

**REPORT OF THE  
JOINT SUBCOMMITTEE STUDYING**

**The Feasibility of Self-Insurance  
for Volunteer Fire Departments  
and Rescue Squads to Cover  
Their Emergency Vehicles**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**SENATE DOCUMENT NO. 31**

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REPORT OF THE JOINT SUBCOMMITTEE  
STUDYING THE FEASIBILITY OF SELF-INSURANCE FOR  
VOLUNTEER FIRE AND RESCUE SQUADS TO  
COVER THEIR EMERGENCY VEHICLES

to

The Governor and General Assembly of Virginia  
Richmond, Virginia  
1989

To: Honorable Gerald L. Baliles, Governor of Virginia,  
and  
The General Assembly of Virginia

EXECUTIVE SUMMARY

This study was undertaken in accordance with Senate Joint Resolution No. 159 of the 1988 General Assembly, which requested the establishment of a joint subcommittee to study the feasibility of self-insurance for volunteer fire departments and rescue squads to cover their emergency vehicles. The study was requested because of concern over the continued availability of the services which volunteer fire departments and rescue squads provide to the citizens of this Commonwealth. In recent years, the high cost of insurance coverage has caused some volunteer emergency organizations, particularly those in rural areas, to disband or go without coverage.

Although volunteer fire departments and rescue squads complained of the high and unjustified cost of insurance coverage for their vehicles to the joint subcommittee, an agent of the principal insurer of these vehicles reported that "insurance for volunteer fire departments and rescue squads has been widely available at extremely favorable rates in comparison with other insurance lines during the subsiding hard market" and that the insurer was unaware of any which had been forced to disband because of insurance problems. However, the results of a survey on the premiums charged to and claims made by volunteer emergency organizations and information supplied by the principal insurer indicated that premiums for such coverage were high in relation to the claims paid.

The joint subcommittee determined that a self-insurance program for volunteer fire departments and rescue squads would not be feasible given the high start-up and participation costs of one. It recommends that no legislative action be taken on the issue until the Bureau of Insurance has surveyed these departments and squads and examined the premiums paid and claims made by them. The subcommittee has requested the Bureau to report its findings to various legislative committees and groups which can take any necessary legislative action.

## INTRODUCTION

Volunteer fire departments and rescue squads provide great services free of charge to the citizens of this Commonwealth, and without such squads many areas would be without fire protection and rescue services. However, the continued availability of these services in some areas may be in jeopardy because of the problems some volunteer emergency organizations have had in paying the insurance premiums for their emergency vehicles. It has been reported that some have had to disband or go without coverage because of such. Insurance coverage for such groups is costly because of the high risks inherent in the services they provide, the number of people who drive their vehicles, the high speeds at which they often travel and the high costs of replacing the vehicles.

Although the premiums for all volunteer emergency organizations are high, some are in better financial positions than others to pay them. Those organizations experiencing the most difficulties in paying their premiums are primarily in rural areas. Some localities pay all or part of the insurance premiums for such organizations or make "rather large" donations to help with their insurance payments, as contributions from local citizens and income from fund-raisers, the only sources of income for such groups, are insufficient to cover all of their expenses. Both the contributions and success of the fund-raisers depend on the economic climate of the communities these squads serve.

Recognizing the importance of the continued availability of the services which volunteer fire and rescue squads provide to the citizens of this Commonwealth, the General Assembly, pursuant to Senate Joint Resolution No. 80, established a joint subcommittee in 1988 to "study the feasibility of self-insurance for volunteer fire and rescue squads to cover their emergency vehicles." A copy of the resolution appears as Appendix 1 to this report.

Senator Virgil H. Goode, Jr., of Franklin County, chief patron of the resolution, served as chairman of the joint subcommittee. The other member of the Senate appointed to serve on the joint subcommittee was Richard J. Hollard of Isle of Wight.

Delegate Thomas W. Moss, Jr., of Norfolk, served as vice chairman of the joint subcommittee. Other members of the House of Delegates appointed to serve on the joint subcommittee were Bernard S. Cohen of Fairfax, Thomas M. Jackson, Jr., of Carroll, and Alson H. Smith, Jr., of Frederick.

Mr. Carl N. Cimino, Executive Director of the Department of Fire Programs; Mr. Steven Foster, Commissioner of the Bureau of Insurance; and Mr. A. L. Brand, Jr., legislative chairman of the Association of Volunteer Rescue Squads, were also appointed to serve on the joint subcommittee.

Terry Mapp Barrett, Research Associate, and C. William Cramme' III, Senior Attorney, with the Division of Legislative Services, served as research and legal staff. Lucy Dodson of the Senate Clerk's Office provided the administrative and clerical duties for the joint subcommittee.

#### WORK OF THE SUBCOMMITTEE

In carrying out its responsibilities as directed by the study resolution, the joint subcommittee met twice to determine the extent of the problems experienced by volunteer fire and rescue squads in obtaining and affording insurance coverage for their vehicles and to consider the feasibility of self-insurance or other means of assistance for such groups. In the course of its study, the joint subcommittee received information from a number of individuals and groups, including the Bureau of Insurance, the Department of Fire Programs, the Division of Emergency Medical Services, the Division of Risk Management, the Virginia Association of Volunteer Rescue Squads, Chesterfield Insurers, Inc., Selective Insurance Company of America, representatives of volunteer fire departments and rescue squads, and county administrators.

The joint subcommittee learned that volunteer fire and rescue squads, like most businesses, individuals, and organizations, have been greatly affected by the recent "insurance crisis." Insurance has been a constant headache for some as rates have continuously increased. Although the insurance crisis generally did not affect the volunteer emergency organizations' ability to obtain insurance coverage, it had a significant impact on their ability to afford it. Some organizations currently are not covered by any insurance because of this inability to pay and those experiencing the most difficulties in paying their premiums are located primarily in the rural areas of the state.

At its organizational meeting the joint subcommittee learned of the problems of volunteer emergency organizations, the assistance available to them, and their insurance situation. Representatives of volunteer organizations in rural areas reported that their loss-to-premium ratios do not justify the premiums they are being charged. Their operating income results from fund-raisers and donations and they reported that it is difficult to attract and retain volunteers when the majority of the funds they work so hard to raise goes to pay insurance premiums. As volunteers, their only compensation is being able to purchase good equipment and have good facilities, yet with high insurance premiums, little is left for this. A representative of the CCDF Volunteer Fire and Rescue Department in Stuart reported that the department's insurance premiums have increased during the last two to three years from \$1,500 to approximately \$7,000. Although it receives \$7,000 in county assistance, operating expenses are \$25,000 to \$30,000 annually; hence, the volunteers have been able to purchase only used

equipment. A representative of the Axton Fire Department reported that in the thirty-five years the department has been in operation, it has had only one minor claim yet its rates continue to increase. If the current trend continues, he predicted the Commonwealth may lose some of its volunteer emergency organizations.

A representative of the New Kent County volunteer fire department indicated that its insurance premiums for nine vehicles, two buildings and contents, small equipment, etc., totaled \$15,422, which its members did not feel was excessive considering the coverage the department had. He pointed out that the high turnover in volunteers contributes to the high cost of insurance coverage for fire departments. A representative of a Henrico County rescue squad also indicated that although its insurance premium is for \$30,000, which is approximately fifteen percent of its budget, it covers practically everything, including malpractice insurance, workers' compensation, and some health insurance for its members. He reported that the squad's losses, which included one vehicle damage claim of \$1,400 this year and, over a three-year period, an increase in the number of payouts primarily for personal injuries and exposure to hazardous materials, have not been excessive.

The joint subcommittee learned that insurance for all volunteer fire departments and rescue squads is expensive due to the risks inherent in the services the organizations provide, the number of people driving their vehicles, the high turnover in volunteers, the speeds at which the vehicles often travel, and the high cost of replacing such. Additionally, there is a limit to the amount of risk an insurer can retain and thus a large portion of it is passed on to reinsurers whose rates have escalated rapidly in recent years. Also contributing to the high cost of insurance for such emergency organizations are the high cost of fire and rescue apparatus which has nearly doubled in the last five years, and the replacement coverage that most of the volunteer fire and rescue organizations have on their vehicles. Although the replacement coverage is more expensive, it guarantees that if something happens to one of the vehicles, it will be replaced with a new vehicle.

In many cases the locality within which a volunteer fire department or rescue squad is located pays all or part of the insurance premiums for such department or squad or makes large donations to it. For example, the rescue squad in Powhatan reported that although it pays its own insurance premiums which amount to \$7,000 to \$8,000 each year, the county gives it \$25,000 annually for equipment. Without some financial assistance, a number of these volunteer emergency organizations might be forced to disband. As mentioned earlier, some organizations currently do not have insurance coverage because they cannot afford the premiums.

Also during the subcommittee's organizational meeting, one of the members pointed out that county-owned fire departments and rescue squads are protected by sovereign immunity yet the volunteer organizations are not and thus suggested that the localities take over the volunteer

organizations. The representative of the Virginia Association of Volunteer Rescue Squads who was a member of the joint subcommittee pointed out that if this were to happen, the fire departments and rescue squads would not have any volunteers. It was noted that with the state's fleet of vehicles, the state pays claims on behalf of the drivers even though the state has sovereign immunity, and that locality-owned organizations need insurance to protect the drivers of their vehicles.

In an overview of the issue presented to the joint subcommittee at the organizational meeting, it was pointed out that the Virginia Municipal League will consider allowing a volunteer fire or rescue organization to participate in its group self-insurance pool if the organization is under the direct control of a jurisdiction that is a member of the League's self-insurance pool. A representative of Chesterfield Insurers, the agent for Selective Insurers which, according to the Commissioner of the Bureau of Insurance, writes the bulk of the volunteer fire and rescue organization insurance in the state, reported that he had contacted some of the member counties of the Municipal League's pool and found that Selective's rate was forty percent less than the pool's. Additionally, he indicated that the Municipal League insures for the actual cash value of the vehicles whereas Selective insures for the replacement cost.

Volunteer rescue squads may obtain some financial assistance from the state for equipment and training but not for paying operating expenses. Through the Rescue Squad Assistance Fund which was created pursuant to § 32.1-114 of the Code of Virginia, they may receive matching grants, for up to fifty percent, for the purchase of ambulances and equipment and for the requisite training for emergency medical services personnel. The joint subcommittee learned, however, that the \$1.2 million allocated by the General Assembly to the Fund will not go very far in assisting the 328 rescue squads in the state. Volunteer fire departments may receive financial assistance from the Virginia Fire Board for the construction, improvement or expansion of fire services training facilities, yet not for their operating expenses.

The joint subcommittee learned that there are two major writers of volunteer fire and rescue vehicle insurance in the Commonwealth, Selective Insurance Company and CIGNA; however, as mentioned earlier, the Commissioner of Insurance reported that Selective is probably writing the bulk of the business. Other companies which occasionally write some of the business include Harleysville, State Farm and USF&G. A representative of Chesterfield Insurers testified that competition for the business of volunteer organizations is keen. He also pointed out that Selective offers replacement value insurance whereas most of the other insurers only offer actual cash value coverage and that they treat this line of business as any other line, with credits for good experience.

In a letter submitted to the joint subcommittee, Chesterfield Insurers reported that "insurance for volunteer fire departments and

rescue squads has been widely available at extremely favorable rates in comparison with other insurance lines during the subsiding hard market." Regarding availability, the agency reported that its "intense efforts to place business among these volunteer organizations has met with fierce competition." Although presently several hundred of such organizations are insured through the agency, the agency reported that it was unaware of any which had been forced to disband because of insurance problems.

Regarding the premiums for such insurance, Chesterfield Insurers reported that these are beginning to level off "in the cyclical softening of the market that occurs every few years." During the peak of the crisis, it offered interest-free installments and extended wide latitude beyond the installment schedules to give the organizations more flexibility in making their payments. The agency indicated that nearly all of its insured squads and departments willingly paid additional premiums over "fair market value settlements" for total losses in order to carry replacement coverage and suggested that this does not indicate a need to disband because of price or availability. It, however, did admit that there are "pockets in a few, mostly rural areas where efforts to support emergency services have historically been a struggle," yet claimed that "by and large volunteer emergency organizations were among the least harmed segments of the fading insurance crunch."

At the request of the joint subcommittee, the Department of Fire Programs, in conjunction with the Division of Emergency Medical Services, surveyed the 328 rescue squads and 728 fire departments in the state to gather information about their claims experience and premiums paid to determine if they have been overcharged for their coverage and who is paying for their insurance coverage. The response rate to the survey, however, was small, ranging between fourteen and fifteen percent for each group. A representative of the Department cited confusion over the information desired by the questionnaire, a general lack of knowledge about such, and the inavailability of information because of incomplete or inaccurate records or because the locality pays its insurance premiums and thus does not pass this information on to the organizations, as reasons for the poor response. He suggested that the volunteer organizations would benefit from general information on insurance coverage and on how to monitor their rates. The Commissioner of the Bureau of Insurance indicated that he would be happy to speak at gatherings of volunteers on how insurance is regulated and how the Bureau can be of assistance to them.

The following is a table illustrating the premiums paid and losses incurred by those organizations responding to the survey. It should be noted that the "cost" represents the cost not only of vehicle insurance but also insurance for buildings, equipment, and possibly health and workers' compensation insurance.



Information Obtained Through Survey

|       | <u>1985</u><br><u>COST</u> | <u>1986</u><br><u>COST</u> | <u>1987</u><br><u>COST</u> | <u>1988</u><br><u>COST</u> | <u>4-YEAR</u><br><u>TOTAL</u> | <u>TOT.</u><br><u>CLAIMS</u> | <u>LOSS</u><br><u>RATIO</u> |
|-------|----------------------------|----------------------------|----------------------------|----------------------------|-------------------------------|------------------------------|-----------------------------|
| F & R | 101,080                    | 564,131                    | 364,070                    | 777,711                    | 1,806,992                     | 134,514                      | .07                         |
| FIRE* | 310,607                    | 621,239                    | 470,503                    | 466,449                    | 1,868,798                     | 333,367                      | .18                         |
| RESC  | 242,363                    | 264,800                    | 312,180                    | 314,878                    | 1,134,221                     | 166,580                      | .15                         |
| TOT   | 654,050                    | 1,450,170                  | 1,146,753                  | 1,559,038                  | 4,810,011                     | 634,461                      | .13                         |

\*Note: Fire department totals do not include the City of Norfolk's figures because these greatly distorted the total. Norfolk's four-year total cost of insurance was \$5,426,561 and total claims were \$6,223,880, resulting in a loss ratio of 1.15.

The results of the survey did not indicate whether equipment, vehicles or people were added to the policies during this four-year-period, thus possibly accounting for some of the increase in rates. It was pointed out that the costs of the vehicles and equipment has doubled in the last five years and that most volunteer organizations carry replacement cost insurance which is more expensive. All of these factors are reflected in their rates.

Of those responding to the survey, seventy-nine reported that they pay their own insurance premiums, thirty-five reported that the locality pays it for them, and forty-two reported that the costs are shared. The responses to the survey indicated that fire and fire/rescue combination organizations receive more help in paying their insurance premiums than the rescue squads alone; forty percent of the fire/rescue organizations reported paying their own insurance costs, whereas seventy-four percent of the rescue squads do.

After reviewing these figures, the joint subcommittee requested Chesterfield Insurers to provide the same information for the same periods of time. The following is a table of the information submitted.

Information Obtained from Selective Insurers

|                    | <u>Premiums</u> | <u>Incurred<br/>Losses</u> | <u>Loss Ratio</u> |
|--------------------|-----------------|----------------------------|-------------------|
| <u>Ambulances</u>  |                 |                            |                   |
| 1985               | 295,704         | 314,731                    | 1.06              |
| 1986               | 335,313         | N/A                        |                   |
| 1987               | 929,889         | 487,989                    | .52               |
| 1988               | 1,021,787       | 474,585                    | .46               |
| <u>Fire Trucks</u> |                 |                            |                   |
| 1985               | 435,311         | 102,076                    | .23               |
| 1986               | 454,142*        | N/A                        |                   |
| 1987               | 1,344,395       | 244,848                    | .16               |
| 1988               | 1,522,955       | 238,554                    | .15               |

\*includes both fire trucks and law enforcement vehicles

The information obtained through the survey and supplied by Selective Insurers indicated that premiums paid by volunteer emergency organizations were high in relation to the claims paid.

Regarding the regulation of the various rates for volunteer fire department and rescue squad coverages, the Commissioner of the Bureau of Insurance reported that the Bureau does not have any jurisdiction over the insurance rates for volunteer emergency vehicles. Open competition acts as the regulator of such. He noted that Selective Insurer's vehicle liability insurance rates increased approximately six and two-tenths percent this year and that collision rates have gone down approximately two percent. Commissioner Foster pointed out that the Bureau has found as a potentially troubled line volunteer fire and rescue general liability insurance which covers buildings and individuals' actions but not vehicles and that Selective writes such coverage. He explained that Selective and other insurers writing such line of insurance must file information on their premiums and losses with the Bureau which will hold a hearing in September to determine whether adequate competition exists. He explained further that in surveying volunteer fire departments and rescue squads so as to gain a better understanding of the general liability insurance situation the Bureau may find that the problem is not with general liability insurance but with commercial vehicle insurance. He suggested that the Bureau could conduct a voluntary survey of the volunteer organizations regarding the insurance coverage for their vehicles. He pointed out that the Bureau has received few complaints from volunteer emergency organizations.

## RECOMMENDATIONS

After carefully reviewing the information it had received, the joint subcommittee determined that a self-insurance for volunteer fire departments and rescue squads would not be a feasible solution to this problem because of the high initial costs in establishing and maintaining a self-insurance pool. Such a pool would probably not provide any financial relief to the majority of the volunteer emergency organizations as they would not be able to afford to participate.

The joint subcommittee also determined that although preliminary information indicated that the premiums paid by volunteer fire departments and rescue squads have been high in relation to the claims paid, more complete information is needed to ascertain whether the majority of such squads and departments are being overcharged or whether the problem is unique to only a few organizations. It therefore recommended and requested that the Bureau of Insurance conduct the voluntary survey as suggested by Commissioner Foster, and report its findings to the joint subcommittee members, the Department of Fire Programs, the Division of Emergency Medical Services, the associations representing volunteer fire departments and rescue squads, the House Committee on Corporations, Insurance and Banking and the Senate Committee on Commerce and Labor. The subcommittee felt that if further problems are found, these groups can take the necessary action.

Additionally, the joint subcommittee determined that the information it had received in its study should be shared with the joint subcommittee established by the 1989 General Assembly pursuant to Senate Joint Resolution No. 223 to study the availability and affordability of motor vehicle insurance in Virginia as it may wish to examine the motor vehicle insurance problems of volunteer emergency organizations as well.

CONCLUSION

The joint subcommittee expresses its appreciation to all parties who participated in its study. Although the subcommittee found that the premiums paid by volunteer fire departments and rescue squads were large in comparison to the claims paid, it believes that no legislative action should be taken until the Bureau of Insurance has taken a closer look at the premiums paid by and claims of such volunteer emergency organizations and reported on such to the various legislative committees and groups involved.

Respectfully submitted,

Virgil H. Goode, Jr., Chairman  
Thomas W. Moss, Jr., Vice Chairman  
Richard J. Holland  
Bernard S. Cohen  
Thomas M. Jackson, Jr.  
Alson H. Smith, Jr.  
Carl N. Cimino  
Steven Foster  
A. L. Brand, Jr.

APPENDIX 1

SENATE JOINT RESOLUTION NO. 80

*Establishing a joint subcommittee to study the feasibility of self-insurance for volunteer fire and rescue squads to cover their emergency vehicles.*

Agreed to by the Senate, March 11, 1988

Agreed to by the House of Delegates, March, 9, 1988

WHEREAS, volunteer fire and rescue squads in the Commonwealth, like many other groups, businesses and individuals, are having difficulties in obtaining adequate and affordable insurance coverage for their vehicles; and

WHEREAS, a number have had to disband because of these problems; and

WHEREAS, volunteer fire and rescue squads provide a great service at no charge to the citizens of this Commonwealth; and

WHEREAS, it is important to ensure the continued availability of such services, as without them many areas of this state would have no fire protection or rescue services; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That a joint subcommittee is established to study the feasibility of self-insurance or of participating in reciprocal insurance programs for volunteer fire and rescue squads to cover their emergency vehicles. The subcommittee shall consider, among other things, appropriate insurance standards for such vehicles.

The joint subcommittee shall be composed in the following manner: one member each from the Senate Committees on Commerce and Labor and Courts of Justice to be appointed by the Senate Committee on Privileges and Elections; two members each from the House Committees on Corporations, Insurance and Banking and Courts of Justice to be appointed by the Speaker of the House; one representative each of the Bureau of Insurance and the Virginia Association of Volunteer Rescue Squads, Inc., both to be appointed by the Senate Committee on Privileges and Elections; one representative of the Department of Fire Programs to be appointed by the Speaker of the House; and the Director of the Division of Risk Management.

The joint subcommittee shall complete its work in time to submit its recommendations to the 1989 Session.

The indirect costs of this study are estimated to \$10,650; the direct costs of this study shall not exceed \$7,200.





