

RISK MANAGEMENT ADVISORY COMMITTEE (RMAC)

Meeting Minutes

May 19, 2020

A meeting of the State Risk Management Advisory Committee was held on this date in Room WW17, Statehouse, Boise, Idaho. Chairman Reynolds called the meeting to order at 1:30 p.m.

Members Present:

Keith Reynolds, Director, Department of Administration (DoA) and Committee Chair
Faith Cox, Administrator, Division of Insurance and Internal Support, DoA
Theresa Chrisman, Assistant to the VP for Finance and Administration, Lewis-Clark State College (via conference call)
Susan Buxton, Administrator, Division of Human Resources (DHR) (via conference call)
Josh Tewalt, Director, Department of Correction (via conference call)
Representative John Gannon
Senator Steven Thayne (via conference call)
Brenda Williams, Chief Human Resource Officer, Idaho Transportation Department (via conference call)

Others Present:

Kris Coffman, Risk Management Program Supervisor, Office of Risk Management (ORM)
Kristie Fields, Technical Records Specialist, ORM
Colleen Tarlas, Claims Technician, ORM (via teleconference)
Steve Bailey, Deputy Director, DoA
Diane Blume, Program Specialist, DoA

APPROVAL OF MINUTES

MOTION: Ms. Buxton moved, and it was seconded by Ms. Cox that the minutes of the January 14, 2020 Risk Management Advisory Committee meeting be approved as written. The motion passed unanimously.

FINANCIAL REVIEW

FY17 – FY21 Cash Analysis Report, ending 4/30/20

Chairman Reynolds directed the committee to the agency receipts column representing billings collected for all lines of coverage from agencies for FY19 – FY21. It was projected \$13.7 million will be needed in FY21 and that amount will be billed this July. In FY20 nearly \$13.3 was collected and in FY19 it was \$10.1 million. The big increase was related to a liability exposure, he said. Since, successful legislation introduced by the Association of Idaho Counties limited whistleblower actions and he thanked Representative Gannon and Senator Thayne for supporting that bill. As a result, the state's liability costs will level-out or decrease.

The cash balance for all lines to date in FY20, he said, is nearly \$12.9 million; projected cash balance for the end of FY20 is over \$14 million. Projected cash balance at the beginning of FY21 for all lines is \$13.1 million. The significance of this, he said, is that with two months to go in this fiscal year, the state is already \$300,00 below projections.

FY20 Budget to Actual By Line of Coverage, ending 4/30/20

To date, he explained, the state is a little over \$1.3 million short of FY20 projections for all lines of coverage. \$115,168 of that amount is yet to be billed, but the remainder is a result of claims expense. The liability column alone shows nearly \$1.5 million in the negative compared to what was projected. Other lines are either positive or slightly negative. Employee Bonds and Crime coverage is a line that has not experienced any claims for quite a while; however, there has lately been fraud committed against the State Controller's Office which explains most of its negative variance of \$64,278.

UPDATE FROM STATEWIDE RISK MANAGER

July Renewals

Ms. Cox explained most lines of coverage will renew in July, and she distributed a spreadsheet illustrating initial indications of renewal changes. In 2017, the **Property** line of coverage was \$1.8 million, and prior to that it was \$2.5 million. This reduction was a result of successful negotiation of rates, she said. Since, the country has experienced catastrophes such as hurricanes, and the market hardened to a point where some states cannot obtain property coverage, or the coverage is too expensive to purchase. Idaho continues to have coverage with Travelers. Over time the state has acquired additional property for a total of almost \$10 billion in assets. Coverage for next year was quoted at \$2.4 million with a \$1 million deductible—currently the deductible is \$350,000. If the state were to maintain a \$350,000 deductible the renewal rate would increase to \$3.1 million, even with Idaho's favorable loss experience.

When the committee met last, the goal was to look at different options for property coverage. The state broker did contact several companies and none of them would provide a quote because of Idaho's sizable risk. One company, Excel, indicated it could possibly insure at a lower rate, but it would have to share coverage with another carrier to take over half the policy, which can be difficult. Over the last ten years, she said, the state has experienced only four losses that exceeded the \$350,000 deductible, all at higher educational institutions. Because Idaho has good experienced in the property line it makes sense to take the higher deductible and lower renewal rate.

The next line of coverage, **Energy Systems**, shows a 4.5% increase based on increased values throughout the state. **Terrorism** coverage has remained flat. The renewal for **Reinsurance** was very respectable, she said, with a 14% increase so the renewal will go from \$480,000 to 548,000. Reinsurance is critical should the state have a judgement in federal court above the tort cap of \$500,000, for example. The state could tap into reinsurance for up to \$10 million. **Crime** coverage has maintained stable over the past couple of years, in fact premiums had been waived for agencies. The renewal quote only went from \$59,544 to \$64,117 this year; however, the current deductible of \$175,000 per loss and will be increased to \$250,000. Additionally, the limit for false pretense coverage is reduced from \$250,000 per incident to \$50,000 because of two large losses with the State Controller's Office. Out-of-state **Workers Compensation** has been positive, she said, and is quoted about \$100,000 less. **Cyber Liability** coverage came in with a \$32,000 increase.

Liability Coverage Changes

The last time the committee met, she continued, it discussed potential changes to what would be covered under self-funded liability coverage. There has always been an exclusion for wages and benefits when it came to employment-related claims. This makes it difficult for an agency to determine what it needs to budget when there is an employment-related lawsuit, and it's difficult for Risk to negotiate when there are no budgeted funds. Risk covers the defense and for any sort of judgement or settlement amount, other than wages and benefits. Consequently, the state's actuary was asked to analyze the last twenty years and what agencies actually paid out in wages and benefits and what the impact would be to include them in the state's liability coverage. It was determined if wages and benefits were added, it would

affect liability projections by \$20,000 per year. That amount would be dispersed among all agencies, and they would be aware that they are responsible for a \$25,000 deductible. The intent is to first implement this new coverage and then refine details regarding agency communication and notification to Risk Management and the Division of Human Resources before an employment-related decision is made. Eventually an incentive will be incorporated to encourage agency collaboration.

MOTION: Representative Gannon moved, and it was seconded by Ms. Buxton that the committee include wages and benefits in liability coverage with a \$25,000 deductible per claim. The motion passed unanimously.

Cyber Liability Self-Funded Option

Earlier in the meeting Ms. Cox explained that rates for cyber liability insurance increased by \$32,000 to a total of \$580,045. Coverage is with Brit Insurance and there is a \$1 million deductible -- the agency is responsible for the first \$10,000. The policy limit is \$25 million. There have been several cyber losses, she said, but they were very minimal, and most were through third-party vendors who had to pick-up the cost. Consequently, over time the department has been able to build reserves. General liability is already self-insured by the state, and the department would like to propose self-funding cyber liability as well. There is protection by the tort cap limit of up to \$500,000 in Idaho. Much of the cost in the case of a breach is for notification and credit monitoring.

To self-fund cyber liability, she asked the state's actuary to project the amount to be collected. Due to reserves already in place, it was advised the state would have to set aside \$88,227 this year. In contrast, if the state were to purchase cyber insurance this year it would cost \$580,045. This half-million dollars in savings will help offset the increases in the property line, she said. Exposure would be on the state of Idaho, but Chairman Reynolds noted there have been no claims this year for cyber incidents and in FY19 there was only \$1,900 expended toward claims. There is some risk in doing this centralized coverage, but should there be an event that would utilize the entire reserve, the department would then seek an appropriation for the remaining amount, he said.

Representative Gannon inquired whether other states have similar cyber experience and if there is a competition between insurance companies on rates. Ms. Cox noted that Idaho is the only state in the country that has been able to negotiate a policy inclusive of all state agencies including higher education. There was only one carrier interested and that was Lloyds. This line of business is going up because breaches are getting more substantial.

MOTION: Ms. Cox moved, and it was seconded by Director Tewalt that the State of Idaho self-fund for cyber liability effective July 1, 2020. The motion passed unanimously.

New Risk Management Information System Update – General Liability Premium Calculation Changes

Ms. Cox reported that the implementation of the system is progressing but the "Go-Live" date has been moved to Fall.

Tying into design of the new information system is a new proposed method for calculating general liability premiums, based on risk exposure. There was no past methodology for calculating the premium. It had been a continuous roll-up from year-to-year over the last 25 years. A new calculation is suggested that would be understandable and fair to all agencies. It will be tied to vehicle count, property values, loss history, and number of employees. Senator Thayne inquired how the change would affect agency budgets and Chairman Reynolds responded that some will see increases and some decreases in assessments. He noted that billing amounts for agencies are submitted to the Division of Financial Management and the Legislative Services Office one year in advance and entered into the budget. The amounts for FY21 are already set so the new methodology would become effective in FY22.

Director Tewalt asked that Ms. Cox provide agencies past premiums and then how they will look in the future based on this new methodology.

MOTION: Ms. Cox moved, and it was seconded by Representative Gannon that the committee approve changing the general liability premium calculations for FY22 to include employee count, vehicle count, loss ratio and property value. The motion passed unanimously.

October Risk Forum Update

For the past several years, Ms. Cox said, the ORM has sponsored an annual risk forum for agencies, with the help of the state's broker. A June litigation seminar has typically been organized, as well. Unfortunately, because of COVID-19, both of those events have been cancelled for this year. Also postponed until next year is the annual State Risk Insurance Management Association conference which had been scheduled to be held in Boise this September.

Loss Prevention Position Update

Although this position has been approved and included in the budget, it has been placed on hold in anticipation of agency holdbacks in the coming year, she concluded.

OTHER BUSINESS

The next scheduled meeting of the Risk Management Advisory Committee is September 8th at 1:30 pm.

ADJOURNMENT

Representative Gannon moved that the May 19, 2020 meeting of the Risk Management Advisory Committee be adjourned at 2:30 pm.



Diane K. Blume, Program Specialist
Department of Administration