

Montana State Government
Risk Management Advisory Council

May 9, 2006 State Capitol, Room 250

9:00 a.m. to Noon

CALL TO ORDER

Sheryl Olson called the meeting to order at 9:00 A.M. Advisory Council members present were: Hal Luttschwager, Director of Risk Management & Employee Benefits, Missoula County; Allen Hulse, Assistant Chief Executive Officer, Montana Municipal Insurance Authority; Sheryl Olson, Deputy Director Department of Administration; Brett Dahl, Administrator of Department of Administration, Risk Management and Tort Defense; and Jennifer Marsicano, Administrative Assistant. Risk Management members that were absent: Tana Wilcox, Janet Kelly, Jacquie Duhamel, and Greg Jackson.

INFORMATION ITEMS

Item 1 Risk Management Advisory Council Mission and Purpose

The first discussion was about the purpose of the Risk Management Advisory Council. Mr. Dahl stated that the council should consist of no more than eight (8) members and may include representatives of the insurance industry, claims adjusters, self-insured organizations, regulatory bodies, private firms, public entities and legislators. The Director of the Department of Administration or his/her designee serves as the presiding officer. The full committee shall convene at least annually. Subcommittees consisting of uniform or similar risk management issues shall convene from time to time as requested by the presiding officer.

There are three major purposes for the council; 1) to serve in an advisory capacity to identify issues, costs savings, or efficiencies in the procurement and administration of the state property/casualty insurance plan and advise on the structure of the state's insurance coverage; 2) to serve in an advisory capacity to evaluate processes used by the state to adjust claims, identify cost savings, and/or improve the efficiency of the division's claims administration processes; and 3) to serve in an advisory capacity to assist the Department of Administration to mitigate risk.



Attachment #1

Item 2 Crime Insurance Renewal

Mr. Brett Dahl stated the insurance coverage is up for renewal for FY 2007, the carrier that was chosen was Great American. The state's policy covers: Dishonesty, Forgery/Alteration, Computer Fraud, Theft, Destruction, Disappearance, and Faithful Performance. Higher limits were quoted \$10,000,000. Quotation at the higher limits

resulted in a mandatory deductible of \$500,000 per occurrence. Limits will be increased given the additional exposure from average daily deposits at the State Treasury.

Mr. Brett Dahl asked the Advisory Council if they had any feedback on how the members in the council were handling the crime insurance and any thoughts they had on the renewal. Mr. Allen Hulse stated that he thought their crime insurance was 5 million but the charge is per employee, about \$4.00. Mr. Bill Price stated the crime insurance with banks has a standard endorsement, clients purchase crime insurance because it's required. This has been mandatory within the last five years. He felt the price per employee was a little high.

Brett stated that in 2000 there were 3 fidelity bond claims. Mr. Alan Hulse stated they had two claims last year and the deductible was 5,000 or 10,000 but may be raised to 25,000 or 50,000.



Attachment #2

Item 3 Property Insurance Renewal

Mr. Brett Dahl discussed Best's insurance ratings. The state currently requires A, X FSC rated carriers. He stated that buy choosing a lower carrier; this could possible save the state between \$75-\$100 thousand dollars. He asked the council about their requirements for choosing carriers and providers.

Mr. Allen Hulse stated that there was not a requirement and sometimes the lower rated carriers offered more but at a discount. It's important to research the carriers and to make sure they have a good history and that they have been researched. Mr. Bill Price stated for flood and earthquake coverage they use a B+ carrier which has lower limits but this offers him good coverage at a lower rate, and the customer still has his needs met.



Attachment #3

Mr. Brett Dahl stated that he got the approval to hire Aric Curtiss for property appraisals and that Aric has set up a five year property appraisal schedule. He found that several properties had not been appraised since 1998. Every year Aric is going to set up 2 appraisal rounds for properties and one round for historical properties. Mr. Brett Dahl asked the council what their schedules were for property.

Mr. Allen Hulse stated that they had 2,500 properties and were all appraised from 1998-2003. Any of the properties that are higher than \$500,000, Maximus would be appraising

these. The appraisals are done every two years except the smaller properties are done every year.

Mr. Hal Luttschwager stated his properties were done every five years by Maximus. But most of the structures were in the same locations, the big properties get appraised more often than the smaller ones.



Attachment #4

Mr. Brett Dahl reviewed FY 2006 property losses. The Earthquake in Dillon, Montana has a \$500,000 reserve. There was a \$300,000 reserve for an ammonia contamination claim.

Item 4 Excess Liability Issues

Mr. Brett Dahl asked the council whether they purchased excess liability insurance and if so, did it negate the tort damage caps set by the legislature at \$750,000/\$1,500,000? Advisory Council members were asked to please provide a summary of cost, statutory reference, cases that support their decision to purchase, and a legal opinion (if available).

Mr. Allen Hulse indicated that they provide self insurance up to 1.5 million dollars per occurrence and purchased excess coverage through the GEM program with \$10,000,000s in coverage. This type of insurance is call “wrap around insurance”.

Mr. Hal Luttschwager indicated that they purchase excess ABOVE the tort damage cap and use a B+ carrier. Mr. Brett Dahl discussed out-of-state and federal action quotation vs. bonding. Mr. Brett Dahl stated this coverage applies to out of state and federal claims.

The State of Montana as never experienced a federal or out-of-state claim. Auto liability, law enforcement and corrections exposure account for most catastrophic losses nationally. Mr. Brett Dahl estimates that state agencies annually accrue 1,000 out-of-state vehicle days leased, 500 trips out-of-state. There are 2,700 inmates, 7,000 parolees, and 500 law enforcement professionals; therefore, many public entities purchase this type of insurance.

Mr. Bill Price stated that they don't have the type of exposure the state has. Mr. Hal Luttschwager stated that the insurance companies like to be involved with the claims but they will let you do the defense and they just want to be kept in the loop.



Attachment #5

Mr. Brett Dahl discussed dam liability coverage. Excess dam liability insurance is not currently purchased in the State of Montana and the State has never experienced a dam liability claim. Very few claims occur nationally. Brett stated that a catastrophic loss cannot be accurately predicted. DNRC owns or operated 25 dams and few states have the downstream liability exposure of the State of Montana.

Dam insurance would cost \$417,146 but it only takes one catastrophic loss to wish you had insurance. Several carriers would be involved if the State of Montana purchased this type of insurance. The three companies are Lexington, Allied World Assurance Company and Star Excess Liability. Mr. Brett Dahl stated he needed to know more about what type of prevention is being done for these dams and if certain dams should be insured, maybe the dams that could do the most damage if they should fail.



Attachment #6

Item 5 Ratios and Rate Setting

Mr. Brett Dahl talked about the ratios and rate setting, the first step to setting rates is to establish a funding objective. There are several benchmarks used by industry. According to the state's consulting actuary, Tillinghast, the following ratios are recommended:

- Prospective losses/risk margin (<1.5 benchmark),
- Estimate Claims Liabilities / risk margin (<1.5 benchmark),
- Risk margin/maximum retention (8-20 benchmark).

These benchmark ratios are based on both insurance industry and the public sector.



Attachment #7

Mr. Brett Dahl wanted to know what the targets and margins were for the other members on the council. Mr. Hall Luttschwager stated they were too small and that there was no need. They pay out around 52-100 claims a year.

Mr. Allen Hulse said the projected the first year based on the last 20 years. The net premiums were 1.6 million. The ratio for most lines is Risk Margin of 1.25 to 1.50 times the premium.



Attachment #8

Item 6 Client Visits

Mr. Brett Dahl stated that the RMTD staff has made 63 client visits in the past 8 months to review insurance, claims, and risk management issues.

Item 7 Loss Prevention Issues

Mr. Brett Dahl talked about phasing out the 15 passenger vans but that the Montana University System maintains that there is still a need for the large passenger vans and there would not be an identified final phase-out date. However, when more affordable transportation options surfaced, the campuses could individually elect to eliminate their large passenger vans.



Attachment #9

Mr. Brett Dahl gave an update on Defensive driving trainings. There have been 1,300 people that have taken the course within the last 6 months. Brett Dahl stated that a new consultant, John Duezabou was the trainer. Because of the Defensive Driving class the number of claims has declined.



Attachment #10

Mr. Brett Dahl presented a training calendar for the next six months. This course will take place in several different locations in Montana and that this is a free course and any is invited to attend these trainings. This training schedule will be posted on the web at www.rmtd.mt.gov



Attachment #11

The meeting was adjourned at 12:00 P.M.