FINAL REPORT

OF THE JOINT SUBCOMMITTEE STUDYING

THE COMMONWEALTH'S INSURANCE COVERAGE

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 41

COMMONWEALTH OF VIRGINIA
Richmond
1980

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Final Report

Of The Joint Subcommittee Studying
The Commonwealth's Insurance Coverage
December, 1979

To: Honorable John N. Dalton, Governor
and
The General Assembly of Virginia

INTRODUCTION

The Joint Subcommittee Studying the Commonwealth's Insurance Coverage was established pursuant to House Joint Resolution No. 251 of the 1977 General Assembly. Appendix I of this report consists of a copy of that resolution.

House Joint Resolution No. 150 of the 1978 General Assembly continued the Joint Subcommittee's study, as did House Joint Resolution No. 235 of the 1979 General Assembly. Appendix II of this report consists of a copy of HJR 150, and Appendix III consists of a copy of HJR 235.

Gerald L. Baliles of Richmond, a member of the House of Delegates, was elected Chairman of the Joint Subcommittee. Madison E. Marye of Shawsville, a member of the Senate, was elected Vice-Chairman.

Also appointed to serve from the House of Delegates were Archibald A. Campbell of Wytheville and William T. Wilson of Covington. Appointed to serve from the Senate were Edward E. Willey of Richmond and Nathan H. Miller of Harrisonburg.

C. William Cramme, III and Hugh P. Fisher, III of the Division of Legislative Services served as legal and research staff to the Joint Subcommittee.

WORK OF THE JOINT SUBCOMMITTEE

HJR 251 of the 1977 General Assembly requested the House Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor to undertake a joint study of the methods by which the Commonwealth procures various types of insurance. It was felt that a comprehensive study might reveal ways in which significant savings could be realized.

It was within this framework that the Joint Subcommittee began its work. Time constraints and the complexity of the issues confronting the Joint Subcommitee forced it to narrow its inquiry during 1977. Three specific insurance fields were chosen for scrutiny during that year: (1) Surety bonds for government officials, (2) Workmen's Compensation insurance for State employees and (3) Property and casualty insurance.

On the basis of evidence presented during meetings, the Joint Subcommittee reached the unanimous opinion that hundreds of thousands of dollars could be saved annually by changing the manner in which the State purchases various types of insurance.

An output of the Joint Subcommittee's work that year was Chapter 753 of the 1978 Acts of Assembly. Chapter 753 authorized the Commonwealth's Secretary of Administration and Finance to initiate and implement a program of blanket surety bonding to provide surety for the faithful performance of duty for all State employees required by statute to be bonded, and for other agency employees handling funds or having access to funds whose function in the opinion of the agency head and the Secretary of Administration and Finance should be bonded. Also, this legislation provided that local employees or Constitutional officers, other than those already covered by programs of the Supreme Court under § 19.2-39 of the Code of Virginia, for whom the Commonwealth pays all or part of the costs of surety bonds, shall be required to participate in the blanket surety bond program promulgated by the Secretary of Administration and Finance through the Comptroller and the Compensation Board. Moreover, this Chapter provided that before implementing the program, the Secretary shall determine that such program will be of less cost to the Commonwealth than the aggregate of individual bond costs.

Chapter 753 also authorized the Secretary of Administration and Finance to initiate and implement a group workmen's compensation insurance program for all State employees through a program that accumulates maximum premium discounts on a Statewide basis. The Chapter provided, further, that before implementing such a program, the Secretary shall determine that such program will be of less cost to the Commonwealth than the aggregate of individual agency policies.

A copy of Chapter 753 of the 1978 Acts of Assembly is attached as Appendix IV of this report.

During 1977 the Joint Subcommittee's study of the Commonwealth's insurance program in the property and casualty field was hampered by the absence of centralized information on the subject. Available data comparing the premiums paid and the losses experienced indicated that further study was in order. Accordingly, the Joint Subcommittee recommended that its work in that area be continued for another year.

During 1977 the Joint Subcommittee heard testimony regarding the State Insurance Reserve Trust Fund, which at that time was administered by the Department of Property Records and Insurance and now is administered by the Office of Property Records and Insurance, which is under the Division of Engineering and Buildings within the Department of General Services.

By statute, the fund cannot exceed the total sum of four million dollars exclusive of interest.

§ 2.1-526 of the Code of Virginia provides that each agency, department, division or institution of the State government having control over any State structure and contents shall pay each year into the State Insurance Reserve Trust Fund an amount equal to its savings in insurance as determined by the Division of Engineering and Buildings according to a specified formula. For the purpose of determining the amount that each agency, department, division or institution of the State having jurisdiction and control over State property shall pay into the fund, the Division is required to determine the savings and insurance each year on the following basis: The amount of insurance savings will be the difference in cost of the actual coverage carried by the State and the cost of such coverage computed without regard to any rate or premium credits resulting from participation in the State self-inspection program, or the adoption of a deductible with the approval of the Division.

The basic idea behind the adoption of the formula was to provide a mechanism whereby the fund could gradually increase and eventually reach a level that would allow the Commonwealth to self-insure for its property insurance.

To facilitate its study during 1978, the Joint Subcommittee, through Mr.John G. Day, then Commissioner of Insurance for the Commonwealth, secured the assistance of risk managers from Reynolds Metals Company, Southern States and the City of Virginia Beach. Mr. William H. Murphy is the Reynolds Metals risk manager, while Mr. Bernard M. Hulcher is from Southern States and Mr. Robert W. Esenberg is from the City of Virginia Beach. These three individuals comprised the Risk Management Advisory Committee. It should be noted that these risk managers, who have no connection with any private insurance companies, voluntarily offered their time and advice to the Joint Subcommittee during 1978 in developing a program for evaluating the State's insurance needs.

Because there was no single source familiar with the public liability risks confronting State agencies, the Risk Management Advisory Committee designed a questionnaire which was sent to all State agencies in June, 1978.

The Risk Management Advisory Committee received copies of the tabulated results of that survey on October 27, 1978.

In December, 1978 the Risk Management Advisory Committee presented its report to the Joint Subcommittee. A copy of the Advisory Committee's report constitutes Appendix V of this report.

Although its evaluation of the State's insurance-procuring practices was hampered somewhat by incomplete data, the Advisory Committee was able to obtain and analyze sufficient data to offer informed recommendations to the Joint Subcommittee. In its report to the Joint Subcommittee, the Advisory Committee made the following recommendations:

(1) A State Department of Risk Management should be created. A qualified risk manager should

head the Department, and he should report to the Secretary of Administration and Finance.

(2) The Department of Risk Management should be charged with the responsibility for the placement of all State property insurance, and all properties should be insured under a single contract written with a deductible of $100,000 per occurrence. As the State Insurance Reserve Trust Fund increases toward a predetermined level, and as experience is gained with this method of handling property insurance, deductible amounts should be increased.

(3) The Advisory Committee concurred with the recommendation made a year earlier by the Joint Subcommittee that the Secretary of Administration and Finance obtain a blanket workmen's compensation insurance policy, which would provide coverage for all State employees. However, although the Advisory Committee concurred with this recommendation, and with the passage of Chapter 753 of the 1978 Acts of Assembly, it recommended that the State Risk Manager, when appointed, evaluate other alternative methods of handling these risks, including self-insurance.

(4) The implementation of the Virginia State Vehicle Self-Insurance Program should be delayed and made a responsibility of the State Department of Risk Management.

(5) The State Risk Manager should include public liability exposures in an overall risk management program for the State.

The Advisory Committee pointed out that many of the responses to the survey regarding public liability insurance were incomplete and inaccurate, and the Advisory Committee did not receive them in time to be returned for corrections. Therefore, the Advisory Committee was unable to address specific risks.

(6) The Advisory Committee concurred with the blanket surety bond program for the Commonwealth authorized by Chapter 753 of the 1978 Acts of Assembly, and it recommended that the procurement of the blanket bond be made the responsibility of the Department of Risk Management.

Because the report of the Risk Management Advisory Committee was not presented to the Joint Subcommittee until quite late in the year, the Joint Subcommitee was unable, in the limited time available, to thoroughly study and analyze the Advisory Committee's recommendations. Consequently, the Joint Subcommittee did not recommend any legislation to the 1979 General Assembly, except for a resolution to continue the study for another year.

Much of the work of the Joint Subcommittee during 1979 consisted of a study and analysis of the recommendations made by the Risk Management Advisory Committee.

During the past year the Joint Subcommittee also studied the problems which some localities in the Commonwealth have encountered in purchasing errors and omissions liability insurance for their public officials. Most helpful to the Joint Subcommittee in this area was a booklet entitled "Insurance Pooling for Virginia's Localities," which was prepared by the Virginia Municipal League. A copy of that booklet is attached as Appendix VI of this report.

In its booklet the Municipal League notes that for several reasons, errors and omissions liability insurance for public officials is becoming increasingly more expensive to purchase and, in many cases, is straining the ability of localities to purchase such insurance. A few insurance carriers have even discontinued writing liability insurance coverage for public officials, due to such factors as the ill-defined scope of tort laws and a weakening of the concept of sovereign immunity.

As a result of those problems many localities have been studying the feasibility of self-insuring for liability coverage and of purchasing only reinsurance from private insurance carriers.

During the last two years, a task force of the Virginia Municipal League has been studying the issue of liability insurance for public officials. The task force has decided that interested Virginia localities should establish a reciprocal insurance company owned and operated by the localities.

The Executive Committee of the Municipal League has allocated $3,500 toward the formation of such a reciprocal insurance company, and the League has asked for contributions from localities for the continuance of the project.

The League notes in its booklet that a minimum of 25 entities is necessary to form a reciprocal in the Commonwealth. The 25 entities can consist of general purpose local governments, as well as housing authorities, water authorities, school boards, etc. Presently the League is in the process of ascertaining the degree of interest which localitites have in such a reciprocal.

In its booklet, the League offers the following description of how such a reciprocal would function:

"A reciprocal insurance company or exchange is an unincorporated association of individuals or other entities who agree upon a plan of exchanging contracts of insurance among themselves in order to produce the premium and cash-flow savings of self-insurance and at the same time the protection, orderly and equitable means of operation of any other type of insurance company. The authority for accepting insurable risks, issuing policies, paying claims, and all other functions of a normal insurance company is outlined in a document called "The Subscriber's Agreement" which designates the powers and duties conferred by the subscribers. Each subscriber signs this contractural agreement. This document also provides for the allocation of premiums to payment of losses, expenses, reinsurance, reserves and savings." (From pp. 5-6 of "Insurance Pooling for Virginia's Localities," prepared by the Virginia Municipal League).

Reinsurance is essential to the success of such a reciprocal and would be purchased from a private carrier.

The Municipal League's task force has decided that the initial phase of the reciprocal will be confined to Automobile Bodily Injury and Property Damage Liability and Automobile Physical Damage. The League has indicated that public officials liability insurance will be made available in 1981, the reciprocal's second year of existence.

For a more detailed description of how the League's reciprocal insurance company will function, see Appendix VI of this report.

RECOMMENDATIONS

The Joint Subcommittee Studying the Commonwealth's Insurance Coverage makes the following recommendations:

(1) A State Insurance Manager should be designated within the Department of General Services. The Insurance Manager should act as the center of the Commonwealth's insurance-procuring activities, and he should report to the Secretary of Administration and Finance through the Director of the Department of General Services.

(It should be noted that after the Joint Subcommittee made this recommendation, but before the official printing of this report, a State Insurance Manager was appointed).

The Joint Subcommittee believes the Insurance Manager should be responsible for implementing an efficient and cost effective comprehensive insurance program for the Commonwealth. Therefore, it is recommended that the Insurance Manager have those powers and duties needed to carry out the Joint Subcommittee's recommendations.

Included in those powers and duties should be the authority to purchase various types of insurance for all State agencies. Moreover, he should have the authority to establish self-insurance programs in cases where the cost savings from self-insurance programs demonstrate that such a method of insuring is more feasible than purchasing coverage from an insurance company. Such a self-insurance program should be implemented only if the program can provide adequate limits of coverage and provided that an adequate amount of reinsurance can be purchased.

Additionally, the Joint Subcommittee believes it is essential that the Insurance Manager implement a systematic risk management program that would permit a thorough assessment of the State's insurance risks and allow the Insurance Manager to make decisions based on those risks. The study group would note that while the Commonwealth has no such risk management program at the present time, the establishment of such a program is of the utmost importance.

The Insurance Manager's authority to purchase insurance and to implement self-insurance programs should be subject to the approval of the Secretary of Administration and Finance.

Also, the Joint Subcommittee feels that an Insurance Advisory Board should be created. The Insurancce Advisory Board should consist of representatives of the insurance industry, and the members of the Board should be appointed by the Secretary of Administration and Finance. The chief duty of the Board should be to provide technical expertise and knowledge to the State Insurance Manager.

In addition, the Joint Subcommittee believes the Insurance Manager should be required to report annually to the House Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor of the General Assembly.

Also, in order to allow for appropriate budgeting action, by July 1, 1982, decisions should be made by the Insurance Manager regarding what types of coverage should be purchased through insurance companies and what types should be provided for through self-insurance.

(2) The State Insurance Manager should have the responsibility of placing all property insurance on State-owned buildings. Further, the Joint Subcommittee believes that the purchasing of a single master contract, written with a deductible of $100,000 per occurrence, is the best method of insuring all properties. The deductible amounts should be increased as the State Insurance Reserve Trust Fund increases toward a specified level. Also, after having heard testimony on the subject from various insurance company representatives, the Joint Subcommittee believes the Insurance Manager might consider insuring all State properties under one rate, and might consider requiring conformity of coverage for those properties.

(3) Although the Joint Subcommittee believes that at least for the immediate future, all workmen's compensation insurance for State employees should be purchased through a private carrier on a blanket basis, the Joint Subcommittee also believes that, when chosen, the State Insurance Manager should closely study alternative methods of providing workmen's compensation insurance for State employees. One such alternative method which should be examined closely is self-insuring for these risks.

(4) Although the Joint Subcommittee believes that at least for the immediate future, State and local officials should be covered under a blanket surety bond program, the Joint Subcommittee also believes that the State Insurance Manager, when appointed, should study alternative methods of providing such coverage. One such alternative which should be examined closely is that of self-insuring to provide surety for the faithful performance of duty.

(5) The Joint Subcommittee believes the Insurance Manager should examine in detail the methods by which negligence liability insurance is purchased by State agencies. Self-insuring for these risks is one alternative the Insurance Manager should examine.

(6) The Joint Subcommittee believes the Virginia Muncipal League's concept regarding the formation of a reciprocal insurance company owned and operated by interested Virginia localities requires further attention and study before legislative recommendations can be made.

REASONS FOR RECOMMENDATIONS

Recommendation No. 1: A State Insurance Manager should be designated within the Department of General Services. The Insurance Manager should act as the center of the Commonwealth's insurance-procuring activities, and he should report to the Secretary of Administration and Finance through the Director of the Department of General Services.

(It should be kept in mind that after the Joint Subcommittee made this recommendation, but before the official printing of this report, a State Insurance Manager was appointed).

During its study the Joint Subcommittee discovered that with the exception of the Office of Property Records and Insurance (which keeps data relating only to fire insurance), there is no one individual or office in the Commonwealth's government which collects and maintains Statewide loss, underwriting and premium data regarding the types of coverages which the State purchases. Indeed, the Joint Subcommittee found that some State agencies and institutions do not maintain insurance records.

It is the opinion of the Joint Subcommittee that the Commonwealth will not obtain a lasting solution to its insurance problems until a more central focus is associated with the responsibilities and powers related to assessing risks, purchasing coverage, and, where feasible, self-insuring. For this reason, the Joint Subcommittee believes it is essential that the Insurance Manager implement a systematic risk management program that would permit a thorough assessment of the State's insurance risks and allow the Insurance Manager to make decisions based on those risks. The study group would note that while the Commonwealth has no such risk management program at the present time, the establishment of such a program is of the utmost importance.

The Joint Subcommittee feels that granting the Insurance Manager responsibilities and powers associated with assessing risks, purchasing coverage, and, where feasible, self-insuring, will at least greatly minimize some of the insurance problems the Commonwealth presently is experiencing.

The Joint Subcommittee feels that the establishment of an Insurance Advisory Board which would meet periodically with the Insurance Manager would provide the Insurance Manager with the technical expertise and knowledge of representatives of the insurance industry. The Joint Subcommittee believes that through such periodic meetings with the Insurance Advisory Board, the Insurance Manager can obtain valuable advice regarding the policies which he is implementing or is thinking of implementing.

Further, the Joint Subcommittee believes the State Insurance Manager should be required to report annually to the House Corporations, Insurance and Banking Committee and the Senate Commerce and Labor Committee so the General Assembly can be informed regarding the policies which the Insurance Manager is implementing, and so the General Assembly will be in a position to act on appropriate legislation, when such action is desirable.

Recommendation No. 2: The State Insurance Manager should have the responsibility of placing all property insurance on State-owned buildings. The purchasing of a single master contract, written with a deductible of $100,000 per occurrence, appears to be the best method of insuring all properties. The deductible amounts should be increased as the State Insurance Reserve Trust Fund increases to a specified level. Also, after having heard testimony on the subject from various insurance company representatives, the Joint Subcommittee believes the Insurance Manager might consider insuring all State properties under one rate, and might consider requiring conformity of coverage for those properties.

The Joint Subcommittee feels that the consolidation of all property insurance into a single master contract will allow for deductibles to be used to the maximum amount on a consistent basis. The Commonwealth may be able gradually to increase its self-insured participation in the program and thereby effect increased savings.

The Joint Subcommittee notes that the Risk Management Advisory Committee has calculated that based on the insurable values and premiums, and based on the last five years loss experience compiled by the Office of Property Records and Insurance, the Commonwealth can expect to realize annual savings of up to $250,000 by choosing this method of insuring its properties.

The Joint Subcommittee found that under the present procedure, many State agencies are paying far more in premiums for property insurance than they are experiencing in losses. In fact, records maintained by the Office of Property Records and Insurance showed that the net totals for all State agencies from 1970 to 1975 showed average annual premium payments for property insurance of $909,611 and average annual losses of only $177,363.

It is the opinion of the Joint Subcommittee that the suggested method of purchasing property insurance will greatly increase the savings to the Commonwealth, and yet provide adequate coverage for all State properties.

Recommendation No. 3: Although the Joint Subcommittee believes that at least for the immediate future all workmen's compensation insurance for State employees should be purchased through a private carrier on a blanket basis, the Joint Subcommittee also believes that the State Insurance Manager should closely study alternative methods of providing this type of insurance.

The Joint Subcommittee agrees with the recommendation made by its Risk Management Advisory Committee that the State Insurance Manager thoroughly study the feasibility of establishing a Statewide self-insurance program for workmen's compensation. The Joint Subcommittee would point out that the rather limited data to date which has been scrutinized indicates that such a self-insurance plan for all State employees may be economically feasible.

Recommendation No. 4: Although the Joint Subcommittee believes that at least for the immediate future, State and local officials should be covered under a blanket surety bond program, the Joint Subcommittee also believes that the State Insurance Manager, when appointed, should study alternative methods of providing such coverage. One such alternative which should be examined closely is that of self-insuring to provide surety for the faithful performance of duty.

The Joint Subcommittee believes that it is possible that significant savings to the State may be realized if the Commonwealth were to provide for surety bond protection on a self-insured basis. Although there is no way of knowing at the present time how much, if any, additional savings the State could realize through such a self-insured program, the Joint Subcommittee believes that through effective risk-management techniques, the Insurance Manager could ascertain whether such savings were possible.

Recommendation No. 5: The Joint Subcommittee believes the Insurance Manager should examine in detail the methods by which negligence liability insurance is purchased by State agencies. Self-insuring for these risks is one alternative the Insurance Manager should examine.

The Joint Subcommittee learned that presently State agencies have the option of either obtaining coverage under policies purchased by the State Department of Personnel and Training or of negotiating their own policies to obtain coverage. Experience has shown that some agencies choose to be insured under the policies purchased by the Department of Personnel and Training, while others choose to purchase separate policies.

The Joint Subcommittee learned that the practice of allowing each State agency to choose how it will purchase negligence liability insurance coverage is inefficient when the costs of obtaining coverage and the past claims history are analyzed.

For example, the premiums for the policies purchased by the Department of Personnel and Training are $7.23 per person per year. Generally, every employee in an agency is covered under the policies. Therefore, many agencies pay very large total premiums each year to obtain this type of insurance.

On the other hand, it does not appear that the past claims experience justifies paying these large total premiums. For example, in some recent years there have not been any claims paid to persons bringing suit against those insured under the Personnel and Training Department's policies. Further, those claims that have been paid in recent years usually have been for small amounts compared to the amount of the premiums paid.

The Joint Subcommittee believes that through a self-insurance program, or through any other feasible alternative, the State Insurance Manager should remedy the inefficient and costly manner in which the Commonwealth purchases negligence liability insurance.

Further, it appears to the Joint Subcommittee that in many cases it may not be necessary for an agency to purchase coverage for all of its employees. Therefore, it is recommended that the State Insurance Manager study this issue closely and determine whether there is a need for all agency employees to be covered.

Recommendation No. 6: The Virginia Municipal League's concept regarding the formation of a reciprocal insurance company owned and operated by interested Virginia localities requires further attention and study before legislative recommendations can be made.

The Joint Subcommittee is aware of the acute financial burden that localities face in purchasing certain types of insurance, such as public officials liability insurance, automobile liability insurance and workmen's compensation coverage. Indeed, it was brought to the attention of the study group that a few insurance carriers are now refusing to issue localities coverage for certain types of insurance protection.

However, while recognizing that a reciprocal insurance company might offer participating Virginia localities some advantages over the present method of purchasing various types of insurance, the Joint Subcommittee feels that the General Assembly should further study the issue prior to concurring with the reciprocal concept.

CONCLUSION

At the beginning of its study the Joint Subcommittee was charged with the overall tasks of analyzing the methods by which the Commonwealth purchases various types of insurance and of recommending changes to those methods of purchasing insurance. The Joint Subcommittee believes it has completed these two tasks, and it feels that the adoption of its recommendations will lead to significant cost savings for the Commonwealth.

The Joint Subcommittee requests that the Governor and the General Assembly adopt the recommendations in this report.

Further, the Joint Subcommittee believes the State Insurance Manager should report annually to the House Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor so the General Assembly can be informed regarding the policies which the Insurance Manager is implementing, and so the General Assembly will be in a position to act on appropriate legislation, when such action is desirable.

Respectfully submitted,

Gerald L. Baliles, Chairman
Madison E. Marye, Vice-Chairman
Archibald A. Campbell
William T. Wilson
Edward E. Willey
Nathan H. Miller

Appendix I

HOUSE JOINT RESOLUTION NO. 251

Requesting the House Corporations, Insurance and Banking Committee and the Senate Commerce and Labor Committee to study and make recommendations concerning the Commonwealth's insurance coverage.

Agreed to by the House of Delegates, February 9, 1977

Agreed to by the Senate, March 2, 1977

WHEREAS, the Commonwealth, frequently in conjunction with her political subdivisions, purchases a variety of insurance which extend various types of protection to State and local officials, agency heads, other employees required to be covered, and State-owned property; and

WHEREAS, the premiums on said insurance are expensive and the amount of liability coverage provided is in some instances disproportionate to the amount of possible loss or to loss experience; and

WHEREAS, it has been postulated that the State is confronted by a sizeable budget deficit and that measures of austerity must be implemented; and

WHEREAS, from empirical data gathered to date there seems to exist the distinct possibility that the Commonwealth may be able to realize considerable economies beneficial to her financial well-being if her insurance program is restructured; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the House Corporations, Insurance and Banking Committee and the Senate Commerce and Labor Committee are hereby requested to appoint three members each to study the Commonwealth's present program of insurance coverage and bond requirements and make recommendations concerning a structured insurance program for Virginia. Such recommendations should take into consideration the possibility of self-insurance and any other structural change to the State's insurance program which may result in economies.

Upon completion of their study, the Committees shall make the recommendations and propose the legislation necessary to realize the conclusion of their study.

Appendix II

HOUSE JOINT RESOLUTION NO. 150

Requesting that the Joint Subcommittee of the House of Delegates Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor's study on the Commonwealth's Insurance Coverage be continued.

Agreed to by the House of Delegates, February 18, 1978

Agreed to by the Senate, February 24, 1978

WHEREAS, the Commonwealth, frequently in conjunction with her political subdivisions, purchases a variety of insurance programs which extend various types of protection to State and local officials, agency heads, as well as other employees required to be covered, and State-owned property; and

WHEREAS, from empirical data gathered to date there seems to exist the distinct possibility that the Commonwealth may be able to realize considerable economies beneficial to her financial well-being if her insurance program is restructured; and

WHEREAS, House Joint Resolution No. 251 of the nineteen hundred seventy-seven General Assembly authorized the Joint Subcommittee of the House of Delegates Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor's study on the Commonwealth's Insurance Coverage to examine the Commonwealth's insurance-procuring policies and to recommend changes in the purchase of such insurance; and

WHEREAS, although the Subcommittee has made significant progress in studying certain areas of the Commonwealth's insurance coverage and in offering recommendations which would effect needed changes in the purchase of such insurance, more work needs to be done; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Subcommittee of the House of Delegates Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor's study on the Commonwealth's Insurance Coverage is hereby continued. The Subcommittee is requested to focus next year on the Commonwealth's method of purchasing property and casualty insurance for State-owned property. However, the Subcommittee shall also study any other area of the Commonwealth's insurance program that warrants further scrutiny.

The present six members shall continue to serve on the Subcommittee. If a vacancy occurs for any reason, a successor shall be appointed by the appropriate person or persons pursuant to the method of appointment specified in House Joint Resolution No. 251 of the nineteen hundred seventy-seven General Assembly. All agencies of the Commonwealth shall assist in this study.

HOUSE JOINT RESOLUTION NO. 235

Requesting that the Joint Subcommittee of the House of Delegates Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor continue its study on the Commonwealth's Insurance Coverage.

Agreed to by the House of Delegates, January 24, 1979

Agreed to by the Senate, February 19, 1979

WHEREAS, the Joint Subcommittee studying the Commonwealth's Insurance Coverage was established pursuant to House Joint Resolution No. 251 of the nineteen hundred seventy-seven General Assembly, the membership of which consists of three members from the House of Delegates Committee on Corporations, Insurance and Banking and three members of the Senate Committee on Commerce and Labor; and

WHEREAS, the Joint Subcommittee's recommendations for legislation were accepted by the nineteen hundred seventy-eight General Assembly, the impact of which should permit the Commonwealth to realize significant savings in the purchase of surety bonds for government officials and workmen's compensation for State employees; and

WHEREAS, the General Assembly, recognizing from the empirical data gathered by the Joint Subcommittee that there seems to be a distinct possibility that the Commonwealth may be able to realize considerable economies beneficial to her financial well-being from a continued examination of the State's insurance program, authorized the Joint Subcommittee to continue its study; and

WHEREAS, the Joint Subcommittee secured the voluntary services of three insurance risk managers to serve the Subcommittee as a Risk Management Advisory Committee; and

WHEREAS, the Advisory Committee has recently furnished the Subcommittee informed opinions regarding various technical risk management and insurance matters; and

WHEREAS, the Advisory Committee, at the request of the Subcommittee, also studied the Commonwealth's existing property insurance, general liability insurance, workmen's compensation insurance and automobile liability insurance programs; and

WHEREAS, a comprehensive evaluation of the Commonwealth's existing insurance procurement practices was complicated by the size and complexity of the Commonwealth's insurance requirements, the unavailability of accurate cost and risk exposure data and the delay in receiving the available information; and

WHEREAS, the Subcommittee is in need of additional information from the State agencies regarding present general liability risk exposure and procurement practices in particular, and all risk and procurement policies in general; and

WHEREAS, the Subcommittee desires to further study whether the Commonwealth's insurance programs might be best administered by a risk manager with responsibility for all the Commonwealth's insurance needs; and

WHEREAS, although the Joint Subcommittee has made significant progress in studying several aspects of the Commonwealth's insurance coverage and in offering recommendations which would effect needed changes in the purchase of such insurance, further consideration is in order; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Subcommittee of the House of Delegates Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor's study on the Commonwealth's Insurance Coverage is hereby continued. The subcommittee is requested to focus on the issues aforementioned as well as any other area of the Commonwealth's insurance program that warrants further scrutiny, including problems that local governments have faced in securing general liability insurance.

The present six members shall continue to serve on the Subcommittee. If a vacancy occurs for any reason, a successor shall be appointed by the appropriate person or persons pursuant to the method of appointment specified in House Joint Resolution No. 251 of the nineteen hundred seventy-seven General Assembly. All agencies of the Commonwealth shall assist in this study.

CHAPTER 753

An Act to amend the Code of Virginia by adding in Chapter 5.6 of Title 2.1 a section numbered 2.1-51.29, relating to the establishment of blanket surety bond and group workmen's compensation insurance plans for State employees.

Be it enacted by the General Assembly of Virginia:
1. That the Code of Virginia is amended by adding in Chapter 5.6 of Title 2.1 a section numbered 2.1-51.29 as follows:

*§ 2.1-51.29. **Secretary to establish blanket surety bond and group workmen's compensation insurance plans for State employees.**—The Secretary of Administration and Finance is authorized to initiate and implement a program of blanket surety bonding to provide surety for the faithful performance of duty for all State employees required by statute to be bonded, and for other agency employees handling funds or having access to funds whose function in the opinion of the agency head and Secretary of Administration and Finance should be bonded.*

Local employees or Constitutional officers, other than those already covered by programs of the Supreme Court under § 19.2-39 of the Code of Virginia, for whom the Commonwealth pays all or part of the costs of surety bonds, shall be required to participate in the blanket surety bond program promulgated by the Secretary of Administration and Finance through the Comptroller and the Compensation Board. Before implementing the program, the Secretary shall determine that such program will be of less cost to the Commonwealth than the aggregate of individual bonds costs.

The Secretary of Administration and Finance is authorized to initiate and implement a group workmen's compensation insurance program for all State employees through a program that accumulates maximum premium discounts on a Statewide basis. Before implementing the program, the Secretary shall determine that such program will be of less cost to the Commonwealth than the aggregate of individual agency policies.

[H 935]

Approved April 9, 1978

Appendix V

RISK MANAGEMENT ADVISORY COMMITTEE

REPORT TO THE

JOINT SUBCOMMITTEE STUDYING THE

COMMONWEALTH'S INSURANCE COVERAGE

December 1, 1978

REPORT TO THE
JOINT SUBCOMMITTEE STUDYING THE
COMMONWEALTH'S INSURANCE COVERAGE

Introduction

House Joint Resolution Number 251, enacted by the 1977 General Assembly, directed a Joint Senate-House Committee be established to study the Commonwealth's insurance coverage, and to make recommendations regarding the structuring of a more economical insurance program for the state.

In accordance with the wishes of this joint subcommittee, Mr. John G. Day, Commissioner of Insurance, secured the services of three Risk Managers, Messrs. Bernard M. Hulcher, William H. Murphy and Robert W. Esenberg, to advise the subcommittee regarding technical risk management and insurance matters.

Pursuant to the directions of the subcommittee, the Risk Management Advisory Committee studied property insurance, worker's compensation insurance and automobile liability insurance limits of liability premiums, insurable values, and loss information that was made available through Mr. Day's office, and requested a survey be made to obtain similar data on general liability insurance. The following report is the result of this study.

SUMMARY

Our study of the Commonwealth's insurance needs was complicated by several factors:

1. The size and complexity of the organization itself.
2. The unavailability of adequate research data.
3. The lack of a central office having knowledge of the insurance needs and insuring practices of the Commonwealth.
4. The lack of knowledge possessed by the majority of state agencies regarding their own insurance needs and premium loss experience.
5. The inability to obtain prompt and accurate responses to insurance questionnaires.

Because of these factors, we were unable to accomplish all of the objectives we had anticipated, however, we did develop sufficient knowledge to make the following recommendations:

A. Department of Risk Management:

We recommend that a Department of Risk Management be established. This department should be administered by a qualified Risk Manager, who should report to the Secretary of Administration and Finance. We further recommend that the State Insurance Board be reorganized and charged with the responsibility of establishing the policies under which the Department of Risk Management shall operate.

B. Property Insurance:

We recommend that the responsibilities for the placement of all property insurance be charged to the Department of Risk

Management, and that all properties be insured under a single contract written with a deductible of $100,000 per occurrence. As experience is gained with this method of handling property insurance, and as the Self-Insurance Trust Fund grows to a predetermined level, deductible amounts can safely be increased allowing the Commonwealth greater participation in insuring it's own risks at increased annual savings.

C. Worker's Compensation Insurance:

As a result of the efforts of the Joint Subcommittee studying the Commonwealth's Insurance Coverage, the Secretary of Administration and Finance will be obtaining a Worker's Compensation insurance policy, written on a blanket basis, which will provide coverage for all state employees. Although we concur with this action, we recommend that, when appointed, the Risk Manager evaluate other alternative methods of handling these risks, including self-insurance, in order to determine the most efficient and economical insuring technique.

D. Automobile Liability Insurance:

We are aware that a committee, created under Senate Joint Resolution 88, which was enacted by the 1977 General Assembly, has recommended the creation of the Virginia State Vehicle Self-Insurance Program. We are also aware that the 1978 General Assembly passed Senate Bill 69, which directs the Secretary of Administration and Finance to implement such a program. We recommend that the implementation of the Virginia State Vehicle Self-Insurance Program be made a responsibility of the Department of Risk Management.

E. General Liability Insurance:

Because there was no data available on general liability risks or insurance procurement practices, questionnaires were sent to all state agencies. Unfortunately, the responses were incomplete and inaccurate, and were not received in time to be returned for corrections. Therefore, we are unable to address specific risks, but we recommend that the Risk Manager include public liability exposures in an overall risk management program for the Commonwealth of Virginia.

F. Public Employees Bonding:

We are aware the study and establishment of a blanket bond program for the Commonwealth was authorized by the 1978 General Assembly through House Bill 935. We concur with this authorization and recommend procurement and administration of the blanket bond be the responsibility of the Department of Risk Management.

DEPARTMENT OF RISK MANAGEMENT

The demand for greater professionalism and more efficiency in conducting the affairs of government, at all levels, is being heard louder now than ever before in the history of our country. Citizens are looking to those public officials who hold in trust public properties and funds to utilize such public assets in a more businesslike manner, and to be accountable for their actions.

The erosion of governmental immunity throughout the country, and the desire of citizens to hold governments and their employees responsible for their actions or inactions has brought the philosophy of risk management to the attention of many public administrators. It is a fact that risk management, long a valuable tool of private industry, is fully adoptable to the needs of government.

During our study, it became painfully evident that, with the exception of the Department of Property Records and Insurance (fire insurance), no one office or individual in the state government posessed sufficient knowledge of any line of risk to provide us with statewide premium, loss or other underwriting data. In many cases we found that state agencies do not maintain insurance records.

A lasting solution to the state's insurance problems (both cost and coverage) cannot be obtained until the responsibilities associated therewith are centralized in a single office. We therefore recommend that a Department of Risk Management be established, and that this department report to the Secretary of Administration and Finance. The director of this department should be a qualified risk manager, and should be granted authority consistent with the responsibilities of the job.

We further recommend that the present State Insurance Board be reorganized and designated as the State Risk Management Board. This board should be responsible for establishing the policies which would be implemented through programs designed by the state's risk manager.

It is our opinion that the implementation of the above recommendations should have priority over all other recommendations contained herein. The design and implementation of specific risk management and insurance/self-insurance programs should be based on detailed studies conducted by the Department of Risk Management, and should not be legislative attempts to deal with only a small portion of a large and complex problem.

PROPERTY INSURANCE

It is the recommendation of the Committee that the placement of all property insurance be handled by a central authority, the Department of Risk Management. The consolidation of all property insurance into one contract will produce a uniform method of insuring protection as determined by a policy-setting board. It will also permit the maximum use of deductibles on a consistent basis. This will enable the Commonwealth to gradually extend its self-insured participation thereby effecting substantial savings.

The Committee obtained cost indications from two companies representing underwriting groups. The letters setting forth their projections are attached hereto and made a part of this report. Also enclosed is a comparison statement setting forth the expected results. While the projections are based on assumptions without inspections and without specific rating of any risks in the Commonwealth, it is believed the results indicated are readily obtainable. No definitive results can be determined without the actual offer of coverage requiring months of work for detailed inspection and rating. The recommended procedure by the Committee is to obtain quotations with a deductible of $100,000 per occurrence. Based on the past five years loss experience and the insurable values and premiums compiled by the Department of Property Records and Insurance, it is expected that annual savings of up to approximately $250,000 can be realized. As experience is gained with this method of handling property insurance and the Self-Insurance Fund grows to predetermined levels, the deductible can safely be increased giving the Commonwealth greater participation in insuring its own risks and increased annual savings.

COMMONWEALTH OF VIRGINIA
COMPARISON OF PROJECTED INSURANCE COSTS
BUILDING AND CONTENTS

Present

Insured Values 12/31/77	Deductible	Rate	Annual Premium	
$1,707,869,703	$5,000	.07026	$1,200,722	
Industrial Risk Insurers				
$1,707,869,703 (Rate 5½¢-25%)	$100,000	.04125	$ 704,496	
Protection Mutual				
$1,366,295,903 (HPR Estimates) (Rate .162 x .187% Absorption) Money Value of Deposit Premium 1,012,677. x 8%	$100,000	.03029	$ 413,906	
			$ 494,920	
Non-HPR $341,573,800		.14500	$ 495,282	990.202

Summary

Present Premium		$1,200,722
IRI Projected Premium	$704,496	
Plus losses to be absorbed	199,573	904,069
Indicated Annual Savings		$ 296,653

August 11, 1978

Mr. Bernard Hulcher
2225 Brookwood Road
Richmond, Virginia 23235

Re: State of Virginia
Department of Property
Records and Insurance

Dear Mr. Hulcher:

It was a pleasure receiving your letter regards the insurance program for various properties in the State of Virginia. First, I must apologize for the delay in responding, but I have been in the middle of setting up a new Protection Mutual Office in the Philadelphia area, so the past few weeks have been somewhat hectic. Please note my new address which is as follows:

Protection Mutual Insurance Company
110 Gibraltar Road
Horsham, Pennsylvania 19044

Telephone: 215-441-0383

With respect to your inquiry on a tentative quote for the properties listed in the brochure, I have gone through the schedule of locations to evaluate the types of property and develop a ratio of standard HPR properties versus non-standard. Our non-standard definition would include locations which have combustible construction and/or occupancy without sprinkler protection.

Obviously, there are a number of assumptions on my part, but the ratio I have developed is 80% standard and 20% non-HPR. The "net" rates I then worked out for the two categories, using a $100,000 deductible, are .030 and .145, respectively. Using the above 80/20 ratio, the overall net rate would be .053.

Use of a $50,000 deductible would increase the above rate by 10%, and a $250,000 deductible would result in a 15% reduction to the .053 rate.

I know you are familiar with our deposit system from Southern States, and in developing the .030 net rate for the HPR locations, I have simply taken our deposit rate of .162 times the normal annual absorption of 18.7% per year to develop the net figure. The non-HPR locations would be written basically as an annual deposit.

I trust this gives you a general indication of the program that could be developed with Protection Mutual, and as you indicated, the figures would be confirmed after physical inspections.

I look forward to hearing from you again in the near future, and trust we can arrange a meeting when I next visit the Richmond area.

Very truly yours,

TWM:dq

Industrial Risk Insurers

85 Woodland Street
Hartford, Connecticut 06102
Tel. (203) 525-2601 Telex: 9-9349

August 24, 1978

Mr. William H. Murphy, Director of
Insurance & Risk Management
Reynolds Metals Company
Richmond, Virginia 23261

Dear Bill:

COMMONWEALTH OF VIRGINIA PROPERTY

A while back, you provided us with a copy of the 1977 biennial report covering Commonwealth properties for which your Risk Management Advisory Committee was seeking an estimated property insurance premium cost.

While you appreciate the details furnished were meager for any firm cost analysis, based upon our knowledge of certain of the properties and variable deductibles to be provided, we would estimate that an annual package rate for fire and extended coverage of between .05 and .06 could be obtained. This is not a firm quotation on our part, simply an estimate for insurance purposes.

We trust this information will be of assistance.

Sincerely,

R. M. Taft
Assistant General Manager

nw

Industrial Risk Insurers

7E
FIELD OFFICE
4906 Fitzhugh Ave.
Richmond, Va. 23230
Tel. (804) 353-8958

September 5, 1978

Mr. William H. Murphy
Director of Insurance & Risk
Management
Reynolds Metals Company
6601 West Broad Street
Richmond, Virginia 23261

Dear Bill:

IRI DEDUCTIBLE CREDITS

During our telephone conversation of August 31, you requested credits which might be applicable for accounts written by our Association where larger deductibles are desirable.

Following, you will find a list which gives you a range that could be used as a guide. Naturally, deductible credits have to be utilized depending on the individual characteristics of an account or even individual risks.

Deductible	Credit
$ 25,000	15% to 20%
$ 50,000	20% to 25%
$ 100,000	25% to 30%
$ 250,000	32% to 37%

It was good to talk to you, and if we can be of further assistance, please give us a call.

Sincerely,

E. B. Gregg
Field Manager

EBG/jk

INSURANCE
SEP 6 1978
DEPARTMENT

WORKER'S COMPENSATION

The 1978 General Assembly authorized the Secretary of Administration and Finance to ". . .initiate and implement a group worker's compensation insurance program for all state employees. . .(if) such a program will be of less cost to the Commonwealth than the aggregate of individual agency policies." Although this type of legislation indicates a desire on the part of some legislators to control spending and provide more effective and efficient services, we caution against enacting such legislation that addresses only one problem of an extremely complex system. This type of action could inhibit the activities of the proposed Department of Risk Management and the State Risk Management Board.

Our study has indicated that several state agencies are qualified as self-insurer's of worker's compensation benefits. Although we were unable to obtain sufficient loss data on these agencies to determine the economic benefits derived from their self-insurance programs, we feel that sufficient factors exist, including tabulations for commercially insured agencies which were obtained from the Virginia Compensation Rating Bureau, which indicate a self-insurance plan for all state agencies may be economically feasible. It is our recommendation that the placement of Worker's Compensation Insurance be made the responsibility of the Department of Risk Management, and that a blanket policy be obtained which provides coverage for all state agencies that are presently commercially insured. Also, further study should be conducted by the state's risk manager to determine the actual economic benefits which may be derived by establishing a statewide self-insurance program or statewide commercial insurance program.

CHAPTER 753

An Act to amend the Code of Virginia by adding in Chapter 5.6 of Title 2.1 a section numbered 2.1-51.29, relating to the establishment of blanket surety bond and group workmen's compensation insurance plans for State employees.

[H 935]

Approved APR 9 1978

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Chapter 5.6 of Title 2.1 a section numbered 2.1-51.29 as follows:

§ 2.1-51.29. Secretary to establish blanket surety bond and group workmen's compensation insurance plans for State employees.—The Secretary of Administration and Finance is authorized to initiate and implement a program of blanket surety bonding to provide surety for the faithful performance of duty for all State employees required by statute to be bonded, and for other agency employees handling funds or having access to funds whose function in the opinion of the agency head and Secretary of Administration and Finance should be bonded.

Local employees or Constitutional officers, other than those already covered by programs of the Supreme Court under § 19.2-39 of the Code of Virginia, for whom the Commonwealth pays all or part of the costs of surety bonds, shall be required to participate in the blanket surety bond program promulgated by the Secretary of Administration and Finance through the Comptroller and the Compensation Board. Before implementing the program, the Secretary shall determine that such program will be of less cost to the Commonwealth than the aggregate of individual bonds costs.

The Secretary of Administration and Finance is authorized to initiate and implement a group workmen's compensation insurance program for all State employees through a program that accumulates maximum premium discounts on a Statewide basis. Before implementing the program, the Secretary shall determine that such program will be of less cost to the Commonwealth than the aggregate of individual agency policies.

VIRGINIA COMPENSATION RATING BUREAU 8B

2720 ENTERPRISE PARKWAY • SUITE 114 • P. O. BOX 27541 • RICHMOND, VA. 23261 • 804—747-1800

RATE DIVISION

FEB 17 1978

INSURANCE
FILE NO.

February 15, 1978

Mr. G. L. Hazelwood, Assistant Commissioner
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23209

Dear Mr. Hazelwood:

RE: Risk Manager Advisory Committee Recommendations
Commonwealth of Virginia, Etal.

This will confirm our recent telephone conversations and acknowledge receipt of your letter of February 10, with reference to establishing an advisory experience modification based on the insured riskswhich constitute the Commonwealth of Virginia's coverage.

We have completed our tabulations and based on what we feel to be substantially all of the insured entities, we have developed an advisory experience modification of .77, using the three latest years of experience for each department insured. There may be a few small State departments which are insured and which we were unable to identify but it is our feeling that the attached data reflects substantially all of the insured departments. However, we would add that the Virginia National Guard's coverage is written using a specially approved "A" rated procedure based on a negotiated rate agreed to by the National Guard and its insurance carrier as permitted by manual rules. Therefore, this data would not be reflected in the advisory modification.

If there is any additional information which you feel we can supply, please do not hesitate to let us know.

Yours very truly,

R. E. Farmer,
Manager

REF:dvz
Encl.

AUTOMOBILE LIABILITY INSURANCE

During the course of this study we were asked to comment on a draft of the Virginia Vehicle Self-Insurance Program which had been developed in accordance with Senate Bill 69. A copy of our response is also attached.

Our concern with such piecemeal actions of the General Assembly is that legislation may be enacted to deal with a single problem rather than encouraging the development of an overall program which could respond to many risk areas and produce greater economic benefits while providing a more professional approach to solving the state's insurance problems.

We therefore recommend that the Secretary of Administration and Finance delay implementation of the Virginia Vehicle Self-Insurance Program, and allow the proposed Department of Risk Management to include such a program in an overall risk management program for the Commonwealth.

Approved March 28, 1978

Be it enacted by the General Assembly of Virginia:
1. That the Code of Virginia is amended by adding in Chapter 5.6 of Title 2.1 a section numbered 2.1-51.29 as follows:

§ 2.1-51.29. Self-insurance of State motor vehicles.—A. The Secretary of Administration and Finance shall establish a self-insurance plan or a combination of self-insurance and purchased insurance plan to provide protection for the State and its employees against tort liability arising out of the ownership, maintenance or use of motor vehicles owned or leased by the State or used by State employees in the course of their employment.

B. The self-insurance plan shall provide for the establishment of a trust fund for the payment of tort liability claims arising out of the ownership, maintenance or use of motor vehicles owned or leased by the State or used by State employees in the course of their employment. The plan shall also provide for payment of the expenses related to the administration of a self-insurance program for the Commonwealth. The self-insurance plan shall be submitted to the Governor for approval prior to implementation.

City of Virginia Beach

DEPARTMENT OF FINANCE
RISK MANAGEMENT DIVISION

MUNICIPAL CENTER
VIRGINIA BEACH, VIRGINIA 23456
(804) 427-4217

October 24, 1978

Mr. Stuart W. Connock
Asst. Secretary for Financial Policy
Office of Administration and Finance
Office of the Governor
Richmond, VA 23219

Dear Mr. Connock:

Pursuant to your letter of September 27, 1978, the Risk Management Advisory Committee met and discussed the draft of the proposed Virginia Vehicle Self-Insurance Program, as well as the status of our activities related to the responsibilities charged to us by Mr. Baliles' Joint Subcommittee Studying the Commonwealth's Insurance Coverage.

We appreciate the opportunity to provide the comments contained herein regarding the proposed vehicle self-insurance program, however, it appears that certain predetermined actions are being taken by the Commonwealth without providing our committee with data which we have requested, and which is necessary in order that we may complete our analysis of the states insuring alternatives.

Although we have been unable to complete our study because of the lack of required data, we feel that the Commonwealth would realize greater economic benefits if it placed it's insurance (primary & excess or strictly excess) as a group rather than in the piecemeal approach being contemplated. Soliciting quotations at the same time on auto liability, general liability and workmen's compensation risks for an organization as large and complex as the Commonwealth of Virginia generally is more attractive to larger insurers, and provides them with more alternatives and greater flexability than is possible when viewing a single line of risks.

There are several areas of the draft to which we address specific comments. The Executive Summary is unclear as to whether or not the state intends to afford coverage to state employees who utilize their personal automobiles for official business. If it is the intent of the state to provide such protection, a provision should be made that the state's liability is restricted to losses in excess of a specified limit. Furthermore, employees who use their personal automobiles for official business should be required to carry specified limits of insurance. We recommend against assuming their liabiltiy.

Throughout the draft the responsibility for the administration of the Virginia Vehicle Self-Insurance Program has been placed with a State Vehicle Insurance Manager in the Department of Property Records and Insurance. The job description for this individual approaches that of a risk manager. Inasmuch as the State Vehicle Insurance Manager will be administering a fund established by the Secretary of Administration and Finance, and inasmuch as the Department of Property Records and Insurance is essentially a record-keeping and advisory agency rather than an insurance or risk management department, we recommend that the position of State Vehicle Insurance Manager be upgraded to Director of Risk Management, and that a seperate Department of Risk Management be established. This department should report to the Secretary of Administration and Finance.

We further recommend that guidelines be established for excess liability protection of the State Self-Insurance Trust Fund. Guidelines should also be established requiring mandatory legal consultation on claims above a specified amount.

Regarding the administrative costs cited on page 9 of the draft, it appears that the claims administration services and the safety and loss prevention services cost estimates are inadequate for an organization as large as the Commonwealth of Virginia. Also, there is no provision for the purchase of excess insurance.

The Claims Administration section of the draft requires that state agencies report "claims" directly to the state agency responsible for the administration of the vehicle self-insurance program. We feel that this procedure would result in unnecessary delays, and recommend that state agencies report directly to the claims service company and send a copy of the proper report form to the Department of Risk Management or other agency charged with the administration of this program.

For the reasons cited in paragraph two, we are not prepared to comment on the advisability of establishing a self-insured auto liability program at this time. We do feel that the concept of self-insuring the state's auto liability risks is one valid alternative, but we recommend that the state delay establishment of this program until a risk manager is employed, and the feasibility of establishing a program including automobile liability, general liability, and workmen's compensation risks has been properly examined.

We hope that our comments will be useful to you, and look forward to receiving the tabulated results of our general liability questionaire so that we may conclude our study.

Very truly yours,

ORIGINAL SIGNED BY:
R. W. ESENBERG

Robert W. Esenberg, Chairman
Risk Management Advisory Committee

RWE/cra

cc: The Honorable Gerald L. Baliles
Mr. William H. Murphy
Mr. Bernard M. Hulcher
Mr. Charles B. Walker
Mr. Hiram R. Johnson
Mr. James W. Newman

GENERAL LIABILITY INSURANCE

We encountered our most difficult problems in attempting to gather data on the public liability risks confronting state agencies. Because there was no single source familiar with the state's risks, we designed a questionnaire, similar in format to one used for automobile risks (see attached), which was sent to all state agencies in June, 1978.

We did not receive copies of the tabulated results of this survey until October 27, 1978 (copies attached). Because of the delay in obtaining responses, and because of the questionable validity of the information provided by many state agencies, we were unable to proceed with our study.

We are of the opinion that the practice of each agency placing its own general liability insurance represents the most inefficient and costly method of buying insurance. We were unable to locate any directives or policies directed to state agencies which established rules or guidelines for the placement of general liability insurance, therefore, we must assume that decisions regarding the types of insurance to be purchased are normally made by agency directors who have little knowledge of insurance, and/or by insurance agents who are selling the insurance to the Commonwealth.

Although we have been unable to evaluate public liability risks to the extent we desire, it is evident that significant savings may be realized if the procurement of general liability insurance is placed under one central agency, a Department of Risk Management.

Furthermore, the development of a total risk management program which utilizes self-insurance, commercial insurance, loss prevention and control, and other risk treatment techniques should result in even greater economic benefits to the citizens of Virginia.

Coverage Provided

		Check One	
		Yes	No
Premises Operations		______	______
Elevators			
A. Passenger - Capacity? ______		______	______
B. Freight - Max. Load? ______		______	______
Independent Contractors		______	______
Est. Ann. Payroll ______			
Products/Completed Operations		______	______
If Yes:			
A. Brief Description of Operations			
B. Sales Volume			
Contractual			
A. Blanket		______	______
B. Specified		______	______
XCU			
A. Blanket		______	______
B. Specified		______	______
Broad Form Property Damage		______	______
Personal Injury		______	______
Watercraft or Aircraft	(C)	______	______

(C) Submit complete details

Commonwealth of Virginia
Insurance Questionnaire
Relative to HJR 251 & HJR 150

Agency Name ______________________

Completed By ______________________

Phone # ______________________

Comprehensive or General Liability

Please complete fully - if in doubt as to proper answer refer to your insurance agent or broker for the information.

Current Limits of Liability

Bodily Injury ____________

Property Damage ____________

or

Combined Single Limit ____________

Exposure Information

Year	Number of Employees	Straight Time Payroll	Annual Premium
Current			(A)
1st Previous			(B)
2nd Previous			(B)
3rd Previous			(B)

(A) Estimated
(B) Audited

Claims Cost Data
(To Be Completed by Insurance Agent or Broker)

Policy Period	Bodily Injury # Of Claims	Bodily Injury (D) Paid	Bodily Injury (D) Reserved	Property Damage # Of Claims	Property Damage $ (D) Paid	Property Damage $ (D) Reserved
Current						
1st Previous Year						
2nd Previous Year						
3rd Previous Year						

(A) Estimated

(B) Audited

(C) Submit complete details

(D) Submit complete details of any claim paid or reserved in excess of $10,000

11D

COMMONWEALTH of VIRGINIA

JOHN A. BANKS, JR.
DIRECTOR

DIVISION OF LEGISLATIVE SERVICES
STATE CAPITOL

POST OFFICE BOX 3-AG
RICHMOND, VIRGINIA 23208
(804) 786-3591

October 26, 1978

Mr. William H. Murphy
Director of Insurance and Risk Management
Reynolds Metals Company
6603 West Broad Street
Richmond, Virginia 23261

Dear Mr. Murphy:

Enclosed is information relating to the work of the Joint Subcommittee Studying the Commonwealth's Insurance Coverage. Enclosed are the completed questionnaires concerning property and casualty insurance-purchasing practices of State agencies, and the results of the survey as compiled by the Department of Property Records and Insurance.

Mr. Esenberg suggested that I send this material to you, so that you could review it and begin the process of receiving office quotes.

I understand that you, Mr. Esenberg, and Mr. Hulcher will meet in Williamsburg on November 2 and might be able to discuss some of the results of the survey at that time.

Please do not hesitate to contact me if I may be of further assistance.

Sincerely,

Chip Fisher

Hugh P. Fisher, III
Research Associate

HPFiii/mkh
Enclosure

cc: Honorable Gerald L. Baliles

INSURANCE
OCT 27 1978
DEPARTMENT

PUBLIC EMPLOYEES BONDING

Definite cost reductions can be accomplished by utilizing a blanket bonding arrangement for public employees. We understand a premium savings in excess of 10% was effected in the state of North Carolina by the blanket bonding technique. Authority apparently exists for such action through passage of House Bill 935 by the 1978 General Assembly. We recommend the procurement and administration of the blanket public employee bonding program fall within the responsibility of the Department of Risk Management. Prior to procurement that department can undertake a comprehensive review of maximum risk exposures, controls and historical loss information.

CONCLUSION

We are pleased to have had this opportunity to be of service to the Commonwealth of Virginia, and we hope that our efforts will be helpful to the members of the Joint Subcommittee Studying the Commonwealth's Insurance.

Our recommendations have been based on information obtained from several surveys and from a number of state agencies. We thank Mr. John G. Day, former Commissioner of Insurance, and his staff for their assistance during this study.

The primary insurance problem presently facing the Commonwealth is the lack of a comprehensive program for the protection of the state's public owned assets. There is no single state agency responsible for the procurement and administration of the Commonwealth's insurance, and the one department that is involved in some manner with the state's fire insurance, The Department of Property Records & Insurance, is statutorily prohibited from purchasing insurance.

Our study has revealed that there are more economical methods of managing the pure risks confronting the state. We have identified a need for a Department of Risk Management, and we have recommended that such a department be created. This department should be responsible for conducting formal analysis of all state operations, examining all alternative methods of treating the risk identified, and designing and implementing a comprehensive risk management program that will protect the taxpayer's investment in the Commonwealth of Virginia in the most cost effective and cost efficient manner possible.

Again, we appreciate the opportunity to serve the Commonwealth and its citizens.

Respectfully Submitted

Risk Management Advisory Committee

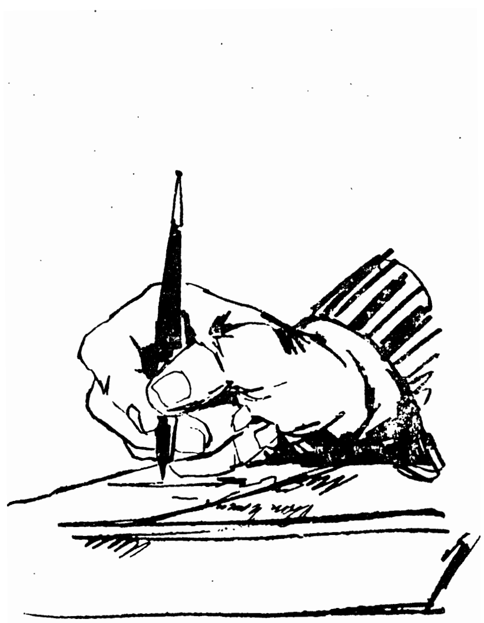
Robert W. Esenberg
City of Virginia Beach

William H. Murphy
Reynolds Metals Company

Bernard M. Hulcher
Southern States Cooperative, Retired

Appendix VI

Insurance Pooling for Virginia's Localities



Virginia Municipal League
311 Ironfronts, Post Office Box 753
Richmond, Virginia 23206

INSURANCE POOLING FOR VIRGINIA'S LOCALITIES

CONTENTS

INSURANCE POOLING FOR VIRGINIA'S LOCALITIES

An issue of increasing concern to local officials is insurance and risk management. Premium rates for many categories of insurance have skyrocketed in recent years, and some localities have even had difficulty in obtaining bids from insurance companies for certain forms of coverage. The once mundane administrative task of renewing reasonably priced insurance policies has, in some instances, become an administrative nightmare. Some larger localities have even decided to become self-insured for certain of their insurance needs.

Nationwide Problem

According to the National League of Cities (The New World of Municipal Liability, April 1978, p.4): "Localities have not been viewed as good liability risks by commercial risk bearers -- insurance companies. They advance a number of reasons for this point of view. Disappearing immunity and ill-defined scope of tort laws increase exposure and create unpredictable risks. A related factor is poor data on exposures, hazards and losses, a problem that has always plagued municipal government.... The fact is that insurance companies, like most other institutions, do not like unpredictable situations. Making a profit in the financial risk protection business hinges on the long haul certainty of income exceeding payout by a large enough margin to cover expenses and turn over a 6 to 8 percent, or better, average annual profit. The insurance industry cannot be condemned out of hand for becoming alarmed about, or withdrawing from, a totally unpredictable and uncontrolled environment."

Admittedly there is much more unpredictability in Public Officials Liability than there is in Automobile Liability or Workmen's Compensation. Another reason for insurance companies to be unwilling to do business with localities is a general lack of understanding of local government operations. The National League of Cities feels that "policy lines designed for private enterprise and lack of insurer knowledge about local operations has probably accelerated increased rates and abandonment of the market." (Ibid., p.5) By pooling together to share their collective risks and by adopting aggressive risk management campaigns, localities can gain much greater control over their insurance costs.

Five state municipal leagues -- Alabama, Florida, Kentucky, Michigan and Texas -- are operating Workmen's Compensation programs on a pooling basis. Missouri and New Jersey are studying the prospects of similiar plans. Multiple city programs pooling liability risks are currently operating in Dade County, Florida, and in Sonoma, San Diego and Contra Costa California. (Ibid, p.13). Also, a successful pool has recently been developed in northwest Illinois. Fourteen suburban localities joined together to form the Intergovernmental Risk Management Agency. Savings to pool members have been estimated at 33% over projected conventional insurance costs. ("Governmental Risk Management Reports," Vol. I, No. 1, April 1979.)

VML Insurance Committee

Early in 1977 the Virginia Municipal League formed an Insurance Commmittee to explore various alternatives available to Virginia's localities. This committee was initially under the very able guidance of the late Avery Thomas, Newport News City Attorney. Mr. Thomas was succeeded as chairman by William I. Wimbish, Assistant City Attorney for Richmond. On June 27, 1978, Bernard M. Hulcher, formerly manager of the Southern States reciprocal insurance company, was engaged to perform consultive services necessary to complete the study begun by Mr. Thomas.

Among the areas of insurance coverage considered by the committee were Public Officials Iiability for Errors and Omissions, Automobile Liability, and Workmen's Compensation. These three areas were most frequently mentioned by local officials in discussions of risk management problems. In order to simplify the feasibility study and to limit costs it was determined that the study should focus on the formation of a reciprocal insurance company owned and operated by member localities in Virginia. While the Insurance Committee study did not delve into the pros and cons of other possibilities, such as pooling arrangements or the group purchase of insurance, it is entirely possible that such an alternative format might be recommended by the Insurance Committee as work progresses on the formation of the reciprocal. If it is determined that a group purchase of one line of insurance is more efficient than direct incorporation in the reciprocal plan, the group purchase option could be made available to all members of the reciprocal for that line of insurance. Another possibility exists for a group pool for Workmen's Compensation under the provisions of HB 1952 adopted by the 1979 Session of the Virginia General Assembly. Because of the variety of options available, all with varying levels of complexity for implementation, the Insurance Committee has decided to move forward on the most comprehensive, and therefore most complex, proposal so as to minimize lost lead time in implementation.

A target date of July 1, 1980 has been set for implementation of the reciprocal insurance company. In part, this date was chosen to coincide with the general fiscal year. Since a minimum of three to six months is necessary for the proper processing of the forms required by the Bureau of Insurance of the State Corporation Commission, it will be necessary to have most of the background work and "charter" membership work completed by January 1, 1980. A minimum of 25 entities is necessary to form a reciprocal in Virginia. In addition to general purpose local governments, this minimum of 25 can include other entities such as school boards, water authorities, housing authorities, etc. A listing of the requirements of the Bureau of Insurance for the organization and licensing of a Virginia reciprocal insurer is contained in Appendix A on Page 15. Further comments can also be found beginning on page 5.

The single greatest concern of local officials in the area of insurance appears to be the availability of Public Officials Liability Insurance. Much of the interest that has already been expressed in the reciprocal has been due to the desire to obtain adequate coverage for Public Officials Liability. The current proposal calls for this line of insurance to be made available in 1981, the second year of operation of the reciprocal. This is necessary because Public Officials Liability insurance does not generate enough total premium dollars to justify the establishment of a reciprocal for that one line of coverage, nor is it practical or advisable to attempt to offer more than one line of coverage in the first year of operation of the reciprocal.

Based upon these constraints and upon the best advice of our consultant, it has been decided to confine the initial phase of the reciprocal to Automobile Bodily Injury and Property Damage Liability and Automobile Physical Damage. Two further reasons for this decision are:

1. The drafting of acceptable forms and the development of credible rates that would be approved by the Virginia Insurance Commission for a line such as Public Officials Liability Insurance would be very time consuming and would delay the start of operation of the company; and,
2. Reinsurers would be reluctant to make satisfactory proposals for such an experimental line of insurance with a new company.

<u>Description of a Reciprocal Insurance Company</u>

Perhaps a general description of a reciprocal would be helpful at this point. A reciprocal insurance company or exchange is an unincorporated association of individuals or other entities who agree upon a plan of exchanging contracts of insurance among themselves in order to produce the premium and cash-flow savings of self-insurance and at the same time the protection, orderly and equitable means of operation of any other type of insurance company. The authority for accepting insurable risks, issuing policies, paying claims, and all other functions of a normal insurance company is outlined in a document called "The Subscribers' Agreement" which designates the powers and duties conferred by the subscribers. Each subscriber signs this contractual agreement. This document also provides for the allocation of premiums to payment of losses, expenses, reinsurance, reserves and savings.

It is in the category of savings that the reciprocal is unique, since all savings belong to the subscribers in proportion to the premium paid by each. Such savings may be returned in cash or in the form of equity credits which become an asset to the subscriber and at the same time in total add up to the policy holders surplus of the reciprocal. If a subscriber withdraws from the reciprocal he is entitled, with due notice, to take his accumulated savings with him provided the withdrawal does not impair the surplus of the reciprocal. This unique feature of reciprocal insurance makes it particuarly attractive to large groups of similar units such as associations or corporations or other similar entities.

In order to provide for the orderly management of the reciprocal the Subscribers' Agreement appoints an attorney-in-fact whose powers and duties are outlined therein and who assumes the responsibility for the operation within the limited powers

The second item to be commented on is item 3(i). A minimum of $800,000 is required for an assessable reciprocal and $2,000,000 for a non-assessable one. Additional capital will be required to meet immediate expenses and losses without impairing the company's miminum capital and surplus. It is the recommendation of our consultant that the company be formed on an assessable basis.

In any type of self-insurance it is expected that those participating will in the final anaylsis pay the full cost of the operation and, similarly, will benefit by its success. This assessment can be limited to one year's premium. Since this method more than halves the initial capital requirements, it is certainly the most practical course to choose.

Minimum Capital

The necessary minimum capital must be contributed by those interested in the organization of the company with the understanding that interest may be paid or capital returned only out of the earnings of the company. The minimum figure of $800,000 for an assessable reciprocal is subject to escalation by the Bureau of Insurance. It is almost a certainty that the actual figure will be higher than $800,000. The exact amount will be determined by the Bureau of Insurance based on an analysis of the risks to be assumed by the company.

In order to generate this initial capital, it has been suggested that an assessment of approximately $1.00 per capita be levied against each subscriber. As new subscribers join, beyond the minimum of 25, they too will contribute the same per capita assessment. Thus, as new subscribers come into the plan, the capital investment of the original subscribers can be returned on a revolving basis. Interest on these funds will be paid out of the savings of the company, at a rate to be determined by the Advisory Committee. Eventually, as earned surplus is accumulated, no further contributed capital will be needed.

Reinsurance

Essential to the successful operation of the company is a satisfactory long-term reinsurance arrangement. The best terms and conditions probably cannot be obtained until the proposed company is actually in the position to negotiate and place a reinsurance contract. However, initial contacts have been made concerning the placement of a reinsurance contract, confirming availability and willingness to write this coverage for the proposed reciprocal.

Operational Requirements

In order to be successful, the reciprocal company must be operated with the same expertise and render the same services as a commercial company. Indeed, the reinsurers will require it. The staff necessary will consist of a manager, an underwriter, a claimsman, a safety engineer, clerical personnel and an accountant. All positions need not be full time employees and some or all services could be contracted through service companies. This would be a minimum staff, and additions would be necessary as the operation expanded. Additional expenses will be office space, stationery and supplies, telephone, travel, bureau and association dues, premium taxes and audit. This has been estimated for the first year of operation at $335,000 or approximately 10% of estimated premium. In addition, claims service has been estimated at 14% of losses, or in the projections shown, (Appendix D, on page 20) $128,000. There will be other nominal expenses.

Obviously, a method must be created or adopted to carry out these operations. As mentioned above, this can be done by contracting with one of the insurance management companies to take over the entire management of the company for a fee. These fees vary from 10% to 35% depending upon the services to be rendered. If this course is decided upon, it should be recognized that the management company may have brokerage connections which would create a conflict of interest in the placement of reinsurance.

The other alternative is to organize a corporation to act as the Attorney-in-Fact to be wholly owned by VMI. The Attorney-in-Fact would be controlled by an Advisory Committee elected by the subscribers. This corporation would then staff itself as outlined herein, all expenses being reimbursed by the reciprocal.

Operational Projections

Using the premium and loss expectations developed by our preliminary survey along with anticipated reinsurance costs, a projection has been made of expected savings and the development and growth of policyholders' surplus over a three year period.

(See Appendix E on page 21) In order to be conservative, only the present expected premium has been used although some growth would naturally be expected. Also, a fifty percent loss to reinsurers has been used although available experience data does not indicate that the reinsurance ceiling would be penetrated at all. If previous experience continued, therefore, savings would be considerably higher.

Feasibility

It appears eminently feasible for the VML to organize a captive reciprocal insurance company with every expectation that such a company could create substantial savings for its policy-holders and as experience is gained and financial resources increased, its services can be expanded. These additional services could include the offering of specialized insurance coverages specifically designed for the needs of the local government operation together with risk managment services to offer greater protection and lowered loss expectancy for the future.

The Next Step...

The next step is to obtain good faith commitments from at least 25 localities that they will join in the reciprocal once it has been licensed. As mentioned earlier, each locality joining would be required to contribute capital prior to licensing. It has been estimated that an assessment of approximately $1.00 per capita from each of the initial subscribers will be sufficient to meet the minimum requirements. The Insurance Committee will work with the Bureau of Insurance to assure that required capital contributions are not collected any sooner than absolutely necessary.

The formation of the capital fund will be one of the last major hurdles before the successful implementation of the reciprocal on July 1, 1980. However, there are several smaller hurdles which must be overcome first. There is no lack of expertise available to assist us, but in order to continue the project we need your financial assistance NOW!

We are seeking a contribution from each locality <u>interested</u> in seeing this proposal implemented. A contribution now does not commit your locality to join later. Only an allocation in your budget to participate in the capitalization fund can do that. What is needed now is approximately $10,000 in start up money to handle all the necessary details in forming this multi-million dollar local government reciprocal insurance company. The suggested contribution rate is as follows:

POPULATION	RECOMMENDED CONTRIBUTION
Under 5,000	$50
5,000 - 25,000	$125
25,001 - 50,000	$250
50,001 - 100,000	$325
over 100,000	$500

This relatively small contribution can go a long way toward saving future insurance dollars. Also, should your locality decide to become a subscribing member, this contribution would be credited to your account when determining the amount of your capital assessment.

The Executive Committee of the Virginia Municipal League has already allocated $3,500 toward the development of the reciprocal insurance proposal. This represents a substantial commitment on their part to see this project succeed. However, the limited financial resources in the VMI budget cannot cover all the implementation costs of such a monumental task. We do hope that your locality will contribute to the continuation of this project and eventually become a "charter" member.

APPENDIX A
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

REQUIREMENTS FOR ORGANIZATION AND LICENSING OF A VIRGINIA RECIPROCAL INSURER

A minimum of 25 persons domiciled in Virginia are required to organize a new reciprocal insurer. They must decide if the Attorney-in-Fact will be an individual, partnership or corporation. If a partnership, the necessary agreement must be prepared and filed with the Clerk of the appropriate court. (Section 50-74) if a corporation, the necessary Articles of Incorporation must be prepared and filed with Clerk's Office, State Corporation Commission. Pay necessary fees and secure Certificate of Incorporation. See booklet "Methods and Costs of Incorporation in Virginia") (38.1-709, Code of Virginia.

Prepare Power of Attorney and Subscriber's Agreement containing provisions required by Section 38.1-700, for execution by the 25 persons referred to above and secure its approval from Bureau of Insurance.

After funds are secured and assuming necessary plans have been made for staffing and future operations, a Declaration and Application for License should be prepared and executed by the original subscribers and the proposed attorney and acknowledged by each before a Notary Public, and filed with the Bureau of Insurance, State Corporation Commission. The declaration and application must set forth: (Section 38.1-709)

(a) Name and address of attorney-in-fact.
(b) Name and address of reciprocal insurer.
(c) Kinds of insurance proposed to be transacted as shown on application for license to be attached.
(d) Names and addresses of original subscribers.
(e) Designation and appointment of proposed attorney. A copy of the Power of Attorney and Subscriber's Agreement should be attached.
(f) Names and addresses of officers and directors of attorney-in-fact if a corporation, or its members if a partnership.
(g) Powers of Subscriber's Advisory Committee and names and terms of office of its members.
(h) Statement that each original subscriber has in good faith applied for insurance of the kind proposed to be transacted and that the insurer has received from each such subscriber the full premium or premium deposit required for the policy applied for, for a term of not less than six months at the rate theretofore filed with and approved by the Commission.
(i) Statement of financial condition showing assets, liabilities and surplus as of recent date, sworn to by at least two principal officers before a Notary Public. Name and address of banks with amount in each and list of securities with any other investments

or property owned are to be shown. Statement must show at leas $800,000 surplus, if assessable policies are to be issued or $2,000,000 if nonassessable policies are proposed and in either case an adequate additional amount for operations.

(j) Written description of proposed method of operation and manner doing business including information as to sales efforts, marke to be served, geographical areas, and a projection of anticipat income and expenses for each of the first two years of operatio and the anticipated financial condition at the end of those ye

(k) Copy of each policy, endorsement an application form it then proposes to issue or use together with underwriting rules to be used and rates to be charges.

4. Attorney-In-Fact to secure $25,000 fidelity bond from licensed insurance company and file it with Bureau of Insurance. (Section 38.1-710)

5. Declaration of Estimated License Tax based on anticipated premium income until end of calendar year must be prepared and filed with Bureau of Insurance and check for amount due, payable to Treasurer Virginia. (Section 58-488)

6. Copy of any reinsurance agreements and evidence that they are in for and will provide coverage upon licensing must be filed with Bureau Insurance.

7. Description of fidelity bonds and insurance policies secured, showi who is covered, against what perils and for what amounts must be fil with Bureau of Insurance.

8. Execute power of attorney appointing Secretary of the Commonwealth service of process and file two copies with Bureau of Insurance together with check for $3.00 payable to Secretary of the Commonwea for filing fee. (Section 38.1-706)

9. Make Deposit of securities with Treasurer of Virginia, amount to be determined, not less than $50,000, by Bureau of Insurance. Secure Certificate of Deposit and file with Bureau of Insurance. (Section 38.1-108)

February 1, 1978

Commonwealth of Virginia

OFFICE OF THE ATTORNEY GENERAL
SUPREME COURT BUILDING
1101 EAST BROAD STREET
RICHMOND, VIRGINIA 23219
804-786-2071

MARSHALL COLEMAN
ATTORNEY GENERAL

August 7, 1978

Mr. Bradley K. Harmes
Senior Staff Associate
Virginia Municipal League
P. O. Box 753
Richmond, Virginia 23206

Dear Mr. Harmes:

I am writing in reply to your letter of July 18, 1978, concerning the authority of Virginia municipalities to form a reciprocal insurance company. Please note that this is not an official opinion of the Attorney General, but is merely an informal staff response in order to be helpful to you. Section 15.1-506.1 of the Code of Virginia (1950), as amended, authorizes the governing body of any political or governmental subdivision to provide self-insurance for its officers and employees. In addition, § 15.1-21 authorizes political subdivisions to exercise jointly any powers capable of exercise by any single subdivision. Such a joint exercise of powers must be based upon an agreement which specifically articulates the organization and structure of the entity necessary to carry out this joint exercise, the manner of financing the cooperative undertaking, and other necessary and proper matters. The joint powers may be exercised by a separate legal or administrative entity.

Based on the interrelationship of these two statutes, I believe that Virginia municipalities could join together to create a reciprocal insurance company which would serve as a legal entity though which self-insurance could be provided by localities. What your letter terms "investment" of funds in order to provide the necessary beginning capital would, in another sense, be merely an appropriation of public funds to serve as the source from which self-insurance payments may be made. Although the terminology is different, the procedure appears to be clearly authorized by § 15.1-19.2.

I thus informally conclude that, based on this pre liminary investigation, there is no bar to the formation of a corporation to provide joint self-insurance to several Virginia municipalities. Furthermore, this entity appears to be authorized by the statutes noted above.

I hope this response will be of aid to you in making decisions as to the propriety of creating such a self-insurance entity.

With best wishes, I remain

Sincerely yours,

Maston T. Jacks

Maston T. Jacks
Assistant Attorney General

4:31/138F2

VIRGINIA MUNICIPAL LEAGUE

SUMMARY OF AUTO LIABILITY LOSSES

1972 - 1977

	CITIES				TOWNS				COUNTIES			
	BI		PD		BI		PD		BI		PD	
	NO.	AMT.	NO.	AMT.	NO.	AMT.	NO.	AMT.	NO.	AMT.	NO.	AMT.
Police Vehicles	57	$94.036	209	$70.181	1	$1,471	14	$11,998	3	$28,200	20	$5,814
Fire Vehicles	14	27,756	38	13,930	0	0	0	0	1	1,013	12	17,850
School Buses	241	166,713	402	104,105	0	0	0	0	7	160,902	1,654	175,343
Ambulances	0	0	0	0	0	0	0	0	0	0	0	0
Garbage Trucks	25	168,718	192	56,738	0	0	2	800	0	0	0	0
Other Equip.	74	116,412	361	118,490	1	262	20	6,994	11	73,991	146	59,101
TOTALS	411	$573.635	1,202	$363.644	2	$1,733	36	$19,782	22	$264,106	343	$258,108

	BI		PD	
Counties	22	$264,106	343	$258,108
Towns	2	1,733	36	19,792
Cities	411	573,635	1,202	363,644
	435	$839,474	1,581	$641,544
Eliminating 72-73	57	32,785	110	37,108
	378	$806,699	1,471	$604,436
			378	806,699
Combined Losses (4 year actual) (Represents 57.8% of responses)			1,849	$1,411,135
Adjusted for 100% of responses			3,199	2,441,393
Premium for all respondents (4 years)				8,105,710
Pure Loss Ratio				30.12%

APPENDIX C

PROPOSED VML INSURANCE EXCHANGE
PROJECTED OPERATING RESULTS

	1979	1980	1981
PREMIUM INCOME	$3,250,000		
Reinsurance Cost (29%)	942,500		
Ceding Commission (27.5%)	259,187		
Reinsurance Profits	-0-	-0-	97,369
Net Earned Premium	$2,566,687	$2,566,687	$2,664,056
LOSSES			
Adjusted 4Yr. Average	912.456		
EXPENSES (10.3% of E.P.)	335,000		
Claims Expense (14% of Losses)	128,000		
Total Loses & Expenses	$1,375,456	$1,375,456	$1,375,456
NET UNDERWRITING GAIN	$1,191,231	$1,191,231	$1,288,600
INVESTMENT INCOME			
Surplus @ 9%	90,000	$ 231,694	$ 350,221
Loss reserve @ 9%		17,098	17,098
Cash Flow @ 9%	184,048	184,048	184,048
TOTAL INVESTMENT INCOME	$ 274,048	$ 414,840	$ 551,367
SAVINGS	$1,465,279	$1,606,071	$1,839,967
Percent of Earned Premium	45.08	49.42	56.61
Interest to Subscribers	90,000	90,000	90,000
Policy Holders-Surplus	$2,375,279	$3,891,350	$5,641,317

NOTE: This projection is based on 1976-77 premium payments reported by 64 municipalities in answer to a survey made in the Spring of 1978. Premiums can be expected to be higher in 1980 producing much larger figures for all factors shown in the statement. Loss projections are based on those reported in the survey.

APPENDIX E

VIRGINIA MUNICIPAL LEAGUE
CAPTIVE INSURANCE COMPANY
PRO-FORMA OPERATING STATEMENT
FIRST YEAR OF OPERATION

Premium Income	$2,150,000		
Less: Reinsurance	215,000		
Gross Underwriting Insurance	$1,935,000		
Investment Income	35,800		
TOTAL GROSS INCOME			$1,970,800
Operating Expense - (15% of Premium)		$322,500	
Expected Losses			
4 year actual	$1,411,125		
Increased Exposure 30%	423,330		
Trend Factor 15%	275,168		
4 year Adjusted	2,109,623		
Expected Annual	527,406		
(Based on 57.8% responding)			
Expected Losses		912,456	
(Based on 100% responding)			$1,234,956
			735,844
Less: Interest on capital advanced			
$1,000,000 X 8%	$80,000		
Less: Interest earned	50,000		30,000
Net Savings to Policy Holders			$ 705,844

NOTE: This statement has been projected on the basis of incomplete data.

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APPENDIX F

VML INSURANCE COMMITTEE

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