

INSURANCE

Florida League

Summit

of Cities



**Florida
Risk Pools**

VS.

**Traditional
Insurance Carriers**



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Florida League of Cities

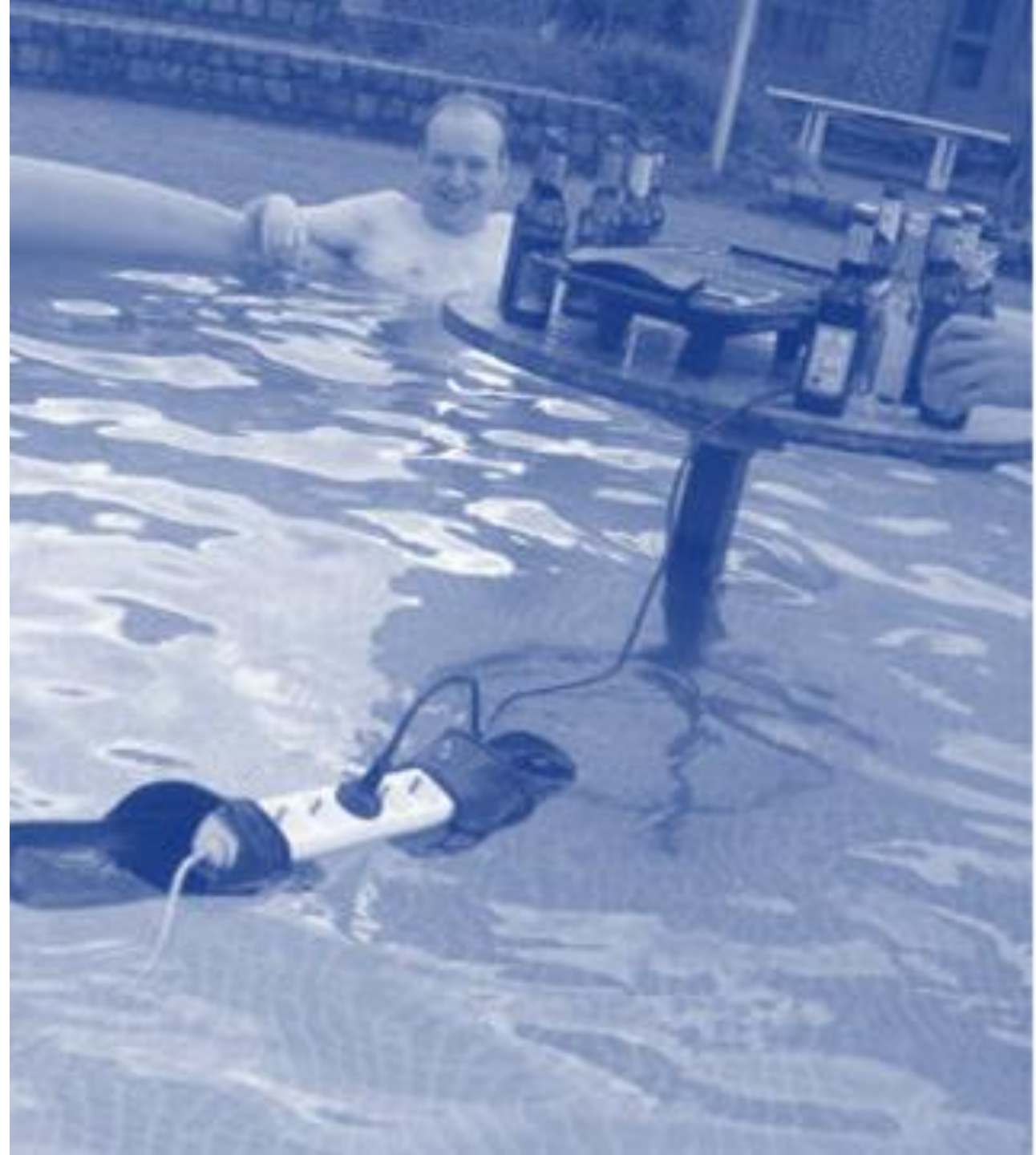


Where will we go today?

- 1 Historical Beginnings, Governance and Structure
- 2 Differences with Insurance Companies
- 3 Risk Philosophies
- 4 Evaluating Risk Pools
- 5 Claims-paying Power
- 6 Reinsurance
- 7 Services
- 8 Things to Consider When Comparing Pools

Not to describe basic insurance concepts and terminology...

What is a Risk Pool?



A blue-tinted photograph of a large bull sculpture in a city street. The sculpture is the central focus, with its head and large horns in the foreground. In the background, there are buildings, trees, and a street with a car. A white text box is overlaid on the left side of the image.

**Why were risk
pools created?**

Why were risk pools created?



Hard Market Cycles



- 1972-1974
- 1976-1979
- 1984-1988
- 2000-2003
- 2023-20??

Climate Shocks Are Making Parts of America Uninsurable. It Just Got Worse.

The largest insurer in California said it would stop offering new coverage. It's part of a broader trend of companies pulling back from dangerous areas.

 Share full article    1.9K



A firefighter tried to save a home in Meyers, Calif., in 2021. Max Whittaker for The New York Times

HW+ EXCLUSIVE CONTENT

Insurance carrier exodus rattles California and Florida housing markets

Real estate agents are having to navigate in insurability challenges for clients in America's two biggest real estate markets

July 25, 2023, 2:58 pm By Brooklee Han

AI&G to exit California homeowners insurance market at January-end

Why were risk pools created?



Hard Market Cycles



Limited insurance availability

Limited or no competition

High cost + premium increases

Exclusions + coverage limitations



How do risk pools operate?

Like an “insurance company” but different:

Nonprofit

No shareholders - members own the surplus (or net position)

No profit % load like traditional insurance carriers

Cost Advantages

Goal is for **premium to cover claims and expenses** (100% combined ratio)

Don't need an agent that **charges commission** to access (but can if you want)

Focus and Expertise on Local Government Risk

Sole purpose is to **supply coverage applicable to you**

A penchant for saying “**yes**”

Risk Pools' Success Today

Over **500** pools
nationwide

Over **75,000**
public entity members

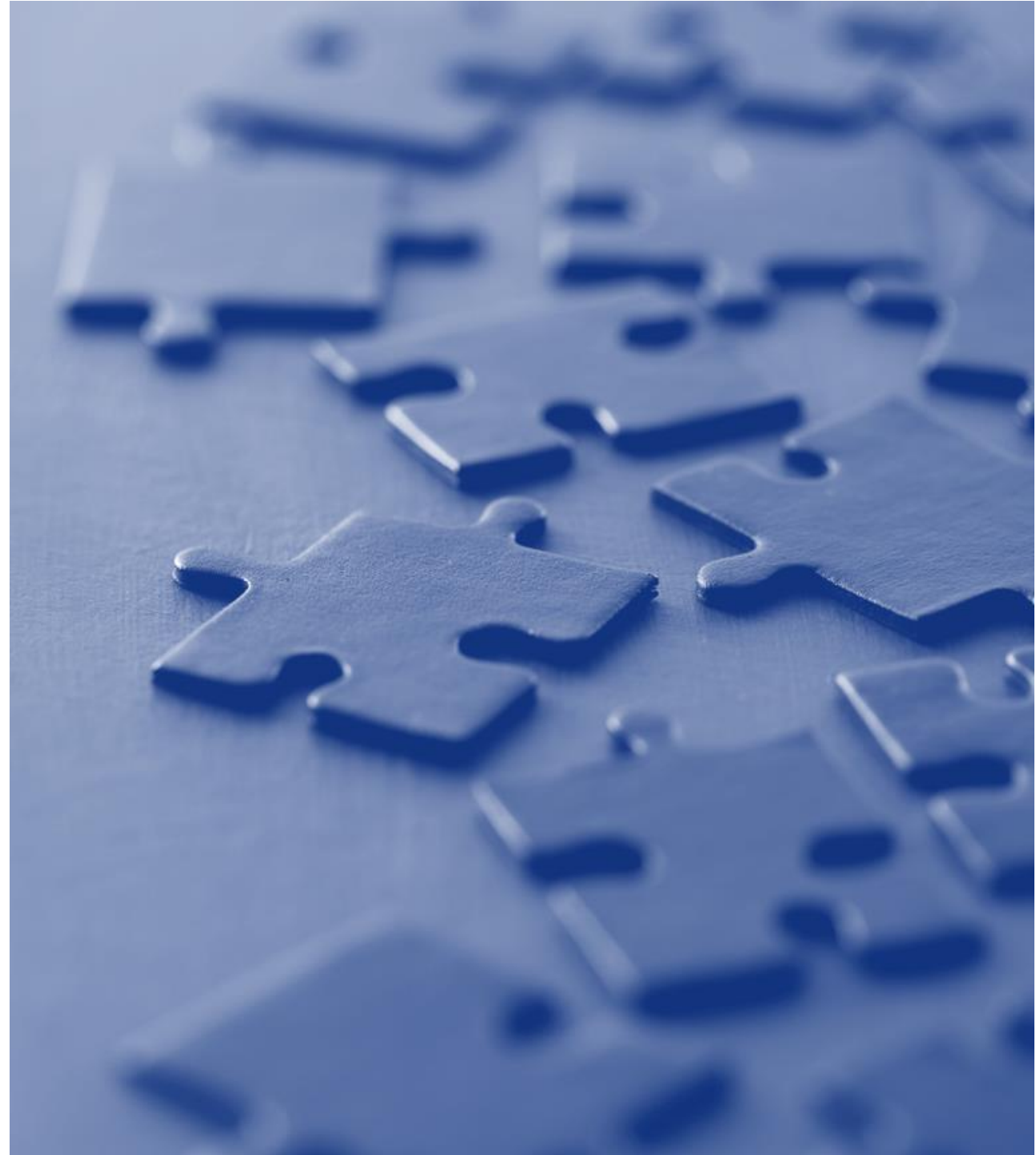
Over **\$17 billion**
premium

38 NLC-RISC member states,
British Columbia + Alberta

Over **\$2 billion**
Total premiums

17,000 member
public entities

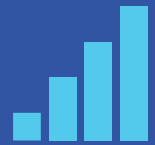
Evaluating Risk Pools



Evaluating Risk Pools: Key Factors



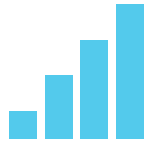
Claims Paying Power (and control)



**Financial
Strength**



**Reinsurance
Protection**



Financial Strength

No. 1 Priority

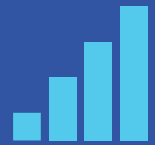
Ensure that the risk pool can pay your claims, especially for **long-tail claims** or **catastrophic events** (e.g., hurricanes)

Primarily measured by...

How much **surplus** (or net position) a risk pool has – which is easily displayed on audited financial statements each year

$$\textit{Surplus (or net position) = Assets – Liabilities}$$

Claims Paying Power (and control)



**Financial
Strength**



**Reinsurance
Protection**



Reinsurance Protection

“Reinsurance”

When an insurance company (or risk pool) buys insurance from another carrier to limit their pre-claim loss exposure

Almost all insurance companies and risk pools purchase reinsurance

Ensure two things related to reinsurance...

- 1 Retention levels
- 2 Reinsurance amount purchased by the risk pool to cover catastrophic loss

Retention Levels

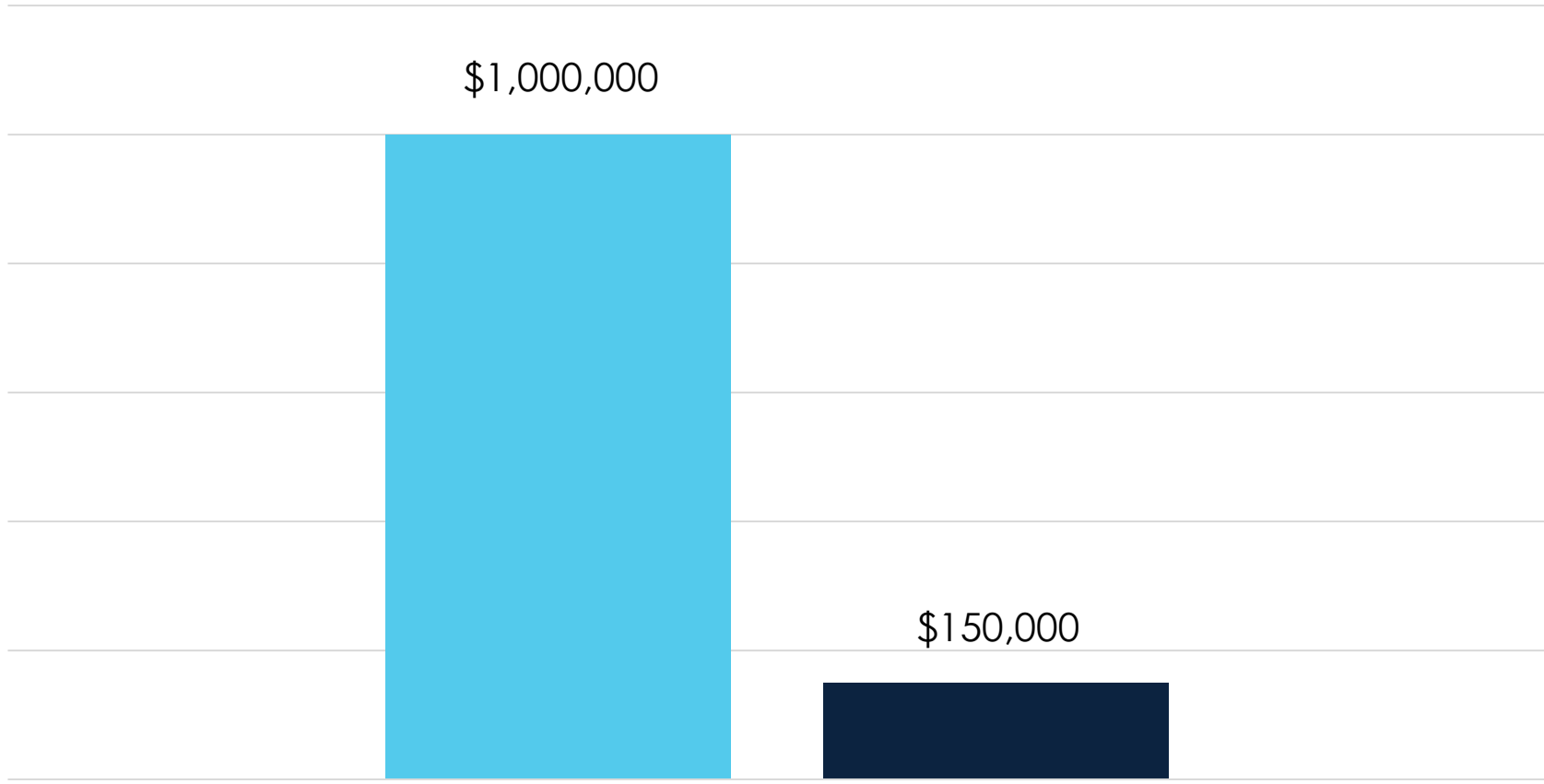
Refer to how much **exposure** a risk pool is taking on a per-claim basis



The risk pool then buys **reinsurance protection** over their retention level



The larger the retention the risk pool has, the **more control** they have over your claim
(versus the reinsurance carrier)



Liability Retention Levels

Services

Whether you have a claim every month, once a year, or once a decade, risk pools **should be staffed accordingly** to ensure their staff can **explain the claims process** and **work collaboratively** with you to ensure the best possible outcome

Staffing levels should be based on **claim counts** and – more specifically – the **amount of claims** each adjuster is **tasked to manage at one time**

For example...

Workers' Compensation is a type of coverage that requires timely action by the claims staff to ensure your injured worker:



Is **covered**



Gets timely and appropriate **medical care** by a qualified physician or specialist



Returns to work as efficiently as possible



Receives any applicable **lost-time wages** that are paid timely and accurately



And that your **appropriate staff is communicated with** throughout the process

There are two types of Workers' Compensation claims adjusters:



Medical Only Adjusters

Work on claims where your injured worker is expected to receive medical care but not lose enough time from work to qualify for lost-time wages

*Appropriate staffing levels: **150-200 claims per adjuster***



Lost-Time Adjusters

Work on more complex claims where your injured worker requires medical care and is expected to receive lost-time wages and possible litigations

*Appropriate staffing levels: **100-135 claims per adjuster***

When evaluating risk pools, here are some **key questions** to evaluate risk pools that are often overlooked.

1

**What is your Net Position (or “Surplus”)
according to the most recently
audited financial statements?**

2

What are your per-claim (or per-occurrence) risk retention levels where your risk exposure ends and reinsurance begins, according to the following lines of coverage:

❓ Workers' Compensation

❓ General Liability

❓ Professional Liability

❓ Law Enforcement Liability

❓ Auto Liability

❓ Property

3

How much property reinsurance limit is currently in place, and how much is available for Named Storm coverage (such as hurricanes)? How does your current property reinsurance limit compare to the property reinsurance limit you bought the last three years?

4

How much Total Insured Values (TIV) do you insure throughout the state? What is the proportion of your overall property reinsurance limit available for Named Storm to the total TIV you insure throughout the state?

5

Which property coverage limits that you are offering are dedicated limits (meaning limits available solely for my organization) or shared limits (meaning the limits available are shared among all of your Members)?

6

What would happen if you had a major hurricane loss where the total amount of property claims for all your Members exceeded the amount of property reinsurance limit you have in place? How would you pay my hurricane-related property claims if this limit was exhausted?

7

What is the average pending claim count per adjuster for the following:

? **Workers' Compensation**

Medical-only adjusters

Lost-time adjusters

? **Liability**

Level 1 Adjuster

Handling non-litigated auto and general liability claims without bodily injury exposure

Level 2 Adjuster

Handling non-litigated auto and general liability claims with bodily injury exposure

Level 3 Adjuster

Handling complex litigated claims

Summary

Remember...

Why pooling started

The pool's **purpose**

How the pool is **different** from commercial insurance

- Nonprofit
- Serve members
- Understand your risks

Not all pools are created equal

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