

## Questions to Ask About Your Public Entity Pool

This is a starting list of useful questions for those newer to public entity pooling to consider in review of their own pool's activities, operations, and environment. Longer-term staff and members of the pool governing body should also know the answer to these questions, and should be able to address how the pool's philosophy or approach to these things has changed over time.

### Regulation

#### State regulation and reporting

- What state laws and regulations is the pool subject to?
- What and to whom does the pool have to report?
- Are there any likely areas of change or challenge to pooling regulations? Does the pool expect more or less regulation in the future, and why?

### Governance

#### Pool structure, scope and decision-making

- What is the pool's legal structure or grant of authority?
- What members does the pool serve?
- How are Board members selected and what programs does the Board oversee?
- What is the role of the Board in decision-making – at what level and for what issues?
- Does the Board have D&O coverage or does it self-insure its risks, and why?
- Where does the Board get advice about its own governance activities?

### Financial and Underwriting

#### General financial

- How are liabilities stated in the pool's financial statements?
  - Ultimate cost or discounted to present value?
  - At "best estimate" or at some higher confidence level?
- Can the pool assess its members if necessary?
- Does the pool have targets for fund balance? How are targets established and reviewed?
- What does the pool do with surplus funds?
- How is the overall adequacy of total reserves evaluated, and how frequently? Does the pool routinely look to change actuarial firms or solicit a second opinion – why or why not?
- Could the pool withstand a dramatic change in reinsurance terms, retention, or pricing?
- Can the pool afford to expand coverage (within reason) without immediate support from reinsurers?

### **Self-insurance and reinsurance structures**

- At what level is the pool retaining risk, and why is that the right amount of risk to retain?
- Who are the pool's reinsurers and how stable are the relationships?
- What is the pool's philosophy on pricing vs. stability of reinsurance partners?
- What has the overall claims experience been with reinsurance partners – have there been disputed or challenging claims, and how have those issues been resolved?
- What are areas of coverage risk in the pool's member coverage documents as compared to reinsurance or excess policies? Are there gaps to be aware of?

### **Underwriting and rating practices**

- What is the pool's pricing philosophy?
- How much discretion does the pool allow its underwriters?
- How much risk of loss do members maintain vs. pass to the pool?
- How does the pool allocate costs and risks among members?
- What is the Board's role in establishing member rates and allocation of risks?

### **Loss trends**

- What loss areas are shifting in frequency, cost, or both?
- Are there other inflationary, regulatory or legislative trends that could impact the pool's loss experience?
- What trends are emerging in other states that the pool should be mindful of (tort cap challenges, coverage interpretations, new benefit legislation, etc.)?
- Is the pool collecting data that will help it identify important trends?

### **Investment practices and policies**

- What investments can the pool make and how are they managed?
- What investment outcome is the pool looking for?
- What's the current and projected outlook for the pool's particular mix of investments and investment strategy, and what realistic expectations should there be regarding performance of our portfolio?
- How does the pool connect investment practices to its rate-setting activities?

## **Coverage and Service**

### **Coverages**

- What sorts of coverage does the pool offer, and what is the pool's general philosophy about covering losses?
- What sort of coverage document does the pool use?

### **Other pool services**

- What other services does the pool offer its members?
- What innovations has the pool brought forward to members?
- How does the pool distinguish itself from commercial coverage or competitors?

## Membership and Environment

### Membership philosophy

- Are there standards for who can join the pool?
- What happens if a member leaves?
- How does the pool measure member satisfaction?
- What reputation does the pool have with members, and what are critical success factors to maintaining a good reputation and member relationships?
- How would the pool know if its reputation was suffering?

### Competitive environment

- Who is the pool's main competition and on what basis?
- How does the pool view its role in the marketplace?
- Is the pool's membership growing, decreasing, or staying the same? Why? What impact does this have on all other areas of consideration?
- If a competitor were to go knocking on a member's door, what would they say is the pool's main deficiency or weakness?
- Are there any competitive trends elsewhere in the country that might be worth watching?
- How would the pool respond if a competitor entered our market with the intent of "buying the business?"

### Agents

- Does the pool use agents as a distribution method to its members?
- What sort of role do agents play for member entities?
- How are agents compensated?

## Operations

### Staffing structure and how it relates to third-party contract relationships

- What sort of structure, roles, and relationships does the pool have with outside service providers?
- Why does this make sense for pooling operations?
- What would the pool do if there were a significant shift in any of these relationships?
- Does the pool have continuity plans that include disruption of operations for any reason, succession plans for its pool administrator and other key executive staff, and contingency plans should a key vendor or service provider relationship change unexpectedly?

### Association relationships

- Is the pool connected to or endorsed by any associations? To what extent and what are the terms?
- Is there a financial relationship between the pool and association(s)? What is the rationale for financial support in either direction?

### Technology and information resources

- Who owns the technology systems currently in use?
- Who owns the pool's data including loss data, loss control information, underwriting information, and all other data resources?

- How would the pool access its information and data resources if the technology systems or vendor relationships changed? What systems and information redundancies are in place?
- What state laws is the pool subject to regarding data, information resources, information retention, public information, etc.?
- How does the pool evaluate its technology resources relative to member expectations and needs?