RISK MANAGEMENT ADVISORY COMMITTEE (RMAC)

Meeting Minutes
October 4, 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
Faith Cox, Statewide Risk Manager, Office of Risk Management
Travis McGrath, Chief Operations Officer, Idaho Transportation Department
Pat Donaldson, Chief, Division of Management Services, Dept. of Correction (filling in for Henry Atencio, Director)
Representative John Gannon (via conference call)
Theresa Chrisman, Assistant to the VP for Finance and Administration, Lewis-Clark State College (via conference call)

Absent and Excused:
Senator Dean Mortimer

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
Shelby Kerns, Budget Bureau Chief, Division of Financial Management
Tami Humiston, Principal Financial Specialist, Department of Administration
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

APPROVAL OF MINUTES

MOTION: Ms. Cox moved and it was seconded by Representative Gannon that the minutes of the June 7, 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 and pointed out FY17 actual expenditures include three lines of coverage with negative balances--cyber liability, boiler, and property. Cyber liability insurance has been in place since December 1, 2016, he said, and was not anticipated in the original billings for that year. Boiler and property negative balances were due to more claims than projected last year. Ending balance for liability was positive, however. Overall, he explained, the variance between projected and actual expenses for all eight lines of coverage, plus a category for miscellaneous, was negative $613,028. Claims for all lines of coverage are paid out of the same fund, but are accounted for separately for federal reporting purposes and for transparency showing how the different coverages are billed.

Cyber liability premiums were collected for the first time in FY18 which will nearly offset the deficit from the year prior. Boiler, with a negative 20% discrepancy in FY17 is still in the red for FY18, and property receipts for FY18 will bring FY17's negative balance in the positive. At the last meeting, he recalled, the committee was briefed on the great renewal rate the state received for FY18. If not for that, he said, the program would have remained in a negative position.

Billing amounts have been established for FY19 to insure ending balances for each of the lines of coverage are at the reserve level, as projected by the state's actuary. In the past when a year closed with a high cash balance, billings were reduced for the following year, he explained, and when there was a low cash balance, billings were increased. Changes in reserve levels can also affect agency billing rates.

UPDATE FROM THE STATEWIDE RISK MANGER

Fiscal Years 2015, 2016, and 2017 Claims Overview

Ms. Cox distributed a report illustrating for FY17, FY16, and FY15 the number of claims made against the state, the number of open claims, number of claims in litigation, and the amount paid to date for the six core lines of coverage--Liability, Cyber Liability, Auto Liability, Major Property, Boiler and Machinery, and Crime/Employee Bond. Also included were two lines of optional core coverages--Auto Physical Damage and Inland Marine. Results show there has been an increase in auto liability claims, auto physical damage claims, and property claims. Typically, the state averages about 100 property claims per year but in FY17 there were 137, due to severe winter. Weather was also the cause of increased auto liability claims.

Some claims from past years are still in litigation, she pointed-out. This is because once a tort claim is filed the individual has up to two years to file a lawsuit. The type of liability claims handled by the state are typically very complex and can potentially remain open for up to about eight years.

Property Renewal Update (Changes and Improvements)

At its last meeting, Ms. Cox recalled, the committee discussed moving to another broker—Alliance. However, the change was not made because Alliance was unable to remove AIG from its primary layer of insurance carriers, as required by the committee. Consequently, she approached the state's current broker, Travelers, explaining the state was not satisfied with its policy and recognized there are other options. Travelers came back with significant and positive changes in the property line.

She distributed a synopsis of those changes including the addition of Green Buildings and Submersibles/Pumps—coverages agencies wanted. Overall, there was an increase in the span of coverage, plus a 30% decrease in overall cost. Premiums were reduced from $2.5 million to $1.8 million on property and included earthquake coverage which allowed the state to eliminate a separate policy it had for earthquakes. This saved an additional $80,000. The rate for boiler was renegotiated, as well, reducing costs another $80,000.

Experience Rating for Liability, Property and Auto Property Damage

Ms. Cox pointed out that one of her objectives this year is to come up with an experience-rated model that would allow the program to charge agencies extra for increased loss. In the past, Risk Management pooled the state as a single entity. Her intent, she said, is to identify a method that would not cause hardship on those agencies impacted, but would motivate change and promote loss control. While at a State Risk Insurance Management Association (STRIMA) conference recently, she learned about allocating costs. For example, the method must be understandable to agencies, be fair and objective, and it must promote budget stability so there are no ups and downs. It should be designed so that agencies are responsive to their own losses, and both exposure and experience must be measured. Right now, the state only measures exposure although most states measure experience, as well, she said.

The model she came up with gauges experience by loss ratio. For example, if an agency had a loss-ratio between 75% and 100% there would be a 10% experience rating charge. If it had a loss ratio between 100% and 125% the agency would receive a 20% experience rate surcharge. For loss ratios above 125%, a 30% rate surcharge would be assessed. Agencies under 75% loss ratio would see an experience credit reduction in their charges.

She distributed documents showing agency billing projections for FY19 for Liability, Property, and Auto Physical Damage to illustrate which agencies would be impacted positively or negatively should premiums be based on both exposure and experience. The experience component will be refined better in the future, she said. Ratings for liability utilize a 10-year span, property a 5-year period, and auto physical damage 3 years. Total experience has been collected for auto physical damage and four years has been collected so far for property and liability.

Mr. Reynolds clarified the intent is not to implement this change in billings for FY19 but to start discussing it with agencies and soliciting input a year prior to implementation. There is a wider policy question involved in that some agencies' missions are inherently more likely to have claims such as Correction and Idaho State Police, for example. Consequently, the proposed billing method caps total impact at 30% he said.

Subrogation Update (Auto Property Damage)

Ms. Cox reminded the group that in FY18 the legislature approved funding for a much-needed new position in the Office of Risk Management—the first one in at least 16 years. A temporary employee was already working on subrogation cases and it was evident that this effort had a very big impact. Since the beginning of FY18, the state has been averaging about $30,000 per month in collections.

Cyber Insurance Reserve

When initially approached on projections for cyber liability insurance, the state's actuary indicated there was no good model to follow at this time, she continued. Nevertheless, the actuary suggested the probability of one cyber loss per eight years with a recommended reserve of $103,000. When questioned if this reserve amount is sufficient when the state has a $1 million deductible per incident, the actuary suggested the reserve could be built up to a third of the deductible over the next three years.

Idaho has already had one breach within the first six months of coverage, she said, and given what other states are reporting, she is not confident in the actuary's projections. Mr. Reynolds explained a reserve is meant to represent liability the state has on that line of coverage for that date, and he agreed it seems contrary to reserve only $103,000 for this line of coverage. Consequently, the FY18 premium billing will include an amount to start building up the reserve. Mr. McGrath spoke in support of the reserve accrual citing constant cyber threats to state agencies.

It was discussed at one time, Mr. Geddes said, that the reserve could be built up to a point where the state could self-fund this coverage. Ms. Cox replied that it would be in the best interest of the state to self-fund, like the state currently does with its regular liability, long term. To do so, the state would have to build up a reserve that would not only handle notification costs, but tort liability as well.

Mr. Reynolds indicated a $333,000 reserve contribution will be included in agency billings, and at the same time these reserve concerns will be brought to the attention of the Legislature. It is expected that a risk management presentation will be made to the legislative germane committee during the upcoming session.

STRIMA Conference Update

Ms. Cox reported on the STRIMA conference which was attended by risk management personnel from about 30 states. Attendees were impressed with Idaho's implementation of the cyber liability insurance policy. She said no other state has a policy covering all state agencies and universities. She was approached by several attendees asking for guidance.

She also learned that higher education in many states are experiencing a lot of property claims from a lack of maintenance and funding for infrastructure. The same problem exists in Idaho, she said. On a national basis last year, property costs for large educational institutions rose 22%, but Idaho was able to receive a 30% reduction in premiums for statewide property insurance. Additionally, overall government property rates went up 244% last year. Idaho has been insulated from large increases because it does not have exposure to catastrophic losses.

New Risk System Request

A new risk management information system will be part of the department's FY19 budget request, she continued. Initial implementation will be about $200,000 and ongoing expenses about $75,000 annually. A new system will allow agencies to have access to their loss reports and will help them better manage risk exposures. The current system was installed 10 years ago and is becoming difficult to support. The cost for this system will save the state money in the long run because more resources will be available to help with loss control.

October Agency Training

She distributed a flyer for the upcoming 2nd Annual Risk Management Forum on October 23rd and 24th. The first day is designed for Idaho's state colleges and universities and will focus on Title IX. There has been an increase in those types of claims. The second day is for all state entities and will address employment law, enterprise risk management, best practices for large property losses, and insurance requirements in contracts. It was part of the renewal negotiations to make this training free to attendees, she said.

PROPOSED 2018 MEETING SCHEDULE

The committee agreed to meet at 1:30 pm on the following dates: January 9th, May 8th, September 11th.

MOTION: Representative Gannon moved and it was seconded by Mr. Donaldson that the October 4, 2017 meeting of the Risk Management Advisory Committee be adjourned at 2:50 pm. The motion passed unanimously.

Diane K. Blume

Diane K. Blume, Program Specialist
Department of Administration