

# **The New Generation of Public Entity Risk Pools: Understanding Its Innovations and Roles in Public Finance**

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## **Abstract**

As governments continue to face fiscal pressures and increasing insurance costs, public entity risk pools will play an important role in public finance and public management. Since their emergence in the 1970s, public entity risk pools have evolved from their start-up stage into mature organizations with broad missions and responsibilities. As little academic research has been done in this area, this paper is to study the current generation of public entity risk pools in terms of the environment they are in, recent innovations, and problems they face, and future research questions. The main data source comes from an electronic survey sent to the Association of Government Risk Pools' 300 members in 2006 with 28% of response rate.

## **I. Introduction**

Public entity risk pools<sup>1</sup> play an important role in public finance and public management. The Association of Governmental Risk Pools (AGRiP 2004, p.VII) defines a pool as "a separate and distinct legal entity composed of public entity members that have joined together to finance an exposure, liability or risk" through group purchase, group self-funding, or other cooperative means for primary and/or excess coverage.

Public entity risk pools are public entities' response to the cyclical nature of the private insurance market. Since its emergence in the 1970s, public entity risk pools have evolved into mature organizations with broad missions and responsibilities. Though important to public finance and public management, very little academic research has been conducted about public entity risk pools. The purpose of this paper is to study the current generation of public entity risk pools in terms of the environment they are in, recent innovations, problems they face. The author will highlight future research questions and hope more attention will be paid to this important public risk and management instrument.

## **II. Public Entity Risk Pools: Development and Relevant Literature**

Public entities face more risk exposures (e.g., general liabilities, property liabilities, and legal liabilities, etc.) than their private counterparts (Head and Wong, 1999). To address these risks exposures, public risk management emerged as a new but important element of public management. An effective risk management program can control and reduce the cost of risks, make good use of taxpayers' money, and protect the well-being of the community. In the area of public risk management, the most significant development is the use of public entity risk pools that stems from the mid-1970s and again in the mid-1980s. The erosion of governmental immunity to third party liability made public entities the target of lawsuits and exposed them to liability in new areas. Insurance companies refused to provide coverage or they charged skyrocketing premiums for policies that were available. Public entities had to find alternative

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<sup>1</sup> Several names are found in the literature. The most commonly used name is self-insurance pools. Young and Reed (1995) feel the term, self-insurance pools, is oxymoronic and prefer "government risk-financing pools." AGRiP uses public entity risk pools. Since AGRiP represents pools, the author adopts its term.

financing mechanisms. While large governments turned to self-insurance program, small governments came together to pool their resources to finance various risks. Young and Reed (1995) emphasized that “pooling was a small government phenomenon” (p. 103). In his 1988 survey, about 15,000-17,000 small cities, towns, counties, special districts, and school districts participated in such pools. About 80 percent of his participants had populations below 9,999, while 94 percent had populations below 25,000 (Young, 1995).

The first public entity risk pool was established in 1974 by the Texas Municipal League (Wander, 1980). In 1976, the state of California amended its laws to allow its local governments to pool their self-insured losses, and cities in Contra Costa County soon establish their liability and property pools. By 1985, pools for workers’ compensation, property insurance and public liabilities had been set up in twenty-two states, including Alabama, Illinois, Texas, Florida, Connecticut, and Maine (Pouzar, 1985).

Pools have many advantages. They offer long-term stability and protect the participants from the uncertainties caused by the cycles of insurance markets. They offer more favorable coverage, terms, conditions and limits than private insurance companies and are tailored to the needs of their members (Head and Wong, 1999). For long-term members, benefits of belonging to a pool extend far beyond simple insurance coverage. Pools provide their members with full-service risk management that helps to control risks and stabilize the financing of government. Members have created successful, long-term strategies that can have a significant impact on the fiscal health of their governments. In addition, in many cases, coverage programs through a pool may save members up to 60 percent of what they would have spent to purchase commercial insurance (Washington Governmental Entity Pool, 2005).

The establishment of the Association of Governmental Risk Pools (AGRiP) as an independent agency from the Public Risk and Insurance Management Association (PRIMA) in December 1998 indicated the growing need for and interest in risk pools (Ceniceros, 1999). Pool numbers and membership grew rapidly. The number of pools doubled between 1988 and 1993. Young and Reed (1995) estimate that in 1993 there were about 400 public risk pools covering 35,000 members or 45 percent of all governmental entities in the U.S. According to the Missouri Intergovernmental Risk Management Association (MIRMA), there are about 500 public risk pools in the nation today that generate an estimated \$6 billion in annual premiums. There are nearly 140 pools in California alone. Intergovernmental pooling arrangements exist in almost every state. It is estimated that 80 percent of local governments in the U.S. use risk pools for at least one type of insurance coverage (Greifer and Schwarz, 2001).

Since their inception in the 1970s, public entity risk pools have experienced many changes. Pools have evolved from a predominantly risk-sharing tool into a long-term risk management strategy. Public entity risk pools have diversified their coverage (Young and Reed, 1995) over the years from general liability coverage and workers’ compensation to many other risks such as crime, employee dishonesty, and employee benefits. According to the AGRiP *Sourcebook* (2004), the major lines of coverage pools offer includes the following:

- ◆ General liability
  - Automobile liability
  - Public officials/school boards

- Law enforcement professional
- Medical malpractice
- Employment practices
- ◆ Property liability
  - Boiler & machinery
  - Electronic data processing
  - Auto physical damage
- ◆ Worker compensation and unemployment compensation
- ◆ Bonds (e.g. crime, employee dishonesty, and public officials)
- ◆ Health insurance, dental insurance, vision insurance
- ◆ Other ancillary coverage such as special events and pollution

Moreover, public entity risk pools have expanded their services. They provide members educational training, workshops, loss control audits, risk assessments, legal counsel, and on-site safety inspections (Greiger and Schwarz, 2001). Pools have also become more sophisticated in their administrative capabilities by building up their own in-house experts to perform various functions. For instance, a 1988 survey found that “pools were heavily reliant on the use of third party administrators (TPAs)” (Young and Reed, 1995, p. 104) for a variety of services such as underwriting, claims management, lost control advising, actuarial services, financial management services, audit and accounting services, and healthcare network management. The AGRiP survey (2006b) found that a clear majority to a supermajority of the respondents were using in-house employees for all its administrative functions except legal services.

According to AGRiP’s 2006 (a) *Annual Compensation Survey*, 80 percent of the 87 respondents have state-wide members and 15 percent of the membership is regional within the state. Nation-wide public risk pools are emerging. These include national captives and risk retention groups (RRG) that serve constituencies in more than one state. Examples are the Housing Authority Insurance Group (HAIG) - a federally chartered pool for Indian Housing Authorities (AMERIND, Inc.); Transit Re - a pool of transit pools; the National League of Cities Mutual Insurance Company (NLC – MIC) - a captive reinsurance pool for state municipal league sponsored or endorsed pools; County Reinsurance Limited (CRL) - a captive reinsurance pool for county association-sponsored or-endorsed pools; and Government Entities Mutual (GEM) - a captive reinsurance pool for pools not eligible for NLC-MIC or CRL.

There are a great variety of public entity risk pools. Pools can be classified in the different ways. They can be capitalized or non-capitalized. Capitalized pools require their members to make capital contributions, and non-capitalized pools do not. A majority of the pools are non-capitalized pools. Pools can be assessable or non-assessable. In an assessable pool there is an express authority and obligation to issue and honor future assessments to fund losses. Pool members usually pay a minimum premium and are assessed at the end of some period to cover the losses of that period. Fone and Young (2000) recommend that a member assessment provision be in place when forming a pool. This provision would make clear the members’ obligations and is important for a pool to succeed. Young and Reed (1995) found that over 83 percent of their respondents stated that they could assess all members if the pools’ loss was worse than expected.

Pools can be primary pools or excess pools. In primary pools, there is either no deductible or a low deductible “first dollar” coverage. Excess pools are above a self-insured retention - usually above \$100,000. Pools can be independent or association-sponsored. When pools started, many of them were sponsored by various local government associations. Independent pools were established later, which are not directly affiliated or controlled by associations. According to the AGRiP’s data (2004), approximately 25 percent of US pools are association-sponsored. This ratio is lower than the 57 percent reported by Young and Reed (1995).

Pools can be monoline, multiline or fleet depending on how many lines of coverage they offer (AGRiP 2004). Monoline pools offer only one line of coverage. Multiline pools offer two or more lines of coverage. Members in fleet pools can choose to participate in any line(s) of coverage. According to the AGRiP (2004), among the 339 responses that reported their type of pools, 96 are monoline pools, 159 are multiline pools, 76 are fleet, and 8 are other types.

Membership eligibility differs among pools (AGRiP 2004). Pools usually serve one type of jurisdiction that faces similar risks and needs, thus pools are homogenous. Some pools include more than one type of jurisdiction. According to the AGRiP (2004), 61 percent of pools have only single type of government entities, and 39 percent serve multiple types of entities.

Pools have established themselves as a necessary risk management instrument for local governments, but they also face challenges. Back in 1993, pools indicated that competition, state regulation, and the challenge of maintaining membership interest and participation were major issues (Young and Reed, 1995). According to Fone and Young (2000), in the years to come, competition either from the insurance market or from other pools is likely to continue to be a big challenge. Pools will need to take a strategic position to meet the challenges.

While risk pools have become an important phenomenon, research on this topic is limited. Young and Reed (1995) state that “perhaps one of the most remarkable aspects of pooling is the relative paucity of attention it has received in academic circles” (p. 97). Their work is a major contribution to this area. Based on the results of the two nation-wide surveys conducted in 1988 and 1993, Young and Reed provide a comprehensive examination of pooling practices in terms of general administrative issues, membership characteristics, pool administration, coverage, and financial management practices. They conclude that “pooling is not a transitory phenomenon, and that pools – in one form or another – will be part of the public sector landscape for quite some time” (p. 111). To them, this very nature of permanency raises the important conceptual question - What precisely is pooling? Though pools are described as intergovernmental entities and trusts, these general terms cannot cover everything about pools. Young and Reed (1995) suggest more studies need to be done about the nature of pools and their financial performance.

Practitioner-oriented magazines and AGRiP are active in disseminating information about pools. AGRiP conducted two types of online surveys with its members in 2006 and in 2007. One focused on executive salaries and benefits (AGRiP, 2006a; 2007a), and the other on pool demographic characteristics (AGRiP, 2006b; AGRiP, 2007b). Qiao (2007) explored

intergovernmental risk pools but only from the perspective of how pools are used as a funding technique of general public risk management.

Since Young's research, more than a decade has passed, and pools have experienced monumental changes (Worthington, 2007) and transformed from being start-ups in a crisis to mature organizations that are the dominant public risk management force in their state. Further research is needed for this rich and blooming area.

### III. Methodology

Data for this research comes from several sources. The major source is an electronic survey sent to the AGRiP's 300 members in September, 2006. The author designed the questionnaire, and AGRiP created an online survey link and invited all its members to participate. The survey was closed in December 2006, and the results were sent back to the author. Since AGRiP is the official representative of government risk pools, its membership list is the best source for this survey. The number of respondents per question ranges from 81 to 84. The response rate is 28 percent. The second source is newsletters issued by various public risk pools. The author obtained the newsletters during her trip to the AGRiP's headquarters in Prague Oklahoma in September 2006. The third source is a two-hour long interview that the author conducted with the AGRiP chief executive officer, Harold Pumford, regarding the changes in public risk pools over the years. The fourth source is the websites of AGRiP members.

### IV. Findings

#### A. Membership composition

Table 1 presents pools' membership composition from the current survey and from the AGRiP *Sourcebook* (2004). The two sources reveal a very similar distribution of multiple v. single type(s) of jurisdictions. In the current survey, 30 out of the 81 respondents (37%) indicate they serve multiple types of entities and 51 (63%) serve single types of members. The AGRiP *Sourcebook* (2004) reports 140 pools (or 39%) have multiple types of entities and 223 pools (61%) have single members only. Based on the current survey, among the single-member pools, more pools serve school districts.

#### B. Characteristics of Pool Executives

The first generation of pool directors came from the intergovernmental associations or public agencies. As pools mature and as many of the original directors have retired, pools have a new generation of directors. What are their backgrounds? Are they from inside the pools or outside of the pools? The findings are reported in Table 2. There are two characteristics of the current pool directors. First, they grew up with the pools. This is seen from the facts that they come from the internal promotion (21%), from another pool (17%), and from member organizations (9%). All these together add up to 47 percent of the respondents. Second, business experience is coming into pool administration as seen by the fact that 21 percent of the pool directors are from the insurance industry.

Gagne (2007b) reports a growing demand for demonstrated competency and credentialing in the field of pool management. For a pool manager to lead its organization into the future competitive environment, insurance background is important. At the same time a firm understanding about the pooling profession and practices – loss control, claims, finance, auditing, reinsurance and actuarial- is also essential. It looks like the current generation of pool directors possesses at least one side of the knowledge. When the other side of the knowledge is wanting, training programs like the professional designation available from the Insurance Education Association (IEA) and the California Joint Powers Authority can help (Gagne, 2007a). As discussed later in this article, how to cultivate future risk managers is a big concern in the public risk pool industry.

[Insert Table 2 here]

### **C. Changes and Innovation Practices**

One of the major goals of the research is to gauge how pools have changed over the years. In terms of the environmental changes, competition from other pools exists to a certain extent. As Table 3 shows, 46 percent of the respondents confirmed competition from the other pools. But more pool directors (52%) see competition coming from private insurance companies. Either as a response to the competition, or as an effort to provide goods and needed services to their members, pools have a strong desire to change and make innovations. There is an overwhelming agreement (82% of the responders) that without change and innovations, the pools would decline. Pools themselves are an innovation, and they will continue to stay innovative. They (84% of the responders) also believe that they have succeeded in most of their changes and innovations in recent years.

Then what are these changes and innovations? As shown in Table 3, some diversifying of the product/service mix (e.g., into financial services, life insurance, investment management) is happening, but on a small scale (16% of the respondents). Are pools looking to diversify by underwriting different types of local entities? Only 20 percent of the respondents (e.g., 9% and 11%) confirmed this change, while 57 percent of the respondents denied it. This means that pools still remain relatively homogenous in terms of their memberships. This may be a reason why pools do not perceive other pools as much competitors as private insurers.

[Insert Table 3 here]

In terms of whether pools are participating in or considering joining a regional/ national excess or reinsurance pools, more than 40 percent of the respondents confirm this trend. Although there is no previous data to compare with, this is an important phenomenon, and will be discussed later.

Many reported innovative methods used in the areas of delivering service, providing training/education, expanding risk coverage, enhancing loss control efforts, providing loss prevention incentive programs, and using information technology in providing training and communications. A few reported new practices in financial management. The specific activities and changes are reported in Appendix 1. The reported innovations and changes are consistent with Gagne's (2007b) finding. A pool must "constantly refine, repackage, and resell its programs to increase the potential for member retention" (p. 8).

Reviewing the websites, newsletters, and the personal interview also reveal two more important changes. The first one is that pools have moved to a holistic perspective in delivering risk management. Almost all of them have mission statements and strategic plans. They have a clear focus on safety and risk control programs. Training and education are a highly integrated part of the programs. The survey shows that many are considering leadership development. Many pools are continuing their commitment to the concept of wellness in the workplace. The concept of a holistic risk management approach (also known as enterprise risk management or strategic risk management) has been used extensively in the private sector (Liebenberg and Hoyt 2003); Qiao (2007) documented its emerging use in the public sector. This study seems to suggest that it is common among public entity risk pools.

The second major change is the creation of pools of pools. Pools are created with pools as members. Examples are the Government Entities Mutual or Transit Reinsurance, the National League of Cities Mutual (NLC Mutual), and the County Reinsurance Limited (CRL) as discussed earlier. These are pools that have taken the pooling concept to share risk with other self-insured pools across the lines. Gagne (2007b) indicates that these pools of pools are created as a response to the emerging challenge of reinsurance consolidation. They are helpful at the excess layer that sits above the pools' self-insured retention level. There are some regional excess pools of pools. The California Excess Insurance Authority serves a number of other joint power authorities in California. Other regional reinsurance pools exist in four other states: Ohio, Iowa, Michigan, and Nebraska. The survey also found that 42 percent of respondents indicate they are participating or are considering joining or forming a regional or national excess or reinsurance pool as shown in Table 3.

#### **D. How Changes Have Taken Place**

The findings are reported in Table 4. The most common source of ideas is from members' input. Other sources come from other pools and conferences. Competition and trade journals provide additional sources. Seven more respondents stated that all of the sources help them to come up with new ideas.

[Insert Table 4 here]

What drives the interest in innovation? As shown in Table 5, the most important driver is the desire to meet the needs/demands of the pool members. This is logical since pools are established to provide services for their members. The second important factor is to maintain and expand the pools' membership, followed by a desire to secure more favorable excess/reinsurance terms. More than one third (36%) of the respondents indicate meeting or beating the competition motivates innovation. This competition can come from private insurance industry and from other pools, as discussed earlier. In sum, most of the innovations deal with how to serve pool members.

[Insert Table 5 here]

#### **E. Issues, Challenges, and Problems**

What are the major issues, problems, and challenges pools will be facing in the next five years? The author developed a list of twelve issues from the literature. The respondents are asked to identify from the list up to four issues. The results are reported in Table 6. Looking at

the total times reported, maintaining the membership support and participation is the leading issue. Fifty-four times it is identified as an important issue. This is consistent with Jorgensen's (2008) comment that "self-insured groups (SIGs) work relentlessly to retain and grow membership" (p. 58). One way to do this is to communicate with members about the value-added services it can provide. Gagne (2007b) also has the same finding. Membership retention and controlled growth are of great importance to his six interview panelists. The next one is uncertainty arising from the new risks, followed by competition from private insurance companies. By contrast, much fewer see competition from others pools as a challenge. Looking at specific ratings, more respondents indicate competition from the private insurance companies as the number one challenge (see Column 2 of Table 6). The second most common issue of concern is maintaining the membership support and participation. These two issues could be combined as a survival issue for the pools.

[Insert Table 6 here]

The next generation of pool administrators also emerges as an important issue for thirty-one respondents. Gagne's interview panelists also reveal the same concern and they suggest that pools develop succession plans and integrate the plan into the culture. This is a big concern due to the following factors: 1) the essential characteristics for effective leadership is important to pool performance (Public Entity Risk Institute 2006); 2) pools' management would see significant turnover in the next three to eight years; and 3) the emerging challenge of reinsurance consolidation, the ever changing insurance market, and the competition from the private sector and other pools make it essential that a pool manager should have a high degree of not only technical expertise, but also proficiency in pooling principles and practices and a clear understanding of the unique needs of the pools membership (Gagne 2007b). It is important for pool managers and governing boards to select successors capable of handling this multi-dimensional position.

When asked what actions pools are taking being taken to address the issues pools are facing, there are a wide range of answers. However, several types of measures stand out. One type clearly focuses on the members and services to members. Another stream of action is communication among members, board members, and with other pools and working with other pools. This is consistent with the finding that maintaining membership support and participation is one of the major problems and challenges.

Organizational capability-building is also emphasized in over ten responses. This includes developing and drafting a succession plan and grooming new leaders. Several also mention adding staff and increasing staff professional development and networking as well as orientation and training of new board members. Many mentioned long-term planning and strategic planning as a way to address the issues they are facing. Another type of action is to build fiscal capacity and improve the cost efficiency, including initiating dividend programs, extending discounts for good members, actuarially determined adequate funding, and maintaining financial strength to combat competition.

## **V. Conclusion**

This research studied the current generation of public entity risk pools. It revealed many innovative practices and programs that public entity risk pools have engaged over the past few years in the areas of delivering services, providing training/education, expanding risk coverage,

enhancing loss control efforts, providing loss-prevention incentive programs, and using information technology. Particularly interesting is the emergence of regional or national excess or reinsurance pools. There is also evidence that public entity risk pools are taking a holistic perspective in delivering risk management and in funding risks.

The survey also found that the greatest motivation for the innovation is to meet the needs/demands of the members, followed by securing more favorable excess/reinsurance terms, and meeting and beating competition. The major issues respondents identified include maintaining membership support and participation, competition from private insurance companies, and uncertainty arising from new risks, and leadership succession.

To conclude, the author offers two observations regarding pools and their innovations. First, public entity risk pools are member-oriented organizations. Serving the needs of their members is why they were created and why many innovated practices and programs took place as stated earlier. Member retention and improving and expanding the services will be very important for pool managers and will be a driving force for pools' development in the years to come. The second point is how changes in public entity risk pools are related to private insurance market condition changes. To a large extent, the innovated practices and programs are irrelevant to what happens in the traditional insurance market. According to David Hayasaka, the former AGRiP board member and Executive Director of Washington Schools Risk Management Pool, though the private insurance market helped to form pools in the first place, pools develop regardless of market conditions. Many innovative practices took place not because the current insurance market was hard or soft, but because the members needed them, or they wanted an edge against competitors. Many pools' innovations are not available in the private insurance market such as special education coverage, pre-claim coverage, and pre-loss legal consultation service. Indeed, how well pools can meet the needs of their members and how well pools can communicate with their members and other stakeholders will determine the stability and fiscal health of the pools.

However, competition from the private insurance industry and the changes in the overall financial market do push the pools to be more innovative in providing services. For instance, to respond to the rapidly consolidating reinsurance market, public entity risk pools "are designing innovative programs that call for innovative excess and reinsurance solutions" (Shull, 2005, p. 1). The pressures of emerging and intense competition, the global reinsurance market, and the emergence of new risks make it necessary for pools to find ways to work with other pools and with the private sector as well to tap the talents and skills that they need to open up new services for their members.

This is an exploratory study about the current generation of pools. More studies about pools, their performance and their roles in public financial management is warranted. From a public budgeting and financial management perspective, research topics should include pools' fiscal conditions, their investment strategies, the impact of pool service on their members' budgeting, and what fiscal constraints they will have when they move ahead. Pools also provide a rich ground to test such management theories as agency theory. Just as in a corporate setting, there are two sets of interests: pool's members' and the director's. Given the fact that pools focus on members, will the director's interest align with the members'? And how? Or will agency

theory work the same for the pool setting as in the corporate setting? This would also be an interesting research question.

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Table 1. Types of public entities eligible for membership

|                            | 2006 Survey<br>(N = 81) | 2004 AGRiP Source Book<br>(N=363) |
|----------------------------|-------------------------|-----------------------------------|
| Multiple Types of Entities | 30 (37%)                | 140 (39%)                         |
| Two types                  | 13 (16%)                | 55 (15%)                          |
| Three types                | 6 (7%)                  | 26 (7%)                           |
| Four types                 | 5 (8%)                  | 30 (8%)                           |
| Five types                 | 2 (4%)                  | 16 (4%)                           |
| Six types                  | 2 (2%)                  | 8 (2%)                            |
| Seven types                | 1 (1%)                  | 5 (1%)                            |
| Eight types                | 1 (1%)                  | N/A                               |
| Single Type of Entities    | 51 (63%)                | 223 (61%)                         |
| Municipalities             | 12 (15%)                | N/A                               |
| Counties                   | 7 (9%)                  | N/A                               |
| School districts           | 16 (20%)                | N/A                               |
| Special districts          | 3 (4%)                  | N/A                               |
| Housing authorities        | 6 (7%)                  | N/A                               |
| Transit authorities        | 3 (4%)                  | N/A                               |
| Townships                  | 3 (4%)                  | N/A                               |

Table 2. The background of the pool's current executive directors (N=84)

|                                    | Number of Respondents | % of the total respondents |
|------------------------------------|-----------------------|----------------------------|
| Another pool                       | 14                    | 17%                        |
| The insurance industry             | 17                    | 21%                        |
| A pool service provider            | 5                     | 6%                         |
| The membership                     | 7                     | 9%                         |
| Internal promotion within the pool | 17                    | 21%                        |
| Other                              | 24                    | 30%                        |

Table 3. Competition, Innovations and Success (N=83)

|   | To what extent do you agree with the following statement? |                   |             |           |                |
|---|---|-------------------|-------------|-----------|----------------|
|   | Not at all  | Strongly disagree | Indifferent | Agree     | Strongly agree |
| Top number is the count of respondents. Bottom % is percent of total respondents                |   |                   |             |           |                |
| We are experiencing competition from other pools.   | 26<br>32%   | 9<br>11%          | 9<br>11%    | 26<br>32% | 11<br>14%      |
| We are experiencing competition from private insurance companies.                               | 10<br>12%   | 18<br>22%         | 11<br>14%   | 29<br>36% | 13<br>16%      |
| We have to make constant changes & innovations, otherwise we might fall backward.               | 1<br>1%   | 4<br>5%           | 9<br>11%    | 36<br>44% | 30<br>38%      |
| We have succeeded in most of our recent changes/innovations                                     | 1<br>1%   | 1<br>1%           | 10<br>13%   | 42<br>54% | 24<br>30%      |
| We are diversifying our product/service mix (e.g. into financial services life insurance, etc.) | 39<br>48%   | 11<br>14%         | 18<br>22%   | 11<br>14% | 2<br>2%        |
| We are looking to diversify by underwriting different types of local entities.                  | 33<br>41%   | 13<br>16%         | 19<br>23%   | 7<br>9%   | 9<br>11%       |
| We are a participant in or are considering joining a regional/ national reinsurance pool.       | 25<br>31%   | 8<br>10%          | 15<br>19%   | 11<br>14% | 22<br>27%      |

Table 4. Sources for ideas to change (Multiple responses are permitted) (n=81)

|   | # of respondents | % of total |
|---|------------------|------------|
| I acquire my ideas directly from members' input | 65               | 81%        |
| I acquire my ideas from other pools             | 61               | 76%        |
| I acquire my ideas directly from conferences    | 57               | 71%        |
| I acquire my ideas from the competition         | 39               | 49%        |
| I acquire my ideas from trade journals          | 30               | 38%        |
| Others  | 22               | 28%        |

Table 5. What Drives the Interest in Innovation? (Multiple responses are permitted) (n=81)

|   | # of respondents | % of total |
|---|------------------|------------|
| To meet the needs/demands of our members          | 73               | 91%        |
| To maintain and expand the pool's membership      | 41               | 51%        |
| To secure more favorable excess/reinsurance terms | 32               | 40%        |
| To meet or beat the competition                   | 29               | 36%        |
| Executive motivations                             | 22               | 28%        |
| Other motivations                                 | 12               | 15%        |
| Access to capital                                 | 5                | 6%         |

Table 6. The Most Important Four Issues Pools Will Be Facing in the Coming Five Years

| N= 81  | Frequency of Ratings #1, #2, #3, #4, |          |          |          |   |
|--|--------------------------------------|----------|----------|----------|---|
|  | #1 issue                             | #2 issue | #3 issue | #4 issue | Total times of being identified as an issue |
| Maintaining the membership support and participation | 15                                   | 17       | 16       | 6        | 54  |
| Uncertainty arising from the new risks.              | 8                                    | 6        | 11       | 16       | 41  |
| Competition from private insurance companies         | 18                                   | 8        | 1        | 13       | 40  |
| Next generation of pool administrators               | 6                                    | 6        | 10       | 9        | 31  |
| Generating/maintaining adequate financial capital    | 3                                    | 9        | 6        | 6        | 27  |
| State and/or Federal regulations.                    | 10                                   | 4        | 7        | 6        | 27  |
| Competition from other pools                         | 7                                    | 13       | 5        | 1        | 26  |
| Tort reform or loss of tort cap or immunity.         | 3                                    | 9        | 10       | 4        | 26  |
| Difficult to provide cost-effective service.         | 3                                    | 1        | 9        | 4        | 17  |
| Lack of qualified personnel                          | 2                                    | 3        | 2        | 6        | 13  |
| Lack of a long-term mission and plan.                | 3                                    | 2        | 0        | 6        | 11  |
| Possible merge with other pools.                     | 0                                    | 1        | 2        | 2        | 5   |

### Appendix 1: Selective Changes and Innovations during 2003-2006 Reported in the Survey

New coverage

- Litigation

- No-fault mold coverage for remediation and repair
- No-fault accident insurance and WC-Free Acc/Health coverage for all volunteers
- Modifying and broadening existing coverage, concentrating on poor performing members

#### Education and training

- Multi media and online training
- FATS-fire arms training system
- Training consortium with other agencies and training partnership with member associations
- Right-to-know training, law enforcement/jailer training
- Leadership/supervisor training
- Firearms training simulator, driver training simulator
- Loss control training
- Trainers go to the locals and to the high-risk locations
- Increasing frequency in training and providing systematic training program

#### Loss control

- Results-oriented risk control, loss control grants to members
- Strong preventive benefits and personal service
- Law enforcement loss control resources, safety audits
- Cost allocation based on miles and hours
- Implementing multiple risk control programs
- Vehicle accident prevention program
- Annual loss control evaluation rating and loss control excellence program
- loss incentive program (loss control premium credit program, premium incentives for compliance, safety credit program)
- Linking root causation data to prevention programs
- Comprehensive loss control, risk awareness program
- Safety videos and more services with new techniques (more strategic data-driven approach)
- Expanding safety audits, extensive outreach efforts
- More proactive measures (e.g., testing employees' strength, pro-employment physical)
- Setting up loss prevention committees
- Using online inspection and increasing field presence

#### Financing management

- Using reinsurance instead of insurance
- Balancing capital growth and dividends, sending dividends to members
- Providing capital contribution to captive insurer (GEM)
- Developing a specific pool surplus formula
- Implementing dividend and rate stabilization funding
- Basing property premium on three year rolling loss

#### New services

- EDI transmission for medical/imaging system in house
- Offering contract review services

- Establishing award/grant program
- Providing general administration technique support to membership
- Using in-house claim database

#### Claim administration

- Using new technology such as online claim reporting and web-based claim system
- Using new software to streamline operation, using own data system
- Bringing claim in house and increasing in-house staff
- Starting investigation prior to claim being filed
- Using comprehensive claims audit or annual claim audit
- Hiring the best and lowering case loads
- Using toll free telephone reporting, establishing best practices
- Improving response time and closure, more training to the claim staff.

#### Legal defense

- More in-house counsels, more active review
- Early intervention in administration and hearing
- Using specialists in the field of school law
- Adding litigation management software
- Cultivating new defense teams for specialized areas
- Providing immediate access to legal counsel as needed, pre-defense reviews
- Major incident investigations
- Better tracking cases referred to outside counsel

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