agent engaged by the pool for sales and/or marketing is communicated to pool governing body, pool staff, current members and/or prospective members in a clear, concise and timely manner.

III-C-12 The pool utilizes a transparent, competitive selection process for the procurement of goods and services based.

III-C-13 The pool has a Service Providers' Bill of Rights.

III-D. The pool obtains independent legal advice (general counsel to the pool governing board) regarding governance and operational issues as necessary.

<b>IV. MEMBER SERVICES</b>
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The AGRiP Advisory Standards covering Member Services recognize the added value many members expect from the pool. The programs that your pool provides and how you communicate with your members is covered in these Standards.

IV-A. The pool communicates policy decisions, actions of the governing body and other activities to its members through annual reports, regular newsletters and/or other media.

IV-B. The pool keeps minutes of all meetings of its governing body and substantive committees and distributes or makes them available to all members.

IV-C. The pool conducts educational programs for its members addressing safety, risk management and other appropriate topics; and the pool has mechanisms to encourage member participation in such activities.

IV-D. The pool provides risk control and/or loss prevention services, supports risk management among its members, and promotes effective risk management and loss prevention practices among its members.

IV-E. The pool conducts annual loss prevention and risk control surveys and/or inspections.

IV-F. If property coverage is provided, the pool maintains accurate records of members' property values.

<b>V. COVERAGES</b>
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The AGRiP Advisory Standards covering policy coverage, measure your pool's policies and practices, both internally provided to members and "stop-loss", or other catastrophic coverage obtained externally by the pool.

V-A. The pool regularly reviews insurance market trends, competition, coverage and pricing.

V-B. The pool has written, objective underwriting and/or rating procedures that relate to the exposures covered and the losses experienced by pool members.

V-C. The pool provides appropriate coverage documents to its members.

- V-D. The pool communicates changes in coverage to its members.
- V-E. The pool has a resolution process for claims and coverage disputes with its members.
- V-F. The pool provides certificates or other evidence of coverages to all members and others.

## VI. FUNDING

The AGRiP Advisory Standards covering Funding address your policies and practices in the different aspects of reserve adequacy and loss funding.

- VI-A. The pool has a policy requiring an Actuarial study to determine reserve adequacy is conducted and a report is issued annually, signed by a Fellow of the Casualty Actuarial Society or a member of the American Academy of Actuaries, independent of the pool.
- VI-B. The pool allocates funding for losses, loss development, incurred but not reported losses, loss adjustment expenses, unallocated loss adjustment expenses and adverse experience at a level set by the governing body based on advice of a Fellow of the Casualty Actuarial Society or a member of the American Academy of Actuaries.
- VI-C. The pool has a strategy to deal with funding catastrophic losses to prevent financial impairment. Pool Board policy contains a strategy for maintaining net assets to facilitate response to unanticipated events such as a change in market conditions that force increased retentions, potential failure to pay by excess or reinsurers, loss of excess or reinsurers, catastrophic events within retention or unusual claims not foreseen and not excluded.
- VI-D. If the pool purchases excess and/or reinsurance or uses other forms of risk transfer or risk sharing, it maintains files of all related current and former binders, correspondence, policies, endorsements and certificates and makes copies of such policies available to all members who so request.
- VI-E. If the pool purchases excess and/or reinsurance, the pool makes periodic evaluations of the quality, stability and financial solvency of all insurance providers.
- VI-F. The pool insures or self-insures its administrative and operational risks, including errors and omissions, general and auto liability, workers' compensation, property, employee fidelity and fiduciary liability.
- VI-G. If the pool purchases insurance to cover its operational risk exposures, it maintains both current and historical files of policies.

## VII. FINANCIAL MANAGEMENT

The AGRiP Advisory Standards covering Financial Management recognize the vital role that management of financial resources play in the vibrancy of a pool.

- VII-A. The governing body of the pool adopts an annual budget in sufficient detail so as to facilitate meaningful monitoring of expenditures by the board or designated committee. The governing board or its designated committee reviews budget to actual expenditures detail reports regularly to assure expenditures are appropriate.
- VII-B. The pool has a written policy that addresses preparation of pool financial statements in accordance with generally accepted accounting principles as applied to pools or as required by state law.

- VII-C. The pool's accounting policy addresses adherence to accounting standards promulgated by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, and any applicable state regulatory body.
- VII-D. The pool board meeting minutes document the nature of financial reviews conducted by the board and any action taken.
- VII-E. The board (or its independent audit committee) appoints the audit firm that directly reports its findings to the board or audit committee.
- VII-F. An annual audit of the pool's financial records is conducted by a qualified independent certified public accountant or state audit agency that issues a signed opinion regarding the financial statements.
- VII-G. The audit includes an independent auditor's report on internal controls that provides a report on the status of previous year's recommended actions which is distributed to the board.
- VII-H. The pool responds to any reportable conditions in the audit report on internal controls within a reasonable period of time.
- VII-I. Financial reports of the pool are distributed to or otherwise made available to the board, audit committee and pool members at least annually.
- VII-J. INVESTMENT POLICIES
- VII-J-1. The pool has written policies that provide for annual review of the pool's investment policies by the governing body.
- VII-J-2. The pool has written policies that address explicit delegation of authority regarding investment decisions to appropriate employees or outside investment managers.
- VII-J-3. The pool has written investment policies that provide for appropriate controls, including those that address separation of duties, safekeeping and custodial procedures.
- VII-J-4. The pool has written policies that provide for a process to monitor its investment activities.
- VII-J-5. The pool has written policies that address allocation of assets and portfolio diversification consistent with state and federal regulations and prudent investment practices.
- VII-J-6. The pool has written policies that provide for periodic reviews of investment results and comparisons with set goals and external indices.
- VII-J-7. The pool has written policies that provide for distribution of reports of investment activities to the pool's governing body at least quarterly.

<b>VIII BUSINESS CONTINUITY</b>
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The AGRiP Advisory Standards covering Business Continuity recognize the need for adequate written policies and procedures in dealing with threats to the ongoing operations of the organization.

- VIII-A. The pool has developed and implemented processes and procedures relating to protection of electronic data.
- VIII-B. The pool governing board adopts an asset inventory and control policy.
- VIII-C. The pool governing board adopts a records management policy.

## **IX CLAIMS MANAGEMENT**

The AGRiP Advisory Standards covering Claims Management recognize the need for adequate written policies and procedures in administering claims against members.

- IX-A. The pool has written procedures that include settlement authority structure, internal review/audit procedures, and loss reserving.
- IX-B. The pool maintains a comprehensive claims management information system that tracks claims, develops loss data, and is distributed to members on a regular basis.
- IX-C. The pool maintains a litigation management program that includes, but is not limited to, establishment of a list of qualified attorneys when applicable, establishment of reporting procedures, and ongoing monitoring and case management, including evaluation of legal expenses.
- IX-D. THE CLAIMS AUDIT:
  - IX-D-1. In addition to the tests conducted during the course of a financial audit a claims audit is conducted at least once every three years regardless of whether claims are handled by in-house staff or by an outside service provider.
  - IX-D-2. The claims audit includes determination that claims were handled in a timely and efficient manner.
  - IX-D-3. The claims audit includes determination that the claims administrator adequately communicated with the pool, its members and claimants.
  - IX-D-4. The claims audit includes determination that case reserving practices were reasonable.
  - IX-D-5. The claims audit includes determination that loss experience reports accurately reflect case reserves and payments.
- IX-E. The claims audit is conducted by a qualified firm or individual engaged by the pool that is independent of the pool and its claims service providers.
- IX-F. The claims auditor issues a report on the condition of the pool's claims handling and reserving practices noting significant exceptions and/or deficiencies.
- IX-G. The pool adequately addresses all exceptions or deficiencies noted in the claims audit within a reasonable period of time.

## **X. PROFESSIONAL DEVELOPMENT**

The AGRiP Advisory Standards for Professional Development recognize the value of continuing education.

- X-A. Members of the governing body of the pool participate in relevant professional conferences and seminars presented by organizations other than the pool.
- X-B. Pool staff participates in relevant professional development programs.
- X-C. The pool chief executive officer regularly attends relevant state and national professional conferences and seminars.

- X-D. Pool staff members obtain educational degrees, relevant professional designations and other certifications.
- X-E. Pool staff members participate in relevant professional organizations.
- X-F. The pool provides adequate funding to support professional development.

## XI. GOVERNANCE

The AGRiP Advisory Standards for Organizational Planning recognize the value of long-range or strategic planning.

- XI-A The pool governing board assures that its members receive a regular orientation program and manual for new and returning board members that includes review of the organizational governance structure, operations, legal and fiduciary responsibilities, budget and accounting system, actuarial funding, financial and investment policies.
- XI-B. The pool develops and maintains a long-range or strategic plan that contains a mission statement and clearly defined goals and objectives.
- XI-C. The pool regularly reviews and revises its long-range or strategic plan.
- XI-D. The pool regularly develops a short-term or operational work plan based on its long-range or strategic plan.
- XI-E. The pool's governing body and staff regularly review the work plan to ensure that activities are completed and goals and objectives are met.
- XI-F The governing body has a policy in regard to how they are to receive reports on/or from executive staff, key functional areas and service providers.

## XII. ETHICS

The AGRiP Advisory Standards covering Ethics policies recognize that members of public entity pools are public organizations, such as schools and transit districts, and that public entity pools are governed by boards made up of public officials. Thus, adherence to a defined policy, such as the AGRiP model policies, encourages public trust and proper decision making within the pool. A model Code of Conduct and a Pool Service Providers' Bill of Rights adopted by the AGRiP Board of Directors are available to download on the AGRiP web site.

XI-A. The pool has a Code of Conduct applicable to the pool governing body, staff (whether directly employed by the pool or under contract) and service providers.



## EXHIBIT K

Examples of RFP/RFQ for Brokerage Services/ Performance Audit for Claims Administration and  
Litigation Management /Financial Audits/ Actuarial Services

### INSURANCE BROKERAGE SERVICES REQUEST FOR QUALIFICATIONS

The Board of Trustees of the POOL is seeking proposals for insurance brokerage services. The successful broker will serve as the broker of record for securing excess/reinsurance coverage for POOL current liability program and coverages, including reinsurance, for a new property program that is presently under consideration.

All questions and/or requests for additional information should be in writing (e-mails acceptable) and be directed to:

#### INSTRUCTIONS TO BIDDERS:

1. Proposals will be accepted until MMDDYY at 3:00 p.m. and must be mailed to POOL at the above address. Five (5) copies of the proposal must be submitted clearly marked "Proposal for Brokerage Services".
2. The Board of Trustees reserves the right to reject any, and/or all proposals.
3. The decision making process utilized by the Board is based on the experience and reliability of the firm and the personnel assigned to the project as well as the method of performance.
4. Award of a contract will be made by written notification.

#### GENERAL INFORMATION

##### CURRENT LIABILITY PROGRAM:

POOL began operation on MMDDYY and presently provides the following coverages to any STATE public entity wishing to participate:

General Liability	Public Officials Errors & Omissions
Police Professional	Medical Malpractice
Automobile Liability	(excluding hospitals and physicians)
Employee Benefit Liability	Automobile Physical Damage
Employment Practices Liability	

A \_\_\_\_ member Board of Trustees governs POOL and is statutorily responsible for all activities undertaken by the Fund. The Board has a service contract with the State of Office of Administration to perform its administrative functions. POOL presently handles all underwriting, claims, loss control, accounting, member services and administrative functions in-house.

POOL insures approximately \_\_\_\_ members representing a multitude of STATE public entities. All revenues to support the Fund come from annual contributions made by each participating entity. The Fund annually undergoes an actuarial analysis and an audit by an independent CPA firm.

The estimated earned contribution for 200\_ is \$\_\_\_\_ million. The combined incurred loss and loss expense ratio for the period from January 1, \_\_\_\_ through June 30, \_\_\_\_ is \_\_\_\_%. Detailed information on POOL's operations is included in **Attachments \_ through \_**.

With respect to POOL's history of excess coverage on the liability program the following is offered: for policy years 20\_\_ and 20\_\_ POOL purchased coverage limits of \$\_\_\_\_\_ excess of \$\_\_\_\_\_ per occurrence and \$\_\_ million excess of \$\_\_ million on an annual aggregate basis. Although the incumbent carrier's quote for the 20\_\_ year was for \$\_\_\_\_\_ excess of \$\_\_, \_\_\_\_\_ per occurrence and \$\_\_ million excess of \$\_\_million on an annual aggregate basis, they opted to extend the expiring policy and then cancelled coverage effective MMDDYY.

The limits POOL provides its members for the 20\_\_ year are \$\_\_ million per occurrence with no annual aggregate for law enforcement liability, public officials errors and omissions, medical mal-practice (excluding hospitals and physicians), employment practices liability, employee benefits liability and some general liability and automobile liability claims. Other general liability and auto liability claims are capped by statute at \$\_\_\_\_\_ per person and \$\_\_\_\_\_ per occurrence. The cap applies only to the entity itself and not to any individual employees or officials who may be liable. POOL also provides automobile physical damage on an ACV and stated amount basis, \$\_\_\_\_\_ uninsured motorist coverage and \$\_\_\_\_\_ automobile medical payments.

Any excess/reinsurance coverage offered must follow the form of POOL Memorandum of Coverage.

#### **POTENTIAL PROPERTY PROGRAM:**

The POOL Board of Trustees is seriously considering developing a property program to be marketed to STATE public entities. The Board authorized a risk management consultant to study the feasibility of such a program and the consultant's conclusion was that a property program could benefit POOL participants. The consultant's work included:

- Developing a questionnaire to assist POOL in surveying its members for property insurance, exposure and loss information.
- Tabulating data received and meeting with POOL to discuss preliminary results.
- Collecting supplemental information and tabulating all data received.
- Performing an actuarial analysis of losses to project loss rates for a possible property insurance program.
- Making informal contacts with insurance industry sources and other government property insurance pools to help develop estimated non-loss cost for a property program.

The consultant recommended a core program that affords all risk coverage on:

- Buildings and Contents
- Electronic Data Processing Equipment
- Construction and Other Equipment
- Extra Expenses and Business Income

In addition to the core coverages, POOL would need to provide some potential participants coverage for earthquake and flood, boiler and machinery, and crime.

It is anticipated that POOL would retain (pool) some level of risk and then purchase reinsurance to cover any additional loss.

Although POOL presently handles all administrative functions for the liability program in-house, there are limitations to expanding the workforce to adequately support a property program at least in the early stages. Therefore, the Broker and/or Reinsurer must be able to offer significant administrative support in the areas of underwriting, loss control and marketing.

**BROKER QUALIFICATIONS:**

In order to effectively evaluate your firm's capabilities for such a project, please answer the following questions in the order asked:

- A history of your firm including the number of years in operation, the number of employees, revenues generated, areas of specialty, etc.
- The names and experience of each individual that would be assigned to the project and who the project manager would be.
- Narrative that demonstrates the method or manner in which your firm plans to place POOL coverage.
- Any special experience that your firm has in working with shared risk pools or public entities on similar projects.
- The names, addresses and phone numbers of at least five (5) pool or public entity references.

**SCOPE OF SERVICES AND COMPENSATION****CURRENT LIABILITY PROGRAM:**

- Describe the plan of action your firm would pursue to obtain excess/reinsurance coverages for the POOL liability program.
- Provide a list of markets/insurers/reinsurers that your firm would approach to obtain the necessary coverages and list those on Exhibit \_\_\_\_\_. What insurance programs would be most desirable to the POOL fund?
- Be prepared to present your recommendations in person to the Board of Trustees and staff.
- Provide a draft of a contract your organization utilizes for this type of service.
- Explain how your firm would expect to be compensated for these services. Commission or fee arrangement? What is an estimate of the cost?

**POTENTIAL PROPERTY PROGRAM:**

- Describe the plan of action your firm would pursue to obtain coverages, including reinsurance, for the potential property program.
- Provide a list of market/insurers/reinsurers that your firm would approach to obtain the necessary coverages and list those on Exhibit \_\_\_\_\_. What insurance programs would be most desirable to the POOL fund?
- Describe how the program might be structured based upon your knowledge of current market conditions and similar programs.
- Describe what assistance your firm would provide POOL regarding underwriting, loss control, marketing, etc.
- Be prepared to present your recommendations in person to the Board of Trustees and staff.
- Provide a draft of a contract your organization utilizes for this type of service.
- Explain how your firm would expect to be compensated for these services. Commission or fee arrangement? What is an estimate of the cost?

## **Performance Audit for Claims Administration and Litigation Management**

(Provided to AGRIP Feb. 5, 2001 by Haralyn Isaac of Milliman & Robertson, Inc., per request by Gary Josephson of M&R. Names of the pool that issued the RFP and other identifying information were "blacked" out by M&R and are shown as \_\_\_\_\_ below).

### **Program Background**

\_\_\_\_\_ is a property-casualty self insurance pool sponsored and administered by the \_\_\_\_\_. The pool was established in 19\_\_\_\_, and is governed by nine (9) member Board of trustees elected by commissioners of member counties. Membership consists of \_\_\_\_ counties.

**The pool provides the following coverages: Property, General Liability, Automobile Liability and Physical Damage, Errors and Omissions and Law Enforcement Liability. \_\_\_\_\_. The excess liability insurance is currently claims-made, and is on an indemnification basis. The program year begins at 5-1.**

The staff consists of an administrator, administrative assistant, two loss control consultants, and an accountant. The billing for claims deductibles, owed by the members to the pool is performed by the staff accountant.

The claims third party administrator is \_\_\_\_\_.

### **Purpose:**

**The audit should address the following areas of claims and litigation management:**

- 1) Evaluation of pool's current oversight procedures and settlement authority process, given the pool's current retention, as compared to recommended best practices.
- 2) Evaluation of the pool's deductible billing procedures.
- 3) Evaluation of the litigation management process, including procedures. and criteria for selecting attorneys: establishment of reporting procedures; ongoing monitoring; case management; and legal expenses.
- 4) Evaluation of case reserve practices, including adequacies of reserves postings. and timeliness of reserve changes.
- 5) Evaluation of control of liability claims, including use of available defenses and immunity, coverage analysis, promptness of initial contact, and investigation.
- 6) Evaluation of work load of TPA, including overall workload of office, case load of individual adjusters, percentage of time between pool and non-pool accounts.
- 7) Evaluation of the TPA's claim management process including diary control, adequacy of claims handling procedures and also adequacy of claim handling process and written procedures, and supervisory claims quality control.
- 8) Evaluation of the claims management information systems with regard to accuracy, tracking of claims, distribution to members and agents and the usefulness of information to members and the pool staff.
- 9) Evaluation of the adequacies of coverage analysis.
- 10) Assessment of file documentation.
- 11) Evaluation of investigation practices of TPA.
- 12) Determination of whether claims were handled in a timely and efficient manner.
- 13) Evaluation of communication among the pool, members and claimants.
- 14) Evaluation of the process for communication with excess and reinsurance carriers, including compliance with reporting procedures.
- 15) Evaluation of subrogation and recovery practices.

**Scope of audit:****Appropriate sampling techniques should be utilized for a review of the following:**

- open files of each adjuster
- open files in litigation
- files with reserves of \$10,000 or more
- files representing each line of business .recovery files
- closed files of each adjuster

The sampling techniques and methodology should be outlined in the proposal.

**Claim frequency and severity by line of coverage is provided on the attached Loss Fund Experience reports. \_\_\_\_\_**

\_\_\_\_\_ currently has 278 outstanding files in litigation and approximately \_\_\_\_\_ cases with reserves of \$10,000 or more.

**The audit should include the following**

- a) preliminary meeting with \_\_\_\_\_
- b) claim audit at local \_\_\_\_\_
- c) post audit meeting \_\_\_\_\_
- d) written report with recommendations, including, where applicable, a comparative analysis of the TPA's performance versus the industry standard

**Proposal format:**

The proposal should describe the claims and litigation management auditing services your firm is prepared to provide and should also specify the services referred to in the preceding paragraphs that are not included in the proposal. The sampling techniques and methodology to be utilized for file review should be outlined in the proposal.

Your proposal should also include the following:

- 1) background of firm, including the size and description of staff
- 2) names of individuals who will be performing the audit and writing the report along with their background and experience with pools
- 3) \_\_\_\_\_
- 4) descriptions of special services or capabilities you offer that distinguish your firm from others
- 5) \_\_\_\_\_
- 6) \_\_\_\_\_
- 7) the date the audit could commence, the anticipated time necessary to complete the audit, and the date the written report would be available

Please enclose two copies of the proposal

**EXHIBIT L**

<Corporate Logo of Name>>

Request for Proposal

for

Financial Audit Services

for

<<Name>>

**Issue Date:** <<Date>>

**Closing Location:**

<<Physical Address of Name>>

Attention: <<Contact Person>>

**Closing Date And Time:**

Proposals must be received

by <<Time>> Pacific Time on <<Date>>

**<<Date and Location of Information Meeting:>>**

<<Date and Time>>

<<Location>>

**<<Attendance at the Information Meeting is/is Not Mandatory>>**

**Contact Person:** <<\_\_\_\_\_>>

**Fax Number:** <<\_\_\_\_\_>>

**E-mail:** <<\_\_\_\_\_>>

## **Summary of Requirements**

1. Purpose of the Request for Proposal
2. Term of Contract
3. Type and Scope of Audit
  - 3.1 Financial Statement Audit
  - 3.2 Auditor's Report and Timing
  - 3.3 Management Letter
  - 3.4 Key Audit Dates
  - 3.5 Access to Information
  - 3.6 Independence
4. Relationship with the Auditor General
  - 4.1 Role of the Auditor General
  - 4.2 Participation of the Auditor General
  - 4.3 Additional Work for the Auditor General
5. Information about <<Name>>
  - 5.1 Description
  - 5.2 Corporate Structure
  - 5.3 Financial Magnitude
  - 5.4 Key Financial Systems
  - 5.5 Financial Management
  - 5.6 Work Done by <<Name>> Staff
  - 5.7 Audit/Finance Committee
  - 5.8 Internal Audit

## **Administration**

6. Request for Proposal Process
  - 6.1 Enquiries
  - 6.2 Information Meeting
  - 6.3 Closing Date
  - 6.4 Late Proposals
7. Proposal Preparation
8. Additional Terms
  - 8.1 Irrevocability of Proposal
  - 8.2 Changes to Proposal Wording
  - 8.3 Proponents' Expenses
  - 8.4 Acceptance of Proposal
  - 8.5 Liability for Errors
  - 8.6 Modification of Terms
  - 8.7 Ownership of Proposals
  - 8.8 Confidentiality of Information
9. Evaluation of Proposals
  - 9.1 Evaluation and Selection
  - 9.2 Unsuccessful Proposals
  - 9.3 Estimated Time-Frames
10. Basis for Selection
  - 10.1 Mandatory Requirements
  - 10.2 Criteria for Assessment

## **Schedules**

- 1 Team Mix and Hours

## **Appendices**

- A. Organization Chart for <<Name>>
  - B. <<Name>>'s Board Members and Senior Management
  - C. <<Name>>'s Financial Statements
  - D. Transmittal Form
  - E. Issues for Engagement Letter
- 

## **SUMMARY OF REQUIREMENTS**

### **1. Purpose of the Request for Proposal**

<<Name>> requires an audit of its annual financial statements. The Board of Directors (or equivalent or audit/finance committee) of <<Name>> wishes to engage an Auditor to perform that audit.

### **2. Term of Contract**

The Contract will be for a period of three years, with the possibility of renewal, commencing with the 20XX/20XX fiscal year. The fiscal year of <<Name>> is Month 1 to Month 31.

### **3. Type and Scope of Audit**

#### **3.1 Financial Statement Audit**

The engagement shall be conducted in accordance with Canadian generally accepted auditing standards. As such, the audit report should express an opinion as to whether the financial statements of <<Name>> present fairly the financial position, results of operations, and cash flows of <<Name>> in accordance with Canadian generally accepted accounting principles.

#### **3.2 Auditor's Report and Timing**

The Auditor will:

- (a) prepare an audit report addressed to the Board of <<Name>>, with a copy to the Minister responsible for <<Name>>, having format and content consistent with Canadian generally accepted auditing standards;
- (b) provide signed copies of the report to the Comptroller General and the Auditor General of British Columbia in sufficient time to enable them to meet the prescribed reporting requirements of the government of British Columbia.

The Board should receive the audit report no later than \_\_\_\_\_, and Comptroller General and the Auditor General should receive the audit report no later than May 31 of each year (based on current information from the Office of the Comptroller General, although this date is subject to change).

#### **3.3 Management Letter**



The Auditor will prepare a management letter addressed to the Board, with a copy to the Auditor General, that identifies areas of concern or weaknesses encountered in the examination of the financial statements of <<Name>>, recommendations for improvement, and management's response to the concerns raised or that advises the Board that no significant concerns or weaknesses were discovered.

### **3.4 Key Audit Dates**

The key audit dates are as follows (based on current information, although these dates are subject to revision):

- Finalize audit report

---

- Provide copies of audit report to Comptroller General and Auditor General

---

- Meet with Board

---

### **3.5 Access to Information**

The Auditor will have full access to the Board of <<Name>>, and to staff and facilities in order to perform its audit work.

Staff of the Auditor must ensure that confidentiality of information obtained as a result of their involvement with the audit is maintained.

### **3.6 Independence**

The Auditor must provide the Board, annually, with a statement confirming the Auditor's independence from <<Name>>.

## **4. Relationship with the Auditor General**

### **4.1 Role of the Auditor General**

The Auditor General is the auditor of the Summary Financial Statements of the Province. The Summary Financial Statements are the financial statements of the government reporting entity. The government reporting entity consists of ministries, Crown corporations, and other government organizations such as universities, colleges, school districts, health authorities, and similar organizations that are controlled by the Provincial government.

In order to provide an opinion on the Summary Financial Statements of the Province, the Auditor General intends to rely on the work of the Auditor pursuant to Section 6930 of the CICA Handbook. The Auditor will, as auditor of <<Name>>, communicate with the Auditor General concerning his intended reliance.

In order to provide an opinion on the Summary Financial Statements of the Province, the Auditor General must be assured that the financial statement audit process for government organizations is sufficient to

rely on. In order to obtain this assurance, the Auditor General will carry out directly a limited number of audits and will participate, to varying degrees, in some other audits. In some cases, the Auditor General will be extensively involved in the planning, examination and reporting phases of the audit. The involvement of the Auditor General will supplement, not replace, the work of the Auditor and will not relieve nor interfere with the Auditor's duties to the Board.

The Auditor General will consult with <<Name>> about the level of involvement expected for each year's financial audit. <<Name>> will advise the Auditor each year about the expected level of involvement of the Auditor General in that year's financial audit.

#### **4.2 Participation of the Auditor General**

Staff of the Auditor General may represent the Auditor General in formal meetings with <<Name>>'s Board.

Staff of the Auditor General may be involved in discussions with the Auditor about the audit plan.

Staff of the Auditor General may participate in the review of the format and content of <<Name>>'s draft financial statements and may be involved in discussions with the Auditor about the audit report before it has been signed by the Auditor.

#### **4.3 Work at the Request of the Auditor General**

The Auditor General provides assessments and advice to the Legislative Assembly related to the Legislative Assembly's role in holding the government accountable for its administration. The Auditor may be asked to perform work to assist the Auditor General to provide such assessment or advice.

The Auditor General expects to pay for any work performed at his request, unless the work requested is, in the opinion of the Auditor General, required to meet Canadian generally accepted auditing standards for financial audits as they relate to an expression of an opinion on <<Name>>'s financial statements or the Auditor General's opinion on the Summary Financial Statements of the Province.

### **5. Information about <<Name>>**

#### **5.1 Description**

e.g. Enabling statute(s)

Mission statement

Programs

Promotional or other material outlining <<Name>>'s services or operations

Corporate plan

Annual plan

Business plan

Unique regulatory or audit requirements

Contentious issues

#### **5.2 Corporate Structure**

An organization chart of <<Name>> is attached as Appendix A.

Appendix B lists the current members of the Board and senior management of <<Name>>.

### 5.3 Financial Magnitude

Appendix C is a copy of the \_\_\_\_\_ audited financial statements for <<Name>>. In addition to the financial information contained in the statements, the following information will be of interest and consists of estimated activity for the fiscal year ending \_\_\_\_\_. [For further details, please see the website at www.\_\_\_\_\_.]

(a) Payroll                      - full time employees                      \_\_\_\_\_  
   - part time employees                      \_\_\_\_\_

(c) Invoices paid:                      \_\_\_\_\_

(d) Types of Inventories:                      \_\_\_\_\_

(e) Other relevant  
information                      \_\_\_\_\_

### 5.4 Key Financial Systems

<<Name>> currently uses computerized systems for the following major administrative areas:

\_\_\_\_\_.

### 5.5 Financial Management

The overall responsibility for financial management of <<Name>> rests with the <<name of staff person>>.

### 5.6 Work Done by <<Name>> Staff

<<Name>> staff prepare the financial statements as well as the normal reconciliations and analyses identified by the Contractor as necessary for the completion of the financial audit.

### 5.7 Audit/Finance Committee

<<Name>>'s Board has an <<Audit/Finance Committee>> which is charged with the responsibility of reviewing the annual financial statements of the <<Name>> prior to submission to the Board and with receiving reports from the Auditor. The Committee meets approximately \_\_\_\_\_ times annually. The senior staff of the Auditor may be requested to attend meetings with the <<Audit/Finance Committee>>.

or

<<Name>> has no <<Audit/Finance Committee>>

## **5.8 Internal Audit**

<<Name>> has an Internal Audit function. Some elements of the Internal Audit annual workplan may be of value to the financial statement auditor. However, the department does not carry out any specific tasks in support of the financial statements audit.

**or**

<<Name>> does not have an internal auditor.

## **ADMINISTRATION**

The following provisions reflect current best practices for public sector procurement, and will apply to this Request for Proposal and to any subsequent contract. Submission of a proposal in response to this Request for Proposal indicates acceptance of all the following provisions.

## **6. Request for Proposal Process**

### **6.1 Enquiries**

All enquiries related to this Request for Proposal are to be directed, in writing, to the contact person identified on the front page of this Request for Proposal. Information obtained from any other source is not official and should not be relied on. If information additional to that disclosed in the Request for Proposal is supplied, this information will be provided to all persons receiving the Request for Proposal. Enquiries must be communicated to the contact person at least five days prior to the Request for Proposal closing.

### **6.2 Information Meeting (Optional)**

An Information Meeting will be held at the time and in the location specified on the front page of this Request for Proposal. Attendance is mandatory/optional.

Questions will be accepted at the Information Meeting. However, questions of a complex nature, or questions where the questioner wishes anonymity, should be forwarded in writing, prior to the meeting, to the contact person.

A transcript or minutes of the meeting will be distributed to all persons attending the meeting or requesting a copy of the transcript or minutes of the meeting.

### **6.3 Closing Date**

\_\_\_ complete copies of each proposal must be received by 2:00 pm, Pacific Time, on \_\_\_\_\_ at:

**Mail**

<<Mailing Address of Name>>

Attention:

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**Courier/Hand Delivery**

<<Physical Address of Name>>

Attention: \_\_\_\_\_

Proposals must **not** be sent by facsimile or e-mail. Proposals and their envelopes should be clearly marked with the name and address of the proponent, and the words "Proposal for Financial Audit Services for <<Name>>.".

## **6.4 Late Proposals**

Late proposals will not be accepted and will be returned unopened to the sender.

## **7. Proposal Preparation**

The following format and sequence should be followed in order to provide consistency in proponents' responses and to ensure each proposal receives fair consideration. All pages should be consecutively numbered.

- Transmittal form (Appendix D). The Transmittal Form must be signed by a person authorized to sign on behalf of the proponent and to bind the proponent to statements made in response to this Request for Proposal.
- Table of contents for proposal, including page numbers.
- The body of the proposal, including pricing. The proposal should address all factors identified as the selection criteria in the same order as they are described in the criteria. Failure to address all criteria will impair the proposal. The proposal evaluation team is not obligated to seek clarification of vague or incomplete information.
- Prices should be all-inclusive, including all federal and provincial sales taxes, and be firm for the entire period covered by the contract.
- The proponent should include statements:
  - Confirming that the proponent is independent from <<Name>>, and any non-audit services performed by the proponent for <<Name>> will neither prejudice that independence nor be in conflict with any governing code of professional ethics; and
  - Confirming that the proponent has no conflict of interest related to <<Name>>.

## **8. Additional Terms**

### **8.1 Irrevocability of Proposal**

By submission of a clear and detailed written notice, a proponent may amend, or withdraw, its proposal prior to the closing date and time. At closing time, all proposals become irrevocable.

Proposals must be open for acceptance for at least 90 days after the closing date.

By submission of a proposal, a proponent agrees that should its proposal be successful the proponent will enter into an engagement letter, that includes terms dealing with the issues set out in Appendix E, with <<Name>>.

## **8.2 Changes to Proposal Wording**

A proponent will not be permitted to change the wording of its proposal after closing, and no words or comments may be added to the proposal unless requested by the Board for purposes of clarification.

## **8.3 Proponents' Expenses**

Proponents are solely responsible for their own expenses in preparing a proposal. If the Board elects to reject all proposals, neither the Board nor <<Name>> will be liable to any proponent for any claims, whether for costs or damages incurred by the proponent in preparing the proposal, loss of anticipated profit in connection with any final agreement, or any other matter whatsoever.

Further to the preceding paragraph, a proponent, by submitting a proposal, agrees that it will not claim damages, for whatever reason, relating to the agreement or in respect of the competitive process, in excess of an amount equivalent to the reasonable costs incurred by the proponent in preparing its proposal and the proponent, by submitting a proposal, waives any claim for loss of profits if no agreement is made with the proponent.

## **8.4 Acceptance of Proposal**

This Request for Proposal should not be construed as an agreement to purchase services. Neither the Board nor <<Name>> is bound to enter into an agreement with any proponent that submits the lowest priced proposal or with any proponent.

No proponent will acquire any legal or equitable rights or privileges relative to the services prior to full execution of a written agreement for the services required.

## **8.5 Liability for Errors**

While the Board and <<Name>> have used considerable effort to ensure an accurate presentation of information in this Request for Proposal, the information contained in this Request for Proposal is supplied solely as a guideline for proponents. The information is not guaranteed, or warranted to be accurate, by <<Name>>, nor is it necessarily comprehensive or exhaustive. Nothing in this Request for Proposal is intended to relieve proponents from forming their own opinions and conclusions with respect to the matters addressed in this Request for Proposal.

## **8.6 Modification of Terms**

<<Name>> reserves the right to modify the terms of this Request for Proposal at any time in its sole discretion. This includes the right to cancel this Request for Proposal at any time prior to entering into an agreement with a successful proponent.

## **8.7 Ownership of Proposals**

All documents, including proposals, submitted to <<Name>> become the property of <<Name>>. They will be received and held in confidence, subject to the provisions of the *Freedom of Information and Protection of Privacy Act*.

## **8.8 Confidentiality of Information**

This document, or any portion thereof, may not be used for any purpose other than the submission of proposals.

Information pertaining to <<Name>> obtained by a proponent as a result of participation in this process is confidential and must not be disclosed except as required to fulfil the obligations of the Auditor under the Agreement.

## **9. Evaluation of Proposals**

### **9.1 Evaluation and Selection**

The Board will first check proposals against the mandatory requirements. Proposals not meeting all mandatory requirements will be rejected without further consideration. Proposals that meet all the mandatory requirements will be assessed and scored against the criteria for assessment.

Only the information contained in the proposal will be used to evaluate the proposal. There will not be an opportunity to make a presentation to the evaluation committee beyond the information contained in the proposal. (Optional)

### **9.2 Unsuccessful Proposals**

At the conclusion of the Request for Proposal process, all proponents will be notified. Unsuccessful proponents may request a meeting with the Board.

### **9.3 Estimated Time-Frames**

The following timetable outlines the anticipated schedule for the Request for Proposal process and signing an agreement. The timing and the sequence of events resulting from this Request for Proposal may vary and shall ultimately be determined by the Board.

<b>Event</b>	<b>Anticipated Date</b>
Request for Proposal is issued	_____

Information meeting is held	_____
Request for Proposal closes	_____
Proposal evaluation completed	_____
Agreement is signed	_____
Service delivery starts	_____

## 10. Basis for Selection

### 10.1 Mandatory Requirements

The following are mandatory requirements. Proposals not clearly demonstrating that they meet them will receive no further consideration during the evaluation process.

- The proposal must be received at the closing location by the specified closing date and time.
- The proposal must be signed by a person authorized to sign on behalf of the proponent.
- The proposal must be in English and must not be sent by facsimile or e-mail.
- The proponent must provide written confirmation of the proponent's independence and that the proponent has no conflict of interest related to <<Name>>.

### 10.2 Criteria for Assessment

Proposals meeting the mandatory requirements will be assessed against the criteria noted below.

- Capability of the proposed audit team,
- Proposed audit strategy, and
- Price.

	Suggested Point Range
<b>Capability of Proponent and Audit Team</b>	<b>45%</b>
(a) the location and size of the proponent, the experience and capabilities of its partners, managers and staff in the audit of organizations similar to <<Name>>, as well as that of additional staff required by the firm to carry out the audit. (Please provide resumes of the senior members of the proposed audit team);	10-15
(b) the proposed audit team's experience in the audit of similar organizations and in other government organizations and public bodies, and details of skills or experience which are directly relevant to the capacity of the team to conduct the audit of <<Name>>;	10-15
(c) the proponent's experience related to computerized audits, as well as the availability of other specialized services that may be necessary in the audit;	4-6



(d) the availability of resources to ensure deadlines are met in a timely manner;	3-5
(e) the proposed audit team's degree of familiarity with the extensive body of authoritative literature that is unique to the public sector;	3-5
(f) information on contributions made by the proponent in improving the financial administration of other public sector entities;	3-5
(g) quality assurance, quality control, and peer review programs within the firm;	3-5
(h) the proponent's internal risk management techniques for liability, personnel and business loss exposures as they apply to the proponent's operations and business practices;	3-5
(i) policies on notification to clients of changes in key personnel, and staff continuity on each audit; and	1-3
<b>Proposed audit strategy</b>	<b>35%</b>
(j) general audit strategies and methodology employed, including, but not limited to:	10-15
– business risks	
– internal control	
– computer use;	
(k) the depth of the perceived audit needs and understanding of the key issues facing <<Name>>, the implications of those issues for the conduct of the audit, and particular audit strategies and methodology for <<Name>> including, but not limited to:	10-15
– preliminary audit plan	
– substantive audit procedures to be undertaken	
– compliance audit procedures to be undertaken	
– report deliverables;	
(l) a time budget, including estimated total hours for partners and other staff, (use Schedule #1);	10-15
<b>Price</b>	<b>20%</b>
(m) the <b>maximum</b> cost for which the requested work will be performed for each year of the term of the appointment. These amounts should include:	20
(i) professional fees of audit and support staff;	
(ii) estimated out-of-pocket expenses.	
<b>Total</b>	<b>100%</b>

## Schedule 1

## TEAM MIX AND HOURS

*(One calculation should be completed for each year where the hours differ)*

	HOURS			
	Audit Planning	Audit Fieldwork	Review and Reporting	Total
Audit Partner				
Review Partner				
Sector Specialists				
Audit Manager				
Professionals				
Students				
Other Expert or Specialist Assistant (Detailed by category e.g., EDP)				
<b>Totals</b>				

*[The hours to be worked by each member of the team should be clearly identified]*

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### Appendix A

### Organization Chart

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### Appendix B

### <<Name>>'s Board Members and Senior Management

Position	Name
Chair	<<Type name here>>
Members	<<Type name here>>

	*denotes membership on Finance/Audit Committee
Senior Management	<<Type name and title here>>

## EXHIBIT M

### Request for Proposals for Actuarial Services

#### I. Objective

POOL is seeking proposals to provide the following Actuarial Services:

- A. Annual Actuarial Report (Loss Reserve and IBNR Analysis) to satisfy all requirements of the National Association of Insurance Commissioners (NAIC) Annual Statement and all requirements of the Office of the Commissioner of Insurance of the State of STATE. These reports will be for Other Liability Lines of Coverage (General Liability, Auto Liability, Public Officials Liability, Law Enforcement Liability and Incidental Medical Malpractice Liability), Workers Compensation and Auto Physical Damage.

1. This includes but is not limited to a:

- I. Statement of Actuarial Opinion for the Annual Statement signed by an actuary authorized to sign these opinions.
- II. The completion of the Unpaid Claims Liability Report that is required as part of the annual statement.
- III. Presentation to the Board of Directors. (See items C and D below)

#### B. Annual GSAB-10 Reserve Study:

POOL on an annual basis provides its \_\_\_ members and analysis of their individual reserve and incurred but not reported liability exposure for the years each member has been with POOL. This report is intended to satisfy GASB-10 reserve analysis. A sample of this report is provided.

#### C. Liability Repricing

Every other year, POOL re-prices the liability program for the next three years. For

20\_\_ it will be necessary to reprice the 20\_\_, 20\_\_ and 20\_\_ policy years. The 20\_\_ policy year has been quoted, but will be reviewed to determine adequacy. The renewal pricing for 20\_\_ can not exceed a 10% reduction or a 15% increase from the 20\_\_ policy year. However, these limitations may be adjusted to reflect the amount of growth a community has experienced as compared to the balance of the membership. It is this phase of the service that may require a presentation to the Board of Directors. Please provide a separate estimate of the cost of a presentation to the Board of Directors.

#### D. Member Dividend Distributions

1. Worker's Compensation Program - Annually, we work with the actuary to set a dividend that will be paid for that period. This dividend will be paid based on the years that a member has purchased insurance from POOL and the experience of those years. To date, POOL has paid a 10% level dividend for the prior year and used loss experience to determine the balance of the dividend paid. This phase of the services may require a presentation to the Board of Directors. Please provide a separate estimate of the cost of a presentation to the Board of Directors.
2. Liability Insurance Program - In 20\_\_, for the first time since satisfying bond obligations POOL, declared a dividend. Liability dividends will be paid based on each member's ownership percentage of the company. It will be necessary to include the dividend estimate as part of the year end calculations. Our practice has been to show the dividend as declared but unpaid. This phase of the services may require a presentation to the Board of Directors. Please provide a separate estimate of the cost of a presentation to the Board of Directors.

#### E. New Member Repricing

POOL has followed a strategy of slow growth. The Executive Director collects all underwriting information and prices new members based on his estimation of a potential member's risk. The actuary will review this work to ensure that the exposure is being properly priced. On average POOL has added \_\_ new member annually for the last \_\_ years.

### **Background Information**

#### **A. HISTORY**

POOL, incorporated by the SATE DEPARTMENT on DATE, was established to provide liability insurance and risk-management services to STATE cities and villages ranging in population from 2,500 to over 100,000. Since its inception, the number of members has grown to \_\_.

STATE municipalities are granted specific authority under STATE law to organize municipal mutual insurance companies; in fact, that statute, enacted in 19\_\_ by the State Legislature, encouraged the practice in response to major premium increases by commercial liability carriers. However, once the law was passed, the insurance industry went through a particularly "soft" cycle where commercial premiums actually decreased.

That soft cycle hardened abruptly in mid-1984. Municipal liability coverage's were either curtailed or canceled altogether, and premiums skyrocketed for what little insurance was available. That constriction caused many communities to evaluate insurance alternatives.

These communities, now members of POOL, adopted insurance strategies to achieve budget stability, insurance-rate predictability, stable premiums and a constant high level of insurance protection. POOL became STATE's first municipal mutual insurance company providing all lines of liability coverage and the country's fourth fully capitalized municipal mutual insurance company.

## **B. PURPOSE**

POOL's purpose is not to avoid the commercial insurance market; rather, the program is structured to better utilize commercial reinsurance capabilities. The goal of the program is to reinsure when it is commercially available and economically feasible, and to rely on the self-funded, pooled coverage when it is not. POOL, as a financially independent and economically sound insurance company, enjoys direct access to the reinsurance market.

In the initial stages, participants formed an Intergovernmental Cooperation Commission known as the STATE Municipal Insurance Commission. This group was entrusted with accomplishment of two tasks: first, to develop the structure of the Mutual and second, to issue a revenue bond to capitalize the organization. The revenue bonds were secured by general obligation bonds issued by each member. This debt has been retired.

## **C. COVERAGE WRITTEN**

1. In 19\_\_ POOL was formed to provide liability and risk management services. Starting DATE POOL underwrote \_\_ STATE Cities and Villages liability insurance for general liability, auto liability, public officials liability, law enforcement liability and incidental medical malpractice liability excess of a members self insured retention (SIR). The SIR's range from a low of \$\_\_\_\_\_ to a high of \$\_\_\_\_\_. In 20\_\_ the NAME OF MEMBER and the NAME OF MEMBER joined the POOL family to make a total of \_\_ members.
2. In 19\_\_ POOL amended its charter to allow it to underwrite workers compensation. Starting DATE POOL underwrote \_\_ STATE workers compensation exposure on a first dollar basis and provided third party administration service to one self-insured. In 20\_\_ with the addition of the NAME OF MEMBER and the NAME OF MEMBER the first dollar workers compensation program written premium exceeded \$\_\_\_\_\_.
3. In 20\_\_ POOL again amended its charter to allow it to underwrite its auto physical damage risk. This coverage had been obtained through a group purchase program that was first written in 19\_\_. Currently this program covers \_\_ members and over \_\_\_\_\_ vehicles with a replacement value of more than \$\_\_\_\_\_.

## **III. Claim Information**

All liability, workers compensation and auto physical damage claims are handled in house using Risk Master Software. All claims information from 19\_\_ to present is available in this system

## **IV. Proposal Requirements**

- A. Proposals must be received no later than \_\_\_\_ p.m. on DATE.  
Two copies of the proposal should be submitted to:
- B. Any costs incurred in preparing or submitting the proposals are the proposers'

- sole responsibility.
- C. POOL reserves the right to reject any and all proposals.
- D. The information requested in Exhibits 1-5 must either be included in the exhibit or be provided on separate attachments. For Exhibits 2 (Funding Analysis), 4 (Dividend/Member Surplus Distribution), and 5 (New Member Funding), an outline of the general approach and methodology that will be utilized must be included. For the Dividend/Member Surplus Distribution and New Member
- E. Funding services, POOL realizes that a time and expense approach may be the more appropriate way to quote this project, but we will be requesting a projection of hours needed to complete these tasks along with a not to exceed. It is our intention to make sure that we get an accurate reflection of the cost of services.
- F. The proposal must include the names of all personnel that will be involved in providing the requested services, including professional qualifications, experience, and their respective hourly rates.
- G. The proposal should outline the information that will be required from POOL that is necessary for the services being requested.
- H. You are also encouraged to indicate any services that are available from your firm, in addition to those being requested.
- V. Selection Process

POOL desires to establish a long term relationship with the selected firm. The selection process will be based on the following criteria:

- A. Experience of the assigned individuals who will be providing the requested services.
- B. Demonstration of understanding the scope of services being requested and the approach and methodology used in providing the services.
- C. References of other insurers, including public entity pools and large self insured's.
- D. Fees

POOL

Request for Proposals for Actuarial Services

### **Exhibit One Annual Actuarial Report**

Name of person having primary responsibility for service:

Projected hours for project split out by individuals:

Annual Fee:

Describe overall the work that is included in this proposal. Please describe anything that is required by any regulatory agency that should be done by an actuary that is not included in this proposal.

Public Entity Pools currently receiving service from above person having primary responsibility for service (include name and phone number of contact person)

POOL

Request for Proposals for Actuarial Services

**Exhibit Two**  
**GASB-10 Reserve Study**

Name of person having primary responsibility for service:

Projected hours for project split out by individuals:

Annual Fee:

Describe overall approach and methodology that will be used to allocate costs among members.

Public Entity Pools currently receiving service from above person having primary responsibility for service (include name and phone number of contact person)

POOL

Request for Proposals for Actuarial Services

**Exhibit Three**  
**Liability Re-pricing**

Name of person having primary responsibility for service:

Projected hours for project split out by individuals:

20\_\_ Fee:

Describe overall approach and methodology that will be used to re-price the liability program for the 20\_\_, 20\_\_ and 20\_\_ policy years.

Public Entity Pools currently receiving service from above person having primary responsibility for service (include name and phone number of contact person)

POOL

Request for Proposals for Actuarial Services

**Exhibit Four**

**Liability & Workers Compensation Dividend Study**

Name of person having primary responsibility for service:

Projected hours for project split out by individuals:

20\_\_ Fee:

Describe overall approach and methodology that will be used to establish process to review and approve dividends recommendations.

Public Entity Pools currently receiving service from above person having primary responsibility for service (include name and phone number of contact person)

POOL

Request for Proposals for Actuarial Services

**Exhibit Five  
New Member Re-pricing**

Name of person having primary responsibility for service:

Projected hours to review a new member liability proposal project split out by individuals:

20\_\_ Fee:

Describe overall approach and methodology that will be used to determine funding for new members.

Public Entity Pools currently receiving service from above person having primary responsibility for service (include name and phone number of contact person)

***City of Camarillo  
Department of Community Development***

**M E M O R A N D U M**

The city's legal counsel has directed that we are to collect ***complete*** certificates of insurance, which includes **both forms listed below:**

- 1. Certificate of Insurance ("Acord 25-S" form)**
  - 2. Endorsement form (ISO Form CG 20 10 11 85 or CG 20 10 11 88 or better).**
- Sample of complete insurance requirement attached***

We've come to find out that insurance providers issues different style forms to address this requirement and each submittal will be reviewed carefully.

**Please note: CG 20 26 07 04 or CG 20 26 10 04 will not be accepted.**

The wording on the CERTIFICATE of INSURANCE and ENDORSEMENT form should read:  
"Additional Insured: City of Camarillo, its elected and appointed officials, agents, volunteers and employees."

***AND – the Endorsement form needs the following language:***

"PRIMARY INSURANCE: It is agreed that such insurance as is afforded by this policy for the benefit of the persons or organizations as listed above shall be primary insurance as respects to any claim, loss or liability arising directly or indirectly from the insured's operations, and any other insurance or self- insurance maintained by such persons or organizations shall be noncontributory with the insurance provided hereunder."

**OR**

"PRIMARY INSURANCE: This insurance is primary and noncontributory as respects to any loss or liability arising directly or indirectly from the insured's operations."

These requirements are standard procedures for ***all*** certificates of insurance requested by the city. (Please note: The city requires appropriate insurance be provided for the day(s) of the event in the following minimum amounts: **\$2,000,000 General Aggregate** and **\$1,000,000 Each**



**Occurrence.)**

FOR EVENTS ON CITY-OWNED PROPERTY: As an option, you may contact the City Manager's Office for information regarding cost and coverage of *optional* insurance offered by the city's insurance carrier.



## **Parks & Recreation**

### **CERTIFICATE OF INSURANCE REQUIREMENTS FOR PARKS AND RECREATION FACILITIES**

The City of Mesa has established insurance and certificate of insurance requirements for those facility users, vendors and contractors entering into agreements with the City. Before commencing use of services under agreement the City must be furnished with a certificate of insurance.

The certificate should contain the following:

1. The City of Mesa named as additional insured.
2. The City of Mesa shall be notified at least 10 days prior to cancellation of the above insurance coverage.
3. The specific date(s) and location(s) of the event must be clearly stated on the certificate for one-time events.
4. The minimum limits of liability per occurrence must be:

Liability to others (Combined single limit) \$1,000,000  
Products – Comp/Op Aggregate \$1,000,000  
General Aggregate \$2,000,000

Make sure the following is included on your insurance certificate:

Insured – Must list the name of the League/Organization  
League Contact name(s) \* Address

\*League contact name(s) on the insurance certificate and/or on file with the producer of the policy must match the name listed as the contact for the league/organization in the City of Mesa reservation database.

The City of Mesa will only accept reservations by the league contact person(s) ONLY.

If there is a change in league name or league contact person(s), an updated insurance policy must be submitted to the City of Mesa before any new reservations can be made.

### **HOW IMPORTANT IS THE CERTIFICATE OF INSURANCE?**

The insurance requirement should be your first priority because your event or activity will not be approved or scheduled until a proper Certificate of Insurance is received. **DO NOT** advertise your event until the requirement is met and an official reservation permit has been received. For further information contact: