

## Expected Changes in Public Entity Pooling

Like other self-insured member affinity groups, public entity risk pools have grown up navigating operational and environmental challenges, ranging from unique capital management considerations to the evolving risks of public entities. Amid many issues on the horizon, three are poised to fundamentally change the nature of public entity pooling; changing marketplace demographics, rapid advances in technology and the continued fiscal austerity of local government.

### Changing Demographics

Expectations of those entering the workforce or moving into leadership positions within the next ten years are well documented in terms of how they differ from the Baby Boomers and Gen X'ers who currently staff public entity pools.<sup>1</sup> Incoming and rising employees are digital natives who expect automation and connectivity. They are likely to challenge the status quo of structural hierarchy and organizational priorities, and they think differently about organizational loyalty than their older co-workers. These up-and-comers have strong ideas about how work and life pursuits should be balanced to meet a desire for individualized flexibility ranging from workday hours to benefit structures and dress codes.

Certainly it is valuable to think about these demographic shifts within employee groups and the resulting shifts in management or supervisory styles that might be necessary. More importantly, consider these differing expectations and styles as being the driving force behind a pool's operation, coming from the pool's top leadership. The demographic changes public entity pools are only starting to understand today will be organizational reality within a very short time frame, with transition into the new era hastened by virtue of dramatic shifts in the employed population. Indeed, public entity pools would do well to not wait for younger employees, but rather actively seek them out now as a way to begin the organizational adaptation process.

### **WHAT IF YOU CAN'T FIND OR AFFORD THE RIGHT TALENT?**

#### ***THERE ARE TOO FEW INCOMING EMPLOYEES TO FILL THE SEATS OF THOSE LEAVING PUBLIC ENTITY POOLING***

Birth rate analysis alone means that for every two individuals leaving the workforce within the next ten years there will only be one employee available as replacement.<sup>2</sup> Several other factors – such as changing immigration patterns to the United States, the impact of statistical bubbles created when large numbers of women entered the workforce in the 1970s, and an increasing skills gap created both by increasing education cost during a declining economy and serious challenges to world-wide educational infrastructure – combine to suggest that the real ratio of talent loss to talent opportunity is more like three to one.<sup>3</sup>

---

<sup>1</sup> For a sampling, review *Millennial Makeover: MySpace, YouTube, & the Future of American Politics* (2009) and *Millennial Momentum: How a new generation is remaking America* (2011) by Morley Winograd and Michael Hais, published by Rutgers University Press. Also visit any of the following, as a start:

<http://legalcareers.about.com/od/practicetips/a/multigeneration.htm>

<http://www.wmfc.org/GenerationalDifferencesChart.pdf>

<http://online.wsj.com/article/SB10001424127887324784404578141391672304034.html>

<sup>2</sup> Toossi, Mitra, "A Century of Change: The U.S. Labor Force, 1950-2050," *Monthly Labor Review*, May 2002. See also <http://www.pregnantpause.org/numbers/fertility.htm> and [http://usatoday30.usatoday.com/news/nation/census/2011-06-03-fewer-children-census-suburbs\\_n.htm](http://usatoday30.usatoday.com/news/nation/census/2011-06-03-fewer-children-census-suburbs_n.htm)

<sup>3</sup> For a starting analysis, see "The world at work: Jobs, pay, and skills for 3.5 billion people," *McKinsey Global Institute*, June 2012. You can also visit [www.mckinsey.com](http://www.mckinsey.com)

Staffing shortfalls are not a familiar dynamic for public entity pools, where possible applicants have historically come from within the insurance industry, public administration, risk management, or related candidate pools. As all of these options shrink and retirements grow in number, public entity pools will feel the pinch. The new normal will see an employee supply shortage, which implies an employee demand surplus. Competing for employees in this environment will be particularly problematic for those pools that operate under state regulated salaries.

There will also be demographic influences among pool members. Next generation members and decision-makers do not have historical connection to the reasons behind pooling and market conditions that drove public entities into pools. Moreover, they don't care about the value pools presented twenty years ago. Building relationship and loyalty to the pool with next generation leaders of member entities, based on the value proposition of pooling as it exists today, is critical.

## **Continued Rapid Technology Advances**

In the last fifteen years there has been a notable evolution of business operations due to rapid technology advances. The development-to-implementation cycle of technology will continue to shorten and expectations for technology-based products and services will continue to increase.

These technology trends will put pressure on all business ventures, but will create particular stress in public entity pools. Public entity pools may be too operationally customized to benefit immediately from fractional use of technology resources, too limited by public or member scrutiny to make significant up-front technology investments without obvious savings in efficiency, or too reticent to adopt new business processes as required by the implementation of new technology. If these challenges are not overcome, the public entity pooling business model will fall behind its competition.

One of the most important technology advances for public entity pools comes in the form of data analytics. Pool members are mostly homogenous, sharing common characteristics and profiles. Because pools have historically been closely intertwined with their members, with good understanding of member operations, they have enjoyed a competitive edge in terms of remaining topically relevant and offering appropriate coverage pricing.

However, data analytics technology puts the commercial insurance market on equal ground with pools in terms of their ability to understand public entity risks, organizational profiles, and anticipated loss trends. This might allow commercial markets to poach good risks from within a public entity pool, while avoiding the bad risks. At the same time, pool members are also coming to expect data analytics that help identify their unique attributes as compared to all other pool participants. Demand for advanced analytics will come both from within and outside the pool's operation.

### ***IF TECHNOLOGY IS OUTDATED OR LAGGING, CAN THE POOL CATCH UP FAST ENOUGH?***

#### ***PUBLIC ENTITY POOLS MUST MEET NEW EXPECTATIONS FOR MOBILITY, SELF-SERVICE, AND SOCIAL CONNECTIVITY***

Public entities on the whole have been slower to adopt technology advances than private industry, which has allowed public entity pools to lag the commercial industry in terms of technology implementation. Demographic shifts coupled with rapid technology innovations will require immediate catch-up on the part of pools. Pool members will expect technology resources and interactions with online information, relationships, and transactions. As a result, every business workflow and member interaction must be tested against expectations for mobility, self-service, and social connectivity.

## **Mobility**

The growth trajectory, or “take-up” rate, of mobile technology applications in general has far exceeded expert predictions.<sup>4</sup> Public entity pool members, who will be led by appointed and elected officials representing younger generations, will expect access to resources in a format appropriate for mobile technology, which is going to continue its rapid evolution. Public entity pools must offer technology resources able to keep pace with mobile service expectations if they want to retain their membership.

Creating effective mobile resources takes a fundamentally different skill set than designing materials for traditional publications or resources accessed in more traditional means. The ability to craft effective mobile tools requires specialized technical knowledge combined with marketing and communication skills that haven’t been widely adopted by or readily available in the public sector.

## **Self-Service**

Technology interactions, including those offered on mobile interfaces, have shifted from being mostly informational to transactional. Pools must offer real-time transactional opportunities – not just the ability to print forms – for interactions such as coverage applications and renewals, site surveys, training events, claims processing, and all other business operations.

Transactional technology means public entity pool members will become more self-reliant and able to manage many of their own interactions with the pool, which translates into opportunities for operational efficiencies and perhaps even cost savings to both the pool and its members. There is also opportunity for better targeting of services to each members’ profile and unique needs – as members make use of certain resources, the pool can monitor member priorities and preferences, and can better target materials or tools accordingly.

A potential result of self-service technology is a changed relationship between the pool and its member. As personal contact is replaced by self-service tools, the relationship foundation between a pool and members will shift in terms of frequency, familiarity, and tone. Although it might be tempting to forego self-service resources because of this risk, it is a mistake to over-emphasize the value of face-to-face interactions in today’s changing environment. Between demographic shifts and technology advances, pools must begin now to allow and enhance transactional self-service by members.

## **Social Connectivity**

The key to maintaining personal connection with members in a self-service environment based on mobile technology is to build in opportunities for social connectivity, common in today’s technology-centric world. It is important that members have ability to comment on their experience with the pool, share a link with others to review relevant data or information, offer feedback that is given real-time consideration, and have access to pool management via electronic communications.

As demographic shifts take hold fully in pool leadership positions, member connection in this kind of environment will be more successful. The leaders of tomorrow prefer and excel at managing a personalized feeling of connection without ever having to meet a member in person.

---

<sup>4</sup> Cisco estimates that in 2013 the number of mobile-connected devices will outnumber the earth’s population. Global mobile data traffic grew by an estimated 70 percent in 2012. Smartphone use grew 81 percent in 2012. See *Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2012-2017* published 2013 at [http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white\\_paper\\_c11-520862.pdf](http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white_paper_c11-520862.pdf)

## Continued Fiscal Austerity of Local Governments

Demographic shifts are going to dramatically impact local government funding – tax revenues and service expectations will intersect in new and challenging ways. At the same time, political and economic dynamics at every level of government will further stress traditional local government funding resources.<sup>5</sup> As a result, local governments are going to be forced into making efficiency gains to provide better service at lower cost.

This means local units of government will combine resources and bundle services with other governmental entities, as well as private or non-profit agencies. Local government outsourcing and contracting-for-service will change the nature of insured risk and will also change the competitive landscape for public entity pools.<sup>6</sup>

Local government decision-making will be driven more and more by market dynamics such as transactional ease and low cost. Pools have for many years enjoyed member interactions built upon common interests and a partnership mentality, including pool members willing to forego lowest cost opportunities in order to support the pool's greater good. But continued limitations on local government budgets will not allow for any inefficiency and will not support purchases that are not lowest cost, even if the relationship is otherwise strong. Public entity pools will have to quote for local government business right alongside traditional commercial carriers and pools will have to compete largely on price.

### ***WILL POOL MEMBERS BE WILLING TO GO SOMEWHERE ELSE FOR A BETTER PRICE?***

***FISCAL REALITIES MEAN POOLS HAVE TO MEET CUSTOMER NEEDS AT THE LOWEST COST TO MAINTAIN MEMBERSHIP***

Not all pools will be able to adapt to the new environment, especially if they lag in competitive technology or are lacking in talented staff as a result of demographic shifts. Therefore, the numbers of public entity pools may shrink through consolidation or because pools exit operations. Even in the strongest of pools, membership could shift or retention expectations might have to be adjusted downward.

There could also be a big impact on competition between public entity pools as a result of changes in local government fiscal conditions. Whereas today there is often a friendly relationship between public entity pools operating in the same state but with different membership, shifts in the competitive environment could force pools to think differently about their friends and foes. If a pool's existence were threatened by commercial competition, would it be willing to change its policy about not going after another pool's membership in order to maintain the program?

## Implications for Public Entity Pools

As public entity pools consider the impact of trends in demographics, technology, and local government economic conditions, there are a number of potential implications to consider. Here are things public entity pools might anticipate:

- Younger pool employees stepping into pool leadership roles will have strong business-based decision-making orientation, focused heavily on cost / benefit analysis, and are not as familiar with traditional public sector evaluations of long-term investment. Younger local government representatives stepping into appointed and elected leadership will have the same characteristics.

---

<sup>5</sup> Dadayan, Lucy & Boyd, Donald, "States Are Not Out of the Woods Despite Strong Revenue Gains in the Fourth Quarter," *State Revenue Report*, April 2013, No. 91. See also related reports at [www.rockinst.org](http://www.rockinst.org).

<sup>6</sup> Incidentally, this shift relates also to generational shifts and will impact all organizations. Younger employees generally believe outsourcing and contracting-for-service is a good way to efficiently and effectively conduct business.

- The next generation of leaders will have a strong desire to grow, build, create, and experiment. Incoming pool leaders will want to leverage existing pool resources in order to try new things. New local government leaders will challenge the status quo, including participation in pool.
- Labor costs are going to go up, especially for educated, unique talent resources. Specialized public entity pooling organizations, particularly small or mid-sized pools, will have difficulty recruiting and retaining high-caliber leadership.
- Similarly, specialty employees like claims adjusters and loss control consultants will be more difficult to recruit and costs to retain skilled staffing resources will increase.
- Staffing gaps may require promotion of employees who by today's standards are not ready for increasing responsibilities. Leadership learning will occur real-time, resulting in short-term organizational stress.<sup>7</sup>
- Organizational focus on employee recruitment and retention, focused on demographic shifts and cognizant of technology advances, will become more important. Pools will have to actively solicit younger employees and should carefully consider retention tools to maintain commitment from key staff in the age range of 30 to 50.<sup>8</sup>
- Small and mid-sized public entity pools may look to consolidate operations with other pools, or may look at new staffing structures to meet skills gaps or address recruitment issues. Some public entity pools will not survive the environmental changes.
- Although many public entity pools currently operate under friendly terms to not poach members from similar groups in their same state or region, increasing competition and market pressures will lead to increased and direct pool-to-pool competition.
- Outsourcing and contracts-for-services as methods to deliver local government services will become more common. This will create new or additional risks to pools. In addition, there will be implications in terms of the ways local governments look to purchase coverage – including through more frequent use of RFPs or competitive quoting processes.
- Local government focus on low cost coverage options will require pools to operate as efficiently as possible to minimize expenses. Pools will have to examine staffing structures, use of technology, transactional efficiency, data analytics, and other tools to control costs.
- Next generation local government leaders will not have historical perspective on circumstances that gave rise to pools and will not feel the same sense of loyalty to pools. Pools therefore need to effectively message the current value proposition of participation.
- Pressure to provide the lowest possible coverage price for members may impact pool surplus policies, including greater dividend returns or use of funds to offset premium contributions. In addition, local

---

<sup>7</sup> Organizational stress due to changes in leadership could be long-lasting, particularly in an environment where staffing structures also change, financial pressures come into play, or membership profiles are not stable.

<sup>8</sup> These are employees who will be in high-demand during the upcoming talent gap. Opportunities for these employees are plentiful and they will be recruited to go elsewhere. If your pool is not working to keep your employee talent, you indeed will not.

government fiscal pressures will mean continued focus and possible regulation to return as much money as possible into direct local government control.

- The same cost-driven environmental pressures will require additional focus on coverage distribution and service models. Agent compensation structures are likely to undergo significant changes as a result.
- The availability of complex data analytics will expand accessibility to information, creating better comparative statistics but more difficult decision-making circumstances. Future pool leaders must have the ability to understand and interpret massive amounts of data in meaningful ways (and the ability to identify and ignore data noise).
- Members will expect sophisticated data analysis from public entity pools, including relevant benchmarks of individual municipal performance. Benchmark information must be customizable and available real-time to members.
- Pools will need to increase efforts related to mobile, self-service technology with opportunities for social connectivity. This will require a shifting approach to technology investments and evaluation of technology costs.<sup>9</sup>
- Transactional, self-service technology will reduce face-to-face interactions between pools and their members. Pools must develop new methods of staying successfully connected to next generation members.
- Future pool leaders will need to be able to relate to members without ever meeting them, using social technology, transactional interactions, and by interpreting information available through data analytic resources.<sup>10</sup>
- Upgrades and replacement of operational systems (including claims, underwriting, accounting and member management, among others) and technology platforms will occur at an increasing pace. Pools might significantly revamp or replace one or more key technologies every four years, on average, although some systems will certainly have longer shelf life. Efforts toward system integration and data connectivity will be ongoing.
- Future pool leaders will have to be effective managers of technology projects and initiatives. This skill set will be just as, if not more important than, the ability to effectively manage people.
- In order to successfully manage operations, future pool leaders must be technology-savvy to the level of understanding basic network infrastructure and programming techniques.
- There is tremendous opportunity in public entity pools to achieve trade-offs between staffing and transaction-based technology. Some organizational cultural changes will be required in order to achieve gains as a result of technology resources.

---

<sup>9</sup> Typical return-on-investment models of evaluating new initiatives will not be appropriate for the rapid pace of technology innovation. There are some technology investments for which costs will never be directly recovered, but which are nonetheless critical to a pool wishing to remain relevant to its members.

<sup>10</sup> The ability to build relationships without ever having to actually meet new people is an exciting development. In the future, even the most troll-like person can become a successful pool administrator, assuming she can maintain a pleasant online profile and witty electronic chatter.

- Pools need to institutionalize innovation and experimentation in order to stay relevant. Change management will be a necessary skill set for future public entity pool leaders.

There are of course many other challenges and changes that will evolve as noted demographic, technology, and economic shifts occur – and while the ideas set forth in this article are certainly plausible, these specific outcomes are by no means absolute.

Every public entity pool is unique, with its own strengths and opportunities to be considered in light of these trends and state or market-specific dynamics. Continuing the conversation among leadership is critical to successful pool adaptation, whatever the future may hold.

**ANN GERGEN**  
**AGERGEN@BERKLEYRISK.COM**

**BERKLEY RISK**  
**222 SOUTH NINTH STREET**  
**MINNEAPOLIS, MN 55402**  
**WWW.BERKLEYRISK.COM**

Special thanks to Joel Kress of Governmental Entities Mutual, Inc. for great ideas, contributions, and edits to this material.

© Berkley Risk Administrators Company, LLC 2013  
This article may be reprinted with permission