Sharing the Risk, Sharing the Cost of Coverage

By Nicholas Pappas and Pat Weaver

Insurance risk retention pool or purchasing group...Can either option save you money?

istockph0to.com

There is risk in every endeavor, and transit services are no exception. Whether loading and unloading passengers, maneuvering through traffic, or encountering a difficult or dangerous passenger, there are strategies your agency can take to manage risk. In the risk management world, these strategies typically are categorized into four categories: transferring the risk (e.g., your typical insurance policy), avoiding the risk, reducing the negative effect of the risk, and/or accepting some or all of the consequences of a particular risk. Over the years, transit agencies have been subject to wide variations in availability and cost of insurance. This "hard" insurance market gave birth to insurance pools or other organizational mechanisms starting in the 1980s to help agencies contain costs (National Conference of State Legislatures, 2008). This article reviews a couple of options that help reduce the negative effect of the risk, i.e., reduce the cost of coverage, through a couple of management strategies: risk retention pools or risk purchasing groups.

Risk retention pool or risk purchasing group: what's the difference?

Unlike private insurance, where your agency would purchase insurance from a private entity, or self insurance, where your agency sets aside its own funds to pay for accidents and other claims, risk retention pools allow multiple agencies to form an agreement to share costs. In Kansas, a risk retention group is a corporation which is chartered and licensed as a liability insurance company. Agencies participating agree to contribute to a common risk pool that is used to pay for expenses arising from claims and accidents. Generally, there is a deductible required of an agency new to the pool. However, once benefits start, costs are distributed evenly across participating agencies.

In Kansas, establishing a risk retention group pool is subject to the requirements of establishing and registering an insurance company in Kansas, according to Pete Tavares, Jr., Fire & Casualty

Risk Retention Pool or Risk Purchasing Group?

Unlike private insurance, where your agency would purchase insurance from a private entity, or self insurance, where your agency would need to set aside its own funds to pay for accidents and other claims, **risk retention pools** allow multiple agencies to establish a corporation to share costs. **Risk purchasing groups** are formed for the purpose of purchasing *commercial* liability insurance for its members.

Policy Examiner for the Kansas Insurance Department, A risk purchasing group, on the other hand, is defined by the Federal Risk Retention Act of 1986 and Kansas statutes as a group that has as one of its primary purposes the purchase of *commercial* liability insurance (on a group basis and which purchases insurance) only for its group members to cover their similar liability exposure. (Section § 3901, 5. (A)(B)(C) & (D) of the Liability Risk and Retention Act 1986, & K.S.A. 40-4101, (j) (1), (2), (3) & (4)). According to Tavares, a risk purchase group may be easier to establish in the State of Kansas. In either case, the coverage under a risk retention pool or purchasing group is currently limited to commercial liability and excludes commercial property coverage.

Benefits of pools

What is the benefit of joining a risk retention pool? First, there is the benefit of reduced costs. Typically with private insurance, deductibles pay, in part, fees to the insurance company. Under a risk retention pool, these "middle-man" costs are avoided. Any money that is contributed is shared among the participating agencies.

Second is the benefit of stability. With private insurers, costs can be volatile depending on economic conditions, and deductibles may be arbitrarily set. In addition, coverage (typically general/auto liability) may change from one term to the next. With risk retention pools, coverage remains the same (or is at least agreed-upon by participating agencies). Contributions are preset and established at the outset.

Third is the benefit of accessibility. The availability of risk retention pools is fairly high; however, pools are not universally available in all parts of the country and depend on registration with the respective state insurance departments. (Check with your state insurance department to determine the status of a particular pool.) In addition, pools can set their own tolerance limits, which are often more lenient than private insurers. This can allow agencies that might not otherwise be able to afford private insurance to participate in a risk retention pool.

Drawbacks to participating in a risk retention pool

Overhead costs are higher with pools than they are with individual self-insurance. However, the cost stability is greater as well.

The second drawback may be claims handling. While there is certainly more control in risk retention pools than with a private insurer, no form of risk management parallels self-insurers in this regard.

A third drawback is that of start-up costs associated with conducting a feasibility study, including collecting insurance data and risk information from agencies wanting to participate. The costs for this can add up and are sometimes difficult to fund at the outset of a program. If your agency joins an established risk retention pool, some of this disadvantage is mitigated.

Tips for Getting Started

- Make sure you are a good risk with safety protocols in place; e.g., vehicle safety inspections, driver training, driver records, and drug and alcohol testing.
- Talk to other agencies—other transit agencies in the state and your state transit association. Determine if there is one strategy that would work best for the group.
- Conduct a feasibility study for loss projections and financial analyses. A feasibility study is required of a risk retention group, but not necessarily to establish a risk purchasing group (check with your State Insurance Department).
- Collaborate with the State Insurance Department and with your State DOT to ensure that you meet all requirements.
- Recruit. If a risk retention pool or risk purchasing group is established, participation is key.

Examples of risk retention pools and purchasing groups

Two notable and successful risk retention pools—Washington State Transit Insurance Pool (WSTIP) and California Transit Insurance Pool (CalTIP)—are good examples of how a pool can be started. With WSTIP, eight transit agencies joined forces in 1989 to form a self-funded liability-only insurance pool. The initial combined premium paid by the agencies was $1.2 million, which provided $10 million worth of liability coverage with no deductibles. Today, WSTIP insures 24 agencies and provides a variety of insurance services to its members. With an annual budget of $9.4 million, WSTIP has been able to add administrative staff to manage claims and member services.

Similar to WSTIP, CalTIP has also been successful in forming a risk retention pool. Started in 1987, CalTIP initially covered 12 agencies, offering many of the same benefits as WSTIP—control over program operation, costs, and services; stability of insurance premiums; availability of desired coverages; and bundled services. Since the 1980s, CalTIP has added a vehicle physical damage program and has grown to insure 35 agencies.

An example of a risk purchasing group is the Community Transportation Insurance Program (CTIP), an endorsed association captive insurance company. An association captive is an insurance entity that is owned and governed by its

continued on page 6

Sources

- Insurance and Risk Management Solutions: Risk Retention Pools. National RTAP Fact Sheet. Available online at http://www.linkingcommunities.com/user_media/23608/insurance%20and%20risk%20management.pdf
- Insurance Department, April 14, 2010.
- Website accessed on April 15, 2010, CTAA Community Transportation Insurance Program, http://web1.ctaa.org/webmodules/webarticles/anmviewer.asp?a=805
- Insurance Challenges for Paratransit, National Conference of State Legislatures, October 2008. http://www.ncsl.org/print/transportation/insurancebrief1008.pdf

Sharing the risk *Continued from page 5*

member-insureds. Members of CTIP will be members of the Community Transportation Association of America (CTAA) and service-providers for public and community transportation services. More information about the CTIP is available at the CTAA web site (http://web1.ctaa.org/webmodules/webarticles/anmviewer.asp?a=805).

A risk retention pool or risk purchasing group can be an effective way to help manage risk in your agency, but have both merits and pitfalls, If you have questions about what options are available to you in Kansas, contact Pete Tavares, Jr., Fire & Casualty Policy Examiner, Kansas Insurance Department 785-296-7832, ptavares@ksinsurance.org.