



# EXPECTED CHANGES IN PUBLIC ENTITY POOLING

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# PUBLIC ENTITY POOLS

- Matured through
  - Operational challenges
  - Environmental challenges
  
- Coming next
  - Changing demographics
  - Rapid advances in technology
  - Fiscal austerity of local government

# CHANGING DEMOGRAPHICS

~~Baby Boomer~~

~~Generation X~~

Millennials (Gen Y)

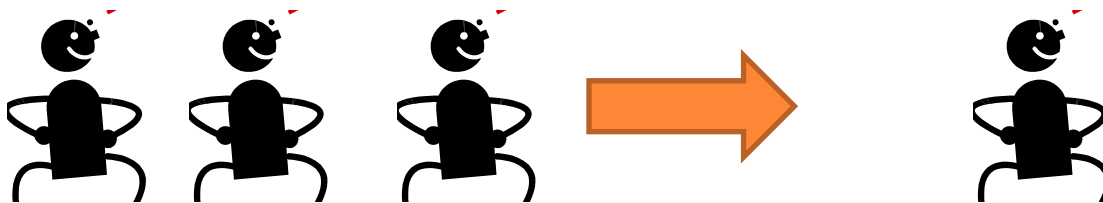
# GENERATION X AND Y

- Digital natives
- Challenge the status quo
- Different loyalties
- Expectations for work/life balance

# DEMOGRAPHIC SHIFT

- New expectations and styles
- The new reality
- Actively seek next generation of input

# PURE NUMBERS



Employee Supply Shortage

=

Employee Demand Surplus

# OTHER IMPACTS

- Internal operations
- Membership dynamics
- Claims experience
- Interactions and loyalty



# RAPID TECHNOLOGY ADVANCES

- Last 15 years
  - Shortened development-to-implement cycles
  - Technology-based products increased
- Technology trends
  - Effect every business and business operation
  - Bring unique stressors to pools
  - Data analytics are key
    - The great equalizer
    - Or the great divide

# RAPID TECHNOLOGY ADVANCES

- Demand for technology will arise from within and outside the pools
- Requires three key considerations
  - Mobility
  - Self service
  - Social connectivity

# MOBILITY

- Expected by appointed and elected officials
- Also consider staff demands
- Internal and external systems

# SELF-SERVICE

Go from  
informational  
to  
transactional

# SOCIAL CONNECTIVITY

- Comment on transactions
- Share with others
- Offer feedback
- Access to management

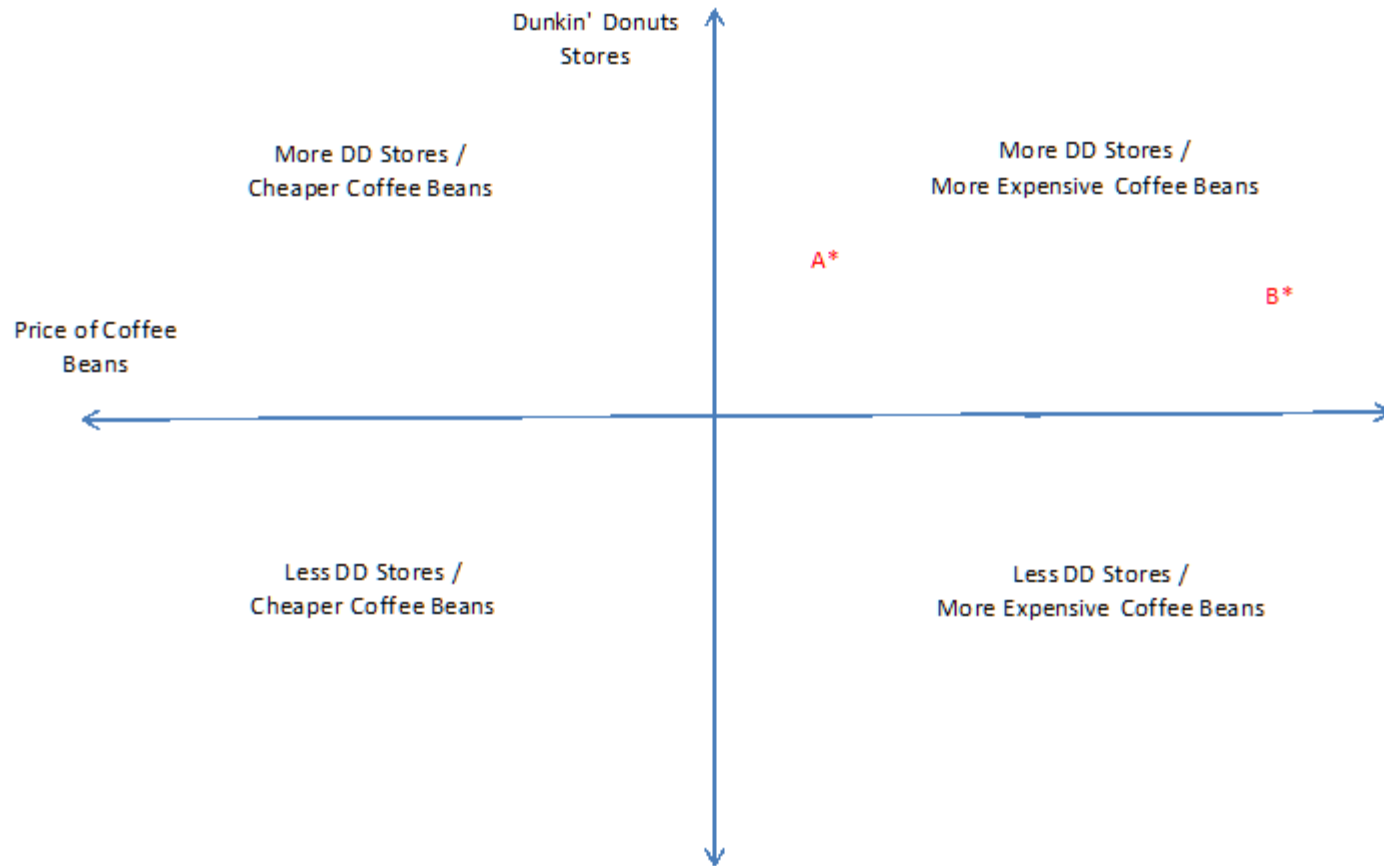
# FISCAL AUSTERITY OF LOCAL GOVERNMENTS

- Further stress to come
  - Political & economic dynamics
- Public entity response
  - Combining resources
  - Bundling services
  - Outsourcing
  - Contracting-for-services
- Pool possibilities
  - Consolidations
  - Ceasing operations

# SO WHAT?

- Changing demographics
- Rapid advances in technology
- Fiscal austerity of local government

# THE KNOWN KNOWNS





# THE SCENARIOS

- Quincy Risk Management Association
  - 321 members from great state of Adams
  - City/Towns, Schools, Counties, Transit Districts, and Volcanic Ash Districts
  - Abby Burr has been Executive Director for 15 years and looking to retire

# QRMA'S FINANCIAL STATEMENTS

## Balance Sheet

	As of 12/31/12	As of 12/31/11
<u>Assets</u>		
Cash	3,500,000	5,000,000
Investments	75,000,000	74,000,000
Premiums Receivable	600,000	1,500,000
Prepaid Expense & other Asset	2,000,000	1,750,000
<b>Total Assets</b>	<b>81,100,000</b>	<b>82,250,000</b>
<u>Liabilities</u>		
Accounts Payable & Accrued Expenses	3,000,000	3,500,000
Unearned Premiums	5,500,000	5,600,000
Reserves (Loss & LAE)	40,000,000	41,988,000
<b>Total Liabilities</b>	<b>48,500,000</b>	<b>51,088,000</b>
Members Surplus	32,600,000	31,162,000
<b>Total Liabilities and Surplus</b>	<b>81,100,000</b>	<b>82,250,000</b>

## Statement of Operations and Changes in Equity

	As of 12/31/12	As of 12/31/11
<u>Operating Revenues</u>		
Gross Premiums Earned	42,000,000	41,000,000
Reinsurance Premiums Ceded	(5,200,000)	(5,100,000)
Other Income	43,000	41,000
<b>Total Operating Revenues</b>	<b>36,843,000</b>	<b>35,941,000</b>
<u>Non-Operating Revenues</u>		
Investment Income	3,250,000	2,500,000
Change in Investment Fair Value	(1,500,000)	575,000
<b>Total Non-Operating Revenues</b>	<b>1,750,000</b>	<b>3,075,000</b>
<b>Total Revenues</b>	<b>38,593,000</b>	<b>39,016,000</b>
<u>Operating Expenses</u>		
Claims and LAE	31,000,000	34,500,000
Reinsured Recovered, net	(1,540,000)	(2,530,000)
Other Administrative Expenses	7,450,000	7,250,000
Interest Expense	245,000	240,000
<b>Total Expenses</b>	<b>37,155,000</b>	<b>39,460,000</b>
<b>Net Change in Member Surplus</b>	<b>1,438,000</b>	<b>(444,000)</b>
Member Surplus - Beginning	31,162,000	31,606,000
Member Surplus - End	32,600,000	31,162,000

## SCENARIO #1

- One or two senior staff are interested in the ED job but nearing retirement
- Nationwide search reveals many younger professionals unwilling to relocate their families
- Statewide search reveals talented younger insurance professionals unfamiliar with pooling and handsomely paid

# WHERE ARE THE EXECUTIVES?

Pros	Cons
Administrative consistency	Opportunity cost – another year of doing the same thing widens the gap between success and irrelevance
Don't fix the clock unless it's broken	Even a broken clock shows the right time twice a day

## SCENARIO #2

- Commercial carriers are waiting in the wings to poach the best and biggest QRMA members
- Pricing is highly competitive due to non-existent loss control budget and shareholders thirst for yields higher than other industries
- Even stalwart supporters of the pools have tied hands against the arguments of “just plain price”

# WHERE ARE THE MEMBERS?

Pros	Cons
Focus on membership cohesion and superior risk management services	Best members leave
Reminders about commercial market abandonment	Best prospects go elsewhere
	Adverse selection works against the pool
	Risk management services work to another group's benefit

## SCENARIO #3

- A knowing politician calls for the return of capital, among other reasons to boost his own political career
- The media storm of accusations and hyperbole is uninformed and sensationalizing
- Pooling's own arguments are used against it
  - Pooling is not insurance
  - Pool members are assessable

# WHERE IS THE SURPLUS?

Pros	Cons
<p data-bbox="195 558 933 648">Commercial data used to bolster pool policies</p> <p data-bbox="195 711 639 748">Focus on rate stability</p>	<p data-bbox="975 558 1713 648">Insurance industry data not relevant to non-insurance pool entity</p> <p data-bbox="975 711 1566 748">Assessments are still possible</p>



## SCENARIO #1+2+3

- New Executive Director ready for retirement
- Less risky members jettisoning the pool
- Surplus is reduced to bare bones

# WHERE IS THE FUTURE?

Pros	Cons
<p>Demographic Shift</p> <ul style="list-style-type: none"><li>• Less employees to fill staff positions of retiring Baby Boomers</li></ul> <p>Opportunity to completely re-think QRMA and pooling</p>	<p>Next generation of leaders will have a strong desire to grow, build, create, and experiment.</p> <p>Consolidate operations with another pool(s)?</p>

## 5 THINGS TO DO RIGHT NOW

- 1) Contingency plan from the bottom-up
- 2) Hire a twenty-something (or two!)
- 3) Significantly increase your IT resources
  - Double the budget
  - Hire a programmer (see #2)
- 4) Create a (meaningful) social network
- 5) Stop building to the status quo



**QUESTIONS ABOUT...**

**EXPECTED CHANGES  
IN PUBLIC ENTITY POOLING?**

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