

RISK MANAGEMENT ADVISORY COMMITTEE (RMAC)

Meeting Minutes

October 3, 2016

A meeting of the Idaho Risk Management Advisory Committee was held on this date in the LBJ Building, Conference Room 155, 650 W. State Street, Boise, Idaho. Chairman Geddes called the meeting to order at 1:30 p.m.

Members Present:

Robert L. Geddes, Director, Department of Administration and Committee Chair

Faith Cox, Statewide Risk Manager, Office of Risk Management

Jim Carpenter, Idaho Transportation Department (ITD)

Senator Dean Mortimer

Representative John Gannon

Theresa Chrisman, Lewis-Clark State College (LCSC) (via telephone)

Kevin Kempf, Director, Department of Correction

Others Present:

Keith Reynolds, Deputy Director and CFO, Department of Administration

Kay Christensen, Chief, Contracts and Administrative Law, Office of the Attorney General

Robyn Lockett, Analyst, Legislative Services Office

Kris Coffman, Lead Claims Adjudicator, Office of Risk Management

Joan Compton, Analyst, Office of Risk Management

Glen Goff, Claims Adjudicator, Office of Risk Management

Diane Blume, Program Specialist, Department of Administration

APPROVAL OF MINUTES

MOTION: Senator Mortimer moved and Representative Gannon seconded that the minutes of the August 30, 2016 Risk Management Advisory Committee meeting be adopted as written. The motion passed unanimously.

MOTION: Ms. Cox moved and Senator Mortimer seconded that the minutes of the May 25, 2016 Risk Management Advisory Committee meeting be adopted as written. The motion passed unanimously.

FINANCIAL REVIEW

Mr. Reynolds distributed a graph and spreadsheet analyzing FY16 (actual) and FY17 and FY18 (projected) cash. He noted that claims were larger than expected in FY16, which reduced the cash balance going into FY17. Most expenses in FY16 were for liability claims at over \$4.9 million, about one million higher than projected. Property claims were over \$4 million; receipts came in at \$353,112. There were three large claims in FY16 that drove up the state's experience—two property claims that maxed-out the retention (\$250,000 each), and a Title 9 federal claim in which the state paid \$850,000. Total losses for all lines of coverage in FY16 was over \$11.4 million; ending cash balance was over \$10.8 million.

Risk Management's goal is to match its reserve amount to estimated unpaid losses. The target reserve amount is established by an expert third party. If the state holds too much in reserve, it can be penalized by the federal government, and the state has been penalized in the past. Adding to the difficulty of projecting that target amount is the state's budgeting process. Billing amounts must be set one year in advance, he said.

Agency billings will go up by about \$1.8 million in FY18 to help recoup losses from the three large claims paid in FY16 and to fund the new statewide cyber liability coverage at \$903,333. Property billings will go up in FY17 by \$69,000 to fund building appraisals, and by \$67,592 for appraisals in FY18. This is to support Risk Management's initiative to conduct a portion of building appraisals on an ongoing annual basis.

Senator Mortimer requested Risk Management provide the Committee with a 5-year history by department and institution that illustrates receipts versus expenditures. Chairman Geddes explained that these reports have been developed and provided to each agency and institution as part of Ms. Cox's outreach efforts to help customers realize how they can minimize claims.

INSURANCE RENEWALS

Ms. Cox reported all lines of coverage, with the exception of Foreign Liability and Aircraft Liability, renewed as of July 1st. All premium amounts came in at the same rate as last year due to the state's good experience. In one case, she said, the decision was made to move the state's Reinsurance from AIG to ACE which provided a broader policy at a slightly reduced cost. As a good business practice, the state makes sure all carriers have a financial rating of A or higher.

STRIMA CONFERENCE

Both Ms. Cox and Mr. Reynolds attended the annual State Risk and Insurance Management Association meeting last month, Director Geddes explained. Ms. Cox noted she was able to establish valuable contacts with risk management employees from the 28 states that were in attendance. During a roundtable discussion state representatives were able to hear about accomplishments and problems other states are facing. She noted one big issue discussed was the ramifications certain states are facing after legalizing marijuana. Another issue brought up is aging infrastructure on university campuses and the maintenance involved, which is not covered by insurance.

She said, she took the opportunity to talk with several state representatives about their electronic loss systems in anticipation of replacing Risk Management's antiquated system within the next two years. The current system does not provide the reporting capability necessary to effectively manage risk without a lot of manual analysis, she said. Mr. Reynolds added that cyber liability insurance was another major topic discussed at the conference. Most states in attendance were either in the process of putting a policy in place, or had just done so. Drone coverage is also a new issue state representatives addressed.

BUILDING APPRAISALS

State building appraisals have not been completed for ten years, Ms. Cox pointed out; consequently, funding will be put in place to undertake this practice on a regular basis. An analysis suggested that there are several hundred state buildings under-insured, and in her opinion there are also buildings over-insured. She has asked key agencies to provide a list of facilities they are most concerned about. With help from the state's broker, the appraisal company selected was CBIZ. During this fiscal year, she said, 500 appraisals will be accomplished, and 500 every fiscal year into the future so that eventually all state buildings will consistently have current appraisals.

Representative Gannon inquired whether there are buildings that are not insurable or insured at a high premium because of their age and/or condition. Ms. Cox responded that agencies at times opt not to insure those types of buildings if they do not plan to replace them. The state will only pay replacement cost at 140% of the amount insured. Mr. Reynolds noted that the department is required by statute to conduct regular appraisals. Additionally, the state was going to face an increase in property insurance if appraisals were not updated. Costs involved to have them done is very

reasonable, he added. Senator Mortimer asked about deductible amounts for property claims and Ms. Cox explained that the agency deductible is \$2,000 per event and Risk Management self-retains the first \$250,000.

CYBER INSURANCE

At its last meeting, the committee took action to support efforts to bind the state with \$25 million of cyber liability insurance coverage at an annual premium cost of \$570,000, plus collect one-third of the \$1 million deductible over a period of three years. Since then, Ms. Cox said, staff has allocated the premiums based on the amount of personal information each agency maintains and their individual exposure.

The state's broker sent out a Request for Proposals on the state's behalf to obtain bids for cyber liability insurance. She said she recommended entering into a contract with Lloyd's of London. It was the only company that would offer more than \$5 million of coverage, she explained. All key first party and third party coverages would be included in its policy and the prices it quoted was about \$390,000 for \$10 million of coverage and \$570,000 for \$25 million of coverage. Unfortunately, none of the companies who submitted proposals offered retroactive coverage.

The recent data breach experienced by the Department of Fish and Game involved a third-party provider, she said. Subsequently, it was discovered that many of these types of contracts with third-party vendors involve contracts that are very old and have limited coverage. She indicated she has been working with the Division of Purchasing to make sure new contracts are written to include adequate cyber liability coverage.

Chairman Geddes noted that Ms. Cox will be addressing the Governor's Cybersecurity Task Force later in the week and he anticipates there will be many questions about what the state gets with cyber liability coverage. His biggest concern, he said, is having to wait until the next budget cycle in FY18 to request the appropriation for statewide coverage. Ms. Cox indicated there are three state entities planning to purchase their own coverage for the remainder of FY17--the Department of Health and Welfare (DHW) (coverage would cost nearly \$400,000), LCSC (costs would be about \$55,000), and the State Insurance Fund (coverage would be about \$40,000). Director Geddes noted that if these entities were to pool their moneys and purchase from Lloyds of London, they could fund the premium to cover the entire state with cyber liability insurance. Mr. Reynolds responded that one of the biggest difficulties is that some of these moneys are federal funds and they cannot be used for the benefit of other agencies.

Senator Mortimer inquired if risk management reserve moneys can be utilized toward purchasing statewide coverage. Mr. Reynolds added that there are over \$3 million in reserves available for discretionary use. Director Geddes clarified that in addition to funding the \$570,000 premium, should there be an event the state would also have to come up with the deductible of \$1 million. As mentioned earlier, he said, to build up the reserve to pay for the deductible in future years, he said, Risk Management will assess a portion of that million dollars to agencies over a period of three years. Once the reserve has reached that funding level perhaps the Office of Risk Management could then self-fund cyber liability insurance, he suggested.

MOTION: SENATOR MORTIMER MOVED AND REPRESENTATIVE GANNON SECONDED THAT THE RISK MANAGEMENT ADVISORY COMMITTEE RECOMMEND TO THE GOVERNOR'S CYBERSECURITY TASK FORCE THAT THE STATE IMMEDIATELY IMPLEMENT CYBER LIABILITY INSURANCE STATEWIDE AND RECOVER THE COST FOR THE COVERAGE FROM AGENCIES IN THE MOST PRACTICAL METHOD AVAILABLE. The motion passed unanimously subsequent to the following discussion.

Senator Mortimer clarified that his motion does not exclude the possibility of using risk management reserve funds if necessary.

AGENCY VISITS

Ms. Cox reported that since the last meeting of this committee she has visited three of Idaho's higher education institutions—LCSC, Boise State University, and the University of Idaho. In November she is speaking at an event at Idaho State University. In addition, staff has met with ITD, DHW, Veterans Services, Central District Health, and Administration's Divisions of Purchasing and Public Works. Her goal is to visit all of the larger agencies on an annual basis to make sure Risk Management is providing the services they require.

AGENCY AND HIGHER EDUCATION RISK FORUM

By leveraging the state's broker, Arthur J. Gallagher, two free annual Risk Management Forums will be provided to the state, she continued. Scheduled for October 17th is the first session for universities, and so far 20 individuals have signed up. The other forum on October 18th is designed for agencies, and so far 80 employees are scheduled to attend. The program will include experts brought in to address topics of importance to the specific entities, such as slip and fall prevention and methods for creating an effective safety committee, for example.

NEXT MEETING

The Committee agreed to meet in January, June, and October during 2017. Director Kempf expressed his appreciation for the forward-thinking and amount of work that Risk Management has done to protect Idahoans.

ADJOURNMENT

The Committee adjourned at 3:00 p.m.

Diane K. Blume, Program Specialist
Department of Administration