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Local Government Risk Management Handbook

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TENNESSEE
INNOVATION GROUP

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Municipal Technical Advisory Service/The University of Tennessee
In cooperation with the Tennessee Municipal League
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LOCAL GOVERNMENT RISK MANAGEMENT HANDBOOK

April, 1982

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PREFACE

This Handbook originated in a series of risk management workshops developed by the authors in 1980 as part of a special project in local government technology innovation at the University of Tennessee's Municipal Technical Advisory Service. The workshops, funded in part by a grant from the National Science Foundation, were sufficiently well-received that the authors decided to expand workshop materials into a practical guide to assist local governments to establish and operate risk management programs.

Initially, each of the three authors drafted specific chapters or sections for the Handbook. Dr. Dotterweich was responsible for writing sections on the concepts and principles of risk management, Mr. Sinclair for sections on insurance and departmental exposures and for many of the items in the Appendices, and Dr. Norris for sections on local government functions and departmental exposures. Dr. Norris also had overall responsibility for compiling and editing all sections into a single, hopefully coherent, manuscript.

The manuscript was then reviewed by the authors with changes made where required. The result is a fully cooperative product which bears the imprimatur of all three authors, regardless of initial assignment.

The authors wish to recognize three persons for their assistance in the production of this Handbook. First, Jane Knight, word processing operator, Municipal Technical Advisory Service, University of Tennessee, deserves particular credit for uncomplaining and unfailingly competent input and revision of the several drafts of the manuscript over a period that at times must have seemed endless. Second, we wish to thank Claudia Wolfenbarger, also of MTAS, for picking up in mid-stream and for a superb job of completing the revisions and producing the final manuscript.

The third person is Mrs. Marian Meier, editor at the Center for Applied Urban Research, University of Nebraska at Omaha, who performed final editing on the completed manuscript. Every author who submits his or her work to an editor probably does so with some trepidation. This author is no exception. Yet thanks to the sensitivity with which Marian wielded the blue pencil, the readability of this Handbook was considerably improved.

For my part, I want to thank Bill Dotterweich and Bob Sinclair for their efforts in making this Handbook what it is and for the opportunity I had to work with them during the past two years.

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CHAPTER I:

WHAT IS RISK MANAGEMENT

A. Introduction

Risk management is an important field that has developed as the result of a practical problem faced by business: What an be done about the rising cost of insurance? Getting a business manager's attention is almost always possible by showing how to save money or cut costs. One way to reduce costs is to solve problems of risk and exposure in ways that are less expensive than insurance or that reduce insurance costs to the minimum. This is what risk management tries to do.

Risk management concepts have been applied in the business world for some time. Only recently, however, have local governments come to realize the benefits to be obtained from risk management. Consequently, local governments have begun to operate risk management programs that are similar to those in the private sector.

Operating a local government is not the same as operating a private business, however. For one thing, local government has no "profit" motive. For another, the continued existence of a local government does not depend on its profitability. Nevertheless, compelling reasons exist for local governments to adopt risk management programs. Most important among them are cost reduction, loss reduction, and cost stabilization.

Risk management can be defined as a systematic method for dealing with all "pure risks" facing a local government.* Another definition for risk management is a before-the-loss arrangement for an after-the-loss balance

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*Pure risks are uncertainties which may result in loss but not in gain.

between resources available and needed resources for a predetermined level of operation.*

This textbook definition contains at least three important elements. First, a risk management program must have advance preparation. Risk management begins with the determination of objectives. What risks does a local government face? What problems is it trying to solve? What services does it provide? What arrangements can be made to ensure the continuation of essential services with the least possible interruption after a loss?

A second part of the definition involves the availability of "after-the-loss" resources. These resources are mainly people, money, equipment, and facilities, all necessary to carry on services after a loss.

Third, no matter how they are provided, available resources must be equal to a local government's minimum requirements to sustain operations at a desired level. This does not necessarily mean returning immediately to the level of operations that existed before the loss. It does mean continuing the service at some predetermined minimum level. Complete restoration of services should be a secondary goal.

Major natural disasters or emergencies caused by fire, wind, water, or civil disturbance readily come to mind as causes of significant losses to local governments. In most cases, help in the form of the Red Cross, ambulances, doctors and nurses, law enforcement, and insurance adjustors is

*R.I. Mehr, and E. Cammack, Principles of Insurance, (Homewood, IL: Irwin, 1980, p. 37.

rushed immediately into a community, although months or years may be required for the community to return to its pre-disaster condition.

Note here that immediately after the loss the community has short-term objectives such as care of the sick and injured, prevention of looting, and restoration of certain vital services. The job of a good risk management program is to provide the capability to do immediately what is necessary to meet the most urgent needs resulting from a loss, while complete restoration to a pre-loss level occurs gradually over a longer period of time.

Risk management operates like this: having decided before a loss the condition it wants to provide for immediately after a loss, a local government undertakes a logical process to determine how to achieve that objective. The following illustration may help to explain. A fire insurance policy is an effective means of replacing the value of property destroyed by fire. If a $100,000 building burns to the ground, however, the fact that the insurance company delivers a $100,000 check the next day probably will not solve all of the local government's problems. What about the services that were dependent on the existence of the building, its contents, or consequential losses resulting from the inability to use it? The question always must be: where should the local government be after the loss? Furthermore, this question should be effectively addressed in advance of a loss.

In a local government, whatever is done (or is not done) after a loss represents that local unit's risk management program. In the absence of a formal risk management program, whatever a local government does about risk and losses is its risk management program. Thus, if a local government has no plan, then "nothing" is its risk management policy. If it relies solely on insurance, then (pardon the pun) insurance is its policy. Whether these "policies" are adequate will be clear only after a loss occurs.

Just as a risk management program exists whether or not a local government has a formal policy so, too, every risk management program has its costs. In the long run, a formalized risk management program, following the principles suggested in this Handbook, will be more cost effective, will prevent or reduce losses more effectively, and will be more likely to avoid public censure than an unplanned, ad hoc program.

B. Process

The most logical place for a local government to start a risk management program is with the development of program goals and objectives. A local government must decide in advance where it wants to be after a loss. Once program objectives, which will be discussed in greater detail later in Section B of Chapter IV, are established, the next steps in the process are: Identification, Measurement, Method, Implementation, and Review. These five terms, which constitute a problem-solving process commonly employed in many fields of endeavor, are described below:

1. Identification. Risk identification means to locate or find all or as many as possible of the risks or exposures confronting a local government. Risk identification should be undertaken in every department and functional area of local government. The key questions to keep in mind during risk identification are: (a) Does this activity, program, office, facility, or piece of equipment expose the community to the risk of injury or loss to persons or property? (b) Specifically, what is/are the risk(s)

involved in each activity, program, office, facility, or piece of equipment?

2. Measurement. Risk measurement involves the evaluation or analysis of each identified risk in order to determine the probability of occurrence (frequency) and the average cost per occurrence (severity).

Complex or sophisticated measuring devices are not required for risk measurement in local government--at least not in most cases. Take, for example, the risk of loss from flood. Nothing more sophisticated than experience and observation is needed to know that a building atop a hill far distant from a body of water is less likely to suffer flood damage than a facility on a flood plain near a river.

On the other hand, to determine such things as the proper levels of insurance and retained coverage for an employee health or death benefit program or for vehicle accident protection, more sophisticated measurement is required. Here, industry actuarial tables or other standards, properly applied, are helpful if not essential.

Risk measurement does not imply that all exposures can or should be protected against. In some areas, complete protection would be either impossible or prohibitively expensive. Identification and measurement of risks remain important, however, as they provide information with which local governments can make intelligent decisions about managing risks.

3. Method. The term method implies a solution or a means of handling the risks that have been identified and evaluated. Once frequency and severity have been determined, alternative methods of risk management can be developed and the "best" practicable alternative selected. In many areas, the selected alternative may result in no change from current prac-

tices. In others, several more effective ways to manage a risk may be found. Once a method or alternative is deemed economically or politically "best" by community decision-makers, the next step in the process is to implement the alternative.

4. Implementation. The process thus far described for local government risk management is utterly meaningless unless something is done with its results. That something should be implementation or action to put selected alternatives into practice.

Implementation requires knowledge of what to do and a step-by-step, logically consistent and comprehensive plan to accomplish the task. An example may be helpful. If a decision is made to bid a community's insurance program, bid specifications, a bidding schedule, and evaluation procedures must be developed, persons must be charged with the responsibility of initiating elements of this plan, and action must be taken to carry it out. Regardless of the specific area, the absence of a sound, step-by-step approach is likely to result in sloppy, haphazard, inefficient, and ineffective action.

5. Review. Review is a continuous process--not a one-time effort. All elements of a risk management program and their effectiveness should be monitored continually and corrective action or mid-course changes taken as necessary. In addition, the program should be systematically reviewed on an annual basis. All elements previously discussed (identification, measurement, method, and implementation) should be undertaken in the annual review in order to ensure that the program is current and that it is operating at the desired level of effectiveness.

C. Risk Management Philosophy

Undergirding everything contained in this Handbook is a very simple philosophy or concept of risk management. It can be stated as follows:

*Risk Management is a systematic method of dealing with pure risks or exposures to loss faced by a local government;

*Risk Management is broader and more encompassing than insurance management and requires different skills for its administration;

*Risk Management, properly undertaken, requires trained, competent personnel who exhibit creative and questioning attitudes.

A systematic method for risk management was presented briefly in Section B. The reader is directed to Section B of Chapter IV for a more detailed view of how this method may be put into practice.

That risk management is different from and broader than insurance management should be clear by this point. Nevertheless, many insurance management programs masquerade as risk management programs, and more than one insurance program has been "sold" as a risk management program. The essential difference between the two is that risk management attempts to deal with a wide variety of risks while insurance management addresses only those risks for which insurance is the selected response.

Moreover, to the extent that non-insurance control measures or methods (for example, such things as safety and security programs, employee training, and loss retention) are implemented, the skills required for program development and administration are different from those required for the administration of an insurance program. This is not to say that many of the skills involved in or developed through insurance management are unimportant--they are critical. Rather, a risk manager must also be knowledgeable in such areas as local government operations, safety and security, employee benefit programs, public agency liability, training, loss prevention, and many others that go beyond knowledge of insurance alone.

Surely no one would argue with the proposition that competent, well-trained personnel are essential for the effective operation of any public service. Local governments periodically must be reminded that to attract and retain competent personnel requires competitive salaries, decent working environments, and support from top administrators and elected officials. In the field of risk management two additional attributes are exceptionally valuable. These are creativity and a questioning attitude. The risk manager must not only be a competent professional, he or she must also be able to question the status quo and to provide innovative and creative solutions to exposures facing the local government.

Conservatism, except in the protection of value, has little place in a risk management program. There simply is no place in local government for the attitude epitomized by the statement: "We've always done it this way and we're not going to change." A competent risk manager, in effect, will become an agent for creative change in a local government.

D. Summary

The field of risk management has developed in recent years due in large measure to financial pressures confronting industry as the result of the increasing cost of insurance. For similar reasons, risk management is applicable for local government.

Risk management is broader and more encompassing than insurance management. One of its major purposes is to ensure that after a loss a local government will be able to continue providing essential services at a predetermined level of operation.

A systematic method for risk management is essential. One such method is provided here and includes goal setting, risk identification, risk measurement, risk management methods, program implementation, and program review.

Finally, risk management requires capable, trained personnel with skills different from those required for insurance managers. These persons should also be creative, questioning administrators who, in effect, will become change agents for their local governments.

CHAPTER II

LOCAL GOVERNMENT AND RISK MANAGEMENT

A. Purpose

Why should local governments adopt risk management programs? At least three compelling reasons should be considered. First, local governments confront the same fiscal realities when trying to purchase insurance as when they purchase almost anything else: namely, increasing cost and stable or declining revenues.

Second, over the past two decades, the insurance market has gone through several cycles. During at least part of this period, local governments have experienced considerable difficulty purchasing certain types of insurance. Often coverages have either not been available at all or have not been affordable. Third, no local government could possibly afford to insure against all risks. Consequently, methods other than insurance must be employed to protect against loss.

Each of these is essentially a financial reason for risk management. However, economics is not the heart of the matter nor, indeed, is economics the heart of local government. All governments--including local governments--although originally established for different reasons, at different times and places, and to meet different needs, share one important characteristic.

Government exists primarily to help people. Government helps them do together what separately they could not do as well or at all. Government helps people in need, it provides protection, and it does many other things. Consequently, government provides public services required by its constituents that in many, but certainly not all cases, could not be provided as well, as economically, or at all without government. A few examples include such services as mass transit, public education, public welfare, and national defense. Many others certainly come easily to mind. Indeed, if it did not provide public services, government would have no justification for its existence.

Governmental officials generally want the delivery of public services to be efficient and economical. Moreover, because of the public nature of governmental activities, the cost-effective delivery of public service makes good political and public relations sense. Consequently, cost-effectiveness in public service delivery can be considered an important goal of local government.

Cost-effectiveness in local government may be defined as providing a service at the lowest possible unit cost consistent with a predetermined level of quality. Cost-effectiveness does not necessarily mean simple efficiency, as the term efficiency often connotes getting more for less, increasing profit or reducing cost, without regard to impacts on quality or service delivery levels. Local governments must be concerned with quality and service levels as well as with cost.

An example of cost-effectiveness can be found in refuse collection. A city with twice weekly, back-yard refuse collection, which picks up anything the resident puts out, provides a highly desirable service. It also provides "effective" refuse collection, at least at its predetermined level of service. This service, however, is not especially efficient. A city that collects only refuse placed in standardized containers at curbside once per week also provides "effective" refuse collection, although its service may not be as "desirable" as the former. What is more, the latter service is more efficient. That is, the curbside method of collection using standardized containers allows more collections to be made per day thus lowering the per unit cost. Because it is "effective" in collecting refuse and because it is less costly, the once per week curbside collection can be termed the more "cost-effective" service.

B. Risk Management to Achieve Local Goals

Risk management properly applied promotes cost-effectiveness in local government. It tries to determine areas of risk and potential loss; to provide cost-effective means to reduce, transfer, or eliminate those risks; and to ensure that the community's after-the-loss-position is one in which it can continue to function at a predetermined, acceptable level. Thus, risk management fits well with the goals of local governments.

At least three additional ways exist in which risk management can help local governments achieve their goals: cost control and cost stability, loss reduction, and efficiency improvement.

1. Cost Control and Cost Stability. Cost control is an important part of any risk management program. Although governments, unlike businesses, are not motivated by profit, they nevertheless operate in a distinct financial environment. Governments operate with budgets that sometimes are meager and confining, and governments in general have less flexibility to modify financial decisions than do businesses.

A key element in an effective risk management program is the ability to predict program costs. Predicting costs involves looking ahead to see if benefits will exceed expenses over the long-run.* Risk management is fundamentally a cost-benefit analysis within which each step is justified on a cost basis. Determining costs relative to benefits helps to establish the desirability and feasibility of each new risk management proposal.

In local government, cost stability is also important. Because governments operate within annual budgets based upon projected tax revenues (which in recent years have begun to experience flat or downward curves relative to inflation), stability of costs and expenditures is vital. Yet, one of the most potentially devastating impacts upon an otherwise stable cost-revenue relationship is a major and unexpected loss. For example, the loss of an important public building could seriously damage a governmental unit's fiscal integrity.

Suppose, based upon past experience, a local unit had decided to assume the risk of fire losses to public buildings. Suppose further that vandals set fire to and destroyed a school building. Not only would an immediate, short-term loss of classroom space and teaching capability occur, but the replacement cost might represent a significant shortfall in the current budget. The shortfall might mean that the school building, regardless of how urgently needed, could not be rebuilt for several years, until revenue surpluses were accumulated or taxes raised or bonds sold to finance the reconstruction.

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*We do not mean to imply that all "benefits" can be measured quantitatively or in dollar terms. They cannot. Absence of dangerous conditions will probably improve employee morale and attitudes and produce greater employee efficiency, but the results may never be measurable quantitively. In an economic sense, reduction of on-the-job injuries saves money; it also reduces human suffering and misery--a non-quantifiable benefit.

This example is not a hypothetical one. Knox County, Tennessee, lost an "uninsured" (not self-insured) high school building in this way only a few years ago. The result was that the county had to reprogram funds scheduled for the renovation of a middle school in order to reconstruct the high school. Three years later the middle school still had not received much needed renovation. A more effective risk management program would have foreseen and guarded against the possibility of such a large and damaging loss.

From a budgetary point of view stabilized and predictable losses and costs are important and clearly are preferable to large and erratic losses or costs in any fiscal year.

2. Loss Reduction. Loss reduction means exactly what it says: a reduction in the financial and other losses experienced by a local government.

The results of loss reduction are manifold. For example, loss reduction improves the community's financial position by lowering insurance costs (property, liability, health, workers compensation, and others); by reducing the interruption in the flow of work caused by injury or property loss or damage; and by lowering the community's direct pay-outs for damages. Loss reduction decreases the amount of human suffering associated with injury and improves the community's public image as the result of an improved loss history.

Finally, a program of loss reduction enables the risk manager and other local officials to predict and control risk management costs more effectively. All of these help a local government to serve the public in a more cost-effective manner.

3. Efficiency. Risk management promotes greater efficiency in local government. It helps to reduce the costs of exposures to loss, thus lowering the unit costs of getting the work of local government done. This does not imply that a community should expect immediate or direct dollar savings with the initiation of a risk management program. In some communities immediate savings will result; in others they will not. In all cases, however, a risk management program will better equip a local government to control losses and over the long-run will improve its financial position.

C. Public Relations

Just as government in general operates within an arena of public opinion so, too, does a risk management program. In addition, the way in which a risk management program operates--especially its results--can have either a positive or negative public relations effect on a local government.

1. Effect of the Program on Surplus and Taxes. In contrast with having to increase taxes or make budget adjustments because of poor risk management decisions, effective risk management can produce loss reduction and cost savings for a local government. For example, Nashville, Tennessee, saved over \$1.4 million during the first year of its risk management program and over \$6.2 million in four years. Better public relations for a local government can hardly be imagined than those that result from reduction in cost because of a soundly implemented risk management program.

As a risk management program is developed, some cost savings will be immediate and obvious while other, less obvious savings may be achieved over time. The net effects of both are the ability of the local government to provide essential services at lower cost or to expand services within the budget, both of which will be well-received by the tax paying public.

2. Managerial Image. A sound risk management program can project the image of managerial efficiency to the voting public. In fact, image aside, a good risk management program is managerial efficiency. Whatever else may be involved in governmental employment, governmental officials and employees are commonly believed to be public servants charged with the efficient management of the assets of the community. A well-run risk management program will not only protect the community's values but also will contribute to an image of positive local government management.

3. "Pie-in-the-Sky" vs. "Egg-on-the-Face." A risk manager must be careful not to "oversell" the program by promising things that cannot be achieved. This is the "pie-in-the-sky" approach to risk management which emphasizes results that may not be achievable. A risk manager should always avoid promising cost savings or substantial loss reductions. Risk management is a practical, down-to-earth approach to dealing with risks in ways that can often be measured in dollars. A proper risk management program can be sold on the basis of solid, defensible methods for dealing effectively with risks at the lowest dollar outlay. Such an approach will not oversell the capabilities of the program. A properly conceived and implemented risk management program will avoid "egg-on-the-face" because it will not promise results that cannot be achieved.

It will also avoid "egg-on-the-face" by identifying and planning for the reduction, prevention, or transfer of all pure risks faced by the local government. In this way, unanticipated and unacceptable losses will not occur, and those losses that do occur will be properly covered. With an effective risk management program, local officials will not be forced to make embarrassing explanations of an after-the-loss inability of the local government to carry on vital functions or to ask taxpayers for increased revenues to make up for funds paid out for losses.

The proper stance for the risk manager is to strike a reasonable balance between planning and performance. Although this may not always be easy, by doing so the local government's risks will be managed in the most cost-effective manner, and positive rather than negative public relations will accrue to the local government.

D. Local Insurance Interests

An important set of public relations and political problems for the risk manager may arise with respect to local insurance interests. Although risk management involves more than insurance, no risk management program is complete without insurance of some kind. In fact, insurance generally represents a significant portion of a well-designed risk management program. Four problems may arise in connection with the purchase of insurance for a local government.

1. Favoritism. Insurance purchased by local government is often considered a political "plum." One or more persons in the local insurance industry who may have gained favored positions because of political activities, associations, or relationships may believe they "have a right to" the

community's insurance business. The problem may be exacerbated if favored agents are not the most competent or efficient insurance practitioners or if they cannot provide the best coverage at the lowest cost.

When this problem arises, as it frequently does in local government, the political "clout" of local agents as well as ignorance on the part of local officials regarding sound risk management principles may make effective action to change previous practices difficult for the risk manager, if not also dangerous to his tenure. In risk management (indeed in all management), practicing favoritism, especially favoritism resulting from political considerations, is rarely a good idea.

A good risk management program must be firm in achieving its cost-effective goals. One method of doing so is to require all insurance to be bid and to award all nsurance contracts to the lowest and best bidder. Such a decision may produce considerable political opposition initially, especially from any agents who previously had received favored treatment. Experience with bidding insurance, however, shows that this practice almost always promotes dollar savings for the community and its citizens and results in improved insurance coverage and service.

2. Equity. In attempting to avoid favoritism, a second problem may be encountered--difficulty in maintaining equity or fairness to insurance agents and brokers who are often influential in a local community. In recognition of this fact and also to avoid favoritism, local government officials may decide to "give everyone a piece of the insurance action." One risk manager reported that over 300 insurance policies were in force for his community prior to establishment of a risk management program.

In another community, all local insurance agencies received a portion of the total insurance commission dollars paid by local government, whether they wrote a policy for the local government or not.

3. <u>Competition</u>. When insurance dollars are spread so thinly, inefficiency and unsound coverages are inevitable and service is virtually nonexistent. Obviously, letting everyone into the act is not the way to solve insurance problems, even though it may solve short-term "political" problems. Here, competition among qualified agencies through a sound and fair bidding procedure is recommended to promote equity.

The strong and legitimate competition that exists in the insurance field can be used to advantage in any properly run risk management program. Local governments can take advantage of this competition by deciding beforehand through proper analysis what insurance is needed and by distributing to the insurance community properly drawn specifications reflecting these needs along with requests for insurance proposals (or bids) on the entire insurance package. To some extent, a "natural selection" process is achieved through this method since not all agencies will be interested in submitting proposals. Keep in mind that solicitation of proposals need not be confined to the local insurance community and that non-local or "outside" agencies and companies may provide good coverage at lower cost. In any event, opening the bidding to non-local companies forces local vendors to be more competitive.

The advantages of bidding are, first, that it should lead to the most efficient packaging of insurance coverages placed in the best companies at the lowest costs with a maximum of collateral services. Second, bidding provides a rational and impersonal means of making insurance choices based upon product and price competition rather than on favoritism and influence.

4. Complacency. A fourth problem encountered in local government risk management is that of insurance complacency. This is most frequently encountered where a single agency has historically handled the community's insurance account. In one case, a single agency had written insurance for a small local public utility for over 40 years. The utility hired a consultant to review its insurance program. The consultant suggested broadened insurance coverage and also recommended that the insurance package be let for competitive bids. As a result, the utility received a 52 percent reduction in premium cost--with the same insurance carrier as the low bidder.

The point is that frequently the agency that has handled the community's insurance business for a number of years has probably also made recommendations regarding the community's insurance requirements, and it has enjoyed an effective monopoly over the community's insurance service. In addition, the agency and the personnel in the local government responsible for the community's insurance program very probably have become complacent about the provision of insurance services.

Complacency is less frequently found when a competitive process is used. Here agencies will compete with one another to "service" the community's account. Two aspects of the complacency problem are particularly disturbing. First, important information and advice concerning coverages, losses, and experience may not be supplied to the insured. Second, vital and useful services, which are the justification for commissions paid to local agents, may not be provided.

In part, the problem of complacency arises out of the agent's traditional compensation system which is related directly to premium volume. The greater the premium volume, the greater the agent's income. Thus, the agent's incentive for reducing premiums is not as strong as the insured's. Consequently, the agent may be reluctant to modify coverages or make suggestions for "housekeeping" changes that could ultimately result in reduced premiums.

The agent may also be slow to provide service simply because to do so would reduce the amount of time available to "sell" insurance and thus to earn commissions. A competitive environment for the purchase of a local government's insurance can be expected to promote improved service delivery by the selected agency and company and also to help avoid or reduce the problem of complacency.

E. Summary

Risk management concepts properly applied can help local governments to achieve the important objective of cost-effective public service delivery. Risk management promotes cost control, cost stability, loss reduction, and operational efficiency.

Of equal importance, risk management can help local governmental officials avoid a number of potentially serious problems. These include losses for which a local government is financially or otherwise unprepared and the financial, political, and public relations consequences of such losses.

A risk management program should promote the regular, competitive bidding of a community's insurance. Although in some cases local insurance interests initially may oppose bidding, experience shows that competition in the provision of insurance results in improved coverage at reduced cost with improved service.

Risk management "goes to the bottom line" by promoting a more cost-effective operation and helping to reduce or stabilize costs associated with exposures and losses. This, in turn, helps a local government with its budget and promotes a more positive image of local government management.

CHAPTER III

ESTABLISHING A RISK MANAGEMENT PROGRAM

A. Management Environment.

Local governments are run by elected and appointed public officials who function in the spotlight of public opinion. When government officials make decisions they must do so publicly, and these decisions are reported by the news media, appear in the local government's budget, and are evaluated and criticized by many different parties.* Many decisions also generate controversy. What is true of local government decisions in general is particularly true of risk management decisions.

As long as risk management decisions are sound and their costs justified, they probably will survive--as will the risk manager. Inevitably, however, even the best decisions will be questioned. If a failure should occur in risk management, the critics will demand to know why better decisions were not made.

Risk managers in many communities enjoy the support of local elected officials. In some, local officials may oppose the concept of risk management. This is often the case in communities in which the local insurance industry flexes its political muscle, in which elected officials themselves are part of the industry, or in which the local government's insurance business has traditionally been viewed as a political plum to be shared among political favorites or supporters.

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*This is another example of the differences between government and business. The consumer of products in the business world is rarely, if ever, aware of the risk management decisions that have been made by the producing company. Nor are stockholders usually aware of risk management decisions made in companies in which they own shares of stock.

Even in communities in which blatant politics and political motives are not a consideration, local officials and employees still must be educated to the value of and need for risk management and must be persuaded to support implementation of a risk management program. In the best of situations, this is not an easy chore. In a hostile local environment, development of a risk management program may well be impossible.

B. Requirements

If the environment is favorable, the success of a local government risk management program can be assured if attention is given to the following requirements.

1. Risk Manager. Essential to the development and operation of an effective risk management program in local government is a competent risk manager. Local governments, however, often feel that employing a risk manager is a luxury they cannot afford. A recent survey, for example, showed that:

> Although cities and towns rank loss control and risk management at the top of the list of priorities that should be taken to control costs, these services are minor considerations when the actual purchase of insurance is made.*

And, later in the same study:

> Unfortunately, in the area of loss control, too many cities fail to practice what they preach. Loss prevention services ranked last among [their] six top buying considerations.**

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*Journal of American Insurance, Summer 1980, p. 17.

** Ibid., p. 20.

Filling the position of risk manager is critical to the protection of a community's assets. Experience has shown that savings associated with employing a risk manager can offset the cost of the position. In smaller units, a part-time position may be held in conjunction with other duties. In larger communities, when the risk manager is responsible for safety and loss prevention as well as other aspects of risk management, the job should be full time. In either case, the risk manager should report to the chief administrative officer in a local government. In this way, the likelihood of support for the program is greater throughout the local government.

Figure I on page 28 displays graphically the location of the risk manager's position in a typical local government.

The responsibilities and duties of a risk manager are varied and in a fully developed program will include at least the following:

*Identify exposures and develop recommendations for corrective action.

*Prepare the community's risk management budget, including insurance, self-insurance and retention costs and reserves, and safety and loss prevention costs.

*Operating within purchasing regulations, prepare insurance bid specifications when bidding is required and/or negotiate with insurance brokers for desired coverages.

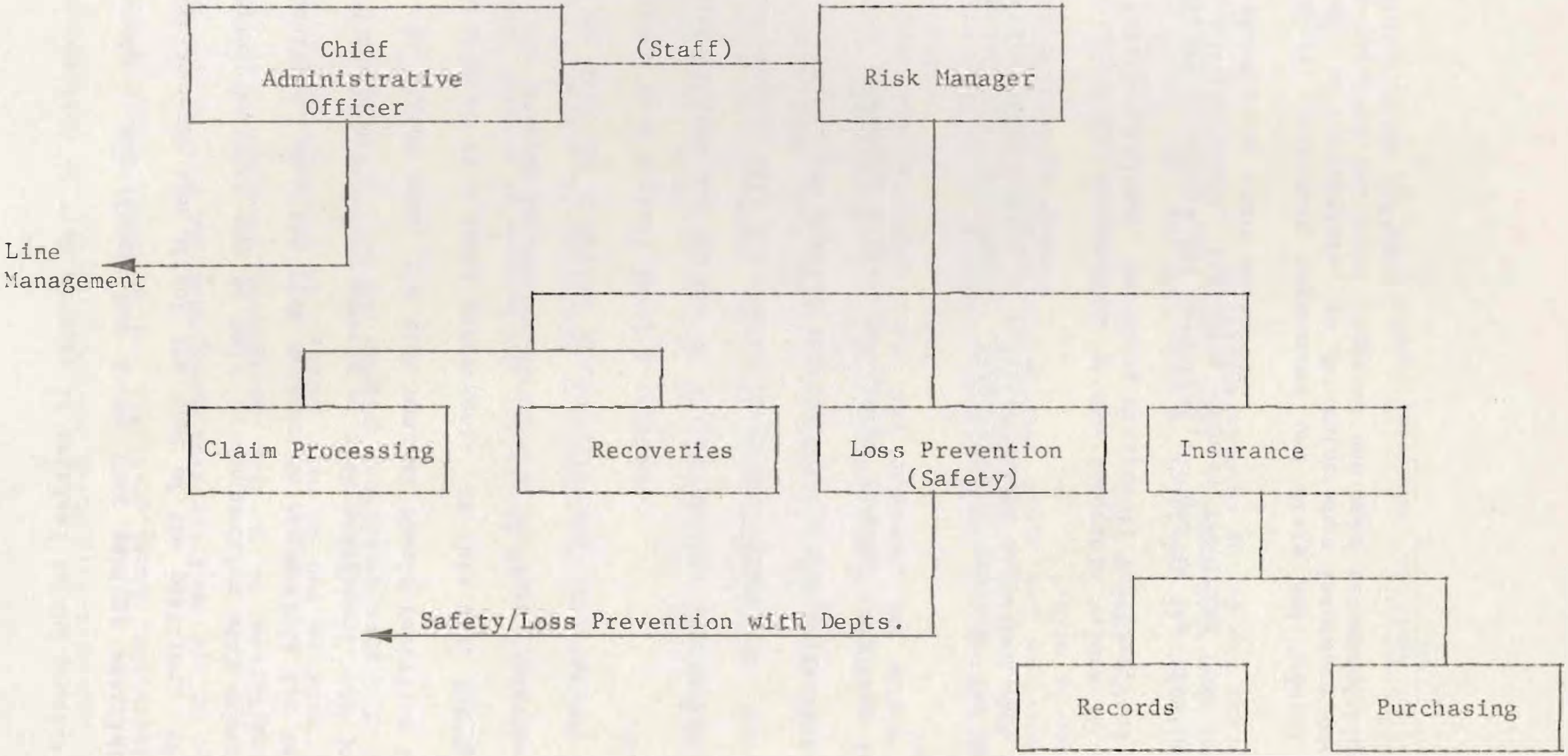
*Maintain perpetual inventories on the insurable values of all property, including buildings, contents, equipment, vehicles, and supplies.

*Stay informed of actual and potential changes in the liability status of the local government, including changes resulting from new federal or state statutes or court decisions.

*Review local government ordinances and state and federal laws and regulations, as appropriate, to determine when insurance coverages or bonds are required for local programs and make recommendations to the chief administrative officer.

FIGURE I

RISK MANAGER
GENERAL RESPONSIBILITIES



*Establish and supervise a local government-wide program of employee safety and loss prevention.

*Establish claims reporting procedures and develop and maintain the necessary loss records.

*Ensure the proper handling of all third party claims against the local government (insured and uninsured), all first party claims of the local government with insurers, and all claims of the local government against others who cause damage or loss to its property.

*Make periodic reports to the chief administrative officer(and/or governing body) with respect to the current status of the risk management program.

*Establish insurance requirements for vendors or contractors doing business with the local government and approve all contracts as to compliance with these requirements.

*Carry out regular reviews of the risk management program.

*Supervise and administer the overall program.

Ideally, the risk manager will be a qualified, mature administrator with experience and knowledge in the fields of local government, safety and loss control, insurance, and other risk management techniques, and insurance adjustment or claims handling. Although the ideal may not be easily met, no local government should settle for less than a person with competence and experience in local government management and at least a general knowledge of local government risk management requirements. Salary should, of course, be commensurate with responsibility*.

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*The need for adequate compensation should go without saying, but it does not. Therefore, the point will be reiterated here. Local governments must pay adequate salaries in order to attract and retain competent risk managers. That these persons will return more than the value of their salaries to the local government through savings associated with a well-administered risk management program should be a compelling argument for adequate salaries.

2. Formal Program. A formalized, comprehensive risk management program is preferable to informal, off-the-cuff decisions about risk. Formalization refers to a policy decision made by the elected governing body to establish a risk management program, adopt a risk management policy, assign responsibility for planning and implementing the program to a specific staff person, and incorporate risk management expenditures into the budget. Formalization should result in a risk management program marked by definiteness, accountability, and cost-effectiveness. Formal sanction of a risk management program suggests that the program has the support of top elected and administrative officials--an important feature for any program.

3. Policy. To serve as a guide for the program, a risk management policy should be adopted by the local governing body. Such a policy will provide clear and unambiguous direction to the risk manager and will establish program parameters within which to operate.

A risk management policy is a document that sets forth the goals and objectives of the program, responsibilities related to those goals and objectives, the risk manager's authority to achieve those responsibilities, and the basis for evaluation of the effectiveness of the program. The policy also provides the risk manager with the authority and guidelines to perform all risk management functions.

Each governmental unit has distinctive characteristics. A standard risk management policy to fit all communities, therefore, probably cannot be developed. However, certain basic concepts should be included in any policy statement.

The following components of a good risk management policy statement are of special importance:

*Intent and scope of the program.

*Program authority.

*Statements on insurance and retention of risk.

*Statements on safety, security, and loss prevention.

*Authority and responsibilities of the risk manager.

Appendix A contains a sample risk management policy statement which may be used as a model by any local government in the development of its own policy.

4. Budget. Every risk management program should have a budget and should operate within its budget. This means, first, that all aspects of the program, whether insurance, retention, safety and security, or loss prevention, should be planned in advance, and funds from the general governmental budget or from departmental budgets should be set aside for risk management.

Second, all risk management expenses, including the cost and impact of all losses, should be carefully recorded. In this way, the risk manager and elected and appointed officials periodically can review the cost-effectiveness of the program. Third, all budgetary decisions should be made publicly. The risk manager should be committed to a policy of "no surprises" and of complete openness regarding the costs and savings of the program.

This should not be taken to mean that a risk management budget is inviolate or sacrosanct. It can and should be changed as circumstances and sound management practices dictate. Budget amendments or revisions, however, should be treated no differently from any other budget decision in a local government. They should be based on prior planning and should involve adequate recording and accounting.

The risk management budget should be adequate and realistic. A risk manager whose hands are tied financially will be frustrated and incapable of achieving the goals and objectives set forth in the risk management policy. The budget must provide adequate funds to achieve those goals. A properly designed risk management program ordinarily will more than pay for itself over the long run through cost savings and expense reductions.

5. Cooperation and Support. A viable risk management program requires the support and cooperation of elected officials, top management, and staff and line personnel. Especially important is the support of the community's chief administrative officer and elected officials. These persons have the administrative and political authority to ensure support for risk management throughout the governmental unit.

Broad support within a governmental unit for risk management is sometimes difficult to obtain. This is particularly true when persons are being asked to change traditional ways of doing things. Support and cooperation can generally be achieved whenever consistent example and explanation can show that the program will result in monetary savings and will prevent losses and injuries. In essence, the risk manager's job is to convince department heads and personnel that risk management makes good sense, is in these persons' interests, and will help them to achieve their own goals and objectives.

Broad support for a risk management program cannot be expected to develop easily or automatically. Considerable effort and educational activity by risk manager will be required. He or she should expect to spend at least some of the time and budget of the program on promoting risk management within the local government.

C. Procedures.

Operating a local government risk management program involves a complex set of activities. Sound written procedures, faithfully executed, will go a long way toward simplifying program administration. These procedures will guide not only the risk manager but all other persons in the local government.

Some of the more important procedures to be followed in a local government risk management program are discussed in the following pages.

1. Reports and Forms.* Reporting is basic to an effective risk management program. A number of forms can be designed to minimize the risk of loss as well as to ensure the reporting of needed info mation.

Certain forms are available from insurance companies, but they may not adequately protect the interests of the local government. This is especially true of the Certificate of Insurance form.

a. Certificate of Insurance. Whenever a local government executes a contract with a provider of goods or services, the contractor should be required to demonstrate that proper and adequate insurance

*Copies of suggested forms will be found in Appendix B. These may be used as models by local governments in designing their own forms.

is in effect to protect the local government. Unless the risk manager requires otherwise, the insurance carrier or agent typically will supply a standard certificate of insurance, commonly referred to as an Accord form. Although the agent will supply the necessary insurance coverage information, the cancellation section of the Accord form does not afford adequate protection to the local government and, therefore, is unacceptable.

The cancellation provision in the Accord form reads:

> "Cancellation: Should any of the above described policies be cancelled before the expiration date thereof, the issuing company will endeavor to mail ____ days written notice to the below named certificate holder, but failure to mail such notice shall impose no obligation or liability of any kind upon the company."

The problem with this standard clause is that it does not require actual notification of the local government in case of a cancellation. The only obligation is for the insurer to mail a notice of cancellation. Failure of the local government to receive such notice, however, imposes no obligation or liability on the insurance company.

A preferred approach to the matter of cancellation, as well as to the failure of the insurance agent or company to renew the contractor's coverage or of the contractor to secure renewal, involves a clause in the contract requiring the use of a specifically designed cancellation form. The form would require the insurer to provide actual written notice to the risk manager, or other appropriate official, at least thirty days prior to cancellation or termination of any insurance or lapse of coverage. Failure to notify the local government would impose full liability upon the insurer or agent. Sample language for such a form follows:

The coverages provided shall not be cancelled, reduced in coverage, or allowed to lapse unless and until the City (or County) of ____________ receives at least thirty (30) days prior w itten notice of same. Said written notice must be delivered to the City (or County) of __________ risk manager at his office shown as the address of the certificate holder below and must describe in particular the coverage(s) to be terminated, the dates of termination, and the reason(s) for termination.

b. Employee Injury Reports. Safety and loss prevention are prime responsibilities of a risk manager. As a result, employee injuries should be reported to the risk manager as soon as possible. Such reports are reviewed and evaluated to prevent recurrences of similar injuries. Records of all injuries must be maintained in order to comply with the reporting requirements of the Occupational Safety and Health Act (OSHA). Furthermore, reports must be made to the worker's compensation insurance carrier if insurance coverage is purchased, or used for investigation and payment should the entity be self-insured. The risk manager should develop employee injury forms and make sure that all supervisory personnel are adequately instructed in their use.

c. Contract Documents. A complete review of local governmental contract documents is beyond the scope of this Handbook. Nevertheless, certain elements of the contracting process are important for effective risk management.

To begin with, a local government should develop and use standard bid and contract documents. Among other things, the bid documents should contain a section outlining the local government's insurance and risk management requirements. These requirements, or acceptable substitutes proposed by the contractor, should be included in all contracts.

Standard insurance and risk management requirements should provide the broadest protection possible for the local government and, at the same time, transfer as much exposure as possible to the contractor or vendor. The contract itself should include such provisions as "hold harmless" clauses, requirements that the contractor or vendor maintain adequate insurance, and, where applicable, should require the contractor to submit performance, labor, and materials bonds. All original contracts should be maintained by the local government in a convenient, fireproof depository with copies released for use by departments.

All contracts and all supporting documents should be reviewed by the risk manager prior to submittal to the governing body for approval to ensure that the contractor has complied with all insurance and risk management requirements. The risk manager should signify his review and approval in writing on the signature page of the contract. All contracts should also be reviewed and approved for form and legality by the local government's legal counsel, whose signature should appear on the signature page of the contract. (The Table of Contents of a sample bid package is included in Appendix C.)

d. Accident Reports. Every local government should develop a complete set of accident and injury report forms appropriate to specific types of incidents, i.e., employee injury, auto accident, injury to the public, and others. Without a form requesting appropriate information, important items required for a thorough accident or injury investigation may be overlooked. Forms should be placed in every vehicle and made available to all supervisors and employees. Furthermore, all personnel should be trained in their use and urged to complete the forms and secure as much information as possible while at the site of an accident or injury.

All accidents involving property damage, personal injury or death must be reported immediately. Prompt reporting of an accident will help to ensure the fullest protection to the local government by permitting a claim investigation while all the facts surrounding the incident are fresh in the minds of those involved. Accident reports are also important in determining whether the local government is at fault and in determining corrective measures appropriate for prevention of future occurrences.

e. Property Loss Reports. Regardless of the size or type of loss to real or personal property, the loss must be reported as soon as it is discovered. Even for a loss that is within the insurance deductible or that will be covered out of a departmental budget, loss information remains important for analytical purposes. If the local government has established a full self-insurance program or a funded retention level, loss information is necessary to justify payment from the reserve fund, or if the loss exceeds the retention level, to forward the claim to the insurance carrier. Loss information is also important in setting future insurance limits and self-insurance fund requirements and in determining areas in which safety and loss prevention efforts are required. For all of these reasons, a standard property loss report form should be properly executed and forwarded to the risk manager whenever a loss occurs.

f. Police Reports. The police or sheriff's department should forward copies of all vehicular accident reports involving vehicles owned by the local government to the risk manager. These reports will supplement reports filed by vehicle operators. Reports of accidents not involving vehicles owned by the local government should also be forwarded to the risk manager whenever the local government appears even remotely responsible for the accident. For example, if a vehicular accident occurs as a result of a faulty traffic signal or a dangerous street condition, the local government may become legally liable. Hence, a police report should be forwarded to the risk manager.

2. Values and Inventories. An effective risk management program requires the development of complete and up-to-date inventories of the properties owned by a local government and their values. These inventories involve several items that must be reported to the risk manager in order to keep the program current and to allow it to function effectively. These include at least the following:

a. Property Inventory. A complete and accurate inventory of all real and personal property should be developed at the beginning of a risk management program. Critical details such as description of property, location, age, condition, purchase cost, estimated current value, whether owned, leased or rented, and responsible department must be provided. This list must be regularly updated.

b. Property Values. Changes in property values must be reported in order to keep the community's insurance program current. Such actions as the acquisition of new facilities, additions to buildings, new construction, the sale or loss of property, and any changes in appraised values also must be reported.

The risk manager should be involved in the planning process for new construction, reconstruction, renovation, and additions in order to make recommendations regarding ways to reduce the risk of loss and to lower the cost of insurance. Assistance can be obtained in minimizing property insurance costs by submitting building plans for review to the state Insurance Services Office (ISO) which establishes basic property insurance rates. Many times minor changes in building construction will significantly reduce insurance rates.

c. Equipment and Vehicles. A complete and accurate list of all equipment and vehicles should be developed, maintained, and regularly updated. Depending upon the provisions of the community's insurance contract, immediate notice to the insurer* of the acquisition of any new or additional vehicles or equipment may be required. Prompt reporting is especially important in cases in which the value of new items exceeds that of previous equipment. Similarly, whenever vehicles or equipment are disposed of or reach a value too low to warrant insurance, prompt notification to remove them from the coverage will lower insurance costs.

d. Leases. Many governmental units find leasing an attractive alternative to the purchase of property and equipment. The risk manager must be aware of all lease agreements, including an actual review of the lease documents. Preferably, proposed leases should be reviewed during the negotiation stages. In reviewing such leases, the risk manager should watch for any provisions that impose risks on the local government. The leasing process should be treated as nearly like the contracting process as

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*Normally, the term insur*er* means the insurance company, insur*or* is the producer agency, and the insur*ed* is the buyer.

possible, including the use of insurance and risk management requirements and reviews of lease documents by the risk manager and legal counsel.

3. Claims and Recoveries. Handling claims against the local government and the filing of claims for the recovery of losses from third parties constitute two important elements of a risk management program.

a. Claims File. Certain basic elements are common to all claims. First, a claim file should be established for all claims, including those that may be covered by insurance. Second, regardless of whether insurance is involved, all claims must be monitored to ensure that they are handled in the best interests of the local government. As a direct relationship exists between claims experience and the rates charged by the insurance carrier, complete reliance upon the loss experience files and reports of insurance companies is generally not adequate. Locally developed claims reports and files, thus, are desirable.

A claim file may be initiated in several ways. Many times the first report of an accident is received via a telephone call from the injured party. The initiation of the file may also result from a report from a department, a copy of a police accident report, or by word of mouth.

The risk manager should ensure that claims are reported immediately. With the passage of time, relevant facts become clouded or witnesses disappear. Prompt reporting and investigation will help to ascertain facts essential to an effective defense against claims made by third parties or for the filing of a claim by the governmental unit against a third party.

Since no two risk management programs in local governments are the same, claims procedures will also vary. Reliance on self-insurance, for example, instead of commercial insurance will modify claims procedures. Regardless of the risk management program, however, all claims should be analyzed carefully by the risk manager. (A suggested claims procedure is graphically displayed in Figure II on page 42.)

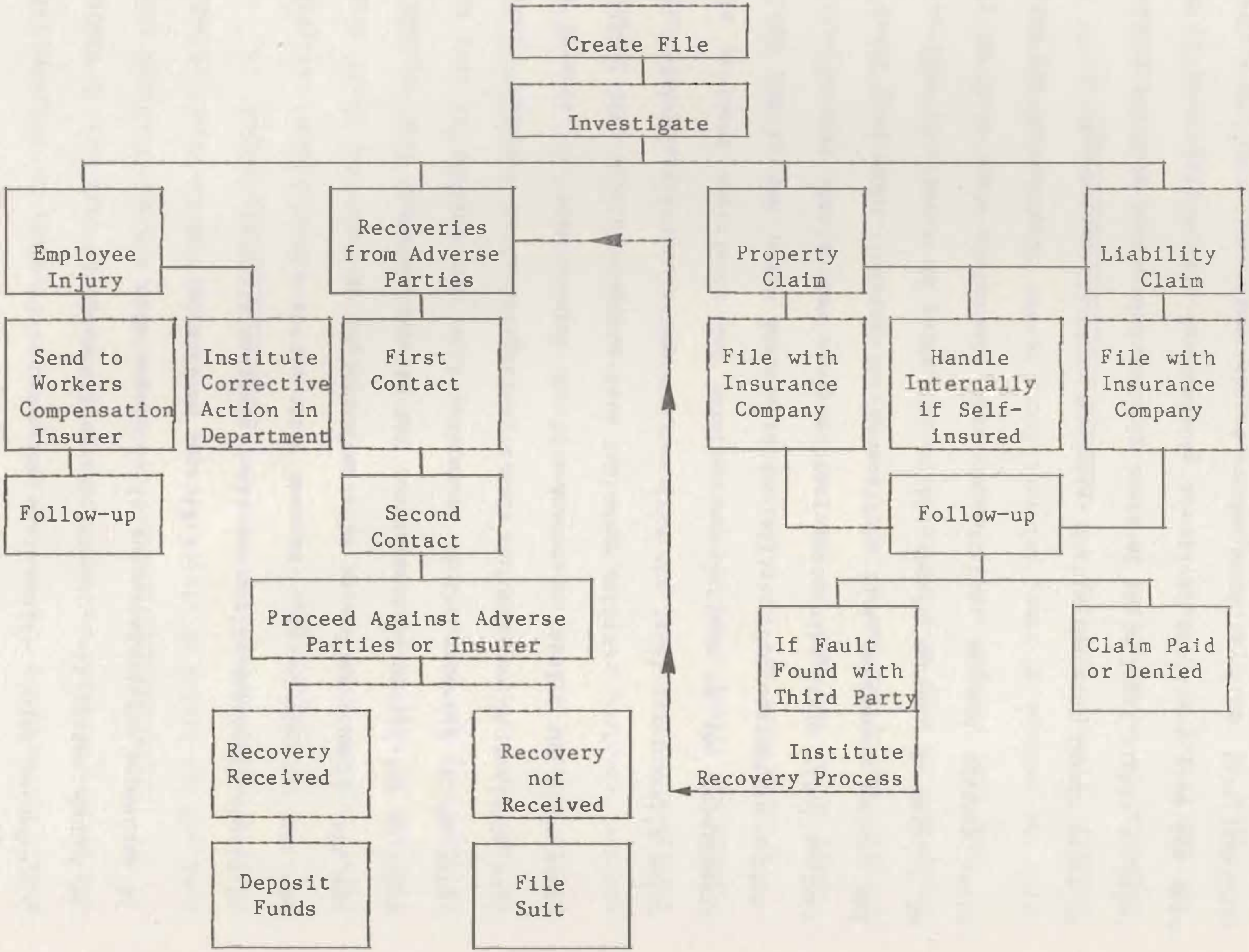
b. Automobile Claim Analysis. All automobile accidents should be investigated independently by the risk manager. He or she may use the accident forms submitted by employees as well as police reports, but the risk manager must undertake his or her own investigation--if for no other reason than to satisfy the local government of the accuracy of the other reports. Whenever an investigation reveals information at variance with other reports, the risk manager should endeavor to resolve the differences and should also institute appropriate follow-up action.

The risk manager should regularly analyze the local government's automobile accident experience and make recommendations to the departments involved and to the chief administrative officer for corrective action. The risk manager should also analyze every automobile claim filed against the local government. Using the community's risk management policy and appropriate procedures as guide, he or she should accept, in p rt or in full, or deny each claim and, where applicable, proceed against third parties for recoveries.

c. Non-Automobile Claim Analysis. Within the past twenty years or so, Americans have become increasingly aware of their legal rights in relation to government at all levels. As a nation, Americans also are more cognizant of legal limitations placed on the immunity from tort liability

Figure II

SUGGESTED CLAIMS PROCEDURE



that governments have historically enjoyed. The sizeable increase in the number of damage claims and lawsuits against local governments, therefore, is not surprising.

After a damage claim has been made against the local government, the risk manager should investigate. An analysis may reveal whether the local government or its officers or employees were responsible for the alleged damage or loss. It may also indicate corrective measures that could be instrumental in eliminating future claims of the same type. Armed with the results of the investigation, the risk manager in concert with legal counsel and top management should make a determination of the validity of the claim and make recommendations whether to accept or deny it.

d. Recovery Policy. The authors strongly recommend that local governments adopt a policy regarding recoveries from parties who damage governmental property or cause other losses. This policy should be part of a formal risk management program and should be officially adopted by the elected governing body. Otherwise, recoveries may not be pursued vigorously, or they may become a political issue. For example, an adverse party may be a friend, relative, or political supporter of a governmental official or, as occurred in one Tennessee city, a local elected official may be found at fault in an accident with a city-owned vehicle. In such cases, an adopted policy, equally applied to all persons, can facilitate recoveries with minimum of difficulty.

e. Recovery Procedures. Governmental bodies lose sizeable sums of money each year by failing to proceed against individuals who damage governmental property and by failing to recover other expenses related to such incidents. Although many examples of failure to proceed with recoveries might be cited, one involves an accident between an owned vehicle and private party which is referred to the insurance carrier. If the carrier determines fault to be with the other party, the carrier may close its files without notifying the risk manager of its findings. In this case, the risk manager cannot proceed against the party at fault.

A procedure should be established to determine fault as quickly as possible. Once a third party is determined to have been at fault, steps should be taken to recover from the third party or his insurance carrier. This concept applies not only to vehicular accidents but also to other property losses including such things as damage to buildings, signs, and traffic control devices.

A procedure should be established so that the insurance carrier will refer all claims, paid or denied, to the risk manager. A simple closing form can be developed for this purpose. If the carrier denies a claim, he would automatically complete the form and return it to the risk manager who would then proceed to recover damages from the third party.

A file should be created on each accident, even though it may be referred to the insurer. By utilizing a claim status form created expressly for this purpose, the insurer would notify the risk manager of the disposition of each claim. When a claim is denied, denial would trigger the recovery process.

By vigorously pursuing recovery, Nashville, Tennessee, has been able to recover several hundred thousand dollars in recent years. Recoveries in that city prior to and since the adoption of a recovery policy in 1978 are shown below. Clearly what has occurred since adoption of the policy provides evidence of the value of recovery programs.

Year	Recoveries
1976	$ 16,940
1977	15,188
Recovery Policy Adopted	
1978	144,887
1979	132,904
1980	112,859
1981	121,772

f. Recovery Process. A suggested recovery process would include the following steps:

(i) Create a file on each accident, even though some accidents may be reported to the insurance carrier.

(ii) As soon as a third party is determined to be at fault, contact the party by telephone or by letter.

(iii) If the first contact produces no response by a given date, a second contact should be made. This contact should be made by certified or registered letter.

(iv) If the party is insured, proceed with the collection process with the insurance company.

(v) If the party is not insured, proceed with the collection against the party for the full amount of the damages.

(vi) If the party is not insured and is unable to pay the full amount of damages, secure a signed Installment Payment Note and execute a Conditional Release. (Under no circumstances should a General Release be signed until the entire sum is paid.)

(vii) If the party refuses to sign a note, notify the Financial Responsibility Division of the Tennessee Department of Safety of the party's refusal to make restitution. (Often the mere threat to notify the Financial Responsibility Division will precipitate payment as the party is faced with the possible loss of his operator's license.)

(viii) If the sum is sizeable enough or if there is a default on the Installment Payment Note, institute legal action. When a suit is brought on the basis of the note, proving negligence is not necessary as the party has already accepted responsibility. Instead the local government must only show that there has been a default on a signed note. This permits receiving a judgment with relatively little effort.

A relatively straightforward and administratively simple recovery process such as this will enable a local government to recover substantial dollar values from losses caused by third parties. (See Figure III on page 47 for a graphic representation of the recovery process.) Suggested forms to facilitate these steps are included in Appendix B.

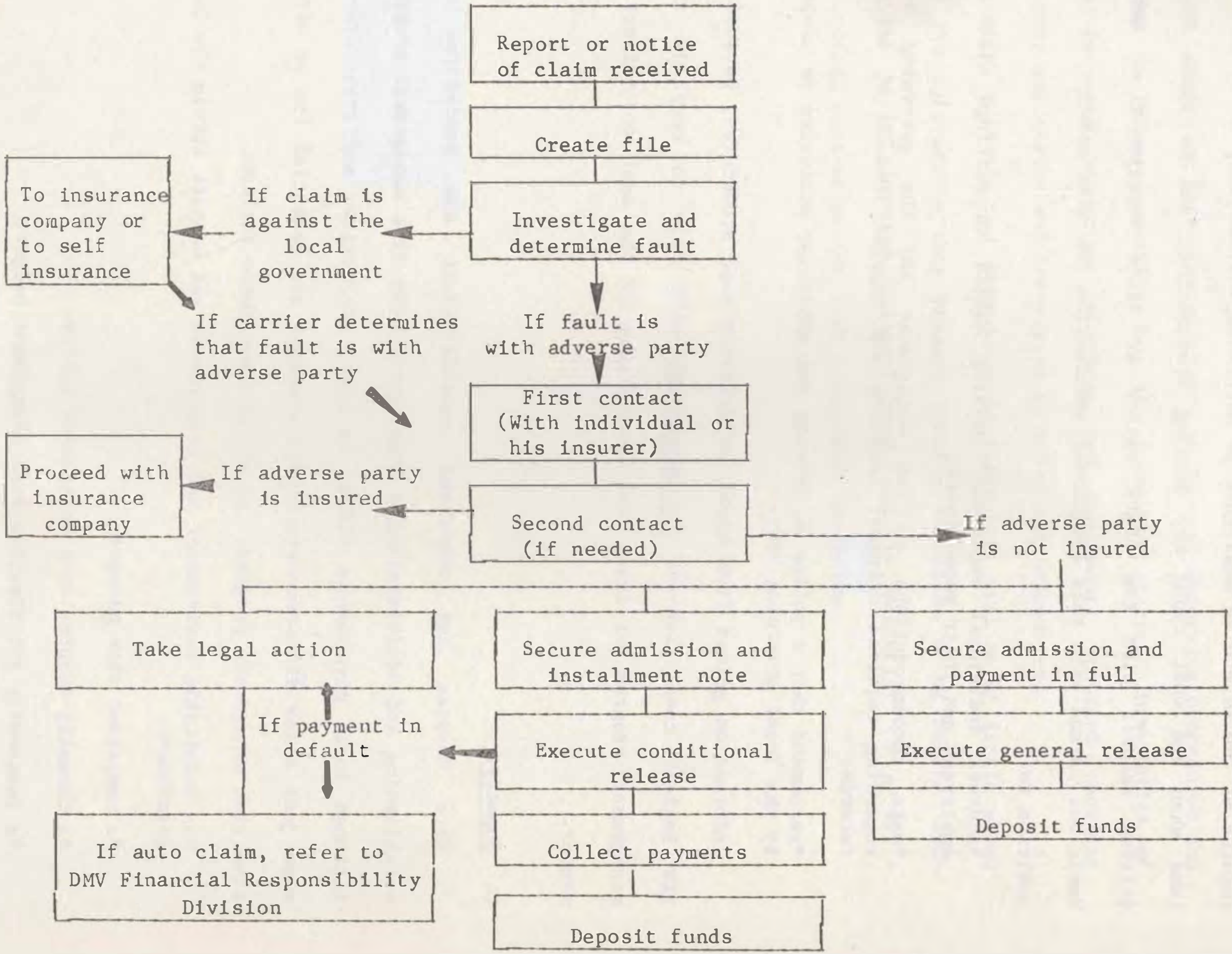
4. Follow-Through. Implicit in everything in this section of the Handbook is the notion that sound procedures are essential to the effective operation of a risk management program. Furthermore, examples are provided of specific procedures as well as forms that may be modified for use by local governments.

Procedures, forms, reports, and information flow, however, are of little value unless their results are attended to in a responsible and efficient manner. In other words, although the process thus far identified will produce a variety of products for a local government (such as reports, completed forms, analyses), these products and the data they contain must be used. Here is another area in which the job of the risk manager is critical.

An example may be helpful. Automobile accident reports that are completed by personnel involved in accidents plus those completed by the police department (copies of which should automatically be routed to the risk manager) show a disturbing trend: a few employees are involved in the majority of vehicle accidents. So far, the risk manager has what may best be described as "interesting" information. The next step is to "do something" with the information. In this case, the risk manager decides that further analysis is required. He decides to review the personnel

Figure III

RECOVERY PROCEDURE: CLAIMS AGAINST OTHERS



records of the offending employees to determine whether they have received (and when and what type) any driving instruction, and to check their driving records with the State Police or State Department of Motor Vehicles. Armed with this additional information the risk manager is in a position to:

*address individual employees' driving habits in meetings with the employees and their supervisors;

*make recommendations to top management and the governing body regarding required drivers' training and regular reviews of driving records;

*recommend that a policy on driving and vehicular accidents be adopted by the local governing body.

Information gained from sound, effectively used procedures, pursued to its logical conclusion--or follow-through--will help to keep the risk management program on track and functioning in the most cost-effective manner.

D. Summary.

This Chapter has discussed considerations and procedures for establishing and administering a local government risk management program. Although local governments differ in size, complexity, and structure--to name just a few differences--certain elements are essential for an effective risk management program. At the minimum these include:

*an hospitable environment and cooperation and support within the local government.

*a competent risk manager.

*a formally adopted risk management policy.

*a reasonable yet flexible risk management budget.

*sound risk management procedures.

*program follow-through.

Examples of the types of procedures necessary for an effective program include: reporting forms for all types of losses; reporting procedures and training in proper reporting for all personnel; current inventories of values for all property, vehicles, and equipment; standard contract documents; and claims and recoveries policies and procedures.

Finally, policies and procedures by themselves will be of little value unless the information they produce results in action being taken. Such action is called program follow-through and is essential to a well-administered, cost-effective risk management operation.

CHAPTER IV

OPERATING A RISK MANAGEMENT PROGRAM

A. Principles

The risk management process involves six specific steps including setting goals and objectives, identifying risks, measuring risks, determining risk management methods, implementing selected methods, and program review. The purpose of this Chapter is to present a detailed description of the process in local government. Where applicable, examples will be provided to assist the local risk manager in implementing each step.

Five simple principles underlie the establishment and implementation of a local government risk management program. These include:

1. Large Loss Principle. Risk management must deal first with losses that are potentially the most serious--the ones that c n seriously damage the financial integrity of a local government or its ability to provide services. The large-loss principle contends that provision should be m de for large and serious losses first. Do not address small losses while overlooking big ones.

2. Unit Loss Concept. Under the unit loss concept, losses are viewed in total, not just one loss at a time. For example, if a building is destroyed by fire, the immediate loss is that of property value. The consequential loss of services that either cannot be supplied or must be supplied in a cost-inefficient way must also be considered. The unit-loss concept asks the risk manager to consider all of the losses associated with a particular event including direct, indirect, and consequential losses.

3. Cost-effective Analysis. Cost-effective analysis must be undertaken with every element of a risk management program. In deciding whether

to insure, for example, the risk manager must review the cost of insurance, with or without deductibles; evaluate the probability of losses in excess of insurance payments; determine the cost of retention and funding of retained losses; and consider the costs and effects of loss control efforts. Cost comparison then leads to a determination of whether retaining exposures or insuring them is less expensive. The risk manager should choose the approach with the lowest expected cost that will achieve the local government's after-the-loss goals.

4. Availability of Insurance. Another factor to be considered in the development of a risk management program is availability of insurance. During the past two decades local governments have experienced periods during which the purchase of insurance has been difficult or excessively costly. The drastic cutback by the insurance industry a few years ago in most forms of medical malpractice insurance is one example of fluctuation in the insurance market. Regardless of the market, however, the risk manager must know whether the insurance industry can meet the particular needs of the local government. If not, he or she must be able to turn to insurance pools, stop-loss insurance, massive retention, or to other alternatives to meet the needs of local government. The risk manager may even have to propose specialized insurance coverages to the insurance industry.

5. Bidding Insurance. In the opinion of the authors, the bidding of insurance is almost always the best method by which to acquire insurance coverage for a local government. The bidding process ordinarily results in the best product at the lowest price with the best coverage and service.

Bidding promotes price competition and thus reduces premium costs. It also forces companies and agents to improve insurance coverages and services within a framework of price competition in order to win a local government's insurance business.

A legitimate concern on the part of a local government that bids its insurance is whether the insurance industry will respond and whether the local government's specifications will be met. Sometimes only a few insurors will bid, and sometimes the bids will not fully meet local specifications. This may mean that the specifications should be modified or rewritten or that the actual purchase will be for slightly different coverages than originally specified. Generally, proposed coverage that is different from that required by the specifications should be considered if the risk manager is convinced that it is the best that can be obtained and that it meets local needs.

The bidding process permits the risk manager to maintain a significant degree of control over insurance purchasing and also to obtain the most desirable insurance coverage and the best available insurance services at the lowest annual premium. It also places insurance purchasing on an economically sound and objective basis which is unlikely to be influenced by partisan or other considerations.

B. The Risk Management Process

The six steps constituting the risk management process can be remembered easily by reference to the mnemonic GIMMIR, standing for establishing Goals, risk Identification, risk Measurement, risk management Methods, program Implementation, and program Review.

1. Determining Goals and Objectives. A necessary precondition of any endeavor is that those undertaking it should know its goals and objectives. Hence, the first activity in a risk management program is goal setting.

Goals and objectives are the foundation upon which a risk management program is based. They are like the rudder of a ship. They keep the program on course and on an even keel. Thus, a program must begin with a determination of the risk management goals and objectives for the local government.

The primary goal should be the ability to maintain a predetermined level of post-loss operations for the governmental unit. A local unit's risk management objectives are broader than financial goals alone. They encompass such additional considerations as establishing loss tolerances, maintaining vital services, improving public relations, and minimizing uncertainty. Among the more important objectives to be achieved through a risk management program, the following deserve particular attention.

a. Minimizing Financial Losses. The most fundamental objective of a government risk management program is to minimize the financial impact of losses. Loss can be defined as any reduction or disappearance of value and encompasses the destruction of property, dishonesty, and the injury or death of persons.

Often the greatest benefits of a risk management program can be obtained through loss prevention and loss reduction activities. Employee dishonesty, pilferage, heedless destruction of property, and injury to persons are examples of losses that can be dealt with effectively through loss prevention programs. Physical destruction or disappearance of property, cessation of service, and losses to personnel may also create financial liabilities that can be covered through insurance. Regardless of the method chosen to meet these objectives, i.e., whether a loss prevention program or insurance, the "bottom line" remains achieving the objectives at the lowest cost.

b. Estimating Loss Tolerance. Another important objective of a risk management program is to determine the maximum losses that might be sustained from various perils. This is often done in conjunction with establishment of risk retention limits. Each governmental unit must estimate the magnitude of losses associated with any particular occurrence as well as the likelihood of a loss. Whenever the risk of potential maximum loss sustainable is estimated to be excessive (in local governments this may mean any amount which local officials believe is too high--for whatever reason), provision must be made for resources outside the operational budget to meet such a loss. In theory at least, this is the appropriate point to consider insurance protection.

In some cases the maximum sustainable loss may exceed all conventional insurance coverages and thereby have a potentially catastrophic impact upon the financial welfare of the community. Full coverage for certain types of catastrophic losses may well be impossible even if such losses can be anticipated. With advance knowledge that certain excess losses are possible and at least somewhat likely (i.e., tornadoes, floods, hurricanes, earthquakes, civil riot, etc.), however, provision can be made for the establishment of reserve funds or for the purchase of catastrophic or "stop-loss" insurance. (Incidentally, reserve funds should be invested while awaiting payouts just as an insurance company invests excess premiums until needed for loss payments.)

Of course, not all losses are of high severity nor are they unpredictable. Some are both predictable and of low severity. For these losses, funds can be set aside for direct payment when they occur. Furthermore, the community can retain these risks. Retention can be used as long as the frequency and severity of loss are reasonably certain, and the community has the funds to pay for the losses. If the risk manager has confidence in available estimates of average future losses (for example, based upon past experience) and maximum sustainable losses, a variety of resources can be used to meet them. If, however, no reasonable basis exists for determining in advance the severity or frequency of expected losses, retention may not be a practical alternative, and transfering the risk to an insurance carrier may be the only safe option.

c. Maintaining Vital Services. The provision of public services is the primary reason for the existence of local government. Consequently, sound risk management implies the establishment of minimum levels of public services which must be maintained at all times regardless of what may occur.

Any cessation of service can be costly to the local government. If a service "outage" occurs, preparation should be made to keep its negative effects to an absolute minimum. This may require establishing a back-up capability in the event of loss of primary service, just as hospitals provide auxiliary electrical generators in the event of power failures, or the purchase of "extra expense" insurance. In any case, the objectives of a risk management program must deal with the question of which services are vital and how they can be maintained when losses of various types occur.

d. Avoiding Public Criticism. Avoidance of public criticism would appear to be a reasonable and legitimate objective of governmental management. Thus, a risk management policy should be established and activities undertaken in such a way as to avoid adverse public reaction and criticism. Local officials and risk managers should pay special attention to such seemingly mundane items as providing essential services in a cost effective fashion, operating within the budget, anticipating catastrophes that might disrupt governmental functions, controlling losses, and generally facilitating the efficient operation of the local government. Risk management can help further each of these objectives.

e. Minimizing Uncertainty. The objective of minimizing uncertainty refers to anticipation and preparation. The concept of "no surprises" is fundamental to good risk management. The risk manager should anticipate losses that are likely to occur and take action to control them or to reduce their effects and costs.

2. Risk Identification. Once a local government has set its risk management goals and objectives--that is, once it has determined where it wants to be after the loss--the next step in the process is to identify all risks faced by the local unit.

Three major exposures are faced by all local governments--property, liability and personnel. Several sources of information are available to identify specific risks in each area. The sources listed in the following pages provide a logical place for local governments to begin the risk identification process.

a. Documents. Written information available in such documents as charters, statutes, ordinances, by-laws, court and agency rulings, internal operating procedures, contracts, and inter-agency and mutual aid agreements will be useful. However, many of these documents will not address risk management and will provide little or no protection for the local government in case a loss occurs.

For example, a mutual aid agreement between two or more communities should specify what will happen if a liability claim arises because of an injury to a third party caused by personnel and equipment going from one community to the aid of another. Similarly, reference should be made to the question of authority: who is responsible for directing activities during a mutual aid intervention and under whose authority can mutual aid be invoked? Reviews of actual agreements often reveal that such issues seldom are addressed.

Problems of this sort which are present in any cooperative arrangement often can be handled through use of a "hold harmless" agreement. A hold harmless agreement in effect says that if Ipswich comes to Podunk's aid, then Podunk agrees to hold Ipswich harmless for any losses Ipswich may sustain because of the cooperative gesture. Of course, the hold harmless agreement works both ways: Ipswich will hold Podunk harmless if Podunk should provide aid to Ipswich.

Reference also should be made in such agreements to responsibility for property loss and injury to personnel. If, for example, Yahoo sends its $100,000 pumper to aid East Bullfrog and a collapsing building wall destroys the pumper and injures one or more firefighters, East Bullfrog should be ready to assume this liability. The agreement should speak to the question of responsibility for all such losses.

Often a review of local government documents will uncover other unexpected risks. For example, one city the authors evaluated owned an old, dilapidated factory building. After World War I, the city fathers encouraged an out-of-state manufacturer to operate the factory in order to employ local citizens and help the local economy. In return, the city agreed to lease the building to the manufacturer for $1 a year. Tucked away in the lease agreement were provisions that the city would be responsible for any loss or damage to the building from fire and that the city would maintain fire insurance on the building and rebuild it if it were destroyed.

Not only was the city responsible at the time of the review for rebuilding this 60-year-old factory in the event of a fire, but the fire insurance also had been allowed to lapse. Rebuilding would have cost several million dollars. What may have seemed reasonable in 1920 made no sense in 1980. Regular review of the city's leases and contracts to discover such anomalies, however, had not been undertaken.

How might this and similar problems be handled in order to prevent their occurrence? To begin with, the local government's civil counsel should be responsible for reviewing all contracts and agreements for form and legality. (In the experience of the authors, effective review of all documents by competent legal counsel in the real world of local government appears to be the exception rather than the rule.) The purpose of such a review is to ensure that a document does not impose an unintended liability upon a community and that knowledge is complete of all liabilities deliberately assumed. (Interestingly, getting others to assume some liability is often possible in return for the advantages inherent to them in a contractual agreement, but this has to be done with full knowledge of the contents and implications of a contract necessitating a thorough review of the document.)

In addition to a review by competent counsel, agreements and contracts should be carefully reviewed by staff persons in whose field of expertise or administrative domain they fall, by top city management, and the elected governing body. In this way, knowledgeable, intelligent decisions about risk and risk retention can be made, and the likelihood of the unintended assumption of risk is lessened. Finally, all contracts and agreements entered into by a local government should be reviewed by the risk manager.

b. Records. Risk identification requires access to a great variety of records--budgets, operational reports, insurance contracts, loss histories, and others. Obtaining such records is often difficult, especially in the initial stages of a risk management program--if indeed they exist. Too often no one has been given the responsibility of preparing or maintaining them.

Not only should such records be available for initial review, but they also should be securely and safely maintained. The community should have a central depository for the maintenance of all essential records. This depository should be both fire and theft proof, and only copies of the records should be distributed to operating departments.

c. Checklists. A risk management checklist is most useful for identifying risks. It is a listing of potential risks faced by a government entity. By comparing actual operations and activities against the items on the checklist, the risk manager is able to identify which of those risks most usually found in government operations exist in his particular governmental unit. Once a particular risk has been identified, evaluations of the importance of that risk can be undertaken and a determination can be made of what steps, if any, to take to deal with it.

Checklists are available from a variety of sources including risk management manuals, insurance companies, the American Management Association, and other commercial lists prepared and sold for this purpose. Ideally, however, a local government risk manager should develop a locally applicable checklist specifically tailored to the activities and responsibilities of the particular local government. The more complete and appropriate the checklist, the more likely that all risks will be identified and dealt with.

d. Interviews. Interviewing personnel within the governmental unit is a valuable way to obtain information about risks and exposures. Persons who are on the job every day have perhaps the best knowledge of all activities within their functional areas--things about which management may not even be aware.

Evaluation of local governmental activities from the employees' point of view is instructive. Employees probably know far more about risk management than they are given credit for. Even though they may not know the terminology, they know the problems, and they often know the solutions but have had no prior opportunity to implement new or better ways of doing things.

Another reason for interviews with employees is that a risk management program is only as good as its implementation. Thus, it depends largely for its success on employee cooperation. By bringing employees into the process of identifying risks and suggesting alternative control methods, the risk manager involves employees directly in the process, receives valuable input from them, and, by taking advantage of that input, improves employee morale and support for risk management.

Interviewers should endeavor to discover from line and staff personnel as much as possible about the operation of a unit or department. They also should solicit opinions from the employees about such things as safety programs, equipment and rules, the existence of dangerous conditions in local government operations, and much more. Employees can help to identify alternative risk management control measures as well as risk management problems and should be encouraged to do so during the interviews.

e. Inspections. One of the simplest and most effective means of identifying risks, although probably the most time consuming, is the physical inspection of all of the property and operations of the government.

Physical inspection can reveal things that reviews of documents or personnel interviews cannot. For example, no matter how much verbal assurance may be received about fire extinguisher maintenance, inspection alone can verify that the extinguishers have been checked and filled.

Chapter V contains a discussion of typical exposures in various departmental and functional areas in local government. Many of these are identified during a physical inspection. Refer to Chapter V for examples of the types of exposures that can be identified by physical inspection.

3. Risk Measurement. Having identified a risk or exposure, the risk manager must then measure it in terms of its potential or probable effects --financial and otherwise. One of the simplest ways to measure risks is to look at the record of losses to determine what has happened in the past. With proper records, a loss history can be constructed for each significant exposure. Although a loss history does not necessarily guarantee what will happen in the future, if the exposure base is large enough, a loss history will provide a reasonable indication of the probable frequency of future losses.

If loss records are not available within the local government, one alternative source of loss history data is the insurance agency that has provided insurance coverage in the past. In cases where more than one agency provides coverage, all agencies should be contacted for loss data. Risk managers should insist that as part of the services provided, historical as well as current loss information be supplied by insurance agencies. The risk manager should ensure that a sound loss history record-keeping procedure be instituted and maintained in the local government.

An important measure of exposure with respect to property is replacement value of buildings and equipment. In the area of personnel risks, helpful indicators include potential sick pay for persons injured on the job, medical expenses, and/or workers compensation payments. Much of this information can be developed through loss histories, comparisons of experience with other governmental units, and monitoring of changes in construction and equipment costs. If a building or other property provides vital service to the community, the risk manager should also be concerned with the after-the-loss cost of restoring or replacing that property for functional use.

Within the past few years, inflation has become a significant factor in determining replacement costs. Although local governments are increasingly aware of the effects of inflation, the underestimating of replacement costs is not unusual. When this occurs, the local government--perhaps inadvertently--has assumed what may be significant risk. Insurance policies and schedules, therefore, should be reviewed regularly to prevent underinsurance resulting from the understatement of replacement costs and to avoid the consequences of unintentional assumption of risk.

To find that local governments engage in overinsurance is also not unusual. For example, whenever vehicles have depreciated to a point where the values are insignificant relative to the cost of insurance, assumption of risk is highly recommended. Yet some local governments continue to insure such values. Whenever the sum of the deductible plus the insurance premium on a particular vehicle is greater than the value of the vehicle, assumption of risk rather than insurance is recommended.

Risk measurement requires the determination, as accurately as possible, of both the frequency and severity of potential losses. Losses known to be of <u>high frequency and low severity</u> are fit subjects for <u>retention</u>. <u>Low frequency but high severity</u> losses lend themselves more readily to <u>insurance</u> or more sophisticated risk management programs. Obviously, losses that are the most serious in terms of their financial impacts are precisely the ones against which the risk manager must make the greatest effort to protect the local government in order to assure an acceptable after-the-loss position.

4. Alternatives--EAT Concept. Alternatives available to a risk manager for dealing with risks can be stated through use of the acronym "EAT." Although an oversimplication of available options with which to manage risks, EAT has the primary benefit of being easy to remember and practice. "E" stands for eliminate, "A" for assume, and "T" for transfer. Generally speaking, all risk management alternatives fall under one or a combination of these categories.

a. "E" - Elimination. If risk is uncertainty concerning loss, then risk can be eliminated or reduced whenever the occurrence of losses is reduced through loss control. In addition, losses that can be anticipated can be provided for.

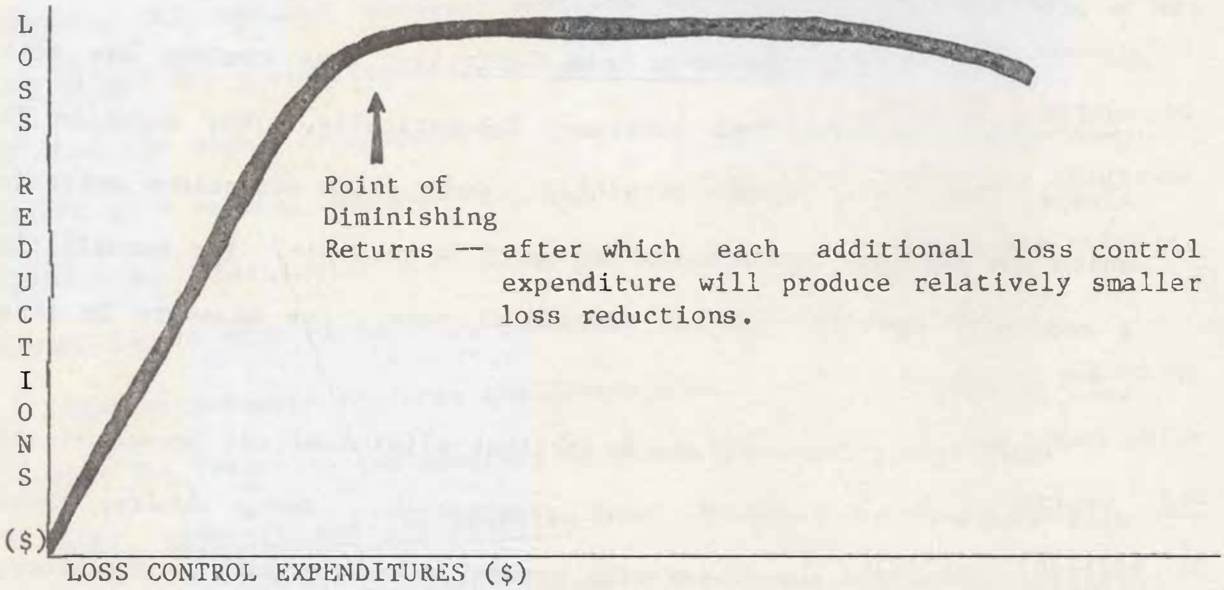
(i) Limits on Loss Control. Loss control has both theoretical and practical limits. Theoretically, the question is always, "Are 'zero' losses possible?" Only a few situations exist in which the absolute avoidance of exposure is possible. For example, if a community does not provide electrical power, its exposure in this area is zero.

Many risks, however, can be neither eliminated nor prevented and will continue to confront local governments. Among others, these include the perils associated with natural disasters such as tornadoes, hurricanes, and earthquakes. In theory, potential losses can be eliminated or reduced through risk management techniques only to the extent that risks are actually amenable to loss control activities. Some exposures will remain after all loss control efforts have been exhausted.

Figure IV portrays the practical limits of loss control. In this figure, the value of loss control activites is measured by plotting loss reduction dollars on the Y axis against loss control expenditures on the X axis. When these values are compared in actual practice, the dollars spent on loss control are usually found to have a very high initial return in loss reduction. As more loss control dollars are spent, however, the loss reduction returns decline until net gains flatten out, approach zero, and then become negative.

Figure IV

VALUE OF LOSS CONTROL ACTIVITIES



Such diminishing returns lead to the practical problem of balancing the cost of loss control activities against loss savings. As long as total loss savings are greater than total loss control expenditures, the program should be expanded. However, when experience approaches the point when the cost of the program equals the loss savings, inefficiency sets in, and the program should not be expanded further. The practical implication of this relationship is that while loss control should be viewed as a means of saving money through loss reduction, it is seldom the complete answer.

An example may be helpful. To prevent vandalism to school buses, a county spent $25,000 to erect a security fence and install security lighting in the motor pool area. The county risk manager estimated--based on past loss records--that up to $5,000 per year could be saved if these loss control measures worked effectively. Thus, they would pay for themselves in five years. Other suggestions for loss control and security, including hiring a night watchman (estimated total annual compensation of $12,000) were considered and rejected as too expensive. These additional loss control expenditures would provide no savings or would not pay for themselves soon enough and, therefore, were not considered worthwhile.

In providing for losses that can be anticipated after the theoretical and practical limitations of loss control activities have been reached, the risk manager must look to alternative methods of dealing with risk. This involves an attempt to balance the before-the loss arrangements of loss control or prevention activities with indemnity and restoration after the loss. Indemnity is generally achieved through insurance or other funds available for replacing actual dollar losses. Just as balancing the cost of loss control against loss savings is necessary, balancing the cost of loss control against the cost of indemnity is also desirable.

While a loss may be preventable at a predetermined cost, abandoning loss control and insuring the risk in order to replace dollar losses from insurance proceeds may be less costly. Carrying this analysis one step further, a third ingredient must be introduced, namely, the cost of retaining a risk (as contrasted with reducing or insuring it) and paying losses out of an established reserve fund.

Loss control decisions can be made only after the potential benefits to be derived are weighed against the cost of alternative methods of risk management. The process of weighing costs and selecting alternatives is no different from cost-benefit analysis which is regularly used in business. It is also a process that should be regularly reviewed in local government in order to ensure that the most cost-effective control alternatives are being practiced.

(ii) Elimination Options. If cost-benefit analysis indicates that elimination should be pursued in dealing with a particular risk, a variety of methods are available to achieve this purpose. These include:

(a) Avoidance. Avoidance is generally the first method of risk elimination considered, especially since some local governmental risks can be avoided. For example, a community might refuse to hold prisoners from another city or county in its jail; it might not provide municipal refuse collection, or water or sewage treatment, or any number of other services. This is avoidance. If a community does not provide fire protection service beyond its boundaries, it has avoided another exposure. A community that does not enter into mutual aid agreements has also avoided certain risk.

Avoidance, however, has both political and practical limits. While the residents of some communities are satisfied not to have their local governments provide refuse collection, in other areas residents may demand this service. Such natural phenomena as tornadoes, hurricanes and earthquakes, of course, cannot be avoided. In these cases, risk management methods other than avoidance must be considered.

(b) Loss Control. If a risk cannot be avoided, then practical opportunities must be found to reduce the losses associated with the risk. This is where loss control becomes an attractive alternative. Attention should first be directed to loss control activities that will reduce the frequency or number of losses. If the cause(s) of a particular loss can be determined and corrective measures taken, the occurrence of loss in such cases can be minimized.

For example, if employee injuries have occurred because of unsafe conditions in the municipal garage, physical inspection of the garage followed by improved housekeeping activities may reduce the incidence of injuries. Similarly, driver training and the establishment of safe operating rules for government owned vehicles can help to reduce the frequency of accidents.

Another loss control activity which can be more significant in terms of dollar impact than frequency reduction is reduction in the severity or cost of losses. In the case of bodily injury, this often can be accomplished through immediate first aid and emergency treatment and quick response through rescue efforts and appropriate medical care. Fire and other peril reduction activity can minimize the severity of loss of buildings and property, and effective reviews of contracts and agreements can reduce the severity of liability losses. These and other severity reduction efforts should be routinely implemented in local government management programs.

(c) Hazard Reduction. When physical inspection identifies a hazard, the most effective method of loss control is to eliminate the hazard. When a community is on notice about a pothole or other dangerous condition on a street, the best way to deal with it is to fill in the hole or repair the dangerous condition. The more quickly the hazard is eliminated, the less likely it is to result in a loss. Good housekeeping is an efficient and effective means of reducing hazards.

The success of a housekeeping program, involving the proper repair and condition of premises and equipment, and the regular and correct use of safety equipment plus other considerations, implies the establishment of a formal safety and loss prevention program. Such a program should include the safety education and training necessary for its effective implementation. To the extent that safety, education, and training programs are made an operational part of local government, hazard reduction will be a natural result and will lead to significant reductions in losses.

Insurance company engineering and inspection departments can be helpful in suggesting safety measures and programs and in providing guidance on their implementation. Similarly, programs for the education and training of personnel can be developed with assistance from a variety of sources. Education and training programs are effective risk reduction devices, not only when they show employees what they should or should not do but also when they provide direct proof of the effectiveness of loss prevention activities. An education program through the pocketbook can also be effective. This could take the form of lost time and wages reports, penalties for employees who fail to follow required safety practices, or, on the positive side, rewards to employees for safe work and for practical suggestions leading to greater safety and greater loss reduction.

(d) Loss Records and Research. Good record keeping is essential to the sound operation of a risk management program. One practical result of keeping adequate and accurate records is the potential they provide for loss reduction. Records concerning the frequency and severity of injuries and how they are handled, as well as records concerning insurance services and costs, overall program expenditures, and contracts and agreements, can help with loss reduction. Loss records will identify loss trends and causes and factors contributing to losses, thereby signalling to the risk manager that corrective action should be taken. They will often point directly toward specific risk management options.

Return for a moment to the example presented in Chapter III in which a risk manager observed through analysis of accident reports that a few drivers caused most of the accidents chargeable to the governmental unit. The records reviewed demonstrated the trend, indicated the causes, and led to the recommendation of specific corrective action. Without the records, the risk manager probably could not have acted so effectively or surely. Loss records also provide the opportunity for research which probably would not be possible or even attempted if good records were not available.

b. "A" - Assumption. To the extent that risks are not or cannot be eliminated, a local government can either assume (retain) them, transfer them, or achieve some balance between assumption and transfer. In making decisions about assumption and transfer of risks, a local government should understand the relative merits of these alternatives. Assumption of risk will be considered first.

(i) Feasibility. Local government officials may question whether assumption is feasible. If assumption is determined to be feasible, two additional questions follow: what are the costs involved in assumption, and how will losses be paid for if a risk is assumed?

If a local government suffers a loss in the area of an assumed exposure, the local government must pay for the loss. The example of an uninsured school building destroyed by fire was presented in Chapter II. In that case, the county had assumed the risk of loss to the building (whether knowingly or not), and after the loss it lacked the funds necessary to rebuild. Clearly, the county would have been better off to have purchased insurance coverage for the school. Although risk assumption in that case was feasible, it was not a wise decision. The lesson from this example is that, at least in some cases, complete assumption should not be practiced.

(ii) Full Assumption.* Nevertheless, full assumption is a sound risk management option when properly practiced. With full assumption, the local government assumes the entire burden of a risk.

Take the following example. A local government owns a ten-year-old pickup truck that is insured for collision coverage with a $250 deductible. Because of its age and condition, the truck is worth only $500. In this example, the deductible amount plus the cost of the insurance nearly equal the value of the vehicle, and full assumption of risk makes good economic sense. On the other hand, a new $100,000 piece of specialty equipment probably should be well insured, and the local government should retain only a limited exposure through a deductible.

The examples and values shown here will mean different things to different local governments. Smaller units with fewer exposures and smaller budgets will probably engage in relatively fewer assumptions, either full or partial, than larger units with larger exposure bases and larger budgets. Conversely, larger local governments will have more loss history data from which to make judgments about loss frequency and severity and, on the average, will be more able financially to sustain larger retained losses. In all cases, knowledge of what a

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*The terms retention and assumption are used interchangeably.

local government can afford to lose is required in making assumption decisions.

(iii) Partial Assumption. If complete assumption is not feasible in all cases, another option is partial assumption--for example, through the use of deductibles. Every person who has a deductible amount on his or her automobile insurance assumes (or retains) the amount of the deductible and pays the deductible if a loss occurs.

A deductible reduces the cost of the insurance. If an insurance premium can be reduced by an amount equal to or greater than the relative value of the deductible, this type of partial assumption makes good sense. In addition, deductibles are desirable as means for dealing with so-called nuisance claims--those small losses that are expensive to settle yet of little dollar value individually. Assumption of small losses is often cheaper than having an insurance company pay them. The negative side of this consideration is that a larger number of small claims within a single year can result in a large aggregate loss. Here the risk manager must balance what is likely to happen against what the local government can afford, both in terms of total direct payments for losses and insurance premiums.

Although generally the larger the deductible, the lower the insurance premium, the relationship is not arithmetical. The responsibility of the risk manager is to decide how much exposure is acceptable in terms of total losses as well as for specific types of losses. The risk manager should evaluate the frequency and severity of all risks and decide how great an assumption or how large a deductible, if any, the local government can tolerate financially or politically in each risk category.

(iv) Self-insurance. Self-insurance is a special case of retention. Not all retentions, however, qualify as self-insurance. To be a true self-insurance program, two ingredients must be present: first, a self-insurance fund from which to pay losses, and second, the ability to predict losses accurately among a large number of relatively homogeneous risk items.

If a community operates a large fleet of vehicles, for example, it can probably predict collision losses quite effectively. On the other hand, with a relatively small number of similar exposures--such as one city hall, two playgrounds, three school buildings, or ten vehicles--accurate prediction of losses is virtually impossible. In these cases, complete self-insurance probably should not be practiced. If any part of these risks is assumed, the local government is practicing pure retention rather than self-insurance, because of its inability to predict losses. Although it may have funds to pay for a loss, it has no idea in advance if the loss will occur or what its magnitude will be.

To self-insure any risk is a major decision. The local government must first understand the difference between self-insurance and no-insurance. Self-insurance requires the establishment of a reserve fund out of which losses which can reasonably be expected to occur can be paid. Many local units instead practice no-insurance, which can be defined as the assumption of risk with no provisions for funding. With no-insurance, the unit hopes that no losses will occur or, if they do, that they can be paid out of the general operating budget. No-insurance is almost always a dangerous and unsound method of managing major risks.

A sound risk management program using deductibles, self-insurance, or other forms of retention will create reserve funds from which losses will be paid. Charging the operating departments under a system of reserve accounting for all normal losses is often desirable. In this way, the departments will be cognizant of the need for loss prevention and safety. If they have no responsibility for the payment of any portion of loss claims, they will have little incentive to prevent losses.

The reserve funds established to pay the retention level should be regular budgetary items. The size of the reserve funds should be determined from analyses of prior losses, comparisons of the frequency of losses, and the amounts of claim payments from insurance carriers against the retention levels chosen. An additional factor to be considered is the reduction of losses from an effective safety and loss prevention program.

Ideally, adequate reserve funds should be established at the time a self-insurance program is established. In actual practice this may be difficult to achieve and may have to be accomplished over several years through regular additions to the reserve funds in each budget year. All reserve funds should be secured and should be separate from the general fund. Income derived from investments of reserve funds should be credited to these funds.

(v) Stop-loss Insurance. Stop-loss insurance may be a practical solution when a local government decides to retain certain risks or to self-insure but is concerned that the sum of deductibles and self-insured losses in a given year may be excessive. For example, a local unit may be willing to retain deductible losses for property damage up to $50,000 in a year, but when that level is reached, it wants to be able to transfer all additional losses to an insurer. This can be done through what is known as stop-loss or catastrophic coverage. Such coverage would begin only after a total of $50,000 in losses had been paid by the community. Stop-loss insurance is generally available at relatively low cost and can be purchased as part of the community's total insurance package.

c. "T" - Transfer. A risk that cannot be reduced or prevented or that a local government chooses not to retain should be transferred to someone else. Several means of transferring risks are possible. With the use of a deductible amount, all losses above the deductible are transferred to an insurance company. With full insurance coverage, the insurance company covers all losses up to the limits of the policy. With a "hold-harmless" agreement, the contracting party agrees to take responsibility for losses and to hold the transferring party harmless from any losses which may occur. (Incidentally, "hold-harmless" is a contractual and not an insurance transfer.) Finally, in some states, statutory governmental immunity transfers responsibility for loss from the local government to the injured party. To a certain degree, this is the case in Tennessee.

A fairly recent and increasingly popular method of transferring risk is through insurance pools. These are formalized arrangements, usually at the state or substate regional level, often formed through local government associations, under which governmental units agree to transfer their risks into a pool comprised of similarly exposed entities in return for indemnification of losses up to certain limits. Pools provide protection in almost the same way as conventional insurance coverage. What makes a pool especially attractive is the cost savings resulting from the pool's reduction of operational expenses and elimination of profits. hese savings are then reflected in reductions in premium costs to pool members.

The principle of insurance, which is the pooling together of risks and the sharing of losses among the entire group of insureds, is what provides pools with their operational capabilities. The principle of insurance is not a creature of the insurance industry. Indeed, it is an important and vital principle that can be used by anyone. The federal government, for example, uses the principle of insurance in the Social Security program.

In 1980, a pool for municipal government liability risks was established in Tennessee, and in 1981 a municipal workers compensation insurance pool was initiated. Local government insurance pools exist in other states as well, and at this writing pools are being considered in yet additional areas. Generally, local government insurance pools present a sound alternative to commercial insurance. They may also provide the only feasible approach to insurance in times when commercial insurance is not available to local governments at reasonable prices. The decision to use a pool or any other means of transferring risk, of course, should be based on careful cost-benefit analysis.

5. Implementation. Implementation is important to a risk management program because, no matter how well a program may be conceived, it is of

no practical value unless it is implemented. Implementation involves taking systematic action on all program elements in an orderly and logical fashion. Specific persons should be provided with both the authority and responsibility necessary to carry out elements of the program, and reasonable time schedules should be developed for implementation. All of these items should become clear once the program is fully developed, but they should be made explicit in order to avoid misunderstandings and to enable evaluation of program effectiveness. Finally, implementation should be placed under the overall supervision of the risk manager.

6. Review and Evaluation. A risk management program does not stop with implementation. In order for the program to maintain its integrity and value, it must be continually monitored and kept current.

a. Change. A risk management program that is out of date, even a very good one, becomes a bad risk management program. Because it is dated it no longer does what was originally intended. The program must accommodate the changes and adjustments that occur in the local government. Here are a few items that require regular attention.

(i) Changes in Property Values. Buildings, property, vehicles, equipment, and other objects are subject to changes in value or replacement costs. Regardless of the method used, a risk management program regularly must review real and personal property schedules, inventories, and values to ensure that adequate retained or insurance coverage is available to cover all exposed values.

(ii) New Property Acquisition. All equipment and property acquired by lease or purchase should be reported to the risk manager.

In this way it can be included in the insurance program or covered in some other way. If new acquisitions are not reported, problems can occur. In one small city a $75,000 bulldozer was not included on the insurance schedule for over a year after purchase. Had a loss occurred to the bulldozer during that period, the city would have found that it had unintentionally retained a significant exposure. Arranging for the automatic inclusion of newly acquired property and equipment under an insurance policy may help to avoid this problem as would sound reporting procedures.

(iii) Changes in Personnel. All changes in personnel, whether new hires or internal changes, should be reported to the risk manager. Such changes often affect employee benefit programs or have other implications for the local government. In addition, public liability as well as civil rights exposures may exist as the result of hiring, internal promotion, or disciplinary practices. For these and other reasons, all changes in personnel, benefit programs, and all policies and procedures affecting employment, promotion, discipline, or retention should be reported to the risk manager.

(iv) Matters of Law. The risk manager should attempt to keep current with all federal and state court decisions regarding risk, exposure, and liability as well as federal and state statutes and local ordinances. Knowledge of changes in law can help avoid costly mistakes.

(v) Changes in Departmental Operations. To anticipate or even to learn of changes in departmental operations is sometimes difficult, especially in larger governmental units. Such changes, however, may have serious risk management implications. As an example, changes in methods of refuse collection, the use of new pieces of equipment and other seemingly mundane operational changes mean new and different risks. These risks should be evaluated and appropriate control measures instituted. Changes in departmental operations should be reported to the risk manager for possible action.

b. Program Review. The risk manager should undertake a complete and thorough review and evaluation of the program to determine its coverage and effectiveness on at least an annual basis. The review process should include all of the steps involved in establishing a program and should cover all procedures and operations of the local government. Efforts should be made to determine whether risk control procedures are being carried out as originally intended and whether more cost-effective methods of accomplishing risk management objectives can be instituted. Similarly, a reinspection of all property, facilities, equipment, and operations should be undertaken. Periodic reinspections should include all steps that were taken in the initial inspection, should look for new exposures, and should determine whether corrections to problems noted in earlier inspections have been implemented.

c. Insurance Review. A community's insurance program should be reviewed regularly, at least twice a year, with the requirement that the insurance company or agency submit regular reports on premiums, losses paid, retention, schedules of coverage, services provided, and recommendations for changes in the insurance program. Also, the insurance market should be tested periodically. The frequency with which an insurance program should be resubmitted for bids is a question that will depend upon a local government's insurance requirements and the complexity of its program. Rebidding once every three to five years appears to be a sound and reasonable practice. Efforts should be made by the risk manager to ensure that available and promised services from the insurance company or agency are forthcoming. If reports, information, and other services are not provided adequately or effectively, this should be considered in future insurance purchases from a particular agency or company.

d. Loss Control Evaluation. A program may work well at one time but may lose its cost-effectiveness as the result of changing circumstances. In view of the decreasing returns of any loss control program, every effort should be made to ensure that expenditures for loss control are met or exceeded by reductions in loss costs. As a part of this process, especially where a risk management program involves significant retention with reserve funds set aside for loss payments, the risk anager should maintain complete and up-to-date information on the fund balance expenditures, and earnings. In this way, determining whether reserve funds are adequate to meet loss payment projections will be possible.

C. Summary

This Chapter has presented a recommended and proven process for operating a local government risk management program. It has discussed several major principles that underlie such a program, including the large-loss principle, unit-loss concept, cost-effective analysis, availability of insurance, and the bidding of insurance. It has also discussed the six major steps involved in a risk management program: setting goals and objectives, risk identification, risk measurement, development of alternative risk management measures, program implementation, and program review.

Very few things in life provide iron-clad guarantees. Risk management is no exception. By following the principles set forth in this Handbook, however, local governments will be far less likely to make costly and painful errors in the management of the risks that inhere in their operations.

CHAPTER V

TYPICAL EXPOSURES AND RISK MANAGEMENT CONTROLS

A. Overview

Risks of loss both to persons and property exist throughout most local government operations. Some are restricted to individual departments or functional areas, such as public safety or public works, while other more general exposures can be found throughout local government. These include property losses resulting from theft or fire and liability actions (i.e., law suits) against the governmental unit, its officers, or employees.

Just as local governments face numerous risks, they may pursue numerous alternative risk management control measures in order to eliminate, reduce, or transfer risks. The purpose of this Chapter is to present typical examples of risks in local governmental operations as well as typical alternatives for managing them.

The term "typical" is used advisedly. First, the assumption should not be made that THE answers to all questions about local governmental risk, exposure, and risk management are provided. Rather, this chapter presents examples that the mythical average person might observe in the equally mythical average local government. Second, although almost all local governments share a number of characteristics in common, including specific exposures to loss, no truly typical local government exists. Thus, these examples should not be viewed as an exhaustive treatment of the subject. They should, however, provide a more concrete idea of the risks faced by local government and of some of the more common alternative control measures.

B. Exposures.

Local governments confront three principal types of exposures. They are liability, personnel, and property exposures.

1. Liability. Liability means the legal requirement or obligation of a person, corporation, or local government to restore to value a loss it has caused to an injured party. Perhaps the most obvious example is liability arising out of the operation of motor vehicles. If a vehicle owned by a local government should collide in an "at fault" accident with another vehicle and cause injury, death, or property damage, the local government is liable for the damages caused. The actual amount of damages legally required to be paid or that can legally be awarded by a court will vary from state to state, but the principle remains the same--local government liability.

Similarly, should an elected official or an employee of a local government in his or her capacity as an agent of the local government take an action that, in contravention to law, damages another person--e.g., a code inspector's illegal condemnation of a home or a police officer's illegal arrest of an innocent person--local governmental liability again arises as law suits from around the country will attest.*

2. Personnel. A personnel exposure is any situation or incident in which an official or employee of the local government in his or her

*For discussion of the limits of local government tort liability in Tennessee, see Chapter VI. See also the summary of Tennessee's Governmental Tort Liability Law in Appendix D. Although state laws may limit local governmental liability and the liability of local officials, federal law does not. For example, under 42 USCA Sec. 1983, individuals may bring suit in federal court against local governmental officials for alleged violations of civil rights.

capacity as an agent or employee of the local government is exposed to bodily injury or death. Even the simplest operation can present hazards to local government employees. For example, the failure to replace defective stops on a file cabinet drawer may cause a drawer to fall and injure a clerical worker. Failure to use a heavy duty extension cord for electrical equipment or failure to replace a damaged cord present fire hazards that may result in injuries or loss of life. Poorly designed equipment and inadequate or improper training present safety hazards and are almost guaranteed to produce employee injuries, lost-time accidents, and medical and workers compensation claims.

3. Property. A property exposure involves the loss or reduction of value of property owned by the local government. Such loss can be complete or partial and can be the result of accidents, vandalism, malicious mischief, theft, fire, unexplained disappearance, and natural events such as floods or earthquakes.

As with liability and personnel exposures, most property exposures can be anticipated and eliminated, reduced, or transferred with proper safeguards. For example, millions of dollars in value are lost annually as the result of employee dishonesty and theft, involving such seemingly innocent acts as "borrowing" government equipment and supplies (e.g., pens and pencils or small automative parts) from inventory as well as massive cases of fraud. How simple to reduce these losses by anticipating them. Programs such as inventory control, restricted warehouse access, and installation of security devices (e.g., locks, fences, burglar alarms, etc.) have all proved effective.

4. <u>On- vs. Off-Premises Exposures</u>. Exposures are often categorized as on-premises or off-premises exposures. This is a handy way of describing exposure location as well as the probable degree of control a local unit has over the exposure.

<u>An on-premises exposure is one at a fixed location facility such as a governmental building</u>. Fixed properties present risks that normally are correctable. Periodic inspections should be made of all locations to detect items that can cause injury to the public. Typical exposures might include broken steps on an outside stairway leading into a public building or an especially slippery floor in a public waiting room.

<u>Off-premises exposures are those away from fixed location properties</u>. These involve such things as streets, sidewalks, and traffic control devices. For example, where an entity has provided a traffic control device and the device does not operate or operates defectively, an off-premises exposure can be said to exist. Another common off-premises exposure is a defective street condition, such as the ubiquitous pothole. Each governmental unit should instruct its employees to report such conditions promptly.

Under the Tennessee law (TCA 29-20-101 et seq.) a local government is liable for injuries resulting from a defective condition if it is aware of the condition prior to the time of the accident. It may be aware as the result of either actual or constructive notice. <u>Actual notice</u> means what it says: someone (a citizen or employee) has notified the local government of a dangerous condition. <u>Constructive notice</u> means that, other things being equal, the local government should have known of the existence of a dangerous condition. Suppose a pothole goes unrepaired for several weeks during which time police and public works vehicles pass by it daily. Should a citizen damage his auto in the pothole and sue the local government, the court may well hold in the citizen's favor. Under these circumstances, the local government should have been aware of the problem and should have corrected it.

5. Vehicular Exposures. Risks affecting local governments can be further classified into two major categories: vehicular and non-vehicular. Vehicles often represent a substantial concentration of values that are exposed to loss, even catastrophic loss. Furthermore, vehicle operation usually involves the greatest actual annual dollar loss to a local government. Thus, discussion of vehicle exposures as a separate category is justifiable.

Four typical vehicle exposures are of concern to local governments: losses resulting from improper and inadequate maintenance, losses resulting from improper driving habits or techniques, damage to the local government's property and injury to its personnel caused by other parties, and unrelated property damage. Unrelated property damage can be further divided into limited and catastrophic exposure.

a. Maintenance. In an era of increasingly tight budgets, local governments may decide to defer maintenance on vehicles and equipment in order to save money. This is the epitome of short-sightedness. As the TV ad so eloquently puts it, "You can pay me now or pay me later." Deferred maintenance is merely deferred cost, and deferred cost of this type is often substantially more expensive at the time it occurs than at the time maintenance was initially required.

Take the case of the sanitation vehicle with worn out brakes which, unrepaired, finally failed. The truck careened down the street causing damage to several vehicles. Not only must the brakes on the vehicle be replaced, but by deferring maintenance on this particular vehicle the local government must now repair the garbage truck and pay the costs of repairing the vehicles which the truck damaged. Deferred maintenance was hardly a less expensive alternative.

b. <u>Driving Habits.</u> How many "cowboys" are in the local police or sheriff's department? Local officials are always surprised to learn that on the average a relatively few individuals are responsible for the majority of "at fault" vehicle accidents. These persons can easily be identified, their excesses controlled, and their driving habits corrected or their services terminated.

Another surprise to local officials is that all too frequently drivers are found in their employ who either are not licensed, lack specific training for the vehicle they operate, or have been awarded an excessive number of moving violation citations (i.e., speeding, drunk driving, etc.). Corrective measures for each of the problems noted here are simple, easy to administer, and cost-effective. A program for driver control is presented later in this chapter.

c. <u>Third Party Accidents.</u> Another major vehicular exposure involves accidents that are the fault and hence the financial responsibility of other parties. In many cases, dollar losses and employee injuries arising from this type of accident are substantial. Yet many local governments have neither a policy nor the procedures to recover such damages. A sample policy and appropriate methods of collecting damages were presented in Chapter III. These or some variation of them should be implemented by all local governments.

d. Other Damages. The owners of most private automobiles have what is known as comprehensive insurance coverage for their vehicles. Comprehensive covers such things as vandalism, theft of an auto, glass breakage, and damage due to fire, flood, and other natural disasters. Many local governments also buy comprehensive coverage for their vehicles in order to return value in the case of such losses.

(i) Individual Incident. More appropriate and less costly risk management techniques than comprehensive insurance are available for the kinds of losses to vehicles mentioned above. A loss prevention program coupled with a funded self-insurance effort for comprehensive type losses may make more economic sense than insurance. As an example, one local government examined by the authors had paid out as much in insurance premiums for glass breakage as the city received from the insurance company in loss payments. Neither the city nor the insurance company could benefit from this arrangement.

(ii) Catastrophic Exposure. Another type of property damage exposure to vehicles is likely to be far more severe than the individual comprehensive exposure. This is the exposure to a catastrophic loss. Most communities of any size have large numbers of vehicles of varying types. Periodically, these are parked in large groups in one or a few locations. For example, during the summer months, Nashville has school buses worth over $10 million parked in a single location.

The probability that a catastrophic event--tornado, fire, flood, or hail--will occur in Nashville or in any local unit with a similar concentration of values and damage or destroy most or all of these vehicles is probably fairly low. Catastrophic losses do not occur frequently, but they do occur and result in significant destruction.

Should a catastrophe occur and a sizeable number of vehicles be damaged or destroyed, the dollar loss would be considerable--probably more than the local government could easily absorb, either out of its operating budget or self-insurance fund. Even with good loss control procedures transferring the risk of catastrophic losses to an insurance company is often a sound practice as is instituting loss control procedures to limit or reduce the chances of these losses. A loss control program for vehicles, at the minimum, would secure parked vehicles (i.e., by parking them within a closed chain-link fence and by locking them and removing keys), provide adequate lighting for parking lots, limit vehicle concentrations as far as practical, and patrol vehicle locations.

C. Departmental Review

Several basic exposures are common to most local governmental operations. These exposures can be classified as liability, personnel, property, or vehicle exposures. Generally applicable measures can be implemented to control losses in each case.

The remainder of this Chapter outlines risks that are distinctive of particular departments or functional areas in local government. It also presents alternative means of eliminating, reducing, or transferring those risks. Not all departments or functional areas are covered in this analysis, nor are all risks in each area discussed. Instead, a few examples are provided that will be illustrative of good risk management principles and practices.

The departments and functional areas covered include public safety (police and fire), public works and utilities, garage operations, parks and recreation, office operations, finance, and boards, commissions, and councils. In addition, a brief vehicle use program is presented at the conclusion of the chapter.

1. Public Safety.

a. General.

(i) Personnel selection is one of the most important considerations for police and fire departments. Poor hiring practices can create serious problems for a local community. In police and fire departments, actions by employees may expose the local government to serious liability or damage claims. Also, improper hiring practices can lead to civil rights suits.

Exhaustive investigations should be conducted into the background of each prospective employee, and personnel rules and regulations should be adopted to ensure fairness in hiring. Careful examination of all applicants should also be undertaken to eliminate those not qualified by education, training, temperament, and capability to be public safety officers. Naturally, all employment examinations should be free of bias and should test only for skills required for the job.

(ii) Training is an essential ingredient in risk reduction in both the police and fire departments. By this at least four things are meant:

(a) Recruit Training in certified academies or programs. Too often small local governments hire police officers or firefighters and put them to work with minimal training or with no training at all. An untrained, unqualified public safety officer presents a unique double exposure. First, by not knowing his or her job, the officer may endanger life or property, and second, the officer may expose the local government to unique liability claims as a result of his or her actions.

(b) Regular In-service Training in subjects of a general nature affecting the good of the service and its general efficiency, e.g., training in laws and court decisions affecting suspects' rights and search and seizure.

(c) Specialist Training, for example, for operating sophisticated firefighting equipment or to perform specialized rescue tasks.

(d) Vehicle Operation, primarily defensive driving, emergency vehicle operation, and specialized vehicle operation. Local governments should ensure that all training is adequate and effective and that it is provided frequently enough to be meaningful. In addition, all training should be documented both in individual personnel files and departmental master records.

(iii) Communication is another critical public safety area. Effective equipment and an adequate backup capability, of course, are essential. The effectiveness of communication hardware, however, should not be accepted as given. Rather, it should be checked regularly and repaired when needed. Accurate records should be kept on all communication equipment, including data on failures and repairs.

(iv) Emergency Vehicle Operations present another exposure in the area of public safety. Tennessee law (TCA 55-8-132) grants emergency vehicles the right of way on streets and highways. However, the law also states, "This section shall not operate to relieve the driver of an authorized emergency vehicle from the duty to drive with due regard for the safety of all persons using the highway."

High speed chases or "hot pursuits" should be a continuing concern for all local governments. Hot pursuits create numerous liability exposures as well the actual and potential loss of human lives. In the opinion of the authors, most hot pursuits are unnecessary, unwarranted, dangerous, and foolhardy. With effective communication systems and the ability to request assistance, hot pursuits should not be permitted except in the most extreme circumstances. High speed pursuits of minor traffic offenders, for example, are almost always unnecessary. Hot pursuits frequently lead to death and injury to innocent parties. Some major cities have established regulations prohibiting hot pursuits and other high speed driving except where major crimes are involved. At the very minimum, the authors strongly recommend adoption of policies that will strictly limit hot pursuits. In addition, all personnel who can reasonably be expected to operate emergency vehicles (i.e., fire and police vehicles and ambulances) should receive initial and continuing training in the proper operation--including high speed operation--of these vehicles.

b. Law Enforcement. In addition to risks commonly found in all public safety operations, certain risks are distinctive of law enforcement agencies. Several of these risks together with recommended risk management techniques are discussed below.

(i) Physical Security. The physical security of police headquarters and the jail facility is extremely important, especially in smaller communities where only a limited number of personnel are on duty at a given time. In a risk management study for one city, the authors criticized the lack of security in the municipal building, particularly in the police department's dispatching office. City officials, however, greeted these findings with apathy and took no correcctive action. Between the time of the physical inspection and the final report to the city, a sniper sneaked in the police department at night. Remaining completely out of sight, he fired several rounds into the dispatcher's office and escaped. Fortunately, no one was injured and property damage was minimal. Needless to say, the city changed its view, and additional security precautions were installed immediately thereafter.

All police departments should review the physical security and safety of all of their facilities and take steps to correct deficiencies. Loss prevention is far less costly than loss of life.

(ii) Booking. Several risks are present during booking procedures. In some cases, prisoners are not cognizant of their physical conditions at the time of arrest and booking. Care must be exercised to eliminate claims of loss to a prisoner's valuables as well as claims of physical abuse. Some communities have installed videotape systems, and the booking process is routinely recorded. The videotape is valuable not only to refute claims by persons who have been arrested but may help to ensure that officers pay proper attention to the legal and humane requirements of arrest and booking.

In many communities, valuables such as money, jewelry, and even items of evidence such as drugs taken from those arrested are misplaced, lost, or stolen. Procedures should be established to account for and ensure the safekeeping of all items taken from suspects until such time as they may retrieve the items or some other disposition has been effected. A secured location must be provided for the storage of valuables and evidence--otherwise loss is almost inevitable.

(iii) Arrest. An in-depth discussion of the liability and personal injury risks associated with arrest and their effective management is beyond the scope of the Handbook. Such risks, however, are an inherent part of policing, and sound hiring and training procedures, good supervision and management, and responsible operating procedures will serve to reduce and keep them within manageable limits.

Each police department, probably in conjunction with the risk manager and safety and security specialists, periodically should review all policies and procedures, actual loss experience, complaints and law suits filed against the department, physical security of departmental facilities and the jail, and all other elements of operation. Findings from these reviews should then be used to make needed improvements.

(iv) Jails and Inmate Safety. The discussion is limited to small jail facilities normally used to hold prisoners for short periods of time. Inmate safety presents critical exposure to loss. In one city studied by the authors, unoccupied jail cells were used for storage of flammable materials. Inspections should be conducted on the use of all cells and all equipment and furnishings with specific attention to the degree of combustibility and toxicity of material. Required corrections should be instituted immediately.

Jail fires are becoming common events in the United States. The regularity of such fires with their predictable loss of life and destruction of property should have put all communities on notice about this exposure, but most communities unfortunately have not yet learned from these tragedies.

Abuses of prisoners by other inmates and by guards and lack of supervision have resulted in numerous claims against local governments. Improved jail patrols, audio transmitters, and video cameras will assist in reducing these exposures. So, too, will improved selection, training, and supervision of jail personnel and the reduction or elimination of crowded jail conditions.

Jail security from inmate escape or improper release is another important issue to local communities. In one East Tennessee community, for example, an individual impersonating a deputy attorney general telephoned the police department late one evening and informed the dispatcher that all charges against an inmate in the city jail had been dropped and the inmate was to be released. This the dispatcher did without verifying the call or caller. The next morning the charade was discovered, but the inmate was long gone. The police department was embarrassed and the dispatcher chastened and disciplined, but the damage was already done.

(v) Police Brutality. As long as communities provide law enforcement, claims of abuse and brutality will be made. In recent years, such claims have been occasioned by the attitudes or verbal actions of law enforcement officers as well as by physical actions.

Recent court decisions have held communities and officers liable for violation of the civil rights of citizens. Although state law in Tennessee provides immunity from suit for local governmental units in state courts, no protection is given from litigation in federal courts for either units or individuals.

Instances of abuse and brutality occur for a variety of reasons. Over the past fifteen or so years a considerable body of literature has developed on the subject of police abuse and its consequences. Of course, not all claims of police abuse--perhaps only a relatively small percentage--are justified. Nevertheless, the subject is an important one if for no other reason than the emotions surrounding it.

Clearly, effective methods are available to law enforcement agencies to limit or prevent the occurrence of physical or verbal abuse, to take corrective action when incidents of abuse are known to have occurred, and to protect officers from spurious allegations of abuse. Among others, the following actions deserve attention: careful recruitment and selection procedures designed to eliminate candidates whose temperaments or attitudes are unsuited to unbiased, humane law enforcement; initial and in-service training programs designed to teach and reinforce the skills necessary for positive police-citizen contact; effective supervision; fair, swift, and impartial disciplinary action whenever warranted; sound operating policies and procedures; and a management commitment to the development of a humane constabulary.

c. Fire Department. As in the case of police agencies, several risks are distinctive of fire departments. Among the more prominent are the following:

(i) Equipment. The effectiveness of a fire department is determined both by the quality of its manpower and by the effectiveness of its equipment. Equipment that does not operate efficiently or at all can create exposures not only to fire personnel and local residents but can also increase the chance of loss to the governmental entity due to litigation for failure to keep equipment in proper condition.

Firefighting requires proper equipment properly maintained. Although most communities probably follow this maxim carefully, it is sufficiently important to be worth restating.

(ii) Fire Stations. Inspections by the authors of fire stations in Tennessee cities have revealed a variety of housekeeping exposures. Common items include unrestricted public access to the station; unsafe conditions on equipment (e.g., grinders) in the shop; worn, frayed, or damaged electrical cords; and even an unsecured valve on a gas grill. Naturally, these conditions and others wherever they may exist should be corrected in order to minimize or prevent employee injuries and fire or other losses.

(iii) Communication. Fire departments in all but the smallest communities should provide for the recording of calls received and communications to emergency vehicles. Such recordings can be most helpful in case a community must defend itself against allegations of improper or ineffective response to a fire call. Recording equipment need not be fancy or expensive to get the job done. In one city studied, the fire chief had rigged an inexpensive portable tape recorder to operate as the department's recording equipment for all fire call and dispatch related communication.

(iv) Mutual Aid Agreements. Many communities have mutual aid agreements with their neighbors to lend fire fighting or law enforcement assistance during times of emergency. A number of risks are associated with mutual aid agreements, especially that of a poorly drawn or extra-legal mutual aid document. Some mutual aid agreements commit communities to assist their neighbors under circumstances that provide utterly no risk protection or that have no legal basis such as agreements of an informal or ad hoc nature.

A mutual aid agreement should be a well drafted, legally correct document. It should be developed by management officials and public safety personnel who understand the issues of administration and practice involved, reviewed and approved by both the risk manager and legal counsel, and formally approved by the local legislative body. Before it becomes effective it should be legally executed by the neighboring governmental unit(s), and copies should be kept on file for future reference. Finally, the agreement should be the subject of periodic review and possible renegotiation.

Even with well drawn, legally adopted documents, several risks are inherent in mutual aid agreements. Among the most important, the following should be considered:

*liability for losses that occur outside of the territorial limits of the responding entity, such as vehicle accidents, injuries, or death to responding firefighters or police officers, and injuries, death, or property damage to citizens. The mutual aid agreement should carefully assign responsibility for liability in all such cases to either the requesting or the responding jurisdiction.

*the question of the response itself: who in the responding entity has authority to order a response; who in the requesting entity must ask for aid; what form must the request take; what documentation must be provided? (These may appear to be fairly trivial issues and, among neighbors of good faith, they may be. They may be, that is, until an inexperienced or momentarily flustered dispatcher makes a unilateral decision without authorization to invoke a perhaps unneeded mutual aid response in which a local fireman dies or a local resident is injured.)

*the extent to which a responding community "leaves itself bare" in order to assist a neighbor. This is a matter of both policy and practice and is important for both operational level personnel and policy makers to resolve in advance. Of course, no community will want to leave its citizens unprotected while responding to a neighbor's call for help. This cannot be a hard and fast rule, however, as the example of the train explosion in Waverly, Tennessee in 1978 will show. There, due to the nature and severity of the catastrophe, neighboring municipalities willingly responded by sending help without regard to mutual aid agreements, liability exposures, or excessive reductions in their own emergency response capabilities.

(v) <u>Non-traditional Use of Firefighters</u>. On an increasingly frequent basis, local communities are coming to appreciate more fully the resources available to them in their firefighting forces. Only a small percentage of the firefighters time is devoted to fire suppression. As a result, they are available for other activities. These include such things as code and fire inspection, emergency medical (EM, EMT, and CPR) activities, other types of medical and first aid training for citizens, fire prevention activities, involvement in the community's risk management effort (i.e., responsibility for analysis of fire loss exposures and recommendations and implementation of loss prevention measures), training, and many others.

To the extent that firefighters are used in non-traditional roles, the local government should ensure their ability to respond to fire calls. This can be readily accomplished by providing them with radio equipment and vehicles.

(vi) Outside Fire Service. City governments in many rural areas, because they may have the only organized firefighting capability, often respond to fires beyond their jurisdictional limits. Sometimes this is done as a matter of contract with another local government, or as a contract or agreement with area homeowners. Many of the risks associated with mutual aid agreements are present in a community's response to fires beyond its jurisdictional limits, especially losses to vehicles and personnel, injury, death or property damage to citizens, and the inevitable reduction of in-city fire protection capability.

Another risk is also worth considering: liability for failure to respond or for an improper response to a call for assistance. For example, a name may be misfiled or an address may be garbled in transmission, and fire vehicles cannot locate the fire or arrive only after the building has been consumed. Can the aggrieved party sue the community for failure to respond? Certainly, anyone can sue anyone for almost anything today--and this happens regularly. Will the local government be found liable? Under Tennessee law as currently interpreted, the answer is probably no, but circumstances change and with them liability protection.

Therefore, local governments should either abandon the business of providing fire protection service beyond their borders, or, if a conscious, knowledgeable decision is made to provide such service, the local government should take all reasonable precautions to transfer or reduce the risks inherent in providing the service.

2. Public Works and Public Utilities. The following section will focus on two significant exposures in the areas of local public works and public utilities. These are employee safety and exposures to the public. Local governmental vehicle management and garage and maintenance activities are covered separately.

a. Employee Safety. Nowhere in local government is employee safety more critical than in public works and public utilities. Although police officers or firefighters gain the public's attention as a result of the drama and emotion surrounding the safety (or lack thereof) of their jobs, the leading area for employee injury and death in local government is public works. A careful look at the type of work involved will explain why: collection of refuse; operation of heavy equipment; work on elecric, gas, water, and sewer utilities; work on busy streets and intersections; lifting, hauling, carrying, and other demanding physical labor.

The first and most important thing to be done about employee safety is the initiation of a safety committee and a safety program. As part of this program, all functions and activities within the public works and utilities departments need to be examined carefully for their exposures. Corrective measures should be taken where necessary.

One example of what is meant is available from an actual risk management analysis for a small city. At a street construction site where several city vehicles and public works personnel were congregated, an inexperienced and untrained youth had been assigned as the flagger to direct traffic. As safety conditions at the site were inspected, the flagger inadvertently directed auto traffic into the path of a backhoe. Next, as the analysts crossed the street, the flagger again directed traffic down the street, nearly causing them to be hit by a vehicle moving at excessive speed. Naturally, this situation received the analysts' immediate attention.

Training for the flagger had been neglected. The city had assumed that anyone could direct traffic at a construction site. Well, "anyone" had directed traffic--badly--nearly causing two accidents in the span of a few minutes. Other examples of unsafe conditions, poor training, and ineffective equipment and facilities abound in the daily activities of public works personnel--many leading to property damage and employee injury, disability, and death.

Other obvious areas to examine for their potential for occupational injury are construction and demolition; street maintenance work; refuse and brush collection; equipment operation; work on electrical, water, sewer, and natural gas utilities; and maintenance work in the garage.

The point, as always, is to do something about the hazards in these areas. Examine and inspect the activities and locations, identify problems, institute corrective measures, monitor with follow-up inspections, and revise or add corrective measures where necessary. This should be a continuous process.

b. Exposures to the Public. The activities of public works and utility departments also create risks that cause losses to the property of other persons or cause injury and death to members of the public.

The condition of sidewalks, streets, and roads often results in claims against local governments. Another area of concern involving injury or property damage to others relates to traffic control devices. The absence of accustomed traffic signs in an area will generate claims. Failure to replace a damaged or improperly functioning traffic signal also creates the risk of loss.

As a result of their numerous functions, local governments often furnish products or services that create liability risks. These range from candy in vending machines to sanitary sewers and other utilities. When any of these products or services are provided, a products or completed operation exposure exists. Contamination of a food item from a vending machine or a lunchroom, the backup of an improperly maintained sanitary sewer, the rupture of a natural gas line, or improperly treated water all have the potential to generate losses. The risk manager needs to be aware of exposures that create risks from the dispensing of products or services and to ensure that effective quality control procedures are instituted and maintained.

3. Garage and Maintenance. The primary functions of a public works garage are to maintain and repair vehicles and equipment leased or owned by a local government. Consequently, vehicles and equipment, chemicals, paint, oil, gasoline, a parts inventory, tools, and sundry other items are found in and around a public works garage. In addition, of course, the garage is the site of repair and other work on fleet and specialized equipment.

Several areas of concern for risk management exist in and around the garage. These include such procedures as:

*Personnel should be properly trained in use of specialized tools and equipment in order to avoid personal injury.

*All flammable and dangerous materials such as paint, oil, gasoline, and chemicals, should be properly labelled and stored. Not only will this help to prevent pilferage and loss but also fire, explosion, and incorrect uses.

*Adequate first aid equipment must be present in the garage and personnel trained in its proper use.

*Eye protection devices, hardhats, ear plugs, and other safety equipment should be available and should be kept near machines or in areas where their use is required. Personnel should be trained in their use and a supervisory and disciplinary structure should be established to ensure the use of safety equipment.

*Fire extinguishers should be regularly inspected, kept filled, and kept in accessible locations.

*"No smoking" signs should be installed in proper locations and personnel trained and supervised to obey them.

*Tools, parts, and equipment inventories should be established at each garage or similar facility. These inventories should be carefully maintained with adequate check-in and check-out procedures. All personnel should be made responsible for tools, equipment, or parts in their care.

These and other housekeeping, safety, and loss prevention measures should be reviewed for their applicability in each garage installation. Their implementation can effectively reduce losses.

In addition to these fairly obvious items, more subtle hazards are often encountered in reviewing a public works garage operation. For example, the municipal garage in one city performed all regular maintenance work on the county's school buses at no charge to the county. This had been done historically as the city has excess space in its garage and ample personnel time available. While such a policy may be commendable, it also presents risks. It was an informal policy--not a formal agreement--and no "hold harmless" or other protection was provided for the city in case of a bus accident due to improper maintenance.

Risks such as this can only be identified with on-site inspections, personnel interviews, and observation of actual operations. As should be clear from this example, these risk identification techniques are important if a risk manager is to know the local unit's exposures and take action to control them.

4. Parks and Recreation. As the cost of taking vacations away from home increases, more and more persons are using parks, not only for normal recreational purposes but also in lieu of more costly out-of-town activities. As park use increases, park maintenance should strive not only to create a pleasant aesthetic environment but also to eliminate all hazards that create risks of loss to the public and, as a result, risks of finan-

cial loss to the community. Defects that go uncorrected and cause or contribute to injury or death to citizens can result in the local unit being held financially responsible.

Examples may once again be instructive. From communities studied by the authors here are a few such hazards encountered which, once known, can be corrected easily and inexpensively:

*cracked or broken sidewalks
*improper fuses and wiring
*protruding faucets, pipes, and other objects
*uncovered light bulbs
*improper storage of rags, gasoline, and chemicals
*restrooms left open at night
*gates left open at night
*lack of security patrols day and night

In addition to these housekeeping exposures, park and recreation activities carry with them certain risks. For example, all participants in "sponsored" activities should be required to sign waivers (or hold harmless agreements) releasing the local unit of all liability in the case of personal injury or death. This is especially true in cases where participants are transported to and from activities by the local government.

One local unit examined transported members of athletic teams to a nearby state for games. Transportation of this sort is not unusual, but in this case participants were not required to sign waivers releasing the local government from liability in case of an accident. Another local community studied used a two-part waiver. In the first part the community absolved itself of responsibility in the event of an accident, but the second part of the form essentially took the responsibility back. To make matters worse, no policy or procedures regarding the waiver had been established nor had the waiver been reviewed by legal counsel.

Swimming pools create special risks. In addition to the risk of death or injury through drowning or unsafe conduct in and around the pool, here is a partial list of other risks inherent in pool operation:

*improper storage, use, or control of chlorine
*lack of security for cash receipts
*failure to require groups leasing or using the facility to execute hold harmless agreements and/or to require that they purchase insurance
*inadequate screening and/or training of personnel
*inadequate attention to housekeeping matters
*assorted safety issues

Local communities may operate concession stands or lease such facilities to third parties to operate in conjunction with parks and recreation programs. Often these are operated without adequate concern for risk management. For example, serious health issues accompanied by risks of loss for failure to meet minimum health standards are possible whenever food is prepared. In one city, the physical inspection of a facility leased to a private vendor disclosed numerous health violations as well as serious fire hazards. Although the limits of insurance required in the city's contract with the vendor had been purchased, the limits were inadequate should claims for illness or death due to contaminated food be filed. Moreover, the local government was not a named insured on the policy and hence did not have adequate protection from suit. Routine inspections of such facilities must be made by the risk manager to eliminate exposures of this type.

Regular inspections should also be made of all park and recreation equipment, especially playground equipment, bleachers and other facilities for seating, and all other equipment used by the public. The safe operating condition of such equipment is essential to the safety of citizens and the prevention of losses to the local unit.

5. Office Operations. Local officials may feel that no appreciable exposure to loss exists in local government office operations, except for the area of finance. This is not the case. Several significant exposures exist in office operations. Perhaps the greatest exposure in an office operation, other than injuries to personnel and the loss of money, results from improper storage of vital records. While financial records may be kept in a vault, other records are generally poorly maintained. All contracts between the governmental entity and vendors, intergovernmental agreements, grant applications and proposals, and other significant documents should be stored in a fireproof central depository. If a department has need of the contract for working purposes, a copy could be made for that purpose; the original should not be released. Where no central depository for records is maintained officials often have to check a number of places before locating an important document.

Purchasing procedures also present exposures to loss. A local unit should adopt and adhere strictly to sound purchasing procedures. This practice will avoid or prevent collusion, kickbacks, and other means of defrauding the local unit and will also prevent negative public relations and political embarrassment to the local government.

Office operations are yet another area in which physical inspection will reveal housekeeping items needful of correction. Frayed, damaged, or undersized extension cords, improperly placed desks or equipment, old or faulty filing cabinets, poorly designed or maintained facilities, inaccessible fire extinguishers, overloaded circuits, and many other housekeeping defects are commonly found on inspection. At first glance, none may appear to be severe, but any one of them may cause losses to personnel or property and may also result in unnecessarily high insurance premiums. Most housekeeping defects are easy and inexpensive to remedy.

6. Finance Operations. Inspections of procedures for handling and accounting for money in a governmental unit can reveal serious exposures. Often a casual atmosphere is present where money is handled. This is often attributable to the "family" aura that exists among long-term employees who over time have accepted significant responsibilities in local government finance and also because of lax physical arrangements for money handling. Although the amounts involved from time to time may be significant (especially at tax paying time), an attitude often found in local government finance operations is characterized by, "Why bother? This is really small potatoes."

Nonetheless, fairly obvious opportunities for robbery, theft, and embezzlement may become evident upon inspection. Exposures to loss in the finance office can often be solved through simple changes in procedures, such as requiring a police escort for couriers making deposits in banks, varying deposit times, transporting only limited amounts of money at one time, insisting upon separate keys for cash boxes, physically securing the cashier's area, installing burglary and robbery alarms, screening and bonding of personnel, and making minor adjustments in physical arrangements.

Interviews with personnel at the time of a physical inspection will help to discover exposures in finance operations and will also help to determine alternative control measures.

Typical exposures in a finance office may include:

*unsecured access to cash drawers
*lack of security in the cashier's areas
*lack of or inadequate bonds for personnel
*lack of or inadequate screening of personnel
*cash left overnight in cash drawers or safe
*lack of burglary and robbery alarms
*failure to keep documents and records in a fireproof vault
*inadequate accounting procedures

These and other deficiencies can be identified readily upon inspection and, in most cases, effective and relatively inexpensive control measures can be instituted.

7. <u>Councils, Boards, and Commissions.</u> Although discussion of risk management practices for appointed or elected councils, boards, and commissions in local government is beyond the scope of this Handbook--often because their scope is directed to objects beyond or at least different from the normal operational objectives of local government--a few general remarks are in order. First, the risk manager should review the ordinances, statutes, or resolutions establishing all councils, boards, and commissions to determine the extent of the local government's financial and legal responsibility for them and their actions. In this way, he or she

can also begin to address their insurance, bonding and other risk management requirements, if any.

Second, as the actions of these entities may create exposures and liabilities for them as well as for the local government, the risk manager should regularly review their agendas, the minutes of all meetings, and all actions taken. Periodic physical inspections of their facilities and operations should be conducted, especially if the local government is responsible for the actions of the entity.

Finally, where applicable, the risk manager should seek to have these entities made a formal part of the risk management program. After all, they are part of the local government, and the same tax dollars cover their operations and losses.

8. Specialized Entities. This Handbook provides a general treatment of local government risk management. Its intended audience is general purpose local governments and their officials. Consequently, it has not addressed the risk management requirements of several specialized units or entities within local governments. These include units such as zoos, museums, public transit systems, airports, aircraft, hospitals, community centers, auditoriums, schools, housing authorities, and many others. Risk management assistance for these specialized areas should be sought elsewhere. A good starting place for those interested might be professional associations for the entities in question and consultants and insurers who serve these entities. While certain exposures are specific to each entity (e.g., landings and take-offs of airplanes are specific risks of airports), many are also of a general nature (e.g., money handling,

housekeeping, and safety), and the discussion of these general items herein should be of some value.

9. Vehicle Use Program. In addition to the recommendation made in Section B of this chapter regarding vehicle exposures, every local government should establish a program concerning vehicle use in order more effectively to manage the exposures associated with such use. One such program follows.

a. All persons who use vehicles must have valid operators licenses; these should be checked upon employment and annually on the employment anniversary.

b. All persons who use vehicles should receive initial training and periodic retraining in general vehicle operation principles as well as regular specialized training in the use of the specific vehicles to which they are assigned.

c. A regular defensive driving course, such as the one sponsored by the National Safety Council, can be of great value to a local government. (Nashville, Tennessee, reduced chargeable accidents by over 30 percent after requiring all employees to attend such a course.) Defensive driving courses not only help employees develop skills that will enable them to prevent "at fault" accidents but also to avoid accidents that are the result of the negligence of others.

d. Annually on each employment anniversary date, the employee's driving record should be checked with the state police or department of motor vehicles as well as with neighboring local police jurisdictions. In addition, the employee should sign a statement divulging his traffic offense record for the past year (i.e., number and type of citations, accidents, arrests). Excessive violations (as defined in the community's risk management policy) should result in loss of driving privileges, suspension from or loss of employment, or other penalty.

e. All accidents involving vehicles owned by the community and/or operated by community personnel should be reported to the risk manager whose job it will be to investigate these accidents. Excessive at-fault accidents by an employee should result in appropriate administrative and/or disciplinary action.

f. A policy strictly limiting "hot pursuits" should be adopted and enforced.

g. Vehicle safety rules (e.g., all parked vehicles should be locked and keys removed, etc.) should be adopted and enforced.

h. A policy regarding out-of-state use and personal use of the community's vehicles should be adopted and enforced.

i. Procedures for reporting and handling accidents and other loses to vehicles should be adopted.

j. Accurate records must be maintained regarding all of the elements of the program, and program policies and procedures should routinely be reviewed for their effectiveness.

Such a program, simple as it seems, is rarely found in local government. Yet it has the clear potential not only to save money and prevent public embarrassment but also to prevent property loss and injury and death to local government employees and members of the public.

D. Summary.

This Chapter has discussed a variety of local governmental exposures and alternative risk management control measures. The purpose is not to cover all such exposures and control measures but instead to present some examples for local governments.

Local governmental exposures were presented in several categories including liability, personnel, property, off- and on-premises exposures, and vehicular exposures. Vehicle exposures were subdivided into maintenance, driving habits, third party accidents, individual incident comprehensive risks, and exposures to catastrophic loss. Typical risks and risk management alternatives, exemplary of situations found in many local governments, were discussed.

The general sections, which presented exposures and control measures applicable to most if not all local governmental operations, were followed by a discussion of exposures and risk management options distinctive to the major departments and functional areas in local government. These included public safety, public works and utilities, garage operations, parks and recreation, office operations, finance operations, and councils, boards, and commissions. The Chapter concluded with a brief but effective risk management program for local government vehicle use.

Certainly not all risks facing local governments nor all control options were presented here. Yet a fairly broad sample in several critical areas was discussed. If wisely used, these examples can be helpful to local officials and risk managers trying to establish or expand a local government risk management program--especially if placed in the perspective provided in earlier chapters which outlined the principles of risk management and Chapter VI on local government insurance which follows.

CHAPTER VI

INSURANCE

A. General.

Regardless of size or budget, few local governments can afford to be without any form of commercial insurance. Although local government purchases of insurance may range from comprehensive insurance packages in small communities to coverage for catastrophic losses only in larger ones, insurance remains as the single most common element in local government risk management programs.

No matter the type required nor the size of the budget, care must be exercised in purchasing insurance coverage. This Chapter will discuss several factors of importance in the purchase of insurance and some of the typical coverages available. This Chapter is not intended to be a complete or extensive discussion of local government insurance requirements and options. It should, however, provide an effective overview of the field and of the more important elements involved.

B. Major Considerations.

The purchase of insurance is often a major and sometimes a controversial decision in local government. Several factors of a general nature should be considered when making an insurance purchase. Among others, the following deserve particular attention: maximum coverage for minimum cost, bidding, negotiated bids, bid specifications, relationship with agents and insurance companies, local agents, insurance committees, splitting the pot, pools, use of consultants, and the insurance company.

1. Maximum Coverage for Minimum Cost. In local government just as in private business purchasing goods and services at the lowest possible cost consistent with required quality makes good economic sense. This principle holds true for the purchase of insurance as well as with other items. The lowest and best bid or proposal will be determined by a combination of coverage and service as well as price. Service includes claims adjustment, loss and safety engineering, provision of loss data, and a host of other things.

2. Bidding. Bidding a community's insurance program is almost always the preferable method of purchasing insurance. Many local governments have no choice in the matter--state law or local ordinance or charter provision may require bidding. For others, however, bidding is optional. Unless reasons compel otherwise, bidding should be the chosen method for local government insurance purchasing.

3. Negotiated Bids. Some local governments feel that a requirement to bid is inflexible. Although this may be true in some cases, in the purchase of insurance a "negotiated bid" is not unusual.

A negotiated bid works this way. Bid specifications are developed, and bids are received as in any other bidding procedure. The purchasing official (risk manager or purchasing agent) eliminates unqualified and excessively costly proposals and selects two or more finalists that meet local requirements. He or she then negotiates with the finalists for a complete package. The negotiation will attempt to secure concessions from the bidder in the areas of coverage, service, and price. In other words, the risk manager or other purchasing official will try to improve the bid or proposal in terms of product or service offered while either lowering or maintaining the original price in an effort to secure the lowest and best bid.

A note on ethics is in order with regard to negotiated bids. In the opinion of the authors, to use the results of negotiations with one vendor in negotiations with another is not ethical. This is a method of bringing unfair pressure on the persons or agencies with whom one is negotiating, it leaves a bad impression on the parties involved, generates ill-will, is in poor form, and can be counter-productive. On balance, however, and when conducted in an ethical manner, a negotiated bid can help a local government improve the scope of insurance proposals and/or reduce proposed prices. Strictly speaking, insurance is not a product but rather a personal service. Thus it can be likened to the services of an architect, consulting engineer, lawyer, accountant, or other personal service provider. In local government these providers generally do not "bid" their services. Rather, they submit proposals and negotiate contracts. If this type of arrangement is accepted locally for lawyers, CPA's, and others, it should provide a model for adopting a negotiated bid posture for the purchase of insurance.

4. Bid Specifications. Bidding an insurance program, especially for the first time, can be a frustrating experience. A great deal of information is required, much of it in the language of the insurance industry. The local government soliciting bids for the first time should develop simple straightforward bid specifications. Tell the prospective bidders the types of coverage, limits, and deductibles required. Provide loss

history data and standard forms on which all bidders must respond. The use of standard forms will help in the evaluation of proposals as all information submitted by proposers or bidders will be in the same format.

5. Relationships. An argument frequently heard for not bidding is that bidding does not allow a local government to maintain a relationship with an insurance agency or company. A relationship with an insurance provider is worth no more or less than the sum of the coverage and service provided at the cost of the program. If another qualified provider can do more for less, that is the relationship to pursue. No magic is attached to having remained with the same agent or company for twenty years. Indeed, once a local government becomes a liability (i.e., excessive losses) to an insurance agent or company, the relationship suddenly turns sour. The relationship is only good as long as the insurance agent and company make money.

The lesson here is to shop around and to compare cost, service, and coverage. Then purchase the insurance required. A relationship will develop, especially if the insurance provider is regularly evaluated and has to rebid every three to five years.

Changing companies or agencies frequently or bidding an insurance program too often is generally inadvisable. Changing companies by rebidding annually may obtain a lower premium in some years, but in such a case insurance carriers will not be inclined to give their best prices because they know they must go through the bidding process the next year. The insurer is a profit-making enterprise and will be inclined to build in a cushion for contingencies. If the insurer knows it will have the risk for a longer period, it will be more likely to gamble that in the long-run losses and premiums will balance out in its favor. Certain costs to the agent or company when taking on a new account are included in the overall cost of the coverage. These costs include the cost of setting up filing and record keeping systems, establishing a claims handling process, hiring additional personnel, providing loss and safety engineering services and required reporting, and generally getting to know the account.

For these and other reasons, changing agents or companies too often may keep premium costs unnecessarily high. As in many avenues of life, a middle ground is recommended. Bidding insurance every three to five years appears to meet the objective of a periodic testing of the market while causing no undue price increases.

6. Local Agents. Some local governments, especially smaller ones in more rural areas, may be tempted to permit only local or regionally based agents to bid on their insurance programs. This is rarely a sound practice and can almost never be economically justified.

One potentially serious problem that can result from this practice is that local agents may have little knowledge of governmental activities, operations, and exposures and know even less about governmental tort liability. In such a situation, the local government is unwisely and unnecessarily restricting its ability to purchase the best coverage service available.

Competition from non-local agents is often a healthy experience both in terms of price and service. As long as the rules of the competition are reasonable and are applied fairly, competition should produce a better insurance package at a lower total cost. In a so-called market economy the exclusion of non-local agents from competition is difficult to justify.

As responsible stewards of the taxpayers' money, local officials should want the purchase of quality service and products for lowest possible prices. Competition will help to do just this, and restricting bids to local agents unnecessarily restricts competition.

7. Insurance Committee. In local government an insurance committee can be a valuable tool when structuring an insurance program and purchasing insurance. This emphatically does not mean a committee made up of insurance industry representatives advising the local government. Although the use of industry personnel to advise local governments is not unusual--and their advice can e helpful--problems can arise.

To begin with, an insurance committee made up of insurance agents too closely resembles "the fox guarding the chicken coop." Agents on the committee may bid on the community's insurance package, and, if so, a serious conflict of interest exists as they helped to design the requirements. In addition, insurance agents may not be especially inclined toward or knowledgeable of risk management alternatives other than insurance. Thus their advice may well produce an extensively developed insurance program and an undernourished risk management program. Remember that insurance agents earn commissions from the sales of insurance policies.

An insurance committee in a local government should consist instead of the risk manager, purchasing agent, and other key persons from within the local government including the civil counsel, finance director, representatives of major independent entities (schools, utilities, etc.), personnel director, and others as relevant. Care should be taken not to create a committee so large that it becomes cumbersome but not to make it so small as to fail to represent major areas of concern. The principal function of this committee should be to advise the risk manager regarding the types and scope of insurance coverage required to protect local values.

8. Splitting the Pot. Given the significance of a local government's insurance program and premium dollars, purchasing from a single agency, or worse yet an out-of-town agency, may generate local political opposition, especially from local insurance agents. Some communities attempt to pacify the local insurance industry either by dividing the insurance business among numerous local agents or by requiring the agency that writes the local government's business to split its commission with other local agents. The major fallacy with the former approach is that it fails to provide a single focus of responsibility for the community's insurance program. With the latter approach, if a single agency writes the business but must split its commission, it will be less prone to provide the service that should be expected under the policy.

Although these methods of providing for insurance coverage may avoid political opposition, they have no logic. No difference exists, for example, between securing insurance in this way and a policy under which a community might require a contractor to divide his profit with all other contractors when he builds a building or constructs a street.

9. Pools. Insurance pools for local government are comparatively new and can be extremely beneficial to the participants. The operation of a pool is similar in nature to an assessable mutual insurance company in

that, if the pool generates a profit, the participants gain the advantage by receiving either dividends or a reduced rate in subsequent years. Of course, the pool might possibly sustain losses in excess of income requiring the participants to contribute additional funds. This potential problem can be alleviated to a substantial degree by the purchase of <u>reinsurance</u>. Reinsurance is a method by which an insurance carrier or other risk-taking plan, such as a pool, insures itself against losses it cannot afford to sustain.

Generally, premiums charged by a pool will be competitive with the insurance companies due to lower administrative costs and the fact that the pool need not generate a profit. As insurance companies have restricted their writings in times of poor underwriting or low investments, pools have become especially attractive in handling the insurance needs of local government. In some sections of the country, pools have become the only source of coverage or the only reasonably priced method of handling certain lines of insurance for local governments.

10. <u>Consultants</u>. An important source of assistance to local governments in both risk management and insurance purchasing is the consultant. Often specialists in insurance and risk management are available from local college or university faculties or public service staffs and can provide valuable assistance. In addition, private consultants are also available. The fees charged by these individuals or firms will fall within the range charged by other professional personal service providers. Either the private or public sector consultants can be used in conjunction with an insurance or risk management committee. However, although the consultant

will recommend certain alternatives, the final decision must rest with the local government.

One caution with regard to the use of consultants. Some consultants are associated with particular insurance brokers. If this is the case, the broker or company for which the consultant works should not be allowed to bid on the community's insurance. This will help to avoid a conflict of interest on the part of the consultant.

11. Insurance Company. Once bids have been submitted, the task is to evaluate the bids and select the most cost-effective proposal. At some point during the selection process, the risk manager must be assured that the finalist proposals are from reputable, financially sound insurance companies or agencies. How can this determination be made? Although no insurance company can guarantee it will have the resources to meet its obligations, should they occur at one time, in many states a guaranty fund exists which will pay if a licensed and admitted company lacks the financial resources to cover all its insured losses. This fund assesses the other licensed insurance companies for the amount of the losses. A risk manager should not rely on this, however. If the guaranty fund is called upon to pay the losses of a defunct company, years can pass before a claim is actually paid.

In the property and casualty insurance field, the Alfred M. Best Company publishes two reference guides useful in ascertaining the financial stability of insurers. Best Insurance Reports: Property and Liability is a comprehensive analysis of nearly all of the property and casualty insurance companies. It not only supplies financial data but also briefly describes the underwriting philosophy of the insurer, its reinsurance, and the management of the company. Best's Key Rating Guide is a smaller book but is normally sufficient for the insurance purchaser to judge a company. It gives purely financial information. Both books indicate a rating based upon a number of variables: underwriting results, quality of management, adequacy of reserves to pay claims, adequacy of surplus funds to pay catastrophic losses, and the soundness of the investment policy.

The ratings range from A+ to C. A+ and A are excellent, B+ very good, B good, C+ fairly good, and C fair. If a company does not deserve the C rating, statements such as "rating deferred" are used. A second portion of the Key rating deals with financial size and is listed in Roman numerals. Many learned individuals feel government should not accept a carrier with a rating lower than A:X; which would represent an excellent rated company of medium size.

C. Major Elements of an Insurance Program.

The next several pages will present the major elements of an insurance program for local government. While this is not an exhaustive presentation of the coverages in each area, it will emphasize the most significant features and relative merits of each type of coverage.

1. Aggregates, Deductibles, and Self-insurance. Aggregates, deductibles, and self-insurance are elements of an insurance program that can help a community to reduce the cost of its insurance.

a. Aggregates. Aggregates are often used when a local government is willing to withstand losses up to a certain amount during a given period and desires insurance to pay losses in excess of this amount. An aggregate can be used in two ways. The policy can be written calling for a specified number of deductibles to be applied in a given term. The local government would cover all deductibles until the specified number had been reached, and the insurance company would cover all further losses in full. An aggregate can also be written in terms of a total dollar amount of losses the entity is willing to retain during a policy term. For example, a city or county might decide it can afford a deductible in its property insurance of $10,000 per occurrence but can only retain a maximum of $100,000 of normally insured losses in a given year. In this situation, the insurance carrier would not pay the entity for losses until the $100,000 annual aggregate has been satisfied. Because the risk accepted in this case by the insurance carrier is less than without the deductible, the premium will be somewhat less expensive.

b. Deductibles. Deductible amounts are nothing new to most insurance buyers. Deductibles, however, have taken a new meaning to local governments. For example, more and more local governments are purchasing insurance policies with large deductibles and are modifying their insurance coverages from a per loss to a per occurrence basis.

When an insurance policy is written on a per loss basis, normally a single loss to a single structure is covered in the policy. In that situation, if a number of buildings and their contents are listed in the policy, the deductible would apply to each item individually. Fire damage to three buildings and to the contents of the same buildings would thus incur six deductibles. If the policy is written on a per occurrence basis, any number of items could be damaged in the same event, and only one deductible would be applied to the total loss. Generally, local governments should insure with deductibles as large as they can afford, with a total dollar amount annual aggregate and with the deductible applying on a per occurrence basis.

c. Self-insurance. Self-insurance should not be confused with no insurance. Self-insurance is used when a local government consciously determines that it does not want to purchase insurance for certain exposures and makes alternate financial arrangements such as reserve funds established to handle losses that may result.

No insurance refers to a risk condition in which a local government (knowingly or not) does not insure and makes no before-the-loss arrangement for payment. Self-insurance becomes possible when a community has a large enough base of exposures of a similar nature that it can set aside the insurance premiums it would have paid and provide adequate coverage in case of losses.

When aggregates, deductibles, and self-insurance are used, the local government shares in the exposure and assumes some of its costs. By so doing, it reduces the cost of any insurance it might purchase. Such sharing and assumption of risk is a good idea for yet another reason. The local government is forced to become more cognizant of loss reduction and safety considerations, thus reducing exposures further than if it had retained no financial responsibility for loss.

2. Property Insurance. Normally fire insurance comes to mind when referring to property insurance, but rarely is property coverage limited to one peril. Property insurance ordinarily includes the perils of extended

coverage, vandalism, and malicious mischief. Extended coverage includes a group of perils comprised of windstorm, hail, explosion, riot and riot attending a strike, civil commotion, aircraft, vehicles, and smoke. Certain basic exclusions typically are part of a property insurance policy, including such things as damage resulting from an explosion of a steam boiler and glass breakage resulting from vandalism. The local risk manager should review all policies carefully to determine specific coverages and exclusions.

a. Named Peril vs. All Risk. Governmental entities can purchase property insurance on either a named peril or an all risk basis. Named peril means pretty much what it says. The risks against which the entity is insured are named in the policy. A lack of careful review may result in the absence of insurance for certain important exposures.

An all risk policy, on the other hand, provides coverage regardless of cause, unless a cause is specifically excluded. Two major coverages in an all risk form typically not found in named peril policy are collapse and theft. As several major municipal buildings with large roof expanses have collapsed during the past few years, this type of coverage should be of concern to a risk manager. Schools, school gymnasiums, and auditoriums frequently present this exposure even in the smaller communities.

Typical exclusions in an all risk form are losses caused by flood, steam boilers, and earthquake. Note that even with an all risk policy there are exclusions. The risk manager must read each policy carefully in order to ensure adequate coverage for the local government.

b. Coinsurance. A provision in property insurance more subject to misunderstanding than that of coinsurance would be difficult to find. Coinsurance means that unless the insured purchases an amount of insurance that equals or exceeds the amount required by the coinsurance percentage, he becomes a "coinsurer" in the amount of the difference between what he bought and what the coinsurance percentage required. Coinsurance is obviously confusing.

An example will be helpful. If an insurance policy calls for 90 percent coinsurance and a building is worth \$100,000, the local government must purchase at least \$90,000 worth of insurance for complete coverage of all losses up to \$90,000 or to the amount of the insurance, if greater. The reason for this is to be found in the formula used for computing payment in the event of a loss:

$$\frac{\text{amount insured}}{\text{amount required}} \quad \text{times} \quad \text{amount of loss} = \text{amount paid}$$

Using a hypothetical \$100,000 building, assume that a \$50,000 fire loss occurs at two different levels of insurance coverage both containing a 90 percent coinsurance clause. The first example involves 90 percent insurance coverage and the second 50 percent insurance coverage. These examples use the formula described above:

Example 1: 90 percent coverage/90 percent coinsurance

$$\frac{\$90,000 \text{ (amt insured)}}{\$90,000 \text{ (amt required)}} = 1 \times \$50,000 \text{ (loss)} = \$50,000 \text{ (amt paid)}$$

In this case, the entire loss would be paid by the insurance company because the insured maintained insurance at 90 percent of the value of the property.

Example 2: 50 percent coverage/90 percent coinsurance

$$\frac{\$50,000 \text{ (amt insured)}}{\$90,000 \text{ (amt required)}} = .5556 \times \$50,000 \text{ (loss)} = \$27,780 \text{ (amt paid)}$$

In the second example, the community became a "coinsurer" of 4/9 (.4444) of the value of the loss or $22,220 ($50,000 x 4/9 = $22,220) due to its failure to insure to the 90 percent level.

Three common ways exist in which failure to insure to the proper coinsurance level can occur. First, the local government may not know it has a coinsurance requirement. Second, it may have originally insured to an adequate level, but due to inflation or other increases in property values, the insurance no longer meets the coinsurance requirement. Third, the local government knowingly and intentionally may have decided to assume or retain part of the exposure by purchasing less than the coinsurance requirement.

If an adequate level of insurance is to be maintained, the local government should regularly review its property values and, as warranted, increase the dollar amount of coverage in order that the coinsurance percentage requirement be met. In such cases, no penalty is assessed, and claims are paid in full up to the limit of the insurance carried. (In the previous examples, up to $90,000).

c. Agreed Amount Endorsement. An alternative to coinsurance is an agreed amount endorsement. Under an agreed amount endorsement, the insurer agrees that the amount of insurance purchased complies with the coinsurance clause even if property values increase during the year. Normally, the insured must submit a statement of values annually to the insurer and adjust the amount of insurance each year to comply with the coinsurance requirement in order for the agreed amount endorsement to be continued.

The agreed amount endorsement should not be considered a way to get around purchasing an adequate amount of insurance. Instead, it protects the insured from "coinsurance" penalties resulting from unexpected and unintentional deficiencies in the declaration of value for particular properties as well as from the effects of inflation. It also means that statements of value on particular properties need not be exact. As long as the total amount of insurance purchased for all properties is adequate to cover the total value of property owned, the agreed amount endorsement will allow payment in full (less any deductible) of all claims on all properties up to the limits of the policy.

d. Blanket vs. Specific Insurance. Coverage may be obtained on either a specific (schedule) or blanket basis. On a specific or schedule basis, a specific amount of insurance is purchased on each building and its contents. Under the blanket approach, although each building and its contents would be valued at a specific amount on the statement of values, this amount would be used only to determine the total of the values to be insured. With blanket coverage, the 90 percent coinsurance clause is usually required, but the effect of the coinsurance requirement can be modified through an agreed amount endorsement.

The blanket form has definite advantages, especially since inflation makes maintaining insurance to value difficult. When coverage is written on a blanket basis, the total amount of insurance, rather than the amount specified for a particular piece of property, is used to test compliance with the coinsurance clause. Thus, except for a catastrophe, for a local unit to become an actual coinsurer would be highly unlikely.

Here again, an example may prove valuable. On a specific insurance basis loss of a building scheduled at $100,000 would result in a maximum payout of $100,000 even though inflation may have increased its current value to $150,000. On a blanket basis a community may have a total of $1 million in property insurance coverage for ten buildings each scheduled at $100,000. A total loss to any one of these buildings might exceed its scheduled value, say by $50,000. Such a loss would be paid in full ($150,000) as long as it is within the $1 million limit of the policy. Thus a blanket basis policy is often preferred by local governments.

e. Replacement Cost vs. Actual Cash Value. Property coverage may be purchased on either a replacement cost or an actual cash value basis. The choice will significantly affect both the cost and amount of insurance purchased. Actual cash value (ACV) is determined by taking current replacement cost and allowing for depreciation. The original cost is disregarded. The main danger in insuring buildings on the basis of ACV is that in the event of a loss the settlement is based upon actual value and not replacement cost. The problem arises when the amount of the settlement falls short of the amount required to repair or replace a damaged or destroyed structure.

When the governmental unit chooses to insure on a replacement cost basis, the settlement is based upon the cost to repair or replace the structure with like materials. Be careful with a replacement cost policy, however, to make sure that insurance is purchased to the amount of probable replacement costs.

Normally, replacement cost policies require a damaged structure to be repaired or replaced. If not, the loss will be adjusted on an actual cash value basis. An astute risk manager will seek to have such policies endorsed to provide that a structure need not be replaced, at least not at the same location. This is especially important with respect to schools or other facilities for which a shift in residential or other community patterns may make the present facility or location of little present utility.

3. Boiler and Machinery. To the layman, the term "boiler insurance" probably would mean coverage applying only to steam boilers. In reality, such policies almost always apply to any pressure vessel, refrigerating equipment, turbines, generators, and motors. Standard property insurance policies typically exclude coverage on boilers or damage caused by their explosion. As a result, when a boiler policy is purchased, the coverage limit should be equal to the maximum loss which could be caused by the explosion of the boiler. When other property insurance is written on a replacement cost basis, the boiler insurance should also be written in the same manner.

Coverage can be purchased on either a limited or broad basis. Under the limited form, coverage applies to explosion only while the broad form will include such occurrences as the cracking and burn-out of the vessel itself. Boiler insurance is considered a specialty line. Many of the larger property and casualty insurers do not write the coverage or do so only on a limited basis.

An important element of boiler insurance coverage is the inspection service supplied by the insurer. The major portion of the premium is for such service.

4. Comprehensive General Liability. Comprehensive general liability insurance provides a means, through transfer of risk to an insurer, of covering third party claims against a local government for bodily injury or property damage. Coverages may apply on-premises and off-premises, to products and completed operations, and to a number of other exposures from which the governmental unit may be held liable. Indeed, a comprehensive general liability policy may be written to cover nearly all liability loss exposures of a local government. The basic premises operations coverage provides protection for acts of negligence that arise on the premises as well as from the general operations of government, subject always to any exclusions stated in the policy. The off-premises coverage applies to occurrences away from described premises. Additionally, a comprehensive general liability policy affords protection for liability that may result from the actions of independent contractors and from products and completed operations.

A typical general liability policy affords coverage for bodily injury but personal injury claims based on such acts as slander, libel, defamation of character, or false arrest generally are not covered. To secure personal injury coverage a community may purchase such typical endorsements as: (1) false arrest, detention or imprisonment, and malicious prosecution; (2) libel, slander, defamation, and violation of the right of privacy; and (3) wrongful entry or eviction or invasion of the right of privacy.

Comprehensive general liability policies typically exclude claims arising from the employment of an individual by the insured. In recent years a number of suits have been brought against local governments relating to such things as civil rights violations and discrimination in employment and other reasons arising out of employment. As a result, the exclusion of coverage relating to the employment of persons by the insured (usually exclusion C) should be deleted.

In Tennessee, under the state's Governmental Tort Liability Act (TCA, 29-20-101 et. seq.) local governments are provided limited immunity from a variety of exposures. Consequently, they need purchase insurance only to the limits provided by law.

Although recommended or required coverages will be different in other states, Tennessee local governments need provide only the following non-motor vehicle liability protection, either through commercial insurance or self-insurance:*

$20,000 per person bodily injury

$40,000 per accident bodily injury

$10,000 per accident property damage

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*TCA 29-20-403. Local units have statutory immunity for claims in excess of these amounts. However, should a unit purchase insurance above these amounts, then the limits of the insurance become the limits of the unit's legal immunity.

Appendix D contains a summary of the Tennessee Governmental Tort Liability Act. As this it is subject to periodic modification by the state legislative, readers should refer to the act directly for current information.

The Tennessee statute (TCA 29-20-406) provides specific authority for local governments to purchase insurance to protect their employees from liability claims. This is particularly significant since local governments rather than employees are provided limited immunity from tort liability under this act.

5. Contractual Liability. Although a comprehensive general liability policy provides some coverage for liability assumed under contracts, for adequate protection separate contractual liability insurance should be purchased. Coverage should be written on a blanket basis. Regardless of the extent of the contractual liability coverage purchased, gaps could still exist. All contracts entered into by the entity should be reviewed by the risk manager and the civil counsel to eliminate as many exposures to loss as possible.

6. Vehicle Liability Insurance. Vehicle liability insurance provides protection from liability arising out of the operation of owned, licensed motor vehicles. In addition to the risks involved from owned vehicles, exposures exist from leased vehicles and from employees using their own vehicles in the course of their employment. These exposures should be covered by adding hired and non-owned coverage to the basic vehicle liability policy.

Frequently, a fine line exists between liability arising from vehicle operation and that arising from premises operations exposures. This is particularly true, for example, when a vehicle is parked on public property and an injury occurs. As a result, vehicle liability and comprehensive general liability should be written in a single comprehensive general automobile liability policy, or at least these coverages should be written with the same insurance carrier. In this way, the local government can more easily be sure that a claim in one or the other area will not be rejected by the insurer and that no claims will "fall in the gaps" between these policies.

The Tennessee Governmental Tort Liability Act limits local government vehicle liability exposures as follows:*

$50,000 per person, bodily injury

$300,000 per accident, bodily injury

$50,000 per accident, property damage

As with other exposures limited by the act, if a local government purchases higher insurance limits, these become its legal liability limits. Naturally, recommended coverages for vehicle liability will be different in other states based on state laws and court decisions.

Another concern in the area of vehicle liability relates to out-of-state use of vehicles. In a 1979 case, for instance, the U.S. Supreme Court ruled that liability limits in one state do not protect a local government in another state.** Hence, local governments allowing their vehicles to be used out-of-state should purchase adequate coverage--at least on a trip-by-trip basis.

7. Vehicle Physical Damage. Physical damage insurance is ordinarily written in two parts--collision and other than collision. Unless a community has established a reserve fund for collision damage to vehicles,

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*TCA, 29-20-403.

**Nevada v. Hall, 1979

high value and late model vehicles should be insured against collision losses. Deductibles can be used to decrease premium costs. Deductible amounts will be determined by vehicle value, the amount the local unit feels it can afford to retain, and an examination of loss histories. Care should be taken not to insure a vehicle for collision where the deductible amount plus premium cost approaches or exceeds the value of the vehicle. A regular review of the schedule of vehicles will help to detect instances of both overinsurance and underinsurance.

Other-than-collision coverage is commonly referred to as comprehensive coverage and typically includes fire, theft, and combined additional coverage. The most prevalent comprehensive losses are from fire, wind, hail, vandalism, and theft. Due to the catastrophic exposures to an entity's vehicle fleet, such as a major fire or a tornado, all vehicles ordinarily should be protected by comprehensive and/or fire, theft, and combined additional coverage (CAC).

8. Umbrella (Catastrophe) Liability Insurance. An umbrella form of liability coverage provides coverage in excess of the limits of the primary liability policies, such as comprehensive general and vehicle liability. The Tennessee Governmental Tort Liability Act affords governments with protection from judgments of a catastrophic nature (through its per accident limits).

Local governments may chose to purchase coverage in excess of the limits established by statute in order more effectively to provide payment in the event of catastrophic losses. This may be done, for example, when officials believe that the local government has a moral obligation to cover claims resulting from serious accidents where damages exceed the insurance or liability limits required by statute. The primary argument against the purchase of such coverage is that public funds are spent for insurance for which the governmental unit is not legally liable.

An important question here is the amount of insurance considered adequate. In the event of an accident in which a number of people are seriously injured or killed, a limit of \$1 million or even \$5 million may not be adequate. The local government should be careful not to act precipitously and should purchase liability insurance in excess of statutory or other legal requirements only after careful consideration of the consequences of its action

9. Inland Marine Insurance. Inland marine policies are frequently referred to as floater or transportation policies. Inland marine coverage is provided on personal property, as distinguished from real property, and covers the named property against direct loss or damage. It may be secured either on a named peril basis (limited form) or an all risk basis, subject to certain exclusions. The types of property insured under an inland marine form may extend from heavy unlicensed equipment such as road graders and bulldozers to office equipment.

10. Public Official Liability Insurance. Commonly called errors and omissions insurance, this form of protection provides coverage for public officials for acts they commit and for failure to perform their responsibilities. The general definition of a public official--which should be carefully checked in all policies--includes elected officials, members of boards and commissions, and all other employees. A public official liability policy typically excludes negligent acts from which bodily injury

or property damage results. These must be covered elsewhere, i.e., vehicle liability and comprehensive general liability insurance.

Under Tennessee law, a local government is immune from suit for civil rights violations.* The protection of the act, however, does not extend to local officials or employees. Also, no immunity is provided from suit for either the local government or its employees for such violations in federal court. Consequently, errors and omissions insurance is particularly important. Typically it is purchased in large amounts with a $1,000,000 policy not being unusual.

11. Workers Compensation Insurance. Local governments are exempt from the provisions of the Tennessee Workers Compensation Act.** However, a local unit may elect to come under the act by the purchase of workers compensation insurance coverage or through affirmative action to establish a state approved self-insurance program. Benefit limits are prescribed by law, and the act outlines the maximum weekly benefit payable to employees from injury-on-duty accidents as well as medical and death benefits.

Rates for the coverage are controlled by the Tennessee Insurance Department, and some deviations are permitted. All policies are audited by the Southeastern Compensation Bureau, and the only changes allowed in rates are those derived from an experience modification based upon prior losses incurred by the insured.

An entity may be able to reduce the net cost of its workers compensation insurance with a participating policy. This is a policy that will

*TCA, 29-20-205.
**TCA,50-906

pay dividends on workers compensation insurance to qualifying policy holders. Dividends are paid when the experience of all policy holders results in a surplus of premium payments over losses. Dividends are paid out of this surplus.

For a local government with a sizeable workers compensation premium, a retrospective rating plan may also reduce premium costs. In simple terms, a retrospective rating plan is one that establishes a minimum premium (which is less than the standard premium) and a maximum premium (which is higher than the standard premium). A retrospective plan should be considered only when the premium is large and the entity feels it can reduce the incidence of employee injuries through an effective safety and loss control program. Such a program should reduce net premium costs. Without an effective safety and control program, however, a local government may see its premiums actually increase under a retrospective plan.

Some local governments use self-insurance to cover workers compensation exposures. This may be a viable approach but should be considered only if the unit's exposure base is large enough. Some specialists in this field recommend that the commercial premium should exceed $150,000 annually before self-insurance is attempted. Other factors that must be taken into consideration when considering self-insurance are: number of employees covered, types of occupations covered, loss history, effectiveness of safety program, ability to handle claims, adequacy of the self-insurance fund, and whether (and at what limits) stop-loss insurance can be purchased.

An outside claims adjusting firm may be used for claims handling. This may actually be less expensive and more efficient than in-house claims administration. It also offers another advantage: namely, the outside claims agent serves as a buffer between the employer and the employee. Finally, in almost all cases when self-insurance is attempted, stop-loss coverage should be purchased to insulate the entity from a catastrophic loss.

12. Crime Insurance. Crime insurance may be purchased to cover a wide range of risks such as petty theft, the loss of a large amount of money during transit to the bank, and employee dishonesty. Many local governments insure for loss of money either by holdup or disappearance and dishonesty. The limits of any crime policy should be no less than the maximum amount that the local unit could possibly lose at one time from any one of the loss causes insured against.

13. Bonds. Loss of money or property by the infidelity of employees represents a potentially severe hazard for local governments. Bonding of certain employees, therefore, may be sound business practice and may also be required by ordinance, charter provision, or statute. Certain specific positions may also require a faithful performance or a fidelity bond. A faithful performance bond goes beyond the protection afforded under a fidelity or honesty bond. A faithful performance bond would protect the entity not only from a dishonest act of the employee (as would a fidelity bond) but also from loss of money or property through an official's breach of duty.

All persons who handle funds and who hold sensitive positions should be bonded. A few examples include: finance department employees, all persons with check signing or authorizing powers, all top management and administrative personnel, purchasing officials, and warehouse employees. Through the use of both bonds and crime insurance, a local government usually can protect itself effectively against losses attributable to robbery, disappearance, fraud, and malfeasance.

D. Summary

Few functions of government are more important than protecting the financial assets of the community. Without adequate finances and other values, the local government cannot provide necessary public services. The purchase of insurance is one method of protecting value. Where the severity of loss is great, insurance will probably be the only way in which most governmental entities can obtain adequate protection.

This Chapter has presented several factors to be considered when purchasing insurance in local government. It has also discussed specific types of insurance generally applicable to local government, as well as the main features of each.

Local governments in Tennessee are protected by the Tennessee Governmental Tort Liability Act. Although this act is summarized in Appendix D, its more salient features are presented here:

*All substate political subdivisions are defined as local governments.

*All local governments are covered by the act.

*The act provides complete immunity from workers compensation liability.

*The act provides complete immunity for governmental and proprietary functions.

*The act then removes immunity in several specific areas (vehicles, unsafe streets and sidewalks, dangerous structures, negligent acts, or omissions of certain types).

*Specific dollar limits are established in the liability areas in which immunity is removed.

*A claims procedure and schedule within which claims must be presented are established.

*Local governmental insurance pooling is permitted.

*Local governments are allowed to insure exposures of their employees.

The act provides a relatively simple and straightforward approach to local government insurance in Tennessee, and several of its features may be worthy of emulation elsewhere.

Regardless of the existence of governmental tort liability protection, care should be taken by local governments to insure what they must, neither to underinsure nor to overinsure, to understand the limits and exceptions in all insurance policies, and to understand the consequences of either purchasing or not purchasing insurance.

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CHAPTER III

SUMMARY AND CONCLUSION

A. Importance of Risk Management

Risk management is good management and as such plays an important role in local governments. The primary purpose of risk management is to protect the values of the local government over time and it does so by identifying exposures to loss and employing corrective action.

A risk management program ought to be based on and administered within the guidelines of a policy that is formally adopted by the local governing body. The policy will establish program parameters and direction and will provide the risk manager and others in the local unit with a clear and unambiguous understanding of program requirements.

In all local governments, the operation of a risk management program should be the responsibility of a single staff person, the risk manager. In larger units, the risk manager will be a full-time position while in smaller units it may be a part-time responsibility. The risk manager should be given both the responsibility and authority necessary to establish and administer the program, and should report directly to the chief administrative official of the local government.

Risk management, properly administered, can effectively protect values and, over time, can more than pay for itself. It does this through reductions in insurance costs and reductions in or prevention of losses to property, personnel, and members of the public. An effectively administered

CHAPTER VII

SUMMARY AND CONCLUSION

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In all local governments, the operation of a risk management program should be the responsibility of a single staff person, the risk manager. In larger units, the risk manager will be a full-time position while in smaller units it may be a combined responsibility. The risk manager should be given both the responsibility and authority necessary to establish and administer the program, and should work directly for the chief administrative official of the local government.

Risk management, properly administered, can effectively protect values and, over time, can more than pay for itself. It does this through reductions in insurance costs and reductions in or prevention of losses to property, personnel, and members of the public. An effectively administered risk management program also promotes a more positive image of local government and local officials.

B. Review of Major Considerations.

To review in detail the material previously covered in this Handbook would be both difficult for the authors and probably quite boring for the reader. Consequently, this Chapter will instead provide a brief list of the most important issues that have been addressed.

*Risk Management is defined as a before-the-loss arrangement for an after-the loss balance between resources available and resources needed for a predetermined level of service.

*The primary purpose of local government is the provision of public services. Risk management helps to facilitate this goal by protecting values and preventing or reducing losses.

*In every local government, whatever is done (or not done) about risk represents that local unit's risk management program.

*Risk management is broader and more inclusive than insurance management.

*The risk management process involves six distinct activities or steps suggested by the initials GIMMIR. They are:

- -goals and objectives development
- -identification of risk
- -measurement of risk
- -methods of risk control
- -implementation of a risk management program
- -review and update of the program

*A local government risk management program should be formally adopted by the local elected governing body, administered by a qualified risk manager, incorporated in the budget, and based on the use of sound and effective written procedures.

*Three alternative methods of controlling risk are suggested in the acronym EAT:

-Elimitate
-Assume
-Transfer

*Local government operations face exposures common to almost all activities, including exposures to:

-liability
-personnel
-property
-vehicles

*Local governments face numerous exposures that are distinctive of specific departmental or functional operations. These can be discovered only as the result of detailed analysis and inspection in each departmental and functional area.

*Insurance is an important element of the typical local governmental risk management program.

*Several types of insurance are important to local governments, including:

-property
-boiler and machinery
-comprehensive general liability
-contractual
-errors and omissions (or public officials liability)
-vehicle liability
-vehicle physical damage
-inland marine
-bonds
-crime
-workers compensation

*Problem areas in local government insurance can include both overinsurance and underinsurance.

*Specialized insurance coverages and risk management activities are required for specialized entities (i.e., airports, zoos, transit systems, and many others).

*Claims and claims service from an insurance carrier as well as internal claims handling by the local unit should be carefully administered.

C. Additional Sources.

In addition to this Handbook, other published materials and sources of assistance are available to local governments desiring help in risk management. The list below identifies two associations and several publications that should be of interest.

1. Associations

PRIMA (The Public Risk and Insurance Management Association)
1140 Connecticut Avenue, NW
Suite 210
Washington, DC 20036
(202) 828-3614

PRIMA is exclusively devoted to the risk management and insurance concerns of the public sector entities. PRIMA publishes a monthly newsletter, sponsors workshops, seminars, conferences, and training programs, and holds an annual conference in the spring of each year.

RIMS (The Risk and Insurance Management Society, Inc.)
20 East 42nd Street
New York, NY 10017
(212) 286-9292

RIMS is primarily oriented toward the risk management and insurance concerns of business and industry, although its governmental section has been growing in recent years. RIMS sponsors workshops, seminars, conferences, and training programs, conducts research, and publishes a variety of helpful materials including a monthly magazine.

2. Handbooks and Manuals
Presented in alphabetical order by title.

Glossary of Insurance Terms, edited by Thomas E. Green, Robert W. Osler, and James S. Buckley and published by The Merritt Company (P.O. Box 955, Santa Monica, CA 90406), 1980.

Governmental Risk Management, a one volume, loose leaf manual, directed at issues of governmental insurance and risk management, with regular bi-monthly updates, and a bi-monthly newsletter, published by Risk Management Publishing Co. (2030 E. Broadway, Tucson, AZ 85729), 1976.

<u>Municipal Risk Management and Insurance Handbook</u>, by the Georgia Chapter, CPCU (Chartered Property and Casualty Underwriters) and available through the National Underwriters Company (420 E. 4th Street, Cincinnati, OH 45202), 311 pages, 1979.

<u>Practical Risk Management for Public Agencies</u>, a one volume, loose leaf manual, covering the general field of risk and insurance for public agencies, authored by David Warren and Ross McIntosh; published by Warren, McVeigh and Griffin, 1980 (58 Diablo View Drive, Orinda, CA 94563). The publisher calls this a companion to its broader, more general two volume manual, <u>Practical Risk Management</u>.

<u>Risk Management: A Guidebook for Local Governments</u>, by the Department of Local Government Affairs, State of Illinois (303 East Monroe Street, Springfield, IL 62706), 148 pages, 1978.

<u>Risk Management: An Introduction for New York State Local Officials</u>, by L.E. O'Brien and Duane E. Wilcox, Cornell University (Local Government Program, 200 ILR Extension Building, Cornell University, Ithaca, NY 14853), 140 pages, 1980.

<u>Risk Management Manual</u>, a two volume, loose leaf manual covering the general field of risk and insurance, with regular bi-monthly updates and a bi-monthly newsletter, by The Merrit Company, (P.O. Box 955, Santa Monica, CA, 90406)

<u>Understanding Risk Management: A Guide for Governments</u>, by Charles Coe, Institute of Government, University of Georgia, (Terrell Hall, Athens, GA 30602), 64 pages, 1980.

3. <u>Additional Assistance</u>

<u>In Tennessee:</u>

*Municipal Technical Advisory Service and County Technical Assistance Service, Institute for Public Service, The University of Tennessee.

<u>Elsewhere:</u>

*College and university insurance and risk management faculty and extension and public service facility.

*Insurance and risk management consultants.

*Insurance companies and agencies.

*RIMS and PRIMA can be helpful in directing local governments to qualified consultants and to lists of persons providing consulting services.

D. Conclusion.

This Handbook was developed for use by local governmental officials interested in pursuing an innovative and cost-effective means of improving local government service and reducing or controlling costs. This means is known as risk management. Across the nation, risk management has proven to be good management for local government. It returns more in value than is spent in program administration. What is more, risk management helps local governments to avoid potentially serious losses.

What remains then is for more local officials in additional local governments to take to heart the principles and examples presented here and to set about the task of developing and implementing their own risk management programs. The authors hope that those local officials who decide to do so will find this Handbook both understandable and helpful.

APPENDICES

Appendix A

SAMPLE RISK MANAGEMENT POLICY

SAMPLE RISK MANAGEMENT POLICY

I. The City (or County) of ____________ herewith states its intent to establish a formal risk management program for the protection of its assets.

II. The chief administrative officer is authorized to create the position of risk manager and to place in the said position the responsibility, authority, and accountability for the development, implementation, and review of a risk management program consistent with this policy. The risk manager shall report directly to the chief administrative officer.

III. The policy of the City (or County) of ____________ is to retain the risk of loss of property, legal liability, and dishonesty in all instances where the exposures are not so large or significant as adversely to affect its operations or financial stability.

IV. The policy of the City (or County) of ______________ shall be to insure against all major loss exposures that could result in losses in excess of approved retention or self-insurance limits. Insurance in the following areas is to be considered and purchased, where appropriate:

- Real and personal property, preferably on a blanket, all risk, agreed amount basis.
- Comprehensive general liability.

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*The name of the affected local government should be inserted in the space provided throughout this policy statement.

- Automobile liability.
- Automobile physical damage, as appropriate.
- Public employee blanket bonds.
- Statutory bonds on employees or elected officials.
- Workers compensation.
- Inland marine.
- Public officials liability.
- Crime.
- Others as may be approved by the governing body from time to time.

VI. Insurance will not be purchased to cover loss exposures below approved retention levels, or in the exposures subject to self-insurance unless required by statute or contract, or in those instances where special services, such as inspection or claim adjustment services are desired or required. Retention and self-insurance limits will be annually established by the governing body.

VII. Loss reserve funds will be established to handle claims which are retained or self-insured in each major insurance category. The size of each fund is to be recommended by the risk manager and approved by the chief executive officer and is to be included in the regular budget submitted to the governing body.

VIII. Loss prevention recommendations made by insurance companies, rating bureaus, fire prevention authorities, the risk manager or risk management consultants shall be implemented whenever desirable and feasible.

IX. Insurance will be placed only in insurance companies with a minimum rating of A:X, as rated in Best's Key Ratings, unless a written report is submitted to the chief administrative officer explaining a decision to deviate from this rating.

X. The risk management program of ____________________ is placed under the direction of the risk manager whose responsibilities shall include risk evaluation, establishment of risk management procedures, placement of insurance coverages, maintenance of a list of property values, processing of claims and maintenance of loss records, establishment of an employee safety program, supervision of loss prevention activities, and overall review and evaluation of the city's risk management program. The risk manager will establish and serve as chairperson of the safety and loss prevention committee established hereunder.

Appendix B

SAMPLE FORMS

Certificate of Insurance
Cancellation Clause
Contract Review - Signature Page
Report of Occupational Injury/Illness
Supplemental Lost Time Report
Property Loss Report
Liability Accident Report
Vehicle Accident Report
Claim Recovery: First Notice
Claim Recovery: Second Notice
Installment Payment Note
Conditional Release
Claim Analysis: Automobile
Claim Analysis: Non-Automobile

These sample forms are adapted from forms used by the Metropolitan Government of Nashville and Davidson County Tennessee.

CERTIFICATE OF INSURANCE

(page 1 of 3 pages)
For Contractors Doing Business With
(Name of City or County)
(This Certificate does not amend, extend, or alter the coverage afford by the policies listed below)

Name and address of agency	COMPANIES AFFORDING COVERAGES
	Company Letter A
	Company Letter B
Name and address of insured	Company Letter C
	Company Letter D
	Company Letter E

This is to certify that policies of insurance listed below have been issued to the insured named above and are in force at this time.

Company Letter	Type of Insurance	Policy Number	Policy Expiration Date	Limits of Liability in Thousands (000)		
					Each Occurrence	Aggregate
	GENERAL LIABILITY ( )Comprehensive form ( )Premises-Operations ( )Explosion & Collapse Hazard ( )Underground Hazard ( )Products/Completed Operations Hazards ( )Contractual Insurance ( )Broad form Property Damage ( )Independent Contractors ( )Personal Injury			Bodily Injury	$	$
				Property Damage	$	$
				Bodily Injury and Property Damage Combined	$	$
				Personal Injury		$

CERTIFICATE OF INSURANCE

page 2 of 3 pages

Company Letter	Type of Insurance	Policy Number	Policy Expiration Date	Limits of Liability in Thousands (000)	Each Occurrence	Aggregate
	AUTOMOBILE LIABILITY ( )Comprehensive form ( )Owned ( )Hired ( )Non-Owned			Bodily Injury (Each Person)	$	
				Bodily Injury (Each Accident)	$	
				Property Damage	$	
				Bodily Injury and Property Damage Combined	$	
	EXCESS LIABILITY ( ) Umbrella Form ( ) Other than Umbrella			Bodily Injury and Property Damage Combined	$	$
	WORKERS' COMPENSATION AND	L. & H.W. Act___		Statutory		
	EMPLOYERS' LIABILITY	Jones Act___			$ Each Accident	
	OTHER					

CERTIFICATE OF INSURANCE
(page 3 of 3 pages)

This is to certify further to the ______________________* concerning the policies of insurance listed above and the coverage provided thereby that:

1. The contractual insurance coverage is on a blanket broad form basis unless otherwise indicated below,

2. The company or companies, upon request, agree to deliver within fifteen (15) days a certified copy of any and/or all of the policies of insurance to the ______________________,

3. If one (1) or more umbrella excess policies are used, there is no gap between the limits of the primary policies and the deductible features of the umbrella policies,

4. Coverage under the primary policies has no deductible feature unless otherwise indicated below. If there are deductible features or the insured has adopted a funded self-insurance program, they are fully explained on an attached sheet which becomes a part of this Certificate, and

5. The coverage provided shall not be cancelled, reduced in coverage, or allowed to lapse unless and until the ______________________ receives at least thirty (30) days advance written notice of same. Said written notice must be delivered to the ______________________ risk manager at his office shown as the address of the certificate holder below.

Name and Address of Certificate Holder

______________________*
c/o Risk Manager
(address)
____
____

Date Issued: ______________

____
(agency or company)

by______________________
(Authorized Representative)
(Attach Power of Attorney)

This Certificate replaces a Certificate dated ____________.

*The name of the affected local government should be inserted in the blank spaced provided in the text of this form.

CANCELLATION CLAUSE

A. Standard Cancellation Clause (by insurance agent or company)

Should any of the above described policies be cancelled before the expiration date thereof, the issuing company will endeavor to mail ______ days written notice to the below named certificate holder, but failure to mail such notice shall impose no obligation or liability of any kind upon the company.

B. Recommended Cancellation Clause (for sound risk management program)

The coverage provided shall not be cancelled, reduced in coverage, or allowed to lapse unless and until the City or County of ______________ receives at least thirty (30) days advance written notice of same. Said written notice must be delivered to the City or County of ______________ risk manager at his office shown as the address of the certificate holder below.

CONTRACT REVIEW: SIGNATURE PAGE

APPROVED AND RECOMMENDED:

____

Department Head or Director date

APPROVED AS TO PURCHASING PROCEDURE:

____

Purchasing Agent date

APPROVED AS TO AVAILABILITY OF FUNDS:

____

Director of Finance date

APPROVED AS TO FORM AND LEGALITY:

____

Attorney date

APPROVED AS TO INSURANCE REQUIREMENTS:

____

Risk Manager date

APPROVED BY CHIEF EXECUTIVE OFFICER

____

Mayor (Manager or County Executive)

1. Case Number	REPORT OF OCCUPATIONAL INJURY/ILLNESS	Page 1 of 2 Pages

2. Department	3. Date of Report		
	Mo.	Day	Year

EMPLOYEE: This portion shall be completed by the injured employee or someone on his or her behalf whenever an injury is sustained in the performance of duty. Failure to report injury immediately may jeopardize an employee's claim. ATTACH MEDICAL REPORTS to form when possible.

4. Name of Injured Last First MI	5. SS Number	6. Age	7. Sex () Male () Female	8. Employee Number

9. Date of Accident			10. Time of Injury	11. Exact Location of Accident
Mo.	Day	Year	______:______()AM :()PM	

12. What official duties were you performing at the time of accident? (Making neighborhood survey, mowing, making sanitation pick-up, etc.)

13. Nature of injury (cut, bruise, sprain, fracture, etc.)	14. Part of body affected (3rd finger of right hand, lower back, left leg, etc.)

15. Name and address of Medical Facility or Clinic attended	16. Were you admitted for overnight stay at Hospital or Clinic? () Yes () No

17. State treatments or medicines given to you or prescribed for you at above Medical Facility or Clinic.

18. Tell complete story of what happened. What led up to accident? What were you doing? What tools were you using? How did accident occur? Use additional sheets if necessary.

19. If this report was not given immediately after the injury, explain reason for the delay.

20. The injury described above was sustained in the performance of my duties as an employee of the Local Government and, to the best of my knowledge, the above facts are correct as stated.

Signature Of Employee	Date		

REPORT OF OCCUPATIONAL INJURY/ILLNESS		Page 2 of 2 Pages
IMMEDIATE SUPERVISOR: This portion shall be completed by injured employee's Supervisor and submitted to the Risk Manager within 24 hours of receipt of employee injury report.		
21. EMPLOYMENT STATUS ()Permanent Employee ()Temporary Employee ()Other	22. Salary source, if not metro	23. Employee's Job Description
24. KIND OF ACCIDENT ()Occupational Injury Only ()Occupational Illness ()Occupational Injury and Property Damage		
25. Was motor vehicle involved? ()Yes ()No	26. Will time be lost other than day of injury? ()Yes ()No	
27. INJURY TREATMENT STATUS ()Refused Trmt. ()No Trmt. ()First Aid Attn. Only ()Temp. Disabling Injury ()Permanent Disabling Injury ()Fatality		
28. If fatality, date of death		
29. Name object or substance that directly injured employee		
30. Would protective clothing or devices have prevented or reduced injury? ()Yes ()No		
31. Describe protective clothing or devices you recommend		
32. Unsafe condition, if any (no guardrail, no fire extinguisher, etc.)		
33. Unsafe Act of Employee, if any (inattention to footing, etc.)		
34. Immediate Supervisor. What action have you taken to prevent future similar accidents? ________________ Signature of Immediate Supervisor ________ Date		

1. Case Number	SUPPLEMENTAL REPORT OF LOST TIME	Page 1 of 2 Pages

2. Department	3. Date of Report		
	Mo.	Day	Year

4. Name of Employee	5. Employee Number	6. Date of Injury		
		Mo.	Day	Year

7. Did employee suffer a re-injury? ()Yes ()No	8. Date of Re-injury		
	Mo.	Day	Year

SUPERVISOR: This form shall be completed by employee's Supervisor when any job-related injury or illness results in lost workdays, transfer to another position, return to light duty assignment, termination of employment, or fatality. It must be submitted no later 24 hours following employee's return to light or full duty, transfer, fatality, or termination.

9. Has employee returned to work? ()Yes ()No	Date Last Worked			Date Returned to Work			Workdays Lost
	Mo.	Day	Year	Mo.	Day	Year	

10. Summarize total workdays lost to date due to this injury. (Exclude the day of injury, partial days worked, weekends, and holidays - only full workdays lost).

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

Total Workdays Lost to Date

11. Did employee return to same position with light duty? ()Yes ()No	Date returned to light duty			Date resumed full duties			Light duty days
	Mo.	Day	Year	Mo.	Day	Year	

12. Summarize total light-duty days to date due to this injury.

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

Total Light-Duty Days to Date

13. Was employee transferred to another position due to this injury?

Type of transfer (Check one) ()Permanent ()Temporary	Date Transferred			Date resumed regular duties			Light-Duty Days
	Mo.	Day	Year	Mo.	Day	Year	

14. Summarize total light-duty days to date due to temporary transfer.

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

15. Was employment terminated as a result of this injury? ()Yes ()No	If yes, give termination date.			16. Did employee die? ()Yes ()No	If yes, give date of fatality.		
	Mo.	Day	Year		Mo.	Day	Year

SUPPLEMENTAL LOST TIME REPORT				Page 2 of 2 Pages		
17. If hospitalized, name and address of hospital	Date Entered			Date Released		
	Mo.	Day	Year	Mo.	Day	Year

18. Was injury the result of a vehicular accident between employee and on-employee ? ()Yes ()No (if yes, give name and address of non-employee)		
Name	Address	
City	State	Zip Code
Area Code Home Telephone	Area Code	Business Telephone

19. SUPERVISOR: Remarks

Name of Supervisor ______________________	Date		
	Mo	Day	Year
Signature ______________________			

PROPERTY LOSS REPORT

Department____________ Previously Reported? Yes__ No__

Date/Time of Loss____________________ ________ AM PM

Loss Location______________________________________

Kind of Loss(fire,wind,smoke,etc.)________________

Probable Amount Entire Loss $______________________

Description of Loss & Damage_______________________

(Do not use this space)

Policy No.____________

Claim No._____________

Gross Loss Am't $________

Deductible Am't $________

Net Loss Amount $________

Cat. No.______________

Employee's Property Damaged or Lost____________________________________

Remarks--If emergency repairs required or if loss was caused by others, explain.

Date________ Name of Person Completing This Report________________________
(If serious loss, phone and then send report)

SEND THIS REPORT IMMEDIATELY TO: OFFICE OF RISK MANAGEMENT

(Office Use)

Loss Assigned to______________________________ Date________________________

LIABILITY ACCIDENT REPORT

Auto________ Other __________

Dept.__________________ Previously Reported? Yes___No___ Claim No.__________

Date/Time of Accident______________ AM PM Location of Accident______________

Description of Accident____

GOVT VEH	Veh. No.____Year____Make________Model______Veh. I.D.No.______Tag No.______
	Dept. Assigned______________Location______________Phone________
	Driver______________Age____Address______________Phone________
	Driver's Position______________Purpose of Use__________
	Describe Damage______________Est. $________Where located________
OTHER PROP	Owner______________Address______________Phone________
	Driver______________Address______________Phone________
	Damage (If auto: year,make,I.D.)______________________
	Auto/Property insured? Yes__No__Co. or Agency__________Pol. No.________
	Damage Estimate $__________Where auto can be seen__________
WIT	<u>Name</u> <u>Address</u> <u>Phone</u> <u>Extent of Injury</u> <u>Which Auto</u>
	________ ________ ________ ________ ________
NON AUTO	Name______________Address______________Phone________
	Extent of Injury______________Why on premises__________
AUTO	<u>Name</u> <u>Address</u> <u>Phone</u> <u>Extent of Injury</u> <u>Which Auto</u>
	________ ________ ________ ________ ________
	________ ________ ________ ________ ________

Remarks____

(Use reverse side for additional information)

Date______________________ Reported by______________________

(If serious accident, phone the information and then send report.)

SEND THIS REPORT IMMEDIATELY TO: OFFICE OF RISK MANAGEMENT

VEHICLE ACCIDENT REPORT

Department	Division	Telephone

Accident date and location	Mo. Day Yr.	Location

GOVT VEHICLE

Make	Model	Year	Serial No.	License No.	Unit No.

Name of Driver	Age	Home Address
Home Telephone	Purpose of use of vehicle	
Passenger in vehicle	Address	Telephone
Passenger in vehicle	Address	Telephone
Damage to vehicle	Where vehicle can be seen	
If theft, specify property stolen	Police notified? Yes__ No __	

OTHER VEHICLE OR PROPERTY

Type property	Vehicle Make Yr.	License No.	Describe damage	
Name of Owner	Age	Address	Phone	Insurance carrier
Name of Driver	Age	Address	Phone	
Passenger in vehicle	Age	Address	Phone	
Passenger in vehicle	Age	Address	Phone	

INJURED PERSONS

Name	Age	Address	Extent of injury
Name	Age	Address	Extent of injury

WITNESS

Name	Address	Phone
Name	Address	Phone
Name	Address	Phone

ACCIDENT DESCRIPTION

Description of Accident (Use back, if necessary)		
Our vehicle speed	Other vehicle speed	Weather
Name of person completing report	Signature of Driver	

SEND THIS REPORT IMMEDIATELY TO: OFFICE OF RISK MANAGEMENT

CLAIM RECOVERY: FIRST NOTICE

(Date)

Mr. John Smith
123 First Street
Nashville, Tennessee 37343

Re: File No._____ .

Dear Mr. Smith:

This office has received a report that a 1973 Plymouth owned by you and driven by Rebecca J. Smith was involved in an automobile accident on (date). This accident occurred at the intersection of 12th Avenue and Elm Street and involved a city police department vehicle. Our investigation has revealed that Ms. Smith was responsible for damages to the police vehicle.

The Office of Risk Management is responsible for the handling of claims for the City against those individuals who cause damage to its property. Please contact this office as soon as possible or have your insurance agent do so in order to resolve this matter.

Sincerely,

____
Risk Manager

CLAIM RECOVERY: SECOND NOTICE

(Date)

Mr. John Smith
123 First Street
Nashville, Tennessee 37343

Re: File No. ______

Dear Mr. Smith:

On (date), this office wrote you regarding the accident involving Rebecca J. Smith and a City police vehicle. According to information I have, the accident was caused when Ms. Smith failed to heed a red traffic light.

In the accident, the police cruiser sustained $1,537.14 in damages, and a traffic control box was destroyed. Cost to replace this item is $2,236.27. The City expects to be reimbursed by you or your insurance carrier for these damages which total $3,773.41.

You must contact this office immediately regarding the damages caused in this accident. If we do not hear from you, we shall have no alternative but to report this matter to the Financial Reponsibility Division of the State of Tennessee to seek revocation of your operator's license and institute legal proceedings for recovery of this amount.

Sincerely,

____
Risk Manager

INSTALLMENT PAYMENT NOTE

$ (Amount) (Date), 19__

For value received I, (Name of Maker) __________________________
(name)
promise to pay to the order of (Local Government) __________________________

the amount of ______________________________ dollars ($__________) in

legal tender of the United States, at the rate of (payable in installments)

installments) as follows: __________________________ dollars ($__________)

on ___/___/___ and __________________dollars ($__________) on the ____ day

of each month thereafter for _____ months until the entire amount has been paid. A default in the payment of any installment when due shall cause the whole amount unpaid to become immediately due and payable at the option of the holder. Further, I, (Name of Maker) __________ agree to pay a attorney's fees, and court costs in the event of a suit to enforce collection of this note.

The maker of this note further agrees that this note is given as evidence of indebtedness, and not in lieu thereof, and that the giving, acceptance, or negotiation of same shall not in any way change or alter the form, character, or quality of the original debt.

Name: __________________________ Address: __________________________

Telephone No.: __________________________

Witness: __________________________ Address: __________________________

Personally appeared before me, a Notary Public, and acknowledged the execution of the above notice.

__________________________ My commission expires: __________________

(Notary Public)

CONDITIONAL RELEASE
(Page 1 of 2 Pages)

STATE OF ______________ File No. ______

______________ County

The following agreement was entered into this _____ day of __________, 19___ between the (Local Government) and (Maker of Note.

Whereas the (Local Government) received ______________ (automobile property damages and/or bodily injury--specify) in the amount of ______________ dollars ($__________) due to ______________ (a motor vehicle accident or other--specify) which occurred on the _____ day of __________, 19___ at __________ (location), in the (Local Government), and that (Maker of Note) has been found liable or assumes liability for such damages as herein set out;

Therefore, the following duly acknowledges written agreement providing for the payment of the above outlined and agreed amount in installments herewith is executed in accordance with the laws of the state of ________.

(1) (Maker) hereby agrees to pay the City of (Local Government) part of the entire sum of ______________ ($__________), that being the amount that has been agreed upon. (Maker) further agrees to pay the balance in equal monthly installments of $__________ each until the entire balance due is paid.

(2) The (Local Government), in consideration of the above described payment, hereby expressly releases (Name) from further compliance with the security provision of the Tennessee Financial Responsibility Act, unless a default in payments occurs; in which case, the (Local Government) reserves fully the right to request the Financial Responsibility Division to revoke the privileges of (Maker).

(3) Both parties hereby agree that the Financial Responsibility Division of the State of Tennessee may use this agreement in processing this accident, subject to the provisions of the Tennessee Law.

Conditional Release
(Page 2 of 2 Pages)

IN WITNESS WHEREOF, we have hereunto set our hands and seals, this ____

day of ______________, 19___.

Name: ________________________ for the (Local Government)

Address: ______________________ Name: ______________________

Telephone: ____________________ Title: _____________________

Date: _________________________ Date: ______________________

- -

Personally appeared before me, a Notary Public, and acknowledged the execution of the above Conditional Release.

______________________________ ______________________________
Notary Public Date

My Commission Expires: __________

CLAIM ANALYSIS: AUTOMOBILE

Dept.________________ Date of Accident ______________ Claim No. ________

Accident Location ____

Govt. Driver _________________________________ Dept./Office ___________

Driving Record _________________________ _________________________

_________________________ _________________________

Driver's Impairment ____

Description of Accident ____

____

____

Witnesses - Govt. Employees ____________________ ____________________

Non-employees ____________________ ____________________

Injured ____________________________ Extent of Injury ________________

____________________________ Extent of Injury ________________

Property Damage-Govt. _______________________ Estimate of Damage $_______

Other _______________________ Estimate of Damage $_______

Negligence ____

Analysis ____

____

____

____

Recommendations ____

____

____

Date_________ Name of Person Completing This Report: ____________________

CLAIM ANALYSIS: NON-AUTOMOBILE

Dept._______________ Date of Accident ________________ Claim No. ________

Accident Location ____

Description of Accident ______________________________________

____

____

____

Witnesses - Govt. Employees __________________ ____________________

Non-employees __________________ ____________________

Condition of Property at Accident Scene ______________________________

____

____

Injured ____________________________Extent of Injury ________________

____________________________Extent of Injury ________________

Property Damage of Others ____

Negligence ____

Analysis ____

____

____

____

Recommendations ____

____

____

Date ________ Name of Person Completing This Report: ____________________

Appendix C

TABLE OF CONTENTS

OF

SAMPLE BID PACKAGE

TABLE OF CONTENTS

BID PACKET AND CONTRACT DOCUMENTS

FOR

CONSTRUCTION CONTRACTS

LIST OF DOCUMENTS CONTAINED HEREIN

Appendix D

SUMMARY OF

TENNESSEE GOVERNMENTAL TORT LIABILITY ACT

TCA 29-20-101 et seq.

TENNESSEE
GOVERNMENTAL TORT LIABILITY ACT

T.C.A. §29-20-101 et seq.

Sections	
29-20-101	Title - Governmental Tort Liability Act
29-20-102	Definition: Governmental entity "means any political subdivision including but not limited to, any municipality, metro government, county, utility district, school district, human resource agency and development agency."
29-20-103	Applicable to all entities no later than January 1, 1976.
29-20-104	Supersedes T.C.A. Section 7-31-103, 7-31-112, 7-51-202, and 7-51-203, which relate to employee indemnification, insurance on employees and notice relating to streets, roads, etc. where there is conflict.
29-20-105	This act does not apply to action in eminent domain against a governmental entity.
29-20-106	The act has no application to any action brought by an employee under Workman's Compensation Laws.
29-20-201	Except where specifically enumerated in this act, immunity from suit exists as to all activities of governmental entities whether they are either governmental or proprietary. Where immunity is removed, any action must be brought in strict compliance with the terms of this act.
29-20-202	Immunity is removed for injury from negligent operation of motor vehicle.
29-20-203	Immunity is removed for injury from defective, unsafe or dangerous condition of any street, alley, sidewalk or highway if there has been constructive and/or actual prior notice to the governmental entity of the existence of the condition.
29-20-204	Immunity is removed for injury caused by dangerous structure if there has been constructive and/or actual prior notice of the existence of the condition. Immunity is not removed for latent (hidden) defects.
29-20-205	Immunity is removed for injury caused by a negligent act or omission of any employee acting in the scope of his employment except if the injury rises out of:

(1) a discretionary function, whether or not abused or
(2) false imprisonment ordered by the courts, false arrest, malicious prosecution, intentional trespass, abuse of process, libel, slander, deceit, interference with contract rights, mental anguish, invasion of privacy or civil rights (NOTE: would not apply to federal civil rights actions) or
(3) issuance, denial, suspension or revocation or failure to issue, etc. any permit or license or
(4) failure to make or making a faulty or inadequate inspection or
(5) the institution or prosecution of any judicial or administrative proceeding or
(6) misrepresentation by an employee or
(7) results from riots, unlawful assemblies or similar occurrences or
(8) in connection with the assessment, levy or collection of taxes.

(NOTE: Protection is for the governmental entity and not the employee.)

29-206 Nothing in this act, unless so provided, is to be construed as an admission or denial of liability. Where suit is instituted, the entity is to be treated as a private person.

29-20-301 Any person who has a claim must give written notice <u>before</u> suit can be instituted against the entity or employee.

29-20-302 Unless notice is given within 120 days after the cause of action arises, recovery is forever barred <u>except</u> as it relates to injury caused by motor vehicles. Notice is to be given to the chief administrative officer of the entity outlining the pertinent details including the amount of damages.
This section is not strictly construed if the entity should have been reasonably apprised of the occurrence.

29-20-303 If the notice provision is not complied with, this act is complete defense.

29-20-304 Within 60 days of the notice of a claim, the entity or insurance carrier is to approve or deny the claim. If no action taken, it is automatic denial.

29-20-305 If a claim is denied, a claimant can institute suit in circuit court if immunity has been removed but it must be done within 1 year of the occurrence.

29-20-306 Claimant must file a bond or pauper's oath if suit is brought.

29-20-307 Suits can only be brought in circuit court without a jury hearing the case.

29-20-308 Action must be brought in the county where the entity is located.

29-20-309 This section gives authority to duly appointed officials to settle claims. Local statutes apply.

29-20-310 Before holding the entity liable, the court must determine that the employee(s) act(s) were negligent and the cause of injury was within the scope of the employee(s) duties. Employees are liable only above the governmental entity's limit and, in order to sue an employee, the entity must be co-defendent.

29-20-311 No judgment can be entered by the courts which exceeds the limits found in Section 29-20-403 unless the entity carries higher limits through insurance which would then apply.

29-20-312 Claims approved for payment or a judgment entered can be paid in as many as 10 annual installments plus 6% interest on unpaid balance except any judgment under $5,000 is to be paid in total.

29-20-401
(a) An entity can create a reserve or special fund for payment of claims or used to purchase insurance.
(b) Two or more entities can enter into joint pooling arrangements.
    (1) power to establish pools.
    (2) participation approval required by local government entity.
(c) If a special fund is used, the limits of liability in Section 29-2403 apply.
(d) Right given to the Tennessee Department of Insurance to regulate.

29-20-402 Gives the entity a right to tax for claims or insurance.

29-20-403 The minimum insurance limits to be purchased are:

Motor Vehicle - $ 50,000 per person bodily injury
$300,000 per accident bodily injury
$ 50,000 per accident property damage

All Other - $20,000 per person bodily injury
$40,000 per accident bodily injury
$10,000 per accident property damage

If an entity elects to self-insure, the above limits apply.

29-20-404 If insurance is purchased, the policy must contain a waiver of immunity.

29-20-405 If the insurance policy purchased does not comply with the provisions of this act, it will be construed to comply.

29-20-406 An entity can insure the exposures of its employees.

29-20-407 An entity can purchase insurance without bidding regardless of local restriction if it is done so through a joint pooling arrangement.

NOTE: This summary was prepared by Robert L. Sinclar in 1978 and has been revised annually thereafter. It is, however, an abbreviated outline and should be viewed as such. The Tennessee Act itself should be reviewed for greater detail and also to ensure that the most recent modifications approved by the legislature are included.

Appendix E

SAMPLE

COMPREHENSIVE GENERAL LIABILITY

INSURANCE BID SPECIFICATIONS

Based on specifications developed by the Municipal Technical Advisory Service, The University of Tennessee.

SAMPLE
SPECIFICATION FOR BIDS
ON
COMPREHENSIVE GENERAL LIABILITY

1.0 INSURED — (Name of Local Government)

1.1 ADDRESS (MAILING) — ______________________________

2.0 POLICY PERIOD — Policy shall become effective _____ a.m. (mo. day) (year). Term of policy is for one (1) year and shall expire __________ unless renewed. Insurer shall agree to advise Insured 90 days prior to expiration date of its intentions regarding renewal and shall supply rate indications for any ensuing policy term.

3.0 PRIMARY LIABILITY COVERAGE — Comprehensive General Liability Insurance:

The insuring agreements should include but not necessarily be limited to the following: The Insured is requesting proposal on Primary Liability coverage for indemnification of any and all sums which the Insured shall by law or contract become liable to pay and shall pay or by final judgment be adjudged to pay to any person or persons as damages for bodily injury and personal injury including death at any time resulting therefrom, and injury or damage to property, caused by or arising out of the Insured's ownership, maintenance, or use of any school facility and any operations incidental thereto.

3.1 COVERAGE EXTENSION(S) — Coverage shall be on an "occurrence basis" and the language as broad as possible. Include Form G404 for additional insureds.

3.2 ALTERNATIVE PROPOSAL(S) — Proposals are requested for the following additional coverages in the same limits as the optional quotations:

(1) Personal Injury (Libel, Slander, False Arrest, etc.) with Exclusions A and C deleted.

(2) Adding Broad Form Contractual

(3) Extended Liability Endorsement (i.e., host liquor liability, incidental malpractice, etc.)

3.3 BUSINESS OF INSURED — The Insured ISA __________ and operates __________ located in ______________, exluding ____________.

4.0 SPECIMEN CONTRACT — The Insurer is requested to accompany proposal with a specimen copy of policy plus appropriate forms and endorsements, if any variation from the forms as filed by Insurance Services Office.

5.0 POLICY CONDITION(S) EXCEPTION(S) — The policy shall contain the usual and customary conditions and exceptions unless otherwise modified herein.

6.0 PRIMARY LIMITS OF COVERAGE — Primary General Liability Policy limits to be considered by Insurer are:

	Bodily Injury and Personal Injury	Property Damage Liability
Proposal No. I	\$ 20,000 each person \$ 40,000 each accident	\$ 10,000 each accident
Proposal No.II	\$ 50,000 each person \$300,000 each occurrence	\$ 50,000 each occurrence
Proposal No.III	\$100,000 each person \$300,000 each occurrence	\$100,000 each occurrence

Note: Proposal No. I provides maximum limits to General Liability as prescribed by the Tennessee Governmental Tort Liability Act, effective January 1, 1974. The Act also permits the Insured to purchase higher limits in which case the Insured is liable to the extent of such insurance. Insurers must accompany quote on this proposal with quote on at least one other proposal, i.e., II, III.

Insured will select proposal most desirable based upon cost and protection afforded.

7.0	DEDUCTIBLE(S)	The Insured is not equipped to handle any claims in the normal deductible area. However, Insured would be willing to accept a modest deductible, up to $500 per occurrence in the event Insurer will provide claims service in this area. Insurers agreeable to such an arrangement should give details of any cost for their services if not included in the premiums quoted for the Insured area. If claim service is not available on the basis suggested, no deductible shall apply.
8.0	POLICY CONDITION(S) EXCEPTION(S)	The Insurer shall agree to strike the normal "ten days" cancellation condition and substitute in its place "sixty days." This condition shall apply to any alteration or change in the policy and may be accomplished by endorsement.
9.0	SAFETY ENGINEERING	Insurers submitting proposals shall give full details of the safety program including type of safety literature to be distributed, frequency of safety meetings with utility personnel, any incentive programs, and loss control measures and techniques used, etc.
10.1	CLAIM PROCEDURE AND STATISTIC(S)	Insurer shall include in the proposal a detailed procedure of how claims will be handled and the frequency and type of loss statistics to be provided the Insured. The providing of claim experience when requested by the Insured is a prerequisite to bidding on this insurance.
11.0	POLICIES REQUIRED	Insurer shall agree in the proposal to provide as many copies of the actual policy, forms and/or endorsements to the Insured as requested, but not to exceed three (3) copies, if successful bidder.
12.0	RIGHT TO REJECT BID	The Insured shall retain the right to reject any or all bids and to place the insurance in the best interest of the city and utility.
13.0	PREMIUM(S) CALCULATION(S)	Insurers may use remuneration, area (sq. ft.), or count as shown on the GL Schedule as a premium base on school exposures. (See schedule of school operations attached.)
13.1	INADVERTENT ERRORS OF OMISSIONS	The successful bidder is to include in the policy the following clause:

> "This insurance shall not be prejudiced by any inadvertent omission in reporting hereunder or

or unintentional error in amount if prompt notice be given this company as soon as said error or omission becomes known and deficiency of premium, if any, be paid."

14.0	LOSS EXPERIENCE	Exhibit "A" attached hereto provides details of the claim experience for the Board of Education as respects General Liability coverages. Experience for each of the past three (3) years is provided when available.
15.0	ACCEPTABILITY OF INSURER	Coverage is to be written with a reputable Insurer with a minimum "Best Key Rating" of A:X.
16.0	AGENT'S COMMISSION(S)	All agents representing one or more Insurers submitting proposals on these coverages must stipulate either as a percentage of premium or in actual dollars the amount of their commission.
17.0	PRE-BID CONFERENCE	In order to extend to each bidder an equal opportunity to submit its most favorable bid and to provide as much information as possible, a pre-bid conference will be held on ___________ in the ____ ________________________________, ______________, at _____ a.m.
18.0	SUBMISSION OF PROPOSALS	Sealed proposals marked "General Liability Insurance" must be received at ___________________ ____ __________ Attention Mr. _______________________, no later than _______ on ____________.
18.1	BID ANALYSIS	After all bids have been analyzed, the successful bidder will be notified of the results. Any other bidder may receive a copy of the analysis by including a stamped, self-addressed envelope in his bid envelope.

BID PROPOSAL
FOR
COMPREHENSIVE GENERAL LIABILITY INSURANCE
FOR
(Name of Local Government)

	Proposal I 20/40/10	Proposal II 50/300/50	Proposal III 100/300/100
Comp. General Liability	$______	$______	$______
Personal Injury	$______	$______	$______
Incidental Liability	$______	$______	$______
Comp. General Liability with $500 P.D. Deductible	$______	$______	$______
Agent(s) Commission	$______	$______	$______

Proposed Safety Program ______________________________

____

____

Proposed Claim Procedure ______________________________

____

____

Remarks or Conditions ______________________________

____

____

______________________ (Name of Insurer)

______________________ (Name of Agency)

by: ______________________

The submitting agency carries Errors & Omission Insurance. ______ Yes ______ No

Appendix F

GLOSSARY OF INSURANCE AND RISK MANAGEMENT TERMS

GLOSSARY*

Accommodation Risk--Insurance written for an applicant that would normally be rejected by the insurer, but which is provided as a concession to the agency or a value insured.

Actual Cash Value--The limit of indemnification under the Standard Fire Policy and other property contracts; in most cases it is replacement cost minus depreciation.

Agent--In property and casualty insurance, an individual authorized by an insurance company to create, modify, and terminate contracts of insurance.

All Risk--A term commonly used to describe broad forms of coverage; it is misleading because no property or liability insurance policy is truly an all risk coverage. Such policies normally insure "all risks" of loss subject to certain listed exclusions.

Audit Premium--The additional premium to which the company is entitled or the return premium to which the insured is entitled after an audit and refiguring of the base on which the original or deposit premium was charged.

Binder--A temporary insurance contract pending execution of the policy contract. Except for specified differences, the terms of the binder are by implication those of the contract which is intended to replace it.

Blanket Insurance--Insurance covering more than one item of property at a single location, or one or more items of property at more than one location.

Boiler and Machinery Insurance--Coverage for loss arising out of operation of pressure, mechanical, and electrical equipment. It may cover loss to the boiler and machinery itself, damage to other property, and business interruption losses.

Bond--An obligation of a surety to protect the obligee against financial loss caused by act or omission of the principal.

Bond, Bid--A guarantee that a contractor will enter into a contract on which he has bid if it is awarded to him, and furnish a contract bond as required by the terms of the contract.

*Adapted with permissions from Emmett Vaughn, Risk Management and Insurance Buying Guide for Iowa Municipalities, Institute of Insurance Education and Research, University of Iowa, 1977.

Bond, Fidelity--A promise to make good financial loss due to the dishonesty of employees, a financial guarantee of the performance of an implied obligation.

Builders' Risk Form--A type of fire insurance which indemnifies for loss of or damage to a building under construction from specified perils. Insurance may be written under a Completed Value form with the estimated final value used as the basis for the amount of insurances, or it may be written under a reporting form under which monthly reports of value are made by the insured.

Captive Agent--An agent who, by contract, represents only one company and its affiliates. See "Independent Agent" for comparison.

Chance of Loss--The probability that a peril will occur and may lead to loss.

Coinsurance--In property and casualty insurance, a clause or provision in an insurance policy requiring a specified amount of insurance based on the value of the property insured. Normally, there is a premium reduction for purchasing insurance to some percentage of the value of the property--if the insured fails to comply with the clause, he will suffer a penalty in the event of partial loss.

Collision Insurance--Insurance against loss to insured property caused by striking or being struck by an object; includes loss caused by upset.

Comprehensive--Covers any direct and accidental loss or damage to described owned automobiles except that caused by collision or upset. Also referred to as "Other than Collision."

Comprehensive Dishonesty, Destruction, and Disappearance Policy--All risk protection for money and securities on and off the premises caused by dishonesty, mysterious disappearance, or destruction.

Comprehensive General Liability--A broad form of liability insurance which insures against all declared existing liability hazards and any additional liability hazards that may occur during the policy terms, arising from buildings, premises and operations, independent contractors, or products and completed operations.

Contingent Liability--Liability for damages arising out of the acts or omissions of others, not employees or agents.

Contractual Liability--An obligation assumed by contract to pay damages for which another is legally liable. See also Hold-harmless Agreement.

Deviate--To file or use a rate that is based upon but departs from a standard bureau rate.

Direct Writer--An insurance company that deals directly with the insured through a salaried representative, as opposed to those companies that use agents (also used to refer to companies that operate through exclusive agents).

Employers Liability--Legal liability imposed on an employer making him responsible to pay damages to an employee injured by the employer's negligence. Generally, replaced by "workers compensation" which pays the employee whether the employee has been negligent or not.

Employers' Non-ownership Liability--Covers the liability of the insured for bodily injury and property damage arising from accidents due to the use of autos owned by employees while used in the interest of the insured.

Errors and Omissions Insurance--Insurance against loss due to failure, through error or unintentional omission such as errors in design by a municipal engineer.

Exposure--A situation or condition that lays one open to loss or to the risk of loss.

Extended Coverage Endorsement--Covers property for same amount as Fire policy against all direct loss for damage caused by windstorm and hail, explosion, riot and civil commotion, aircraft, vehicles, and smoke.

Fidelity Bond--A contract of fidelity insurance; a guarantee of personal honesty of the person furnishing indemnity against his defaultation or negligence; a form of insurance or suretyship that protects a party against loss from the dishonesty of his employees.

Hazard--A condition or situation that increases the likelihood of a loss occurring.

Hold-Harmless Agreement--A contract under which legal liability of one party for damages is assumed by the other party to the contract.

Indemnity--Making "whole," or restoring financially after a loss.

Independent Agent--A person operating under the American Agency System, representing several property and liability insurers, and dividing the policies he or she writes among the various companies represented.

Independent Contractor--One who performs work for another, who is not subject to the control or direction of the party for whom the work is performed and who is not an employee of the party for whom the work is performed.

Insured, Additional--a person other than the original named insured, who is protected under an insurance contract.

Loss--Any destruction or disappearance of value.

Multiple Line Insurance--Policies that combine many perils previously covered by individual policies of firm and liability companies.

Named Perils--A policy issued specifically listing the perils isured against.

Negligence--Failure to exercise the degree of care that would be expected from a reasonable and prudent person.

Non-concurrency--A condition that exists when two or more policies cover the same property and are subject to different provisions.

Occupational Safety and Health Act of 1970 (OSHA)--A federal statute establishing safe and healthy working conditions on a nationwide basis. The act sets job safety and health standards enforced by Labor Department safety inspectors and also provides for compilation or relevant statistics on work injuries and illness.

Peril--The actual cause of loss (e.g., fire, windstorm, death, injury).

Public and Institutional Property Form--A special form of property insurance for public bodies which covers all buildings and structures and designated property of a city, county, and state. Eligible risks are granted credits from published rates.

Pure Risk--Risk situation in which there is a chance of loss but no chance of gain.

Rating Bureau--An organization that classifies risks and promulgates rates, usually on the basis of statistical data compiled by the bureau or of inspection of risks made by it.

Replacement Cost Endorsement--Provides for full reimbursement for the actual cost of repair or replacement of an insured building or contents, without deduction for depreciation. The endorsement amends the actual cash value basis for indemnity in the Standard Fire Policy.

Retrospective Rating--The process of determining the cost of an insurance policy after expiration of the policy, based on the loss experience under the policy while it was in force.

Risk--(a) Uncertainty concerning loss; (b) Variations in outcomes that may occur over a specified period of time for a given situation; (c) The entity, property, or personnel actually exposed to potential loss.

Risk Management--A scientific approach to the problem of dealing with the pure risks facing an individual or an organization in which insurance is viewed as one of several approaches for dealing with risks.

Scheduling Rating--A system of rating in which debits and credits are added and subtracted from a base rate to determine the final rate for a particular insured.

Special Multi-Peril Policy--A package policy under which coverage on an organization's property is combined with liability insurance. Many cities are eligible for coverage under the Institutional Program of the Special Multi-Peril Program.

Speculative Risk--A risk situation where the possibilities of both gain or loss exist, i.e., success or failure.

Sprinkler Leakage--Insures against all direct loss to building as a result of leakage, freezing, or breaking of sprinkler installations.

Subrogation--The acquiring by the insurer of the insured's rights against third parties for indemnification of loss of other payment to the extent that the insurer pays the loss.

Surety Bond--An agreement providing for monetary compensation should there be a failure to perform specified acts within a stated period. The surety company for example becomes responsible for fulfillment of a contract if the contractor defaults.

Surplus Line--Commonly used to describe any insurance for which there is no available market to the original agent or broker, and which is placed in a non-admitted insurer in accordance with the Surplus or Excess Line provisions of state insurance laws.

Umbrella Liability Insurance--A form of Excess Liability insurance available to corporations and individuals protecting them against claims in excess of the limits of their primary policies or for claims not covered by their insurance program. This latter coverage requires the insured to be a self-insurer for a substantial amount ($10,000-$25,000).

Uncertainty--Refers to doubt concerning one's ability to predict outcomes.

Valuable Papers and Records Policy--Indemnifies the insured for loss, destruction, or damage to valuable papers or records on an all risk basis, including misplacement or mysterious or unexplained disappearance.

Vandalism and Malicious Mischief Insurance--Insurance against willful injury to or destruction of property by a person or persons other than the insured.

Workers Compensation Insurance--A method of providing for the cost of medical care and weekly payments to insured employees or to dependents of those killed in industry, regardless of blame for the accidents.