State Risk Management Advisory Council

Minutes from December 5, 2003 Meeting

State Capitol Building, Office of Budget & Program Planning, Room 250
9:00 a.m. – 12:00 p.m.

Members present: Scott Darkenwald, Hal Luttschwager, Allen Hulse, Greg Jackson, Tana Wilcox, Jacquie Duhame. Absent: Randy Penton.

Due to the limited time that Scott could join the meeting, the order of items on the agenda was changed.

Agenda Dec- 03 Meeting

The first discussion was about Variable Pricing for Major Coverages, attachment #7. Brett stated that this option was client driven and would promote loss control. Our clients have requested options for deductibles that would provide discounts on insurance premiums. Our current property deductible option is $1,000.00. Future options could be $2,500.00 or $5,000.00. Our current auto deductible is $250.00. Future options could be $500.00 or $750.00. There will be no discount for automobile liability.

Attachment #7

Brett advised that he had looked at our claims for the last six (6) years to determine what changes Variable Pricing would make. He referenced attachment #3 to indicate the data for the last six (6) years. He then referred to attachment #8 and the suggestions from Tillinghast-Towers Perrin made when they were asked to recommend discounts for insurance premiums. After discussions with them where Brett advised he didn't want to expose our funds as much as they had suggested, Tillinghast agreed with our estimates and suggestions.

attach 3.jpg

Tana asked how is the current rate set? Brett advised the current rate is set at 1.5%.

Scott asked if this had been requested by the agencies. Brett answered in the affirmative. He went on to explain the role of the advisory council in this decision.

Allen advised he went with variable pricing this year. The choices are $1,000 - $10,000, on real property, inland marine, and auto. He found that only the larger cities took advantage of the opportunity. He had started with a conservative discount to build a surplus. There was a discussion of the options available, $250, $500, $1,000, $2,500.

A vote was called for by Brett, the vote was unanimously in favor of variable pricing.

The next discussion was on Auto Physical insurance. Brett referred to attachment #9, Auto Projected Premium Discount that projected premiums after a 5% or 10% discount was applied. The attachment showed the difference in total premiums collected after the discount was applied.

Auto Projected
Premium Discounts

Tana suggested that the first offering for a discount might want to be more conservative to keep the fund secure. That way a cushion could be kept, then could offer a dividend option or larger discount later.

Brett advised we will be asking the agencies to continue to send us claims over $1,000 to document. Allen suggested that even though you lose the statistics on the low dollar accidents, you gain less work in the office by not processing low dollar claims or keeping the records on them.

Brett discussed the reactions our clients had during the client visits to our proposed discounts. Tana suggested that we leave the discounts at our proposed amounts, not what Tillinghast suggested.

Brett called for a vote on the Auto Physical discounts. The vote was unanimously in favor. Proposed discounts were $1,000 deductible – 10%, $2,500 deductible – 20%, with the $250 deductible remaining as is.

Next topic of discussion was Commercial property. Brett started the discussion with a history of our property insurance premiums and claims. He explained that Travelers is now St. Paul, who historically does not do business with government agencies. The big question is whether Travelers can remain autonomous and operate as they have been in the past, or whether St. Paul will dictate how they operate. He stated that we have had 2 high losses in the last year, Havre Hail damage was $1,000,000 and the Foundry will be $500,000. He asked what the rest of the council's experience was for property insurance. The State currently is self insured up to $250,000 with commercial excess after that up to our limits.

Greg made a statement about replacement margin lost blanket coverage.

Brett referred to attachment #13 and #14. Attachment #13 is our current insurance program. Attachment #14 depicts different possibilities.

Attachment #13   Attachment #14

Scott noted that the two losses this year would make a Captive a bad deal.

There was a discussion about a Captive market and future coverage options. An alternative would be debt financing through Bonds.

Allen stated that MMIA used a Captive for liability coverage. He shared his experience with a Captive market.

A statement was make that some Government agencies have excess liability for Federal coverage only that does not waive the State tort caps.

Tana shared that Northwestern is in a Captive for auto liability. They are having problems with it. If they don't use the Captives administrator to process **ALL** of their claims they don't get paid. Northwestern has found that they can't get money if they adjust their own claims.

Greg stated he has found disadvantage of his Captive, debt financing and a letter of credit. The Captive keeps asking for a revised letter of credit. Allen stated he has had no problems with a letter of credit.

Brett called attention to attachment #16. He had met with Brenda Olson this week regarding a model for a Captive for Montana. He advised that #4 on page 1 was a projected model based on data from the last five (5) years. Brett discussed the difference between an association and pure Captive.

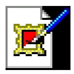
attach 16 pg 1.jpg   attach 16 pg 2.jpg

Greg advised that Counties only are aggregate funded by groups.

As a group, the advice was to go with a Captive. There was a discussion on the pending Supreme Court decision for U.I. Stacking.

Scott stated the object is to "minimize your maximum regret".

Brett presented a discussion on property loss prevention. He advised that Michael Landon from Willis of Seattle works on loss prevention for the State with RMTD. Brett referred to attachment #11which is about our Property Loss Management Program. He described prior loss control efforts with the Historical Society. He stated that loss prevention is MORE important if go with a Captive.



attach 11.jpg

Allen questioned the first bullet of attachment #11. What is 'reasonable attempt'? He felt we would be better served for the State to set objectives with criteria to be met and stronger (firmer) language.

Greg and Allen will send what they currently are using for language of criteria for property loss prevention. Greg also suggested that the safety committee set the criteria for a loss management program.

Tana suggested that Michael Landon might help set general criteria for each department because each department might have different needs, i.e. Transportation, DPHHS, Justice.

The Council voted unanimously in favor of setting up a Captive for the State of Montana.

Brett discussed the start of Safety Day again and referred to attachment #12. He shared information about previous Safety Days and the successes. He stated that State Fund can't self insure now due to budgets but if we sponsor Safety Days they might be able to give dividends to attendees.

Attachment #11 can be found at:
http://www.discoveringmontana.com/doa/rmtd/css/02safetyloss/safetyday2001.asp

Tana felt that when trying to control worker comp costs communication is the most important part of success.
Allen stated that he felt it was VERY IMPORTANT that the Governor should give the speech. It would send a better message than if the Attorney General gave the speech.

The Council voted unanimously in favor of having Safety Days again.

Tana suggested that State Fund might contrive target events at the Safety Days from loss runs.

Brett gave an explanation of attachments #3, 4, and 5. He then gave a Power Point presentation on our Claims and reports system and the advantages. During the presentation there was a discussion on file retention and removal of financial records from claims notes. It was suggested that claims notes be discarded after seven (7) years.

attach 3.jpg   attach 4.jpg   attach 5.jpg

Claims System

The meeting was adjourned at 12:00 p.m.