



## Advisory Standards

### I. GOVERNANCE (Last updated: 2018)

The AGRiP Advisory Standards for Governance address foundational and structural requirements for pool formation and maintenance. More importantly, the Governance Standards address the need for – and value of – engaged, educated, thoughtful and sufficiently independent leadership by the pool governing board to set the pool’s direction in operational and financial matters. (Note: When used below, “Directors” mean members of the pool’s governing body.)

For the purposes of this Standard, we define:

- *Foundational* as formation requirements for both the pool itself and member participation in the pool.
- *Fiduciary and financial solvency* as governance best practices designed to influence the financial security of the pool.
- *Operational* as necessary governing board best practices that are neither foundational nor financial.

Standards addressed:

#### FOUNDATIONAL – STANDARD I-A

**I-A.1 Formation Documents:** the pool maintains signed formation documents, such as articles of incorporation, a joint powers agreement, or interlocal agreement. There is a regular, documented cycle of operational review for needed updates, adjustments, and compliance with the pool formation document. Revisions to the pool formation document are properly filed with appropriate governing or regulating authorities.

**I-A.2 Governance Documents:** the pool has determined whether additional governing documentation, such as bylaws or governance policies, is necessary or desirable. The governing body has formally adopted any such documents or policies, and has a schedule of regular, documented review and update.

I-A.3 **Other Membership Documents:** member agreements other than formation or governance documents, if required, are signed by both parties and copies are maintained by the pool. There is a regular, documented cycle of review and adjustments, if needed, to member agreements, including legal and member relationship updates. There is documented communication to pool members on a regular basis about the status and key provisions of member agreements, including member obligations.

I-A.4 **Formation, Governance, and / or Other Membership Documents** (whether in single or multiple source documents), include at a minimum provisions regarding:

- Membership eligibility;
- Membership obligation;
- Membership termination;
- Membership voting rights;
- Selection procedures and qualifications for the pool's governing body;
- Powers and duties of the pool's governing body and any committees;
- Indemnification for liability of members of the governing body, officers, committee members and pool staff;
- Requirements for annual actuarial reviews;
- Requirements for annual financial audits;
- How pool financial information will be shared with pool members;
- Dissolution of the pool;
- Distribution of pool assets and liabilities upon dissolution;
- How dividends or other distribution of pool assets upon circumstances other than dissolution are determined and allocated among members;
- If assessments are authorized, circumstances for determining the assessment and allocating it among members are defined;
- Whether members are jointly and severally liable within the pool;
- Provisions under which a member can leave the pool, and associated notice provisions the member must give the pool;
- Whether a member remains responsible for any portion of its losses, or is eligible for any; and, distribution of pool assets, upon departure from the pool.

I-A.5 The pool has determined its legal status, for example as a public, private, or non-profit entity; and whether it is deemed a regulated insurer under state laws. The pool maintains adequate records of such status and complies with all applicable state and federal requirements as determined by its status.

I-A.6 The pool has determined its federal and state tax status, maintains adequate records of such status, and, if applicable, timely files applicable tax returns.

## **FIDUCIARY AND FINANCIAL SOLVENCY – STANDARD I-B**

- I-B.1 The governing body is regularly trained on fiduciary obligations.
- I-B.2 The governing body reviews and discusses overall pool financial solvency and financial performance at least annually based upon benchmarks and comparisons established by the governing body, including at minimum projections and allocations of funding for:
- Losses.
  - Loss development, including incurred but not reported losses.
  - Allocated and unallocated loss adjustment expenses.
  - Contingency margins.
- I-B.3 The governing body obtains competent legal advice regarding its own governance and operational issues.
- Coverage counsel, general legal counsel, and defense counsel are segregated functions; or the governing body has documented its approval to place more than one function with the same legal advisor.
  - The pool requires counsel in any role not directly employed by the pool to have professional liability insurance.
  - Outsourced legal advice roles are documented in written contracts that are compliant with the contract provisions outlined in [Standard III-A of Service Provider Contracts](#).
- I-B.4 The governing body requires an annual actuarial study to determine reserve adequacy, signed by a Fellow of the Casualty Actuarial Society or a Member of the American Academy of Actuaries who is independent of the pool. For pools employing an in-house actuary a biennial peer review of reserve adequacy by an actuary independent of the pool is acceptable. The governing body at minimum yearly receives a summary of the annual actuarial study.
- I-B.5 The governing body has written policies that it reviews annually regarding net position. The policy includes, at a minimum:
- Methodology used for determining net position adequacy;
  - A defined target net position amount and/or range;
  - How net position levels will be communicated to pool members; and,
  - The method of calculating return of net position to members, including whether allocations are made based upon coverage year or all years of pool operation.
- I-B.6 The pool annually reviews its net position levels in relation to the target net position and considers net position when making annual funding decisions.

- I-B.7 The governing body has written policies that it reviews at least every five years regarding assessments. The policies and review practices exist, even if the pool has not experienced and does not plan an assessment. The policy includes, at a minimum:
- The circumstances that may trigger an assessment;
  - Methodology used for determining the overall assessment needed by the pool;
  - Methodology for allocating assessments among pool members, including whether assessments are made based upon coverage year or all years of pool operation;
  - Whether and how members that leave the pool are responsible for their assessments;
  - How and when assessment parameters and the need for assessment will be communicated to the governing body; and,
  - How and when the assessment will be communicated to pool members.
- I-B.8 The governing body annually reviews the pool's investment policies, practices, and performance. The pool's investment policy includes, at a minimum:
- Goals and intended use of investment income;
  - Allowed allocation of invested assets, including regulatory constraints;
  - Portfolio diversification, liquidity, and duration expectations;
  - Explicit delegation of authority regarding investment decisions;
  - Provisions for controls regarding invested assets, including those that address separation of duties, safekeeping and custodial procedures;
  - How and when the governing body will be made aware of investment allocations, results, and related activities; and,
  - How and when the governing body will interact directly with investment managers, advisors, and/or consultants.
- I-B.9 The pool annually prepares financial statements in accordance with generally accepted accounting principles as applied to pools or as required by state law. The governing body receives and reviews annual financial statements.
- I-B.10 An annual audit of the pool's financial records is conducted by a qualified independent certified public accountant or state audit agency and includes a signed opinion regarding the financial statements.
- The audit firm directly reports its findings to the governing body, whether reporting to the entire body or a designated committee.
    - If the audit firm reports directly to a designated committee, the entire governing board still receives and reviews the audit report.
  - The audit includes a report on internal controls.
  - The audit includes a report on the status of the previous year's recommended audit actions, along with any activity by the pool in follow-up.
  - The pool responds to any reportable conditions in the audit report within a reasonable period of time.

I-B.11 The governing body has determined when and how annual financial reports are distributed to pool members.

I-B.12 The pool has adopted a physical asset inventory and control policy that at minimum includes periodic inventory of assets, recording of assets in the pool's financial records, and a process to report asset changes to the responsible party.

#### **OPERATIONAL – STANDARD I-C**

I-C.1 New Directors receive an orientation to the pool's governance structure, operations, legal and fiduciary responsibilities, budget, actuarial review, financial and investment policies.

I-C.2 The governing body approves minutes of its meetings. The governing body has made a determination about minutes being distributed or otherwise made available to members.

I-C.3 The governing body develops and maintains a long-range or strategic plan, including a strategy for maintaining adequate net position to respond to unanticipated events causing significant financial impact to the pool.

I-C.4 The governing body has methods to review both the strategic plan and operational work plans over time and to assess overall performance against the plans.

I-C.5 The governing body regularly considers whether and how the pool's investment strategy connects to its net position and/or assessment policies.

I-C.6 The governing body has adopted a records management and retention policy. The policy outlines the treatment of all records, regardless of form, including at a minimum:

- When records may be destroyed.
- Records that must be kept permanently.
- Records archiving practices.
- Whether and how the pool complies with any state required records retention and storage requirements.
- Documented process to prevent modification and deletion of permanent electronic files.
- Separation of confidential records from public records.
- Documented process for responding to public records requests.

I-C.7 The governing body has determined under what circumstances to make copies of current and former binders, correspondence, policies, endorsements and certificates of excess and/or reinsurance available to members for review.

- I-C.8 The governing body makes periodic evaluations of the quality, stability and financial solvency of all past and present reinsurance, excess, and insurance providers.
- I-C.9 The governing body adopts an annual operating (non-loss expense) budget and receives at least an annual budget comparison that includes meaningful metrics to monitor actual-to-budgeted performance.
- I-C.10 The pool insures or self-insures its administrative and operational risks, including errors and omissions, directors and officers, general and auto liability, workers' compensation, property, employee fidelity and fiduciary liability.
- I-C.11 The pool has a Code of Conduct applicable to the pool governing body and staff (whether directly employed by the pool or under contract) that is generally consistent with the AGRiP Model Code of Conduct.

## II. STAFFING (Last update: 2017)

The AGRiP Advisory Standards covering Staffing recognize pooling practices to employ staff directly, and/or to use contracted service relationships to staff core pooling operations and activities. Contracted staffing resources may include staff from a sponsoring entity or association. These Standards are applicable regardless of the pool's staffing or outsourced structure, in any combination.

Standards addressed:

- II-A If the pool employs any of its own staff:
- The pool's authority to directly employ staff is expressly granted and documented accordingly.
  - Authority to set terms of employment, compensation (including bonuses) and employee benefits (including leave) is documented.
  - The scope of authority delegated to staff is clearly defined.
  - Written policies are in place addressing and/or defining:
    - Staff performance and management reviews;
    - FTE, expected work hours, and expense reimbursements;
    - The acceptance of gifts, perks or other benefits from outside entities; and,
    - Conflicts of interest for key staff members.
    - Antidiscrimination.
  - Employment and personnel policies are:
    - Reviewed regularly based on a documented process;
    - Communicated to staff at least annually; and,
    - Communicated to the Board at least annually.
- II-B If the pool uses contracted staff:
- Outsourced staffing relationships are documented in written contracts that are compliant with the contract provisions outlined in [Standard III-A of Service Provider Contracts](#).

- The pool Board has assured itself that the employment requirements in Standard II-A are met by the service provider.

### **III. SERVICE PROVIDER CONTRACTS (Last update: 2018)**

The AGRiP Advisory Standards covering Service Provider Contracts recognize the wide array of professional and service relationships used by pools to meet operational needs. Service Contracts may include staffing resources, systems, professional advice, or other operational relationships.

Standards addressed:

III-A The pool has a written policy that all contracts for services between the pool and a service provider (including reinsurance and excess brokers, contracted administrators for pool management, claims TPAs and investment managers) include the following contract provisions:

- Agreement term;
- Scope of services provided;
- Form and timing of periodic reporting by the service provider to the pool;
- Performance measures and corresponding reporting methods;
- Compensation details;
- Ownership and confidentiality of pool information;
- Business continuity obligations of the service provider;
- Data security obligations of the service provider;
- Records retention Standards and accountabilities;
- Compliance with applicable state and federal regulations;
- Indemnification of the parties and insurance requirements;
- Assignability of the contracted relationship;
- Cancellation and termination of the agreement;
- Breach definition and remedies;
- Legal venue to resolve disputes; and,
- Choice of law.

III-B The pool has a written policy defining the dollar amount for service contracts above which it utilizes a transparent, competitive selection process for the procurement of services; or has documented reasons why a competitive selection process is not being used for a service above the documented dollar amount.

III-C The pool has a written policy defining the review protocols and authority levels for entering into contracts on behalf of the pool. The pool Board has established a dollar amount above which it reviews and approves service contracts. Authority to enter into contracts on behalf of the pool is clearly defined.

III-D The pool has a defined practice for legal review of all service contracts entered into on behalf of the pool. Such process may include variable parameters for legal review based upon type of service and/or dollar amount of contracts.

- III-E The pool Board receives annual documentation of service contracts the pool is engaged in, including contract compensation parameters and especially noting any contract terms with any service provider that involve the pool paying and/or receiving commission-based fees, percentage of savings, or similar compensation structures.
- III-F If the pool uses agents/brokers to place member business, the Board receives full disclosure about compensation to such agents/brokers on a regular basis.
- III-G Under no circumstances, whether or not there is a written contract for services, does the pool require or expect service providers to provide gifts, perks, or other benefits to its governing board or staff as a condition of doing business with the pool.

#### **IV. MEMBER SERVICES (Last update: 2017)**

The AGRiP Advisory Standards covering Member Services recognize the added value many members expect from the pool. The programs that your pool provides and how you communicate with your members is covered in these Standards.

Standards addressed:

- IV-A The pool communicates policy decisions, actions of the governing body and other activities to members via annual reports; regular newsletters; and, other media.
- III -B The pool keeps minutes of all meetings of the governing body and substantive committees, and all minutes are distributed or otherwise made available to members.
- IV-C The pool conducts educational programs for members including safety; risk management; and other such appropriate topics, and provides incentives to encourage member participation in such activities.
- IV-D The pool provides risk control or loss prevention services, and supports risk management and loss prevention practices among members.
- IV-E The pool conducts regular loss prevention and risk control surveys and/or inspections.
- IV-F If property coverage is provided, the pool maintains accurate records of member property values.



## **V. COVERAGES**

This AGRiP Advisory Standard relates to policy coverage for the pool's coverage document, specific excess insurance, aggregate or stop-loss insurance, reinsurance and other catastrophic coverage obtained externally by the pool.

Standards addressed:

- V-A The pool regularly reviews insurance market trends, competition, coverage and pricing. Describe the frequency of such reviews.
- V-B The pool has written, objective underwriting and/or rating criteria that relate to the exposures covered and the losses experienced by pool members.
- V-C The pool provides appropriate coverage documents to its members. Explain what is provided.
- V-D The pool communicates changes in coverage to its members. Describe how.
- V-E The pool has a resolution process for claims and coverage disputes with its members.
- V-F The pool provides certificates or other evidence of coverages to all members and others.

## **VI. BUSINESS CONTINUITY (Last update: 2018)**

The AGRiP Advisory Standards covering Business Continuity recognize the need for adequate written policies and procedures to sustain ongoing operations of the pooling organization amid a variety of threats or other business interruptions, whether the pool conducts operations in-house or contracts for services.

Standards addressed:

- VI-A The pool has assessed business continuity risks and has adopted a written, all hazards business continuity plan that outlines procedures and resources needed to maintain core pool business operations and assist in recovery of full operations upon significant interruption of any sort, and which identifies alternate sources for necessary business supplies, resources and locations during a business interruption.
- VI-B The business continuity plan addresses recovery of and access to critical data during a significant business interruption. Parameters are included for securing data that may be private and/or confidential during significant interruption to normal business operations.

- VI-C The business continuity plan clearly defines when it will be invoked or implemented, the team responsible for implementation, how notification will be made to pool staff, service providers, and members, and who is responsible for external communications.
- VI-D The pool maintains and updates contact information for vendors, members, pool board directors and staff that may need to be contacted during a major interruption to business. This contact information is accessible in electronic and paper form, maintained offsite, and accessible to multiple pool staff.
- VI-E The pool has documented how its business continuity plan will be reviewed, maintained, and tested over time, and communicates relevant aspects of its business continuity plan to all staff at least annually.
- VI-F The pool has adopted an emergency response plan defining procedures and actions taken immediately following a crisis event to direct people and resources away from danger, evacuate facilities, and work with first responders to ensure safety.
- VI-G The pool regularly holds emergency drills and/or training sessions to ensure staff are aware of emergency response procedures.
- VI-H The pool maintains all related current and former binders, correspondence, policies, endorsements and certificates for excess and/or reinsurance. If the pool uses a contracted administrator for pool management, the responsibility to maintain all related current and former binders, correspondence, policies, endorsements and certificates for excess and/or reinsurance is defined between the pool and the contracted administrator in accordance with [Standard III-A: Service Provider Contracts](#).

<b>VII. DATA SECURITY (Added / Last update: 2017)</b>
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The AGRiP Advisory Standards covering Data Security recognize the need for adequate written policies and procedures to protect data collected or maintained by the pool, whether the pool conducts operations in-house or contracts for services.

Standards addressed:

- VII-A The pool has a procedure to track inventory of all hardware, devices, and software authorized to access its computer network.
- VII -B The pool actively manages the security configuration of hardware authorized to access its network to prevent exploitation of vulnerable services and settings.
- VII -C If the pool allows access to its network for pool purposes by any personally-owned devices from any source, such as staff-owned or service provider mobile phones,

laptops, or tablets, it has a written policy regarding acceptable use of devices, allowed devices, support for devices, and security protocols for pool data.

- VII -D The pool has data security and protection procedures in place to prevent data compromise and the unintentional release of sensitive information, including hardware and infrastructure protection and protection from user-based risks.
- VII -E The pool actively protects and backs up electronic files, including provisions for housing back-up data separately from the pool's main storage site and testing back-up storage on a periodic basis.
- VII -F The pool has defined the use, assignment, revocation, and configuration of administrative privileges for computers, networks, and applications.
- VII -G The pool regularly informs all users with access to its system about smart cyber use activities.
- VII -H The pool regularly conducts data vulnerability assessments and remediates issues when necessary.
- VII -I All hardware, software, data use and data storage systems are compliant where necessary with relevant federal and state laws.

## **VIII. CLAIMS MANAGEMENT (Last updated: 2018)**

The AGRiP Advisory Standards covering Claims Management recognize the need for adequate written policies and procedures in administering claims against members.

Standards addressed:

- VIII-A The pool has written procedures that include settlement authority structure, internal review/audit procedures, and loss reserving.
- VIII-B The pool maintains a comprehensive claims management information system and/or accounting system that tracks claims, develops loss data, and is distributed to members on a regular basis.
- VIII-C The pool maintains a litigation management program that includes, but is not limited to, establishment of a list of qualified attorneys when applicable, establishment of reporting procedures, and ongoing monitoring and case management, including evaluation of legal expenses.
- VIII-D THE CLAIMS AUDIT:
  - VIII-D.1 In addition to the tests conducted during the course of a financial audit a claims audit is conducted at least once every three years

- regardless of whether claims are handled by in-house staff or by an outside service provider.
- VIII-D.2 The claims audit includes determination that claims were handled in a timely and efficient manner.
  - VIII-D.3 The claims audit includes determination that the claims administrator adequately communicated.
  - VIII-D.4 The claims audit includes determination that case reserving practices were reasonable.
  - VIII-D.5 The claims audit includes determination that loss experience reports accurately reflect case reserves and payments.
  - VIII-D.6 The claims audit is conducted by a qualified firm or individual engaged by the pool that is independent of the pool and its claims service providers.
  - VIII-D.7 The claims auditor issues a report on the condition of the pool's claims handling and reserving practices noting significant exceptions and/or deficiencies.
  - VIII-D.8 The pool adequately addresses all exceptions or deficiencies noted in the claims audit within a reasonable period of time.
- VIII-E The pool has a documented procedure to address processing claims that may be actual, potential or perceived conflicts of interest to the pool. (Examples of conflict of interest claims include but are not limited to: pool board of director claims, member risk manager claims, or pool staff claims if coverages are self-insured.)

## **IX. PROFESSIONAL DEVELOPMENT**

The AGRiP Advisory Standards for Professional Development recognize the value of continuing education.

Standards addressed:

- IX-A Members of the governing body of the pool participate in relevant professional conferences and seminars presented by organizations other than the pool.
- IX-B Pool staff participates in relevant professional development programs.
- IX-C The pool chief executive officer regularly attends relevant state and national professional conferences and seminars.
- IX-D Pool staff members obtain educational degrees, relevant professional designations and other certifications.
- IX-E Pool staff members participate in relevant professional organizations.
- IX-F The pool provides adequate funding to support professional development.