

## **RISK MANAGEMENT ADVISORY COMMITTEE (RMAC)**

### Meeting Minutes

June 7, 2017

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

Travis McGrath, Chief Operations Officer, Idaho Transportation Department

Faith Cox, Statewide Risk Manager, Office of Risk Management

Pat Donaldson, Chief, Division of Management Services, Dept. of Correction (filling in for Henry Atencio, Director)

Representative John Gannon

Senator Dean Mortimer (via conference call)

Theresa Chrisman, Assistant to the VP for Finance and Administration, Lewis-Clark State College (via conference call)

#### **Others Present:**

Keith Reynolds, Deputy Director and CFO, Department of Administration

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

Gideon Tolman, Analyst, Division of Financial Management

Robyn Lockett, Analyst, Legislative Services Office

Kris Coffman, Senior Claims Adjudicator, Office of Risk Management

Joan Compton, Analyst, Office of Risk Management

Glen Goff, Claims Adjudicator, Office of Risk Management

Max George, Claims Technician, Office of Risk Management

Kristie Fields, Technical Records Specialist, Office of Risk Management

Colleen Tarlas, Claims Technician, Office of Risk Management

Diane Blume, Program Specialist, Department of Administration

Chairman Geddes welcomed new member, Travis McGrath.

#### **APPROVAL OF MINUTES**

**MOTION: Ms. Cox moved and it was seconded by Senator Mortimer that the minutes of the January 11, 2017 Risk Management Advisory Committee meeting be adopted as written. The motion passed unanimously.**

#### **FINANCIAL REVIEW**

##### **Cash Analysis Spreadsheet**

Mr. Reynolds distributed a copy of the Risk Management Cash Analysis as of 4/30/17, and pointed out the FY17 actual expenditures include three lines of coverage with negative balances--cyber liability, boiler, and property. Cyber liability insurance costs were unexpected at the end of the year, he said. As recommended by this committee, a policy was put into place effective December. The premium was \$330,000 and with a few minor payments, the negative balance is \$341,200.

It has been a bad year for boiler claims (negative \$29,772) and property claims (negative \$201,060); however, it has been a good year for liability where claims have been reduced, he pointed out. Auto physical damage costs have improved as well, due to efforts by staff to seek payments from at-fault parties.

### **Claims and Expense Analysis**

This analysis shows the different types of claims experience versus those projected, he explained. For example, as of 4/30/17 about \$2.4 million has been expended toward liability claims against a projected \$3.8 million. Taking into consideration all lines of coverage, he said, we will likely balance-out at the end of the year. To accommodate federal requirements as part of statewide cost allocations, each line of insurance must be accounted for separately.

### **UPDATE FROM THE STATEWIDE RISK MANGER**

#### **Loss Trends**

Ms. Cox noted that winter weather has contributed to recent loss trends. For example, property claims include two large collapses over the winter that were total losses, a fire at one of the universities, and an incident where an electrical line was cut. As far as boilers, she said, one froze and required replacement, and another failed due to faulty installation. Both were preventable, she added.

There has only been one small cyber liability loss affecting about 250 individuals that was applied to our new coverage. After the loss, a breach coach was engaged to help the agency, and a forensic firm hired to do an investigation to make sure the breach was mitigated. A call center was also engaged to conduct notifications and offer monitoring services. The cost paid by the state was very small. There have been other larger state breaches but fortunately, the vendors assumed responsibility. She and the state's Chief Information Officer, Greg Zickau, have been visiting all state agencies to advise them on the available cyber coverage, she added.

#### **Experience Rating**

Premiums are allocated based on high level exposure, Ms. Cox pointed out. For example, all agencies that have automobiles are charged the same rate. Unfortunately, there is no way with the current Risk Management information system to implement an experience-rating or loss-rating program. There are four lines of coverage that should be experience rated because some agencies are subsidizing others--liability, cyber-liability, property, and auto-property liability. A new system would be able to configure rating tables and enter complex formulas, loss assessments, issue incident management, and record remediation recommendations. As an example, she explained, there was a recent battery fire at one of the universities and if we had a system that recorded those types of batteries statewide, Risk Management could have extracted remediation recommendations and sent them out to those entities.

A system like this is expensive, she cautioned, but it would be valuable in the long run. Agencies could utilize it themselves for remediation recommendations and it would allow our department to offer enterprise risk management. The current system was put into place about 10 years ago and the cost was about \$150,000 for implementation with ongoing maintenance of \$17,000 annually. It mainly serves as a data warehouse. A new smart system would cost between \$150,000 and \$250,000 for implementation and \$75,000 to \$150,000 annually depending on how many agencies utilize it. One big loss prevention would pay for the entire system, she added. If approved, acquisition would take place in FY19.

### **Subrogation Update (Auto Property Damage)**

An exciting change of practice underway in Risk Management is the emphasis on subrogation, Ms. Cox continued. When someone is at-fault for damages to the state's property, the state has the right to subrogate against the insurance company of the person at fault, or take them to court if they do not have insurance. Prior to her coming on board, she said, the office was not making any effort to subrogate against auto property damage because there was not the manpower available to do so.

In the first four months of 2015 we collected zero subrogated moneys, she said. In comparison, during the same period in 2016 we collected \$120,000 using existing staff, but there was still a big backlog. The budget allowed for hiring a part time person late in 2016 and consequently, during the first four months of 2017 we collected \$187,000 of subrogated moneys. For FY18, this temporary position will become full time.

### **Insurance Services Office (ISO) Reporting Tool**

ISO is the leading provider of analytics as a reporting tool for insurance companies, she continued, and until recently was not utilized by the Office of Risk Management. This tool helps to detect fraud. By logging into the system to follow up on a general liability bodily injury claim, for example, staff can see if the claimant has made similar claims, and/or reported similar injuries. For little expense, staff can also search for individuals who have left town, but owe the state money.

Further, she explained, about 38% of all automobile accidents within state government are preventable, such as employees backing into another vehicle or a stationary object. In 2016 the state had 127 preventable accidents and because we did not have this tool available, we did not report these accidents to ISO. Consequently, the employees who continue to have these preventable accidents experience no implications because accidents were not reported to their insurance carriers. She mentioned she has been talking with some of the larger agencies who are in support of using this tool as a means to get the attention of their employee-drivers. The committee agreed that an implementation date be communicated to all employees and as of that date, all at-fault accidents will be reported to ISO.

### **Building Appraisals Update**

To date, CBIZ has completed about 500 building appraisals, she reported. Significant errors were discovered both ways—some facilities were over-insured and some under-insured. The appraisals show that the state is only under-insured on a whole by about 2% on average. She reminded the group that 25% of state facilities will be appraised each year on an ongoing basis.

### **July 1<sup>st</sup> Renewals and Property Renewal Options**

Ms. Cox recalled at its last meeting, the Committee asked staff to pursue three options for property coverage from our broker. The state's current policy is with Travelers Insurance Company. Thirteen companies were asked to provide quotes, but only four were received due to the size of the state with over \$8 billion in property assets.

The two top proposals came from Travelers and Alliant Property. Alliant specializes in public entities and insures Washington, Montana, and Nevada. She handed out a spreadsheet comparing the coverages offered by the two firms and it is clear Alliant offers better choices, she pointed out. Because Alliant specializes in public entity property coverage, and because its coverage is worldwide, it provides a lot of coverage that the state cannot get from the standard insurance market. The most Travelers would pay in one incident is \$500,000 million; however, Alliant would pay \$1 billion.

Currently, the state has no earthquake high hazard coverage through Travelers but Alliant would cover all low, medium and high hazard coverage at \$150 million. The state has purchased an excess policy for earthquakes and would be able to discontinue it if the state were to go with Alliant. Alliant covers errors and omissions up to \$50 million, as well as research animals for universities. For terrorism, Alliant covers \$700 million of events that are certified and non-certified by the federal government, whereas Travelers covers \$100 million for certified events only (911 was the last incident certified). Alliant covers watercraft in and out of water whereas Travelers only covers watercraft out-of-water. Also, Alliant provides blanket coverages that don't require agencies to do as much scheduling of their properties. Deductibles are the same, Ms. Cox added, and with Alliant there is no limit on replacement costs. With Travelers the cap is 140%.

Cyber liability is also offered through Alliant and would allow the state's cyber liability coverage deductible to be increased from \$1 million to \$2 million. It would provide coverage beginning at \$100,000 and pick up costs up to the state's deductible. Alliant also has pollution liability and green building coverage. The total annual premium for Travelers is \$2,689,356; for Alliant it is \$2,043,645.

Annually, Alliant solicits for participating carriers. Currently, 60% of all claims are covered by Lexington and 40% by Lloyds. Lexington is an AIG company and there are concerns given AIG's recent financial history. Consequently, the state recently moved its excess carrier from Lexington to another carrier. When this concern was brought up to Alliant, the state was reassured that Lloyds could be utilized for the entire 100%. If this is the case, she said, the switch to Alliant would be good for the State of Idaho. Because the Director of the Department of Administration is authorized to secure insurance coverages in the amounts and limits necessary to protect the state of Idaho, changing carriers will not be difficult, she concluded.

**MOTION: Senator Mortimer moved and it was seconded by Representative Gannon that the state change its property insurer from Travelers to Alliant with the stipulation that only quality insurance carriers participate. The motion passed unanimously.**

Senator Mortimer thanked Director Geddes and Risk Management staff for their good work.

## **NEXT MEETING**

The next meeting of the RMAC is scheduled for October 4, 2017.

## **ADJOURNMENT**

Chairman Geddes adjourned the meeting of the Risk Management Advisory Committee at 2:45 p.m.

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Diane K. Blume, Program Specialist  
Department of Administration