Hierarchy of Pooling Needs

A Framework for Assessment of a Pool’s Maturity

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Foundational (Physiological)

In Maslow’s Hierarchy, physiological needs are basic physical requirements for survival such as air, water, and food. Clothing and shelter are other examples, and physiological needs include sustaining the human race.

Akin to this, a pool’s foundational needs are the basic environmental requirements that create and allow the pool to exist. These include appropriate legal authority and baseline participation to sustain the pool’s creation or start-up. Needs for clothing and shelter are replaced with at least basic operational and governance infrastructure.

- The pool meets minimum statutory or regulatory requirements for existence.
- Necessary articles of incorporation, organizational bylaws, interlocal and/or member agreements are in place.
- The pool has a coverage document and a method to distribute or issue coverage to potential members.
- There is enough member participation interest, and member contributions, to make the pool viable in start-up.
- Reinsurance/excess coverage is available to the pool.
- There is a baseline organizational, governance, and operating structure in place to make decisions, issue policies, and pay claims.
Security (Safety)

The need for safety in Maslow’s Hierarchy includes protection from physical, economic, and health risks. Indeed, the concept of protecting assets and organizational well-being is easily acclimated to a conversation about pools! For purposes of the pooling hierarchy, security focuses on baseline sustainability for pooling operations beyond the start-up phase.

- Regulators, legislators, members, or other non-competitive entities are not actively opposing the pool’s existence.
- There is reason to believe minimum member participation and contribution levels can be sustained by the pool over multiple years.
- There is clear definition of entities allowed to join the pool.
- There are clear underwriting standards for new members and defined practices for pricing members that renew.
- The pool can offer reasonably comparable pricing for similar coverage available in its competitive environment.
- The pool has authority to and a mechanism by which to assess its members if needed.
- The pool has a plan to meet industry standard (IRIS) minimum reserves.
- The pool has access to credible actuary and financial management resources.
- There is clear definition of what happens to a member’s contributions if an entity decides to leave the pool.
- The pool has the ability to non-renew a member for poor performance or non-performance.
- Coverage documents have been reviewed by legal counsel and are generally consistent with best practice standards for insurance contract law.
- The pool has operational protocols and standards in place for underwriting and claims operations. There is a defined staffing plan or management agreement in place for these services.
- There is a method for collecting information on, categorizing, and reviewing details of new claims.
- The pool can obtain adequate reinsurance/excess coverage.
- The pool produces annual financial statements, including a statement of liabilities and assets.
- The pool has access to credible legal advice. Organizational documents have been reviewed by legal counsel.
- The pool’s Board meets regularly and makes decisions based upon its readily understood fiduciary obligations.
- The pool can identify its competition in the marketplace.
- The pool is endorsed by its related municipal or sponsoring association(s).
- The pool has business continuity, operational sustainability, and other related plans that address how the pool would continue operations upon significant staffing, contractual, or other shift in key partner organizations.
Affinity (Love and Belonging)

Maslow’s Hierarchy recognizes needs for interpersonal connections, feelings of acceptance and belonging, and intimacy with others. This level of the hierarchy is really about the social needs of humans, with recognition that social groupings may be large or small, professional and personal.

Pools of course don’t have a human need for feeling love or belonging, but there most certainly is an affinity need for and within a pool. In some ways, this is the ability of the pool to move from “transactional” member purpose to a more affinity-based member relationship.

- Pool leadership has some degree of relationship with regulators or bodies of oversight, beyond merely filling out an annual form. The pool could call a regulatory body with questions, or someone at the pool has a 1:1 relationship with a legislative liaison.
- The pool has opportunity and capacity to expand its membership; or capacity to retain a reasonable margin of its membership against normal levels of competition within the market.
- There is momentum within the pool to develop new coverages and services.
- There is a regular review process, formal or informal, to assure the pool is meeting member needs, including coverage and service.
- The pool has a stated goal of achieving value through member service and responsiveness.
- The pool’s structure, underwriting practices, and financial status can support a range of member exposures, providing some degree of coverage customization within reasonable homogeneity of risks (for instance, the pool can segment coverage or pricing for those members with or without law enforcement operations).
- There are steps in place to help a poor performing member improve its risk profile over time, whether by pricing or risk management.
- The pool can identify major competitors, the competitive profile (whether price, coverage, service, or something else), and opportunities to compete effectively.
- The pool and its sponsoring association(s) have a mutually beneficial and defined working relationship, operating structure, and financial arrangement.
- Contract and partnership relationships, including the pool’s relationship with its sponsoring association, have clearly articulated goals about longevity, if desirable.
- Organizational documents have been reviewed and adapted to sustain or encourage long-term membership in the pool.
- The pool Board has a stated mission, vision, purpose, or similar aspirational goal.
- The pool Board understands how its operations are designed to meet member needs effectively.
- The pool Board can articulate reasons why members participate in the pool.
- The pool has a specific policy and goal regarding its preferred distribution method, relationship with insurance agents, commission structure, etc.
- The pool has reinsurance relationships such that it can be reasonably assured of continued coverage and pricing terms, or will likely be provided advance notice of a reinsurer’s intent not to renew.
- The pool’s Board has established a surplus or fund balance goal, or has articulated a reason for not doing so.
- The pool regularly provides information to its members about coverage, services, rates, etc.
Esteem (Esteem)

Within Maslow’s Hierarchy is a defined need for feelings of respect for one’s contributions and attributes, both in terms of recognition from others and as a matter of self-esteem. A person needs to feel some degree of competency, mastery, or self-confidence.

Similarly, a pool might wish to move from being merely sustainable as an organization to thriving. Beyond gaining acceptance by or a degree of affinity among its members, a pool might become sought after for input, direction, advice, consultation, or service. This is how members might demonstrate respect, or esteem, for the pool and its operations.

- Regulators or legislative representatives, as well as appointed and elected officials within the state, have some knowledge of or familiarity with the pool’s mission or purpose.
- Members and agents understand the benefits of the pool’s coverage over other options.
- The pool retains majority participation year-over-year, and sustains new or departing members on the basis of growing or remaining stable in numbers and contributions.
- The pool’s contribution rates are relatively stable over time.
- The pool can readily articulate its coverage, claims, and pricing philosophies.
- The pool’s financials can withstand multiple bad years without assessing members or making other drastic changes.
- The pool can non-renew a member for poor or non-performance, without creating undue risk to retaining the rest of its membership.
- The pool has clearly articulated underwriting policies for allocating costs and risks among members, as well as surplus or fund balance.
- The pool is actively reviewing and analyzing its loss information to identify areas of concern, meaningful shifts in loss profiles, or other important trends. There is clear connection between loss activity and pool services, underwriting guidelines, and related practices.
- Members look to the pool to provide them with training, guidance, and risk management services.
- The pool has potential for long-term reinsurance or excess carrier relationships; or is able to derive best-case pricing from preferred reinsurers and excess carriers.
- The pool can take on additional risk through higher self-insured retentions.
- The pool has sufficient resources (capital and human) and member affinity to experiment in service delivery, products, and other opportunities to meet member needs.
- The pool can identify innovations, new products or services, or other “value-add” decisions it has made on behalf of members.
- The pool is a respected partner to its sponsoring association(s).
- There are documented policies for the Board and its governance functions.
- The Board engages in regular planning or strategic conversations.
- The pool has a process in place to evaluate staff and contractual performance, and does so on a regular basis.
- The pool has a process in place to monitor legislative or regulatory changes that might change its operations, member risk profiles, financial obligations, or other key operating practices.
- The pool has an investment strategy in place.
- The pool has a fund balance. The pool is actively working toward, or is meeting, its fund balance target. Financial goals and status are regularly communicated to the Board and membership.
- The Board understands basic principles of managing the pool’s financial liabilities, the impact of actuarial analysis and interplay between actuarial review and rate needs.
Rainbows & Unicorns (Self-Actualization)

Maslow’s Hierarchy recognizes self-actualization as the point at which a person reaches and realizes his or her full potential. Of course, each individual’s “full potential” is unique – whether reaching a professional goal, achieving a certain level of physical fitness, being a good parent or partner.

Each pool is a unique culmination of its history, environment, and support structure (Board, staff, etc.) so the picture of pooling “actualization” (rainbows and unicorns) will look different from one pool to the next. And, the state of pool-actualization is not fixed, but rather a point when the pool’s operations and behaviors are sufficient to allow for reflective and generative decisions of any nature, including necessary adaptations or evolution when appropriate.

- The pool has financial resources to make proactive changes in order to enhance member service, adapt to environmental changes, withstand multiple years of unexpected income or expense shifts, adjust to changes in member risk profiles or participation, accommodate shifts in reinsurance partners or retentions, etc.
- The pool has a designated fund balance policy, rationale for fund balance targets and current balance, plans for distribution of fund balance in excess of policy, methods for regular review of the policy and fund balance amounts.
- New coverages, programs and services are regularly evaluated for implementation. Development and implementation costs can be absorbed by the pool during start-up.
- Robust risk management programs exist and are implemented within member organizations. The pool is actively working with its members to shift the cost curve of losses.
- The pool regularly innovates and develops new coverage for members.
- Regulators, legislators, the media, and pool members look to the pool as a source of expertise and advise on matters of public risk.
- The pool and any regulatory bodies have a positive, cooperative working relationship. When issues arise, they together find workable solutions.
- There is common and detailed understanding of the pool’s membership among staff, pool contractors, and the Board. This is true both for a variety of member segments and for individual members.
- Operational practices – underwriting applications and guidelines, claims management activities, loss reviews, loss control consultations, coverage documents, communications, etc. – are customized to reflect the pool’s philosophies, services, structure, and membership.
- Reinsurance or excess insurance partners routinely solicit the pool’s input and advice about public risk concerns, are amenable to coverage enhancements or new coverage ideas, are communicative early about changes in pricing or terms. The pool is a sought after reinsurance client.
- The pool works closely with its actuary and other external experts to connect pricing strategy with loss trends, evaluate performance metrics, determine risk
retention and risk limits, understand total liability estimates, and measure capital adequacy.

- The pool’s legal, organizational, and governance documents have been honed based upon prior experience and considered review.
- The roles and responsibilities of Board, staff and service providers are clear. There is regular review of governance functions and decision-making.
- The Board functions at a strategic level, offering comments that are useful but not invasive to day-to-day pool operations.
- The pool has a robust and tested business continuity plan, enterprise risk management plan, and succession plan for key staff.
- The pool has a defined series of internal and external audit practices to assure high quality processes and outcomes in every functional unit. Best practices are routinely identified, tested, refined, and communicated.
- Operations, activities, and interaction of the pool and its sponsoring association(s) are well defined and comfortable for all entities. The Boards of all associated groups understand the relationship and respective roles of the organizations.
- There is regular and positive interaction between the pool and its agents (if used). Agents add value to interactions between the pool and its members, and there are quantifiable benefits in exchange for paying agent commissions.
- Loss trends are carefully monitored alongside industry and data resources from outside the pool’s own experience, with early identification of possible areas of concern.
- Proactive risk management resources identify loss trends and possible intervention programs, evaluating the cost of intervention against the cost of risk. New loss control programs are implemented with goals in place for member outcomes and quantifiable measures.
- There is little or no competition for pool member business. The pool can identify possible competitors. When competition does arise, the pool has clear advantage based on coverage, price, service, longevity, or all of the above.
- Pool members speak positively about the pool, its coverage and service, its staff or service providers, and its overall outcomes. The pool does not face serious risk to its reputation and/or could withstand member criticisms.
- The pool’s investments are diversified and balance risk with income goals. The pool actively manages its investment parameters, partners and performance.