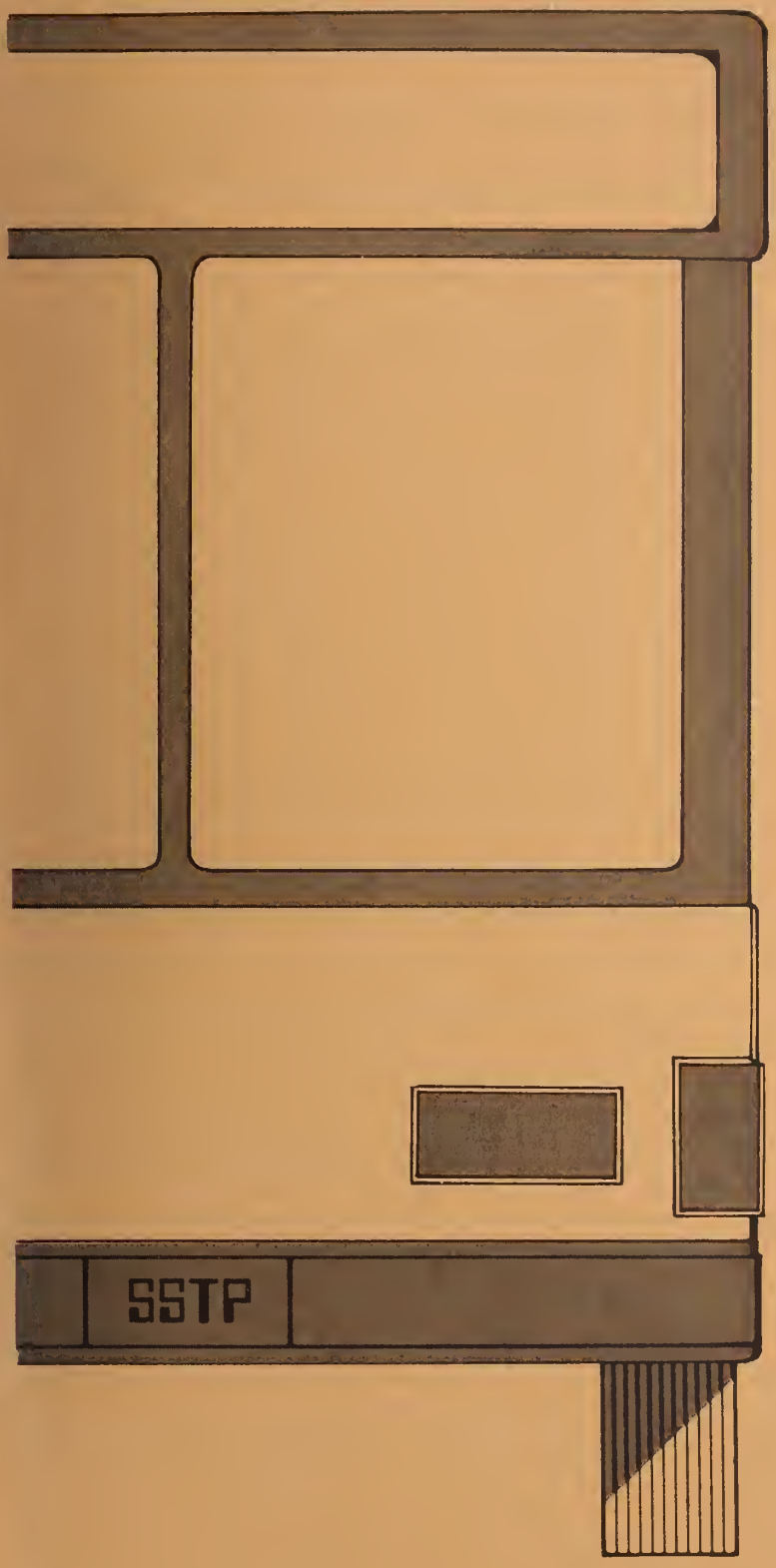

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16. Abstract

This report presents the results of an insurance study that was conducted for the Wisconsin Department of Transportation. The purpose of the study was to evaluate the vehicle insurance programs of the 19 urban transit systems in Wisconsin and provide recommendations for improvement of these programs. Particular attention was given in the analysis to group alternatives. The recommendations include separating the transit insurance from other municipal insurance, shifting the procurement of the vehicle to the transit manager and considering deductibles or retentions as alternatives to full insurance.

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Wisconsin Department of Transportation

VEHICLE INSURANCE STUDY

May, 1980

Report By

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This report is the product of a study financed in part by the U. S. Department of Transportation, Urban Mass Transportation Administration, under the Urban Mass Transportation Act of 1964, as amended.

FORWARD

Many transit operators are becoming more involved in examining their management practices. To assist these operators, UMTA has been funding, through the Section 8 Technical Studies Program, local studies to evaluate existing management practices and develop recommendations and plans for improvements.

This report summarizes a study that was conducted for the Wisconsin Department of Transportation on the vehicle insurance programs of the 19 urban transit systems in the state. We believe this report is an excellent example of a well focused management study that addresses an important problem.

Additional copies of this report are available from the National Technical Information Service (NTIS), Springfield, Virginia 22161. Please reference UMTA-WI-09-8004-81-1 on your request.

Further information on this particular topic is contained in the report Public Transit Risk Management: A Handbook for Public Transit Executives. This report can be obtained from NTIS (UMTA-IT-06-0173-1).

Charles H. Graves, Director
Office of Planning Assistance
Urban Mass Tranportation Administration
US Department of Transportation
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Warren, McVeigh & Griffin
Risk Management Consultants

May, 1980

Bureau of Transit
Department of Transportation
P.O. Box 7913
Madison, Wisconsin 53707

VEHICLE INSURANCE STUDY

This report presents the results of our analysis of the vehicle insurance programs for the transit systems in the following communities:

Appleton	Kenosha	Oshkosh
Beloit	La Crosse	Racine
Eau Claire	Madison	Rice Lake
Fond du Lac	Manitowoc	Sheboygan
Green Bay	Merrill	Stevens Point
Janesville	Milwaukee	Watertown
		Wausau

Activities leading to this report have included:

1. On-site visits to the 19 transit properties and interviews with key personnel.

2. Collection and analysis of vehicle insurance loss and premium information.

3. Detailed analysis of vehicle insurance policies.

4. Interviews and discussions with insurer claim personnel and the claim personnel of Milwaukee Transport Services.

5. Informal discussions with insurance company and agency personnel regarding vehicle insurance market conditions.

6. Discussions with staff members of the Wisconsin Insurance Commissioner's Office.

7. Study of alternative insurance/self-insurance programs practical for group consideration.

8. Preparation of November, 1979 and February, 1980 Discussion Drafts of this report.

Bureau of Transit
Department of Transportation

May, 1980

The recommendations throughout the report should assist each participant in improving its insurance and risk control activities, whether or not a group program is initiated.

We have appreciated the opportunity to work on this assignment and would be pleased to assist in the implementation of our recommendations.

WARREN, McVEIGH & GRIFFIN

By _____
Michael M. Kaddatz, CPCU

By _____
C. C. Griffin, CPCU
President

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I. MANAGEMENT SUMMARY

The objectives of this study are to evaluate the present vehicle insurance/self-insurance programs of the 19 urban transit systems in Wisconsin and provide recommendations for improvement of these programs, giving particular attention to group alternatives. Our key findings and recommendations are presented below.

FINDINGS

From our research during the course of the study we present the following major findings:

1. By forcing common placement of insurance for transit and nontransit operations of a municipality, both the municipality and the transit system are paying more for their vehicle insurance than if placement was made separately for transit and nontransit operations.

2. The basis of vehicle insurance premium shown by the insurer on the policy does not make a material difference in the ultimate premium charged for any given transit system.

3. For most transit properties, the transit manager is not adequately involved in the procurement of insurance.

4. The unrestricted competition method of obtaining vehicle insurance bids (presently used by eleven of the study participants) has not produced competitively priced insurance programs.

5. Lack of competition among transit insurers experienced by some transit properties, is partially due to subjecting the incumbent insurer to price competition every year.

6. Specifications for obtaining competitive insurance bids have generally not been complete, nor in most cases have they contained sufficient input from the transit manager.

7. While internal safety and training programs of the study participants are adequate, few have been put in written form.

8. Internal claim reporting procedures are not adequately documented in writing.

9. Only claims incurred by the Milwaukee system are handled by experienced transportation claim specialists.

10. There are unnecessary time delays in the handling of claims, resulting from inefficient reporting and handling procedures used by the transit systems and the insurers.

11. Most systems are receiving infrequent and inadequate safety engineering services from their insurers.

12. Few of the participating transit systems receive regular statements of transit vehicle losses.

13. The services, other than marketing, provided to most systems by their insurance agents are inadequate.

14. With the exception of Madison and Milwaukee, none of the study participants have a sufficient volume of losses to permit statistically reliable predictions of future years' losses.

15. Viewed from the insurance companies' perspective, the participating transit systems have extremely favorable loss experience.

16. With the exception of four transit systems, present limits of vehicle liability insurance coverage are inadequate.

17. As specifically detailed in Chapter IV, several of the transit systems have deficient coverage terms and conditions.

18. Two group programs – a joint protection program and a joint purchase program – are potential alternatives to reduce vehicle insurance costs and improve coverage and services.

19. If the process can begin by May, 1980, a joint purchase program can be implemented by January 1, 1981.

RECOMMENDATIONS

Our recommendations are presented and supported, in detail, in the body of the report. Key recommendations are summarized below:

1. Transit vehicle insurance should be placed separately from other municipal insurance, where presently combined.

2. The transit manager should assure that vehicle insurance premium bases (e.g. revenues, mileage, number of vehicles) are accurately estimated for the period of coverage.

3. Responsibility for transit vehicle insurance procurement should be shifted to the transit manager, or the transit manager must work closely with the city department responsible for insurance purchasing.

4. The qualified competition method should be used when obtaining competitive insurance bids.

5. Insurers of transit systems should be subjected to price competition no more frequently than every three years.

6. Insurance bid specifications should be improved by having transit management control their preparation in accordance with the outline in the body of the report.

7. Safety and training programs should be documented in writing.

8. Internal claim reporting procedures should be documented in writing.

9. Transit management should streamline internal claim reporting procedures by forwarding to insurers each item of accident information as it becomes available.

10. Insurer claim handling practices can be improved by prompting the insurer to permit claim reporting to adjusters located near the transit system and requiring claimant contact within 24 hours of the accident or claim.

11. The transit manager should obtain at the time quotations are received, a commitment from their insurer on the level of safety services the insurer will provide and should monitor insurer performance during the coverage term to assure promised levels of safety services are received.

12. Statements of transit system vehicle losses should be obtained from insurers quarterly during the coverage term and updated annually thereafter, until all claims are closed.

13. Agents should be selected on their ability and willingness to provide services, which should be documented in writing prior to their selection.

14. Transit systems, other than Madison and Milwaukee, should consider ($25,000 per accident or less) deductibles or retentions as cost reduction alternatives to full insurance.

15. Transit systems should emphasize their favorable loss records to insurers bidding on the systems' vehicle insurance programs.

16. The participating systems should purchase vehicle liability coverage limits of no less than $5 million. (Exceptions: the present $10 million limits of Milwaukee and Madison are appropriate minimums for these systems.)

17. Modifications to existing vehicle insurance policies should be obtained to correct deficiencies specifically noted in Chapter IV.

18. The 17 smaller study participants should pursue a joint purchase program, as set forth in Chapters V and VI.

19. Begin the process implementing the joint purchase program by May, 1980, with actual implementation on January 1, 1981.

The above listings of our findings and recommendations are intended only as a recap of specific information contained in the report. Accordingly, the report should be read in its entirety to obtain a complete understanding of the considerations leading to these findings and recommendations.

II. ADMINISTRATION

The activities relating to the administration of risk and insurance are often referred to as risk management. The objectives of such activities for any entity, including a transit system, are:

1. Prevention of serious financial difficulties or interruptions in service, resulting from unplanned losses.
2. Accomplishing this at the lowest long-term cost by carefully balancing the following cost elements:
    a. Losses assumed without insurance.
    b. Loss prevention (including training) costs.
    c. Claim handling expenses.
    d. Insurance premiums.
    e. Program administrative costs.

Management at each of the transit systems is involved in many activities related to the risk management objectives stated above. These activities include insurance procurement, accident reporting and safety, including driver training and preventative maintenance programs. All of these activities are interrelated and usually most efficiently handled when responsibility for the outcome of these functions is assigned to one person within an organization. This is particularly true with respect to transit operations, as almost all significant activities of a transit system are directly concerned with the safety of the community being served. Improper management impairs safety, risks continuity of service and allows the risk management cost elements to become disproportionate with other operations costs.

Even though the transit systems are a department of or are closely tied to a larger governmental body, most are self-contained for the risk management activities of accident reporting, safety and their related components. Insurance procurement, however, is notably absent in most cases from the list of activities over which transit management has control. The discussion which follows presents our findings in each of the key risk and insurance administrative functions.

A. INSURANCE PROCUREMENT

1. The Marketplace

Insurers experienced and interested in providing vehicle insurance to public transit systems are generally not interested in providing insurance for other municipal operations. Conversely, insurers that ordinarily provide insurance for municipal operations usually do not wish to insure transit properties.

An example of the former is Transit Casualty Company (Transit). This insurer presently writes approximately 50% of the municipal bus transit systems in the United States. Transit does not write vehicle insurance for municipal operations other than transit.

Employers Insurance of Wausau (EIW) is a good example of the latter. While EIW does provide primary vehicle insurance to seven of the participating transit systems, they do so only because they also insure the municipality in which the transit system operates. EIW does not consider itself a market for transit vehicle insurance, without providing coverage for other municipal operations.

Even when they have insured the transit property as part of the larger governmental unit, EIW has transferred, in at least three cases, the majority of their exposure to another insurance company, or reinsurer. To illustrate, under the City of Janesville's policy, EIW provides $1.5 million in vehicle liability insurance to the Janesville transit system. However, EIW has transferred $1.4 million of the $1.5 million in coverage to a reinsurer. This is called a facultative reinsurance placement and usually results in premium charges larger than where coverage is provided directly by a transit insurer, whose standard reinsurance treaties accommodate bus transit exposures at a lower cost.

From Exhibit 1, on the following page, the higher costs generated by facultative reinsurance are at least partially responsible for Janesville's and Beloit's per vehicle rates being among the highest of the participants. This may also be the case with other insurers that may be reluctantly providing coverage to the transit system as part of the coverage for the municipality.

Exhibit 1

Wisconsin Department of Transportation

VEHICLE LIABILITY RATE COMPARISON

	Vehicle Description		Present Primary Limit (000's)	Present Vehicle Rate	Rate Adjusted to $1 Million Limit (3)	% Differential From State-Wide Average
	Model Year	Passenger Capacity				
Appleton	1962	45	$500/$1000/$500	$2,702	$2,959	+31
Beloit	1976	43	$1500	3,132	2,934	+31
Eau Claire	1975	43	$300/$1000/$100	1,970	2,270	+1
Fond du Lac	1978	37	$1500(1)	1,616	1,824	-19
Green Bay	1975	45	$5000	2,124	1,660	-26
Janesville	1979	39	$1500	3,452	3,234	+44
Kenosha	1975	45	$500	1,857	2,159	-4
La Crosse	1975	45	$500/$1000/$200	2,717	2,991	+33
Madison	1979	45	$500/$1000/$500	1,193(2)	1,375	-39
Manitowoc	1978	33	$500	2,320	2,697	+20
Merrill	1975	23	$1000/$1000/$1000	1,533	1,533	-32
Milwaukee	——	——	$250 SIR	——	——	
Oshkosh	1957	45	$300/$500/$250	2,624	3,255	+45
Racine	1976	41	$1000	2,340	2,340	+4
Rice Lake	1975	17	$500	1,229	1,429	-36
Sheboygan	1975	30	$250/$500/$100	1,468(2)	1,860	-17
Stevens Point	1978	N/A	$100/$300/$100	1,883(2)	2,706	+20
Watertown	1971	24	$100/$450/$50	1,318(2)	1,816	-19
Wausau	1977	42	$500	1,226	1,425	-37
				Average	$2,248	

(1) $5,000 Deductible
(2) Estimate from information given
(3) Rates adjusted by usual insurance company factors to provide a common basis of comparison at $1 million coverage limits.

We also speculate that the municipalities are paying more for their nontransit exposures by forcing a common placement of insurance for transit and nontransit operations. In support of this observation, we note that the insurers most widely known for providing low-cost, nontransit municipal liability insurance are conspicuously absent from the insurers listed in Exhibit 2.

During the study, participants expressed some concern over the basis used to determine the ultimate vehicle liability premium for a given coverage year. Some policies showed premiums were adjustable on miles driven or fare-box revenues, others' were adjusted on the number of transit vehicles.

We conclude the basis of premium has little affect on the ultimate annual premium paid. All insurers start with a per vehicle rate when calculating premiums. If the insurer shows a basis, other than per vehicle, on the policy, the rate is determined by adding the per vehicle costs and dividing by the estimated miles (or other measure).

As an example, Transit System X has 20 buses and expects the buses will drive 900,000 miles during the coverage year. The insurer calculates an initial premium of $1,500 per vehicle, or $30,000 total premium, but wishes to have the annual premium adjusted on a mileage basis. The underwriter then divides the $30,000 by 9000 (900,000 miles ÷ 100) to get a $3.33 rate per 100 miles driven. At the close of the policy year, the insurer obtains the actual miles driven, multiplies it by the $3.33 rate per 100 and charges the resulting premium. If the original estimate of miles is accurate, there would be little difference between the go-in premium and the audited premium.

The key to the transit manager is to make sure the original estimate is accurate. If the miles (or other basis) cannot be reasonably estimated, another basis should be used. An inaccurate estimate at policy inception can result in an unexpected additional premium following the insurer's audit of the basis.

2. Control

As discussed in the introductory remarks to this chapter, insurance procurement is one of the key functions in the administration of risk and insurance. Yet, transit management at only six of the participants is presently responsible for procurement of

Exhibit 2

Wisconsin Department of Transportation

PRIMARY[1] & EXCESS[2] VEHICLE LIABILITY INSURERS

Transit District	Primary Vehicle Liability	Excess Liability
Appleton	National Indemnity Co.	——
Beloit	Employers Insurance of Wausau	Employers Insurance of Wausau
Eau Claire	The Hartford	Employers Insurance of Wausau
Fond du Lac	Employers Insurance of Wausau	——
Green Bay	Great American Insurance Companies	——
Janesville	Employers Insurance of Wausau	——
Kenosha	Employers Insurance of Wausau	Employers Insurance of Wausau
La Crosse	National Indemnity Co.	National Indemnity Co.
Madison	The Home Indemnity Co.	Northbrook Insurance Co.
Manitowoc	Employers Insurance of Wausau	Employers Insurance of Wausau
Merrill	The Hartford	The Hartford
Milwaukee	Self-Insured	American Excess Insurance Co. California Union Insurance Co. Granite State Insurance Co. Integrity Insurance Co. Lexington Insurance Co.
Oshkosh	Transit Casualty Co.	——
Racine	Transit Casualty Co.	——
Rice Lake	Employers Insurance of Wausau	Employers Insurance of Wausau
Sheboygan	United States Fidelity & Guaranty	United States Fidelity & Guaranty
Stevens Point	Sentry Insurance	Sentry Insurance
Watertown	National Indemnity Co.	——
Wausau	Employers Insurance of Wausau	Employers Insurance of Wausau

(1) The first layer of coverage, usually ranging from $100,000 to $1 million in limits.

(2) All layers of coverage excess of the primary.

vehicle insurance. Because this function is an integral part of the risk management process and because market conditions indicate separating transit system insurance from other municipal insurance, we recommend responsibility for transit vehicle insurance procurement be shifted to the transit manager at all of the properties. Alternatively, the transit manager must work closely with the city department responsible for insurance purchasing. Benefits which should accrue as a result of involvement of transit management in insurance procurement include:

- -- Improved safety or loss control consultation from the insurer, such that insurer engineering assistance can be specifically aimed at controlling the hazards associated with operating a transit system.
- -- Improved claim handling, through shortening the lines of communication for reporting accidents to the insurer.
- -- Opportunity for obtaining lower vehicle insurance costs for both the transit system and the municipality.

3. Bid Technique

Exhibit 3 itemizes the transit properties which presently have control of their insurance placements. Also listed are the procedures and the frequency with which competitive bids are obtained for each of the transit vehicle insurance purchases. Except for those properties that do not solicit competitive vehicle insurance quotations, two standard methods of insurance procurement are used. These two methods, qualified competition and unrestricted competition, are described in detail in Appendix A, an article from our publication, Practical Risk Management.

Briefly, qualified competition involves soliciting quotations from two or three agent/brokers by authorizing each to obtain bids from a specified list of insurers and not permitting the agent/broker to contact insurers other than those appearing on his list. Under this method, an insurer can be contacted by only one of the selected agent/brokers.

Unrestricted competition, or open bidding, permits any agent/broker to submit a quotation. While this method helps to reduce the possibility for political criticism, it does not suit the nature and condition of the casualty insurance marketplace. Few insurers actively solicit casualty insurance for transit systems. Because of the limited

Exhibit 3

Wisconsin Department of Transportation

INSURANCE PROCUREMENT

	Insurance Purchased by Transit Mgt.	Bid Procedure	Bid Frequency (Years)
Appleton	Yes	Qualified Competition	1
Beloit	No	Unrestricted Competition	3-5
Eau Claire	Yes	Qualified Competition	1
Fond du Lac	No	Qualified Competition	3
Green Bay	No	Unrestricted Competition	3
Janesville	No	Unrestricted Competition	3-5
Kenosha	No	Unrestricted Competition	1
La Crosse	No[1]	Unrestricted Competition	1
Madison	Yes	Information Not Available	——
Manitowoc	No	Unrestricted Competition	1
Merrill	No	Unrestricted Competition	1-3
Milwaukee	Yes	Qualified Competition	1
Oshkosh	No[2]	Unrestricted Competition	1-3
Racine	No	Unrestricted Competition	1
Rice Lake	No	Unrestricted Competition	3-4
Sheboygan	Yes	Unrestricted Competition	1
Stevens Point	No[1]	Not Bid	——
Watertown	Yes	Not Bid	——
Wausau	No[1]	Not Bid	——

[1] However, a separate auto liability policy is purchased for the transit vehicles.

[2] Transit Manager does aid in the procurement process.

market, it is important that it be approached in a professional and organized manner. Open bidding often allows several agent/brokers to contact the same insurer - a practice that often results in that insurer not quoting for anyone. Accordingly, qualified competition is the preferred bid procedure. We recommend those transit properties using the unrestricted method (as well as those not obtaining bids) change to the qualified method, which may look something like this:

- - Agent A is authorized to obtain quotes from insurers Y and Z, only.
- - Agent B is authorized to obtain quotes from the APTA (see discussion in Chapter III) program, only.
- - Agent C is authorized to obtain quotes from insurer X.

Even qualified competition has drawbacks, when limits over $1 million are sought. Intercompany reinsurance arrangements restrict the pricing flexibility of underwriters, such that excess insurance is easier to place at a competitive price, if only one agent/broker is authorized to get quotations. A good approach is to authorize the agent who obtains the best primary program to get alternative excess insurance quotations by contacting any and all interested insurers.

4. Bid Frequency

The primary vehicle insurance market does not react favorably to insurance buyers who solicit competitive bids every year. Many potential insurers will refuse to offer a bid, if they know in advance that they will be subject annually to losing the business because of price. From our discussions with transit management at several locations, we found competition had vanished. Frequently, there was only one insurer offering a bid, even though others had been asked to quote. Annual bidding is partially causing this condition, which can be corrected by having bids solicited approximately every three years.

5. Bid Specifications

Detailed specifications are an important tool for obtaining competitive bids. Accurate and complete specifications prepared by the transit manager can help ensure reasonably competitive quotations. A bid package should include:

- -- Detailed underwriting information, including vehicle lists, driver payrolls, ridership, annual mileage and other operating statistics.

- -- Complete historical loss information for no less than the three years prior to the coverage year for which bids are being solicited.

- -- Details of safety programs, management policy and accident reporting procedures.

- -- Delineation of the alternative coverage terms and limits desired by the transit system.

Though we were unable to obtain prior bid specifications from all of the participants, none of those we did obtain and review contained all of the above listed information. In some cases, the agent/broker was permitted to develop his own specifications for presentation to potential insurers. This practice can result in a potential insurer declining to quote or quoting higher than is necessary, because of inaccurate or incomplete data. The transit manager should prepare the specifications, as he is in the best position to gather all of the required information. The agent/broker can assist in this process, but transit management should control this function.

B. SAFETY

A detailed written safety program (including driver training) can be effective in obtaining insurance quotations, as noted above, as well as in reducing the likelihood of injuries and damages to passengers, employees and others. Reduction of losses is the best method to control the cost of insurance.

The transit manager armed with a safety program, consistently effective at holding loss costs to a minimum, has an effective tool for negotiating renewal insurance premiums. By documenting the results, organization and objectives of the safety program to insurers, the professional transit manager will improve his bargaining position and control the all-important insurance premium budget.

The first three columns of Exhibit 4, on the following page, summarize our findings with respect to the present safety/training programs of the participating systems. Even in those locations where programs are not presently in written form, we found transit management knowledgeable and concerned about the safety of the public and

Exhibit 4

Wisconsin Department of Transportation

RISK MANAGEMENT ADMINISTRATION

	Written Safety Program	Good Driver Awards	Written Driver Training Program	Written Claim Procedure	Witness Cards
Appleton	Yes	Yes	Yes	Yes	No*
Beloit	Yes	Yes	Yes	Yes	No*
Eau Claire	No	Yes	No	No	No
Fond du Lac	Yes	Yes	Yes	Yes	Yes
Green Bay	No	Yes	No	No	No
Janesville	No	No	No	Yes	No
Kenosha	No	Yes	No	No	No
La Crosse	No	Yes	No	No	No
Madison	Yes	Yes	Yes	Yes	Yes
Manitowoc	No	No	No	No	No*
Merrill	No	Yes	No	No	No
Milwaukee	Yes	Yes	Yes	Yes	Yes
Oshkosh	Yes	Yes	No	Yes	No*
Racine	No	No	No	No	No
Rice Lake	No	No	No	No	No
Sheboygan	No	Yes	No	Yes	Yes
Stevens Point	No	No	No	No	No
Watertown	No	No	No	No	No
Wausau	Yes	No	No	Yes	Yes

* However, drivers are encouraged to get the names and addresses of witnesses.

employees. Without hesitation, our contacts were able to recite the details of their safety and training programs.

In many cases where programs were not presently in written form, management was in the process of preparing written safety and training programs and policy statements. We support this movement, as putting the programs in written form aids insurance marketing, gives management written objectives to review periodically and promotes continuity and consistency, while providing a safe service to the community.

While the hazards and needs of each transit system vary somewhat, we recommend each system adopt a written safety program containing the following elements:

1. Designation of the transit employee responsible for administration of the safety program. (In most systems, the transit manager has appropriately accepted this responsibility.)

2. The frequency with which safety meetings are held and the conditions, such as inclement weather, which would prompt a meeting other than at the scheduled frequency.

3. A discussion of the role the insurance company's safety engineer plays in the system's safety program.

4. A description of the driver award/penalty program, including an explanation of how an accident is determined to be chargeable to a driver. Note: several of the systems we visited had either a documented award program or a penalty system, but not both. We recommend the adopted programs provide for both penalties and awards.

5. Reference to claim reporting procedures, training programs, hiring practices and maintenance procedures, either as separate documents or a part of the overall written safety program, as they pertain to safety.

Since driver training is an integral part of any transit system's safety program and has significant effects on controlling the losses of a transit system, it merits additional discussion. Each system had a clear understanding of the steps a new driver had to complete to become a safe and effective bus operator. However, most properties lacked (Exhibit 4) a written training program. We feel the training process should be documented in writing and include the following:

1. Designation of the system employee responsible for the training and retraining of drivers. (In most systems, the senior driver has been appropriately assuming this role.)

2. Itemization of the hiring and retention practices of the system, including driver health, license requirements, motor vehicle record, dress, attitude, experience, etc.

3. For new drivers, a detailed listing of each step and the amount of time required to progress from a trainee to a bus operator. Probationary periods should be spelled out.

4. Evaluation criteria used by management in evaluating a new driver's ability to pass from one training step to the next and in identifying the need for a bus operator to go through retraining.

5. Details of the driver's responsibility toward safety-related maintenance of the vehicle.

6. The scheduled frequency for formal defensive driver training.

7. Reference to the overall safety policy and claim reporting procedures.

C. CLAIM HANDLING

There are two aspects to claim handling:

1. The process of reporting the claim by the transit system to the insurer (or, in the case of Milwaukee, the internal claim department).

2. The handling of the claim by the insurer (Milwaukee-internal claim department), after it has been reported.

To effectively control the cost of claims, it is most important these two elements of claim handling operate swiftly and efficiently. If either element fails, a seemingly innocuous claim can turn into a court case because of an aggravated claimant.

As with the safety and training programs, transit management at all locations could clearly recite their half of the claim reporting procedures, whether written or not. However, we recommend that those systems who do not have written claim procedures, develop them in writing and include the following items:

1. Designation of the system employee responsible for claim reporting.

2. Definition of accident to include, not only the usual type of accidents, but also incidents, such as someone slipping and falling as they leave or enter the bus.

3. Step-by-step instructions on what to do from the time the accident or incident occurs until the driver fills out the accident report. The following instructions are typical of those being used by the study participants for accidents:

- -- Check for injuries.
- -- Call the dispatcher, requesting ambulance, police and/or management assistance, as needed.
- -- Get the names and license numbers of other vehicle drivers and get the names of all occupants of other vehicles.
- -- Get the names of witnesses and ask them to fill out witness cards.
- -- Get the names of all bus occupants.
- -- Do not argue or make admissions or accusations of blame for the accident.
- -- Fill out a complete accident report at the close of the day and turn it in to the route supervisor.

4. Describe the process of checking the driver's accident report for completeness and the need to immediately forward the report to the insurance company. When the police report is received, it should follow.
5. Whom, if anyone within the transit system, is authorized to contact injured parties or other potential claimants.
6. Who checks on the status of pending claims with the insurance company claim department.

We wish to emphasize a couple of items from the above discussion. The accident report should be forwarded to the insurance company as soon as it is completed. In the case of a serious injury, the insurer should be notified by telephone immediately. In many of the transit systems we noted the practice is to hold the accident report until the police report is received. This results in delays which can seriously hamper the effectiveness of the claim adjuster in dealing with a claimant. Such practices should be discontinued.

Another important item, is the use of witness, or courtesy cards. The most ardent supporters of the use of these cards are Milwaukee's internal claims adjusters. Obtaining witness information at the scene of the accident is effective. It documents the facts prior to their becoming hazy after a period of time has elapsed.

Appendix B presents our findings following visits and discussions with selected insurers and the claim department of Milwaukee Transport Service, Inc.

The only claim operation fully staffed with experienced transportation specialists is Milwaukee's internal claim department. As a self-insured entity, they are not faced with problems, such as the conflict of interest facing an insurance company providing coverage to both the transit system and the other party. Neither do they experience the time delay in claim reporting that insurers experience for various reasons.

Employers Insurance of Wausau was the only insurer frequently having claim offices in the city the transit system is located. While most of the adjusting was supervised by a branch or regional office located in Wisconsin, two of the insurers supervised claims from as far away as Providence, Rhode Island, and Omaha, Nebraska. The time delay this represents jeopardizes the efficient and effective handling of claims.

The insurers refer all suits to outside law firms, which generally raises the issue of nuisance or economic settlements (i.e., settlement of a claim, whether meritorious or not, for a figure up to the cost of defense). With its law firm on retainer, Milwaukee's claim department takes a firm but fair stance, defending all claims that are without merit and settling those where the transit system's negligence is clear. The Milwaukee system has built a reputation in this regard, such that plaintiff's attorneys are reluctant to accept a client whose claim against the system is of questionable credibility. Insurers on the other hand are not as willing to defend claims, and settlements tend to be higher because of that attitude, of which plaintiff's attorneys are well aware.

Improved claims handling can be achieved by each system streamlining their internal reporting procedures as discussed above. However, insurers need to be prompted to improve service as well. Since it is often important for claimants to be contacted within 24 hours of their accident or claim, insurers should be requested to allow each system to report the claim to the local employee adjuster or independent adjusting firm, rather than have the claim reported to a distant location for reassignment to a local adjuster. Prompt claimant contact is an effective method of reducing the cost of a claim, and by keeping the cost of claims down, insurance premiums will reduce proportionately.

D. INSURER/AGENT SERVICES

Full service insurers and professional insurance agent/brokers should provide valuable assistance to the transit manager in performing the risk and insurance administrative functions.

1. Insurer Services

In addition to the financial protection of the insurance contract, a full service insurer will be able to provide other services including:

- -- Efficient and effective claim handling.
- -- Safety or loss control engineering inspections.
- -- Regular loss statements or loss experience reports.

We have already commented on the need for improved claim handling services.

Exhibit 5, on the following page displays the frequency with which various sytems are receiving safety engineering services. Service frequency varies considerably from one system to the next. The variation in the level of loss control services is due to several reasons, including:

- -- Smaller systems, Merrill, Rice Lake and Watertown, are probably too small and generate too little premium for any insurer to justify the expense of providing safety service every year.
- -- At least one insurer, National Indemnity, is not a full service carrier and therefore does not offer this type of service.
- -- We have observed a tendency, where the transit system is insured under a municipality's insurance program, for the insurer to ignore the needs of the transit property.
- -- With the exception of Transit Casualty, which insures Racine and Oshkosh, the insurers affording coverage are not noted within the insurance industry for their expertise in providing safety engineering services to transit properties.

This last point is supported by the fact that Oshkosh and Racine are receiving the most frequent visits from their carrier. An insurer's ability to provide these services should

Exhibit 5

Wisconsin Department of Transportation

INSURER/AGENT SERVICES

	Number of Insurer Safety Inspections Per Year	Regular Loss Statements	Other Services
Appleton	0	No	Agent helps recovery of damage to buses
Beloit	.33	No	——
Eau Claire	3	Yes	Agent helps recovery of damage to buses
Fond du Lac	4	No	——
Green Bay	2	Yes	——
Janesville	1	No	——
Kenosha	4	No	——
La Crosse	0	Yes	——
Madison	4	No	——
Manitowoc	0	No	——
Merrill	0	No	——
Milwaukee	---- Not Applicable ----		——
Oshkosh	9	No	——
Racine	5	No	——
Rice Lake	0	No	——
Sheboygan	3	No	Insurer assists with driver award program
Stevens Point	1	Yes	——
Watertown	0	No	Insurer checks driver records
Wausau	4	Yes	Insurer is assisting in upgrading the present safety program

be determined at the time quotations are received and should be a prime consideration in selection of an insurer. The transit manager should verify how much safety service he will receive at quotation time and monitor the insurer to make sure the promised service level is received. This presently is not being done.

Regular statements of losses should be provided for each transit system. These statements should clearly spell out:

- - The accident date
- - Driver's name
- - Claimant's name
- - The dollar amount of the loss either paid or held in reserve.

Such statements should be provided no less than quarterly during the coverage term and updated annually thereafter, until all claims for a given coverage year have been closed. Annual updates are necessary, because it frequently takes three to five years from the time an accident happens until the claim is settled. During this time period, the reserve (the estimate by the insurer of the ultimate claim settlement amount) changes frequently as settlement negotiations progress, with the actual amount not being known until the claim is settled either through negotiation or a court award. The transit manager needs to maintain accurate loss data to:

- - Evaluate his safety program.
- - Determine whether a claim is being handled correctly by the insurer.
- - Prepare complete insurance bid specifications.
- - Evaluate the ability of the bus operators.

Thus, obtaining proper loss information from the insurer is an important function. As a by-product of this function, transit management's internal accident recordkeeping may be eased through relying on the insurers to provide the needed data.

As can be seen from Exhibit 5, few of the transit systems receive regular statements of losses. In many cases where the transit system is insured under the municipality's

policy, statements of losses are provided to city management showing overall experience. However, there is no breakdown of those losses chargeable to the transit system, nor did we notice much effort by city or transit management to obtain such information.

This practice caused us great difficulty in the collection of loss information, but is a practice that is correctable by requiring the insurer's commitment to provide the breakdown. From experience, we know that Employers Insurance of Wausau is capable of breaking down losses on a computer statement per city department. Most major insurers have similar capabilities. If their computer programs do not allow for such a breakdown, the insurer should be required to manually record the data so that it can be used to identify the transit system's loss experience, distinct from the overall city experience. If study participants accept our earlier recommendation to separate the transit insurance programs from the city's, the need to obtain a breakdown will be eliminated.

2. Agent Services

The major service an agent/broker should provide is effective marketing of a transit system's insurance program. Most agents have access to several insurance companies and are capable of obtaining competitive bids from more than one. Without the threat of competition from another agent, the incumbent agent often will not actively seek competitive bids. If the agent feels he does not have a chance of losing the business, he may not have the incentive to obtain the lowest price available. Also, since the agent's remuneration is a percentage of the premium (in the form of a commission), he has no financial incentive to keep the premium levels repressed. To the extent that an agent is not canvassing the marketplace for alternative quotations, other agents should be asked to enter the bidding process.

From our discussions with transit managers, we found many were of the opinion that they were lucky to have any insurance. This opinion was most often formed from statements to the transit managers by the agent. While transit coverage placement may have been difficult two or three years ago, the market for such coverage has been soft since 1978 and remains so today.

Possible explanations for the agent indicating transit insurance placement problems include:

- - The agent has not kept abreast of insurance market conditions.
- - He does not want to spend the time necessary to obtain the lowest cost program.
- - He has not prepared adequate bid specifications to solicit competitive alternatives.
- - He has not talked to transit management since prior to 1978.

Clearly, these explanations cast doubt on the adequacy of marketing services being received. To summarize, transit insurance is available from several sources, and we have noticed no major or unusual characteristics (such as unique transit operations or bad loss records) which would hamper a transit insurer's willingness to quote.

In connection with marketing a transit property's insurance, the agent should help the transit manager collect underwriting information and other data necessary for the bid package to be presented to underwriters. However, without prompting from transit system management, agents often produce only the minimum amount of information, which can result in only one insurer quoting. To assure effective marketing, the transit manager should control preparation of the bid package, as recommended earlier.

Some agent/brokers provide services other than marketing. At the time an agent is selected, he should list all services he will provide. The list can then serve as criteria on which the agent's performance evaluation can be based during his term of service to the system and should include:

- - Assist transit management in preparation of bid specifications.
- - Market the system's insurance renewals with several insurers every three to five years or as market conditions dictate.
- - Review policies and endorsements to assure compliance with the bid specifications and to assure the adequacy of coverage.
- - Monitor insurer claim handling effectiveness and report to transit management the settlement progress on serious claims.

- - Obtain frequent and accurate loss runs from the insurer.

- - Check bus operator driving records regularly and report bad driving records to transit management.

- - If qualified, assist in safety programs.

From our review, it is clear most systems are not receiving adequate services from their agents. For example, even though we had letters from each transit property authorizing us to obtain necessary loss, premium and policy data from the agent, we met with considerable resistance. In a couple of instances even transit management was refused such data.

Providing this information and the other services listed above should be expected from the agent, as it is usual and customary for these services to be performed. An agent not conforming to these standards should be replaced.

III. RETENTION OF RISK

The term "risk" may be defined as the deviation of actual from expected results. It implies uncertainty.

Risk retention refers to the assumption of unexpected or unplanned losses. An organization's ability to retain risk depends on its capacity to absorb fluctuations in revenues and/or expenses and still meet its major financial and operating objectives.

A. GUIDELINES

Only an operation's financial manager has all the contingencies in mind which affect the entity's ability to retain losses. Because there are many factors which can play a role in the decision, there is no scientific way of determining maximum risk retention capacity. However, there are several guidelines or rules of thumb often used in making these determinations, two of which are described below:

1. One guideline is that the fluctuations of 1% to 5% of the annual operating budget will not be considered material or financially dislocating. This amount is a benchmark for establishing the annual level of retained losses which an organization can absorb. Thus an entity with a $1 million operating budget might accept a $10,000 (1% of $1 million) deductible or retention in much the same way as an individual earning $20,000 would accept a $200 (1% of $20,000) collision deductible on his family auto policy.

2. Some managers establish a goal for a given expense category to vary within a range of 50% to 150% (with budgeted equaling 100%) of budgeted costs. The Casualty & Liability Costs category of the transit budget is the relevant item for a transit system.

Exhibit 6, on the following page, lists the 1979 projected operating expense budgets and the Casualty & Liability Costs budget item for each transit system and applies the appropriate guideline to develop an estimated annual aggregate retention level. Application of these guidelines develops a range in annual aggregate retention levels within which transit management may decide to retain losses through acceptance of a deductible or self-insured retention.

Exhibit 6

Wisconsin Department of Transportation

RISK RETENTION GUIDELINES
ANNUAL AGGREGATE

	Operating Expense*	1% Guideline	Casualty & Liability Costs*	50% Guideline
Appleton	$ 1,067,234	$ 10,672	$ 66,751	$ 33,376
Beloit	387,194	3,872	30,992	15,496
Eau Claire	963,350	9,634	51,200	25,600
Fond du Lac	618,511	6,185	36,216	18,108
Green Bay	1,270,313	12,703	51,331	25,666
Janesville	957,326	9,573	82,140	41,070
Kenosha	1,212,021	12,120	66,200	33,100
La Crosse	990,562	9,906	84,140	42,070
Madison	8,048,418	80,484	494,230	247,115
Manitowoc	229,580	2,296	20,000	10,000
Merrill	142,422	1,424	8,943	4,472
Milwaukee	39,876,747	398,767	653,445	326,723
Oshkosh	593,007	5,930	67,430	33,715
Racine	1,511,024	15,110	74,700	37,350
Rice Lake	89,464	895	9,050	4,525
Sheboygan	997,007	9,970	56,370	28,185
Stevens Point	178,937	1,789	8,500	4,250
Watertown	80,998	810	4,000	2,000
Wausau	752,403	7,524	43,665	21,832
TOTALS	$59,966,518		$1,909,303	

N/A = Not Available

* 1979 Projected

B. AUTHORITY

With the possible exception of the Watertown system, which is privately owned, transit managers have the option of not buying vehicle insurance. Though the Department of Transportation has placed minimum insurance requirements on motor carriers, these requirements only apply to persons subject to the provisions of Section 194.41 of the Wisconsin Statutes. It is our understanding that Wisconsin public entities receiving transit aid under Section 85.05 are exempt from Section 194.41. This was confirmed in a telephone discussion with Mr. Dean Terhall of the DOT. Therefore, self-insurance appears to be permissible for public entity transit systems. We recommend an appropriate legal counsel's opinion be obtained to confirm our conclusion, however.

C. EXISTING PROGRAMS

The Milwaukee System's $250,000 vehicle liability self-insured retention is a prime example of a transit system assuming risk. The system has been self-insured since 1953 for no less than the first $100,000 per occurrence. The costs of its self-insured program are included in their Casualty and Liability budget item and are shared in by State and Federal transit assistance programs.

The only other system which has accepted a degree of vehicle liability self-insurance is Fond du Lac, where city management has accepted a $5,000 per occurrence deductible. The prime difference between Fond du Lac's acceptance of a deductible and Milwaukee's self-insurance program is that Fond du Lac's vehicle liability claims are still handled by the insurance carrier, while Milwaukee uses its own internal claim department to handle this function.

One final entity which apparently has accepted a substantial amount of risk is the Janesville Transit System. Janesville, which has recently received a fleet of new buses, is uninsured for physical damage to these vehicles. Each of the 19 new vehicles represents a $100,000 exposure to loss. While accepting the risk of loss for damage to the buses may have been appropriate for Janesville when they were operating with a much older fleet, we question the system's ability to retain these losses on the new vehicles and recommend this position be reevaluated.

D. RETENTION CONSIDERATIONS

As stated above, risk retention capacity pertains to that level of losses an entity may absorb over and above the planned level of losses. Losses which occur with enough frequency to be reasonably predictable can be planned for and should be absorbed by the transit system. However, with the exception of the Milwaukee and Madison systems, the loss information we have collected (Appendix C) indicates that none of the entities has a sufficient volume of losses to allow a reasonable prediction of future years' losses. This does not mean that deductibles or retentions should not be considered. If an entity feels it can control its losses within a reasonable range, it should consider a deductible. Considering the size of the 17 smaller participants, a $25,000 deductible is the largest that should be considered.

An entity purchasing $1 million of vehicle liability insurance protection should be able to obtain a 9% premium reduction for the acceptance of a $1,000 per occurrence deductible. Deductible credits* at other levels are as follows:

Deductible Level	Premium Credit
$ 2,500	13%
$ 5,000	18%
$10,000	22%
$15,000	25%
$20,000	27%
$25,000	30%

For a transit system concerned with the possibility of an unusual frequency of losses within the deductible or retention level, insurers offer protection in the form of an annual aggregate deductible. This means that the entity will pay all losses within the per accident deductible level, until such losses aggregate a specified amount. As an example, an entity may accept a $5,000 per accident deductible with annual aggregate protection above $25,000 per year. That is, the entity will pay the first $5,000 of each loss until the total in a given year equals $25,000, after which the insurance company will pay all losses from the first dollar (no deductible) up to the policy limits.

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* Source: Insurance Services Office, the rating organization to which most insurers subscribe. However, credits will vary from one insurer to the next.

E. APTA PROGRAM

The program being offered through the American Public Transit Association (APTA) offers such aggregate protection. This program, which recently gained its first enrollees, has changed dramatically from its original design, outlined to attendees of the Spring, 1979 Wisconsin Urban Transit Association Conference. The originally proposed APTA program was to be a sophisticated, nationwide insurance/self-insurance arrangement involving a trust mechanism, computerized loss and financial systems and other services. More recently, it has been reduced to a program for mass marketing of excess vehicle liability insurance. Other services are optionally available at an additional cost.

Though we have been unable to obtain the details of how the program is priced, its major features are:

1. It offers per occurrence retention options starting at $5,000.
2. Annual aggregate protection is available, such that retained losses in a given year would be limited to no more than 150% of the prior year's loss level.
3. The transit system is responsible for obtaining claim handling services satisfactory to the excess insurance carrier, Transit Casualty Company.
4. The program is guaranteed renewable for six years, with annual premium increases to be no more than 20% if a transit system subscribes to the program in 1980.
5. Various limits of coverage are available up to $20 million per occurence.
6. Membership in APTA is a prerequisite to participating in the program. A schedule of APTA dues is presented in Appendix D to this report.

Whether or not this program will present a cost-effective alternative to present insurance programs can only be determined by each property obtaining a firm written quote and comparing the cost to its existing program. Quotes can only be obtained by approaching an office of Marsh & McLennan. Marsh & McLennan does have offices in Milwaukee, Minneapolis and Chicago.

The program would offer the transit systems considering it an opportunity to improve claim handling. Also, for an additional charge, Marsh & McLennan will offer as needed

loss control engineering services specifically adapted to transit systems. Since the program and related services are new, there is no information concerning its competitiveness or the quality of services available. We understand it is designed to meet the needs of systems with 30 buses or more, and Marsh & McLennan's initial concentration has been on soliciting systems of 100 buses or more. While this indicates the APTA program has little application to the vehicle insurance risks of this study's participants, each system can find out by contacting a Marsh & McLennan office for a quotation.

F. LOSS EXPERIENCE

Appendix C summarizes in various forms the loss and premium information we were able to collect. Of particular importance are those exhibits which compare losses in each year to the corresponding premiums for each system (for which data was available) as well as all study participants in total. We conclude that providing vehicle liability insurance to transit systems in Wisconsin has been very profitable - for the insurers. Insurers generally try to achieve a loss ratio (losses divided by premiums) of 60%, using the other 40% of the premium dollar for expenses and profit. For the period studied, only one system - Kenosha - exceeded the 60% goal in the aggregate.

The five year combined loss ratios of 37% (with Madison) and 29% (excluding Madison) are impressive and would be a valuable marketing tool for implementing the group programs discussed in Chapter V.

For most individual systems, the favorable loss ratios should aid the transit manager in obtaining low-cost insurance on his own.

IV. INSURANCE PROGRAM REVIEW

During the course of the study, we reviewed the vehicle insurance policies of the participating systems, with the exception that we were unable to obtain complete copies of the policies in all cases. Vehicle insurance includes the following elements:

1. Liability insurance, both primary and excess.
2. Medical payments insurance.
3. Uninsured motorists coverage.
4. Physical damage insurance.

Each of these coverage areas will be discussed in general under the appropriate headings below and will be followed with specific recommendations for those coverage areas in which deficiencies were noted. Exhibits 7 and 8 on the following pages summarize current vehicle insurance coverages and premiums, respectively.

A. PRIMARY VEHICLE LIABILITY INSURANCE

A comprehensive primary liability insurance program should protect the transit system from liability arising out of the ownership, maintenance or use of owned (including long-term leased), hired (generally short-term rental units) and nonowned (all other licensed motor vehicles used on the system's business, such as an employee's personal auto) vehicles. The policy should cover all vehicles used by a transit system and not require newly-acquired vehicles to be reported as a condition of coverage.

RECOMMENDATION

Appleton, La Crosse, Oshkosh, Racine and Watertown - Each of these transit systems should obtain coverage under either the Comprehensive Auto Liability or the Business Auto Policy form. Their current form of coverage, the Basic Auto Liability policy, is deficient. It does not cover liability arising out of the use of hired or nonowned automobiles on transit system business. The Basic Auto Policy

Wisconsin Department of Transportation

SUMMARY OF PRESENT VEHICLE INSURANCE COVERAGE

Transit District	Primary Liability Anniversary Date	LIABILITY: Primary Liability Limits (000's)	LIABILITY: Excess Liability Limits (000's)	MISCELLANEOUS: Medical Payments Limits	MISCELLANEOUS: Uninsured Motorists Limits (000's)	PHYSICAL DAMAGE: Collision Deductible	PHYSICAL DAMAGE: Comprehensive Deductible	PHYSICAL DAMAGE: Named Perils Deductible
Appleton	1/1	$500/$1000/$500	$ 1,000	——	$15/$30	$ 500	——	- 0 -
Beloit	1/1	$1500	$ 1,000	——	$15/$30	$ 100	$50	——
Eau Claire	1/1	$300/$1000/$100	$ 2,000	——	$15/$30	$1,000	- 0 -	- 0 -
Fond du Lac	1/1	$1500*	——	——	$15/$30	$1,000	$50	——
Green Bay	1/1	$5000	——	——	$100/$300	$1,000	$50	——
Janesville	6/1	$1500	——	——	$15/$30	——	——	——
Kenosha	1/1	$500	$ 5,000	——	$15/$30	$1,000	- 0 -	——
La Crosse	1/1	$500/$1000/$200	$ 1,000	——	$15/$30	$ 250	- 0 -	——
Madison	7/1	$500/$1000/$500	$10,000	N/A	$15/$30	——	——	N/A
Manitowoc	1/1	$500	$ 1,000	——	$15/$30	$ 250	——	- 0 -
Merrill	3/1	$1000/$1000/$1000	$ 1,000	——	$15/$30	$ 250	- 0 -	——
Milwaukee	4/1	$250 SIR	$ 9,750	——	——	——	——	$1,000
Oshkosh	7/28	$300/$500/$250	——	——	$15/$30	——	——	——
Racine	7/1	$1000	$ 1,000	——	$15/$30	$1,000	- 0 -	——
Rice Lake	1/1	$500	$ 2,000	——	$15/$30	$ 100	- 0 -	——
Sheboygan	10/1	$250/$500/$100	$ 1,000	——	$15/$30	——	——	- 0 -
Stevens Point	1/1	$100/$300/$100	$ 1,000	——	$15/$30	$ 250	- 0 -	——
Watertown	2/1	$100/$450/$50	——	——	$15/$30	——	——	——
Wausau	1/1	$500	$ 1,000	$1,000	$15/$30	——	——	$200

N/A = Not Available

SIR = Self-Insured Retention

* $5,000 Each Accident Deductible

SCHEDULE OF CURRENT VEHICLE INSURANCE PREMIUMS

	LIABILITY		MISCELLANEOUS		PHYSICAL DAMAGE			
	Primary Liability	Excess Liability	Medical Payments	Uninsured Motorist	Collision	Comprehensive	Named Perils	Total Physical Damage
Appleton	$ 63,456	N/A	—	$ 128	$ 2,580	—	$ 460	$ 3,040
Beloit	25,056	—	—	36	1,764	$ 1,489	—	3,253
Eau Claire	31,027	N/A	—	84	4,082	55	1,945	6,082
Fond du Lac	19,392	—	—	52	1,140	1,337	—	2,477
Green Bay	46,724	—	—	Included	1,267	399	—	1,666
Janesville	65,588	—	—	76	—	—	—	—
Kenosha	51,996	$ 16,431	—	124	3,000	4,396	—	7,396
La Crosse	38,139	1,125	—	72	13,382	764	—	14,146
Madison	210,000	76,000	N/A	N/A	N/A	N/A	—	N/A
Manitowoc	16,058	3,643	—	32	386	—	450	836
Merrill	4,599	1,882	—	12	591	396	—	987
Milwaukee	SIR	114,535	—	—	—	—	33,400	33,400
Oshkosh	44,100	—	—	63	—	—	—	—
Racine	66,684	400	—	87	3,826	9,208	—	13,034
Rice Lake	4,307	1,033	—	20	1,146	917	—	2,063
Sheboygan	34,000	7,788	—	116	—	—	6,287	6,287
Stevens Point	7,010	1,687	—	20	1,442	Included	—	1,442
Watertown	3,951	—	—	12	—	—	—	—
Wausau	23,435	2,000	$856	140	—	—	1,518	1,518
TOTALS	$755,522	$226,524	$856	$1,074	$34,606	$18,961	$44,060	$97,627

N/A = Not Available

SIR = Self-Insured Retention

Exhibit 8

form also requires that newly-acquired vehicles be reported to the insurance company within 30 days of their acquisition. If not reported, coverage does not apply. This onerous requirement, not appearing on the other two policy forms, could create a gap in coverage, if a new vehicle is acquired and someone fails to report it to the insurer within the required time period.

B. EXCESS LIABILITY

The purpose of an excess liability policy is to bring the total limits of liability protection to the desired level. An excess policy not only increases the protection for automobile liability losses, but usually affords excess protection against nonvehicle liability losses, such as those arising out of slips and falls on the premises, the sale of products or services and liabilities assumed under contract.

The excess policy or policies should provide a limit high enough to protect the transit system against serious financial dislocation resulting from losses. There is no precise formula for choosing the appropriate limit. Judgment plays a large role in selecting the desired limit of coverage.

Local governmental immunities have been eroded by court decisions in all states and Wisconsin is no exception. Section 895.43 of the Wisconsin Statutes limits a political subdivision's liability to $25,000 per claimant. However, the limitation does not apply to automobile liability claims – the transit system's most obvious exposure.

Looking at the five-year loss history (Appendix C) of the 19 study participants, we found only one loss greater than $100,000. The Madison system has a bodily injury claim outstanding since 1975, presently reserved at $300,000. Thus, the past experience of the study group might prompt someone to reason that, taking the one large loss, allowing for inflation and the possibility of more than one serious injury from a single accident, a $1 million limit should be adequate. This conclusion, though logical, is based on a small body of data.

Settlements and court awards are increasing in value country-wide. We have seen more and more injured parties receiving amounts ranging from $1 million to $3 million. Though Wisconsin transit systems have not experienced claims of this magnitude, the

projected growing use of public transportation facilities increases the likelihood of serious liability claims in the future. With this in mind, a $5 million limit is the standard we recommend all systems maintain, with the exception of Madison and Milwaukee where the present $10 million limit is appropriate. Accordingly, the following systems should increase their liability coverage limits: Appleton, Beloit, Eau Claire, Fond du Lac, Janesville, La Crosse, Manitowoc, Merrill, Oshkosh, Racine, Rice Lake, Sheboygan, Stevens Point, Watertown and Wausau.

RECOMMENDATION

1. Eau Claire - There is an apparent gap in coverage between the system's primary vehicle liability policy and the excess liability policy. The excess liability policy is written to provide a $1 million limit of protection in excess of $500,000 in primary vehicle insurance. However, the actual primary vehicle insurance limits are:

Bodily injury:	$ 300,000	each person
	$1,000,000	each accident
Property damage:	$ 100,000	each accident

Since the excess policy is written to apply over $500,000, there is a $200,000 coverage gap (between the primary and excess policies) in the bodily injury per person limit, a $500,000 overlap in the bodily injury accident limit and a $900,000 gap in the property damage limit. This coverage deficiency should be corrected by having the excess policy modified to apply in excess of the "split" limits shown above or by having the primary policy modified to provide a $500,000 limit.

2. Eau Claire, Manitowoc and Sheboygan - The products liability/completed operations exclusions appearing on the excess policies covering these systems should be removed. Every transit system has a products liability exposure arising from the sale of used buses. If, following a sale, a third party is injured in an accident involving the bus and alleges that the injuries were due to the transit system selling an unsafe bus, the transit system may need insurance protection to cover defense and possible judgments against it, should a judge or jury side with the plaintiff.

An exposure, unique to the Eau Claire system, is that they service the school buses belonging to a private operator. Should claims arise out of alleged improper servicing of these vehicles, the excess policy would not respond because of the products/completed operations exclusion. This subjects Eau Claire to a significant exposure to catastrophic loss, which is presently uninsured.

C. MEDICAL PAYMENTS

This optional coverage pays, irrespective of fault, the medical bills of occupants of insured vehicles. With respect to employees of the transit system, the coverage duplicates that afforded by workers' compensation. As respects passengers, if there is any possibility that the bus operator was negligent and caused the accident, the liability insurance portion of the policy will respond to pay these medical bills anyway. If the bus operator is not negligent, then recovery should be obtained from the negligent party. Since this coverage duplicates other sources of recovery, we recommend against its purchase.

RECOMMENDATION

Madison and Wausau - Delete medical payments insurance from the existing vehicle insurance policy. In our opinion, the $856 presently paid by Wausau and an unknown amount paid by Madison for this coverage are unnecessary insurance costs.

D. UNINSURED MOTORISTS

Section 632.32(3) of the Wisconsin statutes requires uninsured motorists protection be provided on every policy which provides motor vehicle liability insurance. Minimum limits of required protection are $15,000 each person and $30,000 each accident. This coverage protects bus operators and other occupants of transit vehicles for damages due to bodily injuries, where caused by a hit-and-run driver or by a driver who has no liability insurance.

RECOMMENDATION

Green Bay - We recommend present coverage limits of $100,000 each person/$300,000 each accident be reduced to the minimum requirement stated above. In states where the coverage is not mandatory, we commonly recommend against its purchase. The reasoning is similar to our recommendations not to carry medical payments insurance. Specifically, employees are protected by workers' compensation insurance. With respect to passengers, purchase of this insurance by the system permits payment for injuries for which the system would not otherwise be responsible. Insured systems cannot refuse uninsured motorists insurance. However, only the statutory minimum limits should be purchased.

E. PHYSICAL DAMAGE

Physical damage insurance pays for repairs to the transit system's buses or other vehicles where such damages cannot be recovered from another party. The coverage is offered in three basic forms:

1. Collision coverage, or road hazard insurance.
2. Comprehensive coverage which protects against all risks of loss other than collision.
3. Named perils coverage (mutually exclusive with comprehensive coverage) which protects against only specified perils selected by the insured, such as fire, theft, windstorm, etc.

The physical damage insurance-buying practices of the participants vary widely. Whether or not this exposure should be self-insured depends upon the value of the vehicles at risk, the entity's ability to retain losses arising out of damage to one or more vehicles and the cost of insurance. A system may decide to self-insure this exposure, if it feels it can withstand a loss arising from the complete destruction of one vehicle. However, the entity must also consider that where vehicles are stored under one roof, they may all be destroyed from a single occurrence (such as a fire). Accordingly, they may decide to self-insure the collision or road hazard exposure, but purchase comprehensive or named peril insurance to provide protection in the event of a major garage fire or other catastrophe. The Milwaukee system is an example of a system making this choice.

Each system must make a choice on the types of hazards to insure and the amount of deductible to carry, based on its evaluation of the risks presented by the operation.

RECOMMENDATION

Janesville - In reviewing the policies for Janesville, we were unable to find physical damage protection for any of their new buses. Each bus represents a large loss exposure ($100,000) to a system of Janesville's size, not to mention the loss of many buses that could arise out of a fire at the maintenance and storage facility. Accordingly, we recommend Janesville reevaluate their position to self-insure this exposure and obtain quotations for physical damage insurance.

F. COMPREHENSIVE GENERAL LIABILITY

Though not a part of this study, comprehensive general liability insurance deserves comment, as it is important that it be interfaced with vehicle liability insurance. Basically, this insurance provides coverage for liabilities arising out of hazards other than the operation, maintenance or use of motor vehicles. It should protect against hazards such as the members of the public slipping and falling on premises of the transit system, liabilities arising out of the sale of products or services to other people, and liabilities assumed under written contract. Though we were not able to obtain copies of all systems' general liability policies, we were able to review several and our recommendations are listed below.

RECOMMENDATIONS

1. Milwaukee and Wausau - Neither system has insurance coverage for products liability claims, which may arise out of the sale of buses to third parties. Such claims can be for very large sums. (See discussion under Recommendation 2, following Section B, above.) We recommend the general liability policies of these systems be expanded to include products/completed operations coverage.

2. Sheboygan, Stevens Point and Wausau - None of these systems have protection for liabilities assumed under written contracts. The day-to-day operations of any transit system include the procurement of products and services - some under

written agreements drafted by the sellers. Often, the terms and conditions of these agreements require the purchaser to assume specified liabilities of the seller. If claims later arise out of this agreement, a broad general liability policy should respond to protect the insured. Accordingly, we recommend these entities expand current general liability policies to include contractual liability coverage.

3. Wausau - The system's primary general liability policy has a coverage extension providing premises medical payments coverage. Like automobile medical payments coverage, the policy responds to pay, irrespective of fault, the medical expenses of third parties injuring themselves on system premises. Because there is no good reason to pay for coverage, which makes payment even though the transit system is not at fault, we recommend its deletion from the policy. If the system has negligently caused the injuries or damages, the liability section of the policy will respond. Thus, the general liability policy provides the needed protection.

4. Watertown - This transit property reported it carries no general liability insurance protection. Accordingly, it is protected only for liabilities directly relating to the ownership, maintenance or use of its vehicles. All other liabilities, which could be substantial, are not insured. We recommend this system obtain comprehensive general liability insurance.

V. GROUP ALTERNATIVES

The preceding chapters of this report contain numerous recommendations on how transit managers can improve their individual insurance and risk management programs. By following our recommendations, we feel coverage will be broadened, costs will be held to a minimum and insurer and agent services will be improved.

Another way of lowering costs and improving coverage and services is for the participating transit systems to implement a group self-insurance and/or group insurance program. We have worked country-wide with over 20 other public entity groups, who have been successful in controlling their insurance-related costs, while improving coverage and services, by using an assortment of group insurance and self-insurance programs. One of the goals of this study was to evaluate the feasibility of a group program to apply to participating transit systems. The following discussion presents our findings in this area.

Group insurance/self-insurance programs are successfully pursued when most of the following conditions are present:

1. The interested entities have homogeneous characteristics, viz similar size, operations, equipment, loss control efforts, etc.
2. Insurance coverage is not available to individual entities on a reasonably competitive basis.
3. Broad coverage terms and adequate policy limits are not available to the entities as individual purchasers of insurance.
4. Key insurance services, safety engineering, claim handling and loss statements, are not sufficient to meet the needs of the entities.
5. The available group alternatives will generate long-term savings, while improving the scope of coverage and the quality of services.
6. Participating entities are sincerely interested in developing low cost, high quality long-term programs.

Applying the above six conditions to this study group, we discuss each condition in order, below:

1. With the exception of the Milwaukee and Madison systems, we consider the study participants to have characteristics similar enough to permit consideration of group alternatives. Though the operations of the two largest systems have some similarity to those of the remaining study participants, their exposures to loss are significantly greater in terms of number of vehicles on the road, average passenger load, crowded traffic conditions and hours of operation.

   The Milwaukee system already has an excellent self-insurance program and, with the possible exception of participating in the group purchase of excess insurance, would not benefit from a group program. Similarly, the Madison system is large enough by itself to already have considerable buying power in the insurance marketplace. This is further aided by Madison Service Corporation being a subsidiary of a much larger entity.

2. With the 17 smaller participants, we did notice a lack of competition. However, as noted in the text, this is at least in part due to the marketing techniques presently being used. Also, there is little opportunity for small community insurance agents to become experienced at and effective in the placement of transit vehicle insurance. Finding one experienced agent to place coverage under a group program would be easier than finding 17 experienced agents to make individual placements.

3. Though we have noted deficiencies in coverage terms and the limits of liability carried, implementation of our coverage improvement recommendations should be possible even without a group program, though a group program would offer cost economies.

4. Our observations with respect to the level of services presently being received are documented in the report. Though these services can be improved by better insurer selection on an individual basis, the leverage a group alternative presents would better assure high quality services.

5. Based on our review of the statistics collected, we conclude there are two practical group alternatives which offer long-term savings to the study participants:

   -- Joint protection program

   -- Joint purchase program.

6. While all participants are interested in lowering vehicle insurance costs and improving service, the interest was most apparent in the minority of systems, where transit management was actively involved in the purchase of insurance.

   Since all of the transit systems rely heavily on State and Federal operating assistance programs, it is also necessary to obtain the support of the appropriate agencies before pursuing a group program. The interest of the agencies is already apparent, as this study is State sponsored and Federally funded.

A. JOINT PROTECTION PROGRAM

1. General Description

This type of approach to reducing insurance costs involves a combination of group self-insurance and group insurance purchasing and is used by public entities country-wide. Exhibit 9, on the following page, presents an outline of the key components of the specific program we propose for the study participants. These elements include:

a. Self-insurance to $100,000 per occurrence - This element of the program includes the group's sharing in the first $100,000 of each loss. Since the group is self-insuring this area, services commonly provided by the insurance carrier, claims handling, computerized statements of losses and safety engineering, will have to be purchased separately. There are many firms which provide such services including insurers who often sell these services apart from the insurance coverage they provide.

b. Joint purchase of excess insurance to $1 Million - To make up the difference between the $100,000 self-insured layer and $1 million liability limit (though we recommend a $5 million limit, all systems are unlikely to agree), the 17 participants would approach the insurance market as a group to buy standard insurance protection. The combined purchasing power of the group will be greater than each individual member of the group would have, with probable savings ranging from 20% to 40% and coverage terms being the broadest available.

c. Optional joint purchase to higher limits - Many of the systems already insure to limits greater than $1 million. Presumably, they will wish to continue this practice which we highly endorse. We anticipate that minimum savings of 20% would accrue to those parties interested in purchasing higher limits, if the marketplace is approached by more than half of the participants. Also, in this layer excess of $1 million, Milwaukee and Madison (excluded from the other layers of the program) could participate to obtain the cost and coverage benefits of the group excess purchase.

2. Cost Comparison

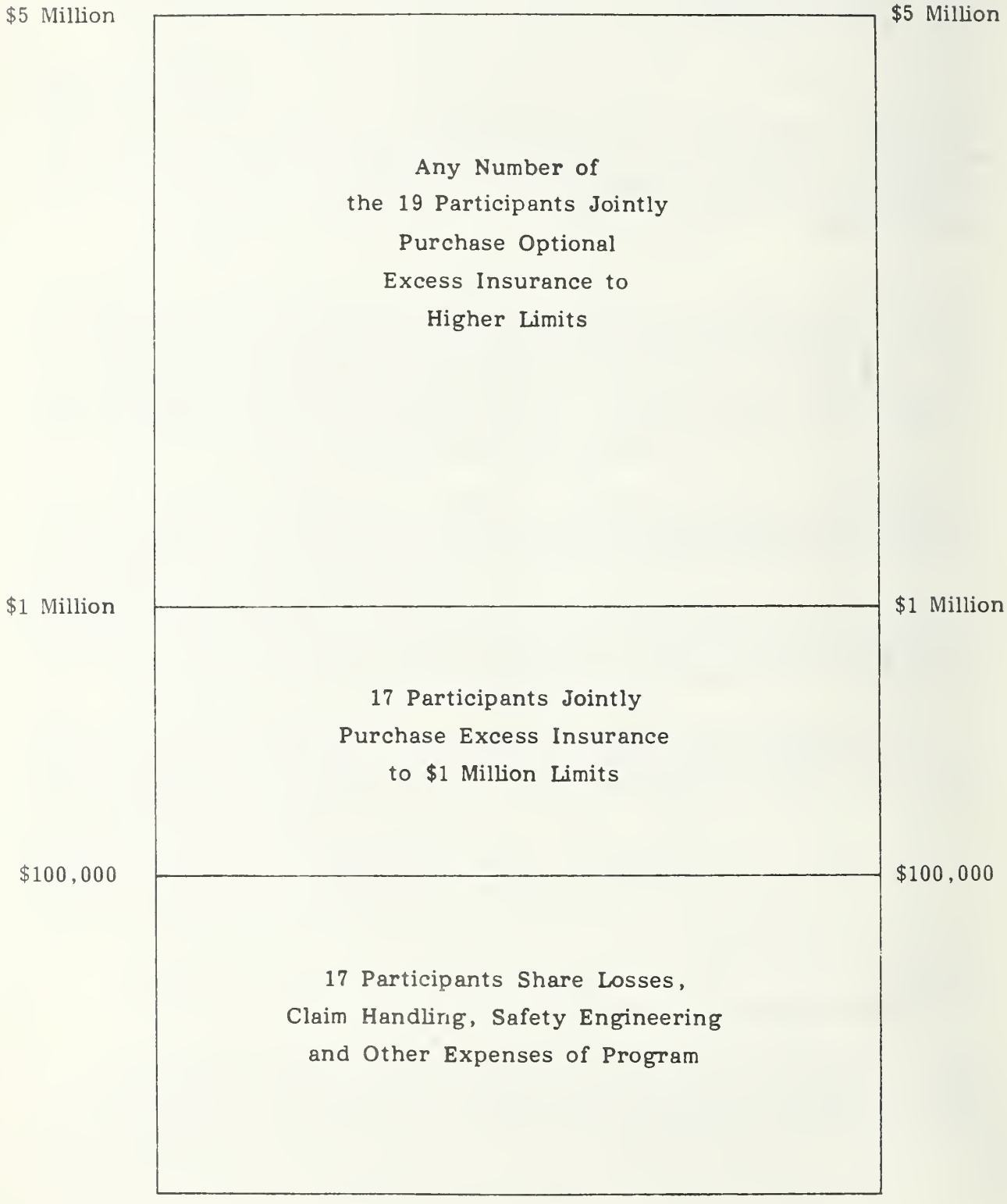
Exhibit 10 compares the estimated insurance costs of the first $1 million in liability protection for the 17 participants to the estimated costs of a joint protection program. In our opinion the estimated savings of 16.7% would accrue to the group on a long-term basis, if the majority of the 17 eligible systems participate. This would produce a

Exhibit 9

Wisconsin Department of Transportation

JOINT PROTECTION PROGRAM

VEHICLE LIABILITY INSURANCE



$100,000 savings in the first year. Without a high degree of participation, however, the savings percentage would be difficult to achieve.

In addition to the savings we estimate, the joint protection program would give participants a voice in the quality of claims handling, safety engineering services and loss experience reports. Contractors providing such services can be replaced at any time without disturbing the continuity of the program.

Each of the cost components outlined in Exhibit 10 are further described as follows:

a. Individual Insurance Programs to $1 Million Limits - For the purpose of comparison, we have estimated the costs of each entity purchasing a $1 million limit vehicle liability insurance policy, using the average vehicle rate calculated in Exhibit 1. Based on the number of reported vehicles (see Appendix E) for the 17 smaller systems (excludes Milwaukee and Madison), the aggregate costs of individual insurance placements are estimated at $625,000 annually.

   Some of these systems do not have to pay all of their premiums by the inception date of the policy, but rather are permitted to make incremental payments over the term of coverage. Accordingly, we have allowed for the time value of money, assuming on the average all premiums are paid by the end of the third month of coverage, using a 10% rate of interest, which most public agencies can easily earn on their invested funds, until such time as they are needed for expenditures.

   The present value of the $625,000 premium cost, paid an average of three months after policy inception, is $610,000. The present value approach was similarly used in all the cost elements of the joint protection program.

b. Estimated Losses - We have proposed that the joint liability protection program contain a $100,000 self-insured retention, below which all participants would share, under an equitable formula, each other's liability losses.

   From the loss data presented in Appendix C, we conservatively estimated that losses incurred in the first year of operations will be $300,000. This estimate is almost two times the $159,039 reported incurred losses for the highest loss year (77-78) and must be conservative to allow for inflation and the possibility of an unusual amount of losses occurring in the first year. This includes not only losses paid to claimants, but also reserves for estimated future payments on losses occurring during the first year. Typically, liability losses are settled and paid for over a long period of time, following the date of occurrence.

Exhibit 10

Wisconsin Department of Transportation

COST COMPARISON

JOINT LIABILITY PROTECTION PROGRAM vs
INDIVIDUAL INSURANCE PROGRAMS

17[1] Participating Systems

	Direct Cost	Time Period[2]	Present Value @ 10%
Individual Insurance Programs to $1 Million Limits	$625,000	3	$610,000
Joint Liability Protection Program			
Estimated Losses (Limited to $100,000 each)	$300,000	24	$247,800
Excess Insurance ($900,000 x/s of $100,000)	160,000	0	160,000
Claim Handling[3]	65,000	6	61,945
Safety Engineering	15,000	6	14,295
General Administration	25,000	6	23,825
	$565,000		$507,865
Indicated Savings	$ 60,000 (9.6%)		$102,135 (16.7%)

[1] Excludes Milwaukee & Madison systems.

[2] Average number of months from coverage inception date until funds are expended for the designated cost element.

[3] Salary of one adjuster located in Milwaukee $18,000
Overhead & Expenses 18,000
Independent Adjusters 25,000
Data Processing 4,000
$65,000

For the types of losses to which the transit systems are exposed, we estimate that losses will be paid on the average 24 months after the inception of the program. During this 24 month period, funds not needed to pay losses can be invested in securities which can earn an average rate of return of 10% or more. Accordingly, the present value of the $300,000 in estimated losses, paid an average of 24 months after program inception, is $247,800.

c. Excess Insurance - To protect against the unusually large loss, the participating systems would purchase, as a group, excess insurance providing $900,000 in coverage in excess of the $100,000 self-insured retention. This brings the total limit of the program to $1 million.

From the loss data in Appendix C, you will note only one claim has exceeded $100,000. That claim is presently reserved at $300,000 and was incurred by the Madison system, which would not participate in the joint protection program. None of the other systems have incurred losses which even approach $100,000. However, excess insurance is strongly recommended to protect against the possibility of such an occurrence in the future. We estimate the cost of the excess insurance at $160,000, which would have to be paid at program inception.

d. Claim Handling - Since the participating systems would now be substantially self-insured, the claim adjusting services normally provided by an insurer would have to be replaced. Note 3 of Exhibit 10 describes how we have estimated these expenses. As discussed previously in the report, Milwaukee has an excellent staff for administering claims. It would be desirable if the expertise displayed by the Milwaukee Claim Department could be drawn upon to benefit the systems participating in the joint protection program. We propose that Milwaukee's claim department handle all claims for Sheboygan, Fond du Lac, Watertown, Beloit, Janesville, Racine and Kenosha and supervise claim files handled by independent claim service firms in other areas of the state. Also, Milwaukee could be the data collection point and provide the group with the needed loss information.

Milwaukee's cost of assisting the group would be paid for by the group. We estimate that this would demand the time of one full-time claim adjuster, his related expenses and the cost of sharing a data processing system. Advantages to the Milwaukee system include:

- - A large claim staff, representing a broader base from which to draw future claim management personnel.

- - More ability to handle temporary fluctuations in workload.

- - A contribution to the cost of a data processing system for recording loss information.

We feel the costs of the Milwaukee adjuster and the independent adjusters needed to service the rest of the state would be $65,000. Paid for an average of six months after program inception, produces a present value of $61,945.

e. Safety Engineering - The joint protection program will permit the group to procure safety engineering services specifically adapted to reducing transit liability losses. For $15,000 (with a present value of $14,295) the group could purchase enough safety services to provide an average of 2 full (8 hour) days' services per participant, per year.

f. General Administration - After program implementation, the group will need an individual to be responsible for the day-to-day operations. This individual could come from various sources, including:

- - An employee of one of the participants.

- - An employee of the Department of Transportation.

- - An insurance agent.

- - A consultant.

In addition, there will be general administrative costs associated with an annual CPA audit and legal counsel. These miscellaneous administrative costs are estimated to be $25,000.

By totalling the estimated costs of the joint liability protection program (b through f, above) and comparing these costs to the cost of individual insurance programs, we estimate direct cost savings of $60,000 or 9.6% and present value savings of $100,000 plus, or 16.7% for the first year of operation. Overall savings in any year could be more, if losses did not reach the projected amount, or less, if losses were greater than expected. However, we feel the estimated savings on a long-term program would fall between 15% and 20%. It would require participation by at least 14 of the 17 smaller systems to achieve the estimated savings.

A formula for sharing all of the costs of the joint protection program would have to be developed to fairly distribute the operating costs to the program participants. In any given year, the costs to an individual participant may be more or less than that participant would have to pay by purchasing insurance individually. However, over the long term, we would expect each participant's share of the program costs would produce savings in the same 15% to 20% range projected for the group.

3. Advantages

The advantages to a joint liability protection program include:

a. Long-Term Cost Savings - The long-term savings which accrue under such a program are clearly an important reason for pursuing one. The savings arise from several sources including:

   - - Elimination of the insurance agent's commission on all but the $900,000 excess of $100,000 excess insurance placement.

   - - Elimination of premium taxes on the first $100,000 of protection.

   - - Earning interest income on dollars set aside to pay losses in the future.

   - - Reduction in total losses through improved safety engineering and claim handling services.

   - - Economies of scale resulting from the group placement of the excess insurance.

b. Improved Services - As mentioned in Item a, above, improved claim and safety services would be expected to lower losses. This is possible because the group would be able to choose those service firms who have particular expertise in the handling of bus transit systems.

c. Better Information - Under a joint protection program, each system will be given detailed information on how its portion of program costs was determined. Not only would frequent loss reports be given to the participants, but also information on what other elements make up the total costs associated with participating in the program. Such information has not been provided on a regular basis to the participants in the past. Program participants would now be assured that their vehicle liability insurance costs are based solely on the experience of the group, as opposed to an underwriter's total book of business.

d. Control - Before a claim could be paid, the claim administration firm would have to obtain the approval of the program administrator. Insurers presently act autonomously on these decisions; often to the detriment of the transit system.

e. Flexibility - If the services received for either safety or claims handling are inadequate, new service firms could be sought in either area without disturbing the continuity of the program.

4. Disadvantages

Just as a joint protection program has advantages, so too are there disadvantages, most of which can be overcome by properly structuring the program. Possible disadvantages are discussed below:

a. Broker/Agency Relationship - Since the joint protection program will involve the selection of one agent or broker to place the excess insurance for the group, an individual system's present agent/broker would no longer be handling that system's vehicle liability insurance. This can create political pressures within the community and may result in a system's not having as easy access to the group's agent as under the previous individual arrangement. Since the prime function of an agent or broker is to market the system's insurance, we do not think the loss of day-to-day contact should be a material consideration in deciding to enter the program. Further, the program administrator could handle most of these day-to-day concerns.

b. Vehicle Physical Damage Insurance - Most of the participants presently purchase vehicle physical damage insurance. Presumably they will want to continue this in the future. However, the joint protection program contemplates liability insurance only. This is not a significant problem, since vehicle physical damage insurance is available separate from vehicle liability insurance and can be placed individually by the transit systems. If enough members of the participating group wish to obtain physical damage coverage, they could also purchase it jointly under a separately-funded program within the joint framework.

c. Adverse Selection - Adverse selection is the term used to refer to the situation where entities enter a group protection program only because they cannot obtain coverage elsewhere. A common criticism of joint programs is that they only attract those entities with the most hazardous exposures and the worst loss experience. While we presently see no entities with exposures or loss experience that would be detrimental to the rest of the group, this situation could arise in the future. There are, however, several steps which can be taken to limit the possibility of adverse selection:

   - - Each entity should be asked to commit to the program for a minimum period of time; we recommend at least three years.

   - - Costs under the program should bear some relationship to losses, such that those entities who are unsuccessful in controlling their losses contribute proportionately more funds to the program than those who are successful in controlling losses.

   - - Those entities which do not conform to safety standards set by the group, may be forced by majority vote to leave the program.

   - - New members are accepted only if they meet a set of admission standards established by the group.

d. Program Management - While the day-to-day operations of the program can be performed by an administrator as discussed above, overall management responsibility must be retained by the participants. This would involve the time of at least one representative of each participating transit property and periodically require the time of that individual to make management decisions with respect to broad

operational decisions for the program. This is very similar to sitting on the board of directors of an insurance company, because the joint protection program operates in place of an insurance company. We do not feel this time requirement would be excessive, particularly in view of our recommendations earlier in the report that transit management become more actively involved in the procurement of insurance on an individual basis.

e. Financial Risk - Because the joint protection program would now be responsible for paying liability losses up to $100,000 each occurrence, an unusual number of such losses in any given year could require paricipants to contribute additional funds to the program to keep the program solvent. While we think the probabilities of substantial assessments to participant members are extremely remote, based on our review of the loss information, the possibility does exist. The possible assessment is somewhat mitigated, because present State and Federal operating assistance programs would apparently participate in such assessments. If such a program is considered, we would suggest this matter be clarified with the proper State and Federal agencies.

The financial risk could be further reduced if annual aggregate excess insurance were purchased to protect against unusual losses. This form of insurance was discussed in Chapter III of the report. However, it represents an additional cost element, not contemplated by our cost comparison of Exhibit 10.

f. Statutory Authority - Section 66.30 of the Wisconsin Statutes permits any municipality (including cities and counties) to contract with other municipalities for services for the joint exercise of powers or duties required or authorized by law. Though we recommend a legal opinion be obtained, we interpret this statute to permit transit properties, owned by municipalities, to exercise as a group their power to purchase vehicle insurance or become self-insured. Another Wisconsin Statute, Section 66.18, seemingly allows but does not expressly require, a municipality to purchase risk management services and liability insurance through a municipal mutual in cooperation with other municipalities. This statute exempts such a municipal mutual (none of which have been formed to date), from normal premium taxes paid by a conventional insurer, but does subject the mutual to regulation by the State Insurance Commissioner.

This statute is vaguely worded, such that it is difficult to determine its applicability to the group options discussed in this chapter. From our discussions with the Insurance Commissioner's staff, we find they interpret the statute to mean that any group self-insurance program would require the formation of a municipal mutual. The municipal mutual would then have to conform to the requirements imposed by the regulators, which requirements imply an additional cost element not contemplated in Exhibit 10. The Commissioner's staff concedes, however, that the statute is difficult to understand or interpret.

While the regulatory requirements of the Insurance Commissioner could be dealt with, the statute is vaguely worded and would limit the flexibility

of the municipal mutual to control its own destiny. Before implementing a joint protection program, we would suggest the group lobby for authorizing legislation, more in line with existing legislation either passed or under consideration in the states of California, Washington, Oregon, New York and others.

Because of the uncertainty presented by existing statutes and because savings can be achieved with less financial risk under an alternative group program, we recommend the study participants pursue a joint purchase program, discussed below.

B. JOINT PURCHASE PROGRAM

1. General Description

An important element of the joint protection program discussed above, is group placement of excess insurance. Just as a single agent or broker could place the excess insurance required for the joint protection program, so could he place first-dollar (no deductible) insurance for the 17 participants.

The program is simple and will not require much discussion. It is merely having the 17 smaller systems (excludes Milwaukee and Madison) approach the insurance marketplace as a single insurance buying unit. One policy is purchased instead of 17, yet protection is as broad as, if not broader than, 17 individual placements. This approach capitalizes on economies of scale that an underwriter is willing to consider for the group, which considerations are not available with 17 separate placements.

2. Advantages

Advantages available to participants in a joint purchase program include:

a. Cost Savings - Similar groups with whom we have worked have achieved savings ranging from 15% to 20% (or $90,000 to $125,000) under joint purchase programs. To achieve these savings, however, would require the participation of at least 14 of the 17 smaller systems. Savings in a given year for any participant will vary. However, long-term savings for all participants should fall within the projected savings range.

b. Improved Services - The group would be able to select that carrier that offered the best package of services, including claim handling, safety and

loss experience reports. This selected insurer would also be more responsive to the needs of the group, because the aggregate premium level is large enough to make the group an extremely valuable policyholder.

c. Administration and Management - The contemplated group purchase program would be a first-dollar (no deductible) insurance program. Accordingly, not as much time need be spent by transit system management on such items as developing cost allocation programs among the participants, meeting Insurance Commissioner requirements and monitoring the services provided, though these services should be evaluated as least annually.

d. Flexibility - While the selected insurance carrier will be selected to meet the broad goals of the group, it will also be able to meet the differing insurance needs of group members with respect to vehicle physical damage insurance and differing limits of coverage. Also, the data generated under the group purchase program would provide a sound basis for future consideration of self-insurance alternatives, such as the joint protection program discussed above.

e. Statutory Authority - Though we recommend a legal opinion be obtained, Section 66.30 of the Wisconsin Statutes seemingly provides authority for the transit properties to exercise their right to purchase insurance as group. Further, the Insurance Commissioner's staff has indicated that a joint purchase program would not fall under special regulation by the Insurance Commissioner, except to the extent that that insurer providing coverage under the program must meet normal insurance code requirements.

3. Disadvantages

A joint purchase program presents the same broker/agency relationship and adverse selection problems, discussed under the joint protection program, above. However, our suggestions on how to deal with these problems under the protection program will, with slight modification, mitigate these problems under the joint purchase program.

The only other potential disadvantage to a joint purchase program is that it does not offer as much voice to the participants on the day-to-day services provided by the insurer. Claim payment decisions will still be made by the insurer and individual service elements, such as safety, may have to be paid for irrespective of their value to the group. If one or more service elements are unsatisfactory to the group, the entire program would have to be replaced, thus disrupting program continuity.

The likelihood of this problem developing after program inception can be reduced by thoroughly reviewing the qualifications of insurers making proposals to the group. Each potential insurer's claims, safety and loss statement services can be thoroughly reviewed and evaluated so that the selected insurer is the one who offers the best service package.

Concluding our discussion of group alternatives, we recommend the group pursue implementation of a joint purchase program, under the framework suggested by Section 66.30 of the Wisconsin Statutes. This framework can then be used, along with appropriate legislation yet to be developed, to implement a joint protection program in future years.

The following chapter suggests a plan of action for implementation of our recommendation.

VI. PLAN OF ACTION

To implement a joint purchase program as suggested in the preceding chapter, study participants should pursue the following plan of action:

1. Survey study participants to determine the interest and ability of transit system management to participate in the program. For those managers who are presently not involved in the insurance procurement process, this would require express authority from city management, the city council, and/or other governing body to pursue the group program.

2. From interested transit system management, select a committee of four or five to manage the implementation of the joint purchase program.

3. If the committee desires professional assistance to implement the program, select an experienced and qualified consulting firm to aid in the implementation process.

4. Obtain updated loss, premium and underwriting information from each of the interested transit systems.

5. Obtain necessary legal counsel to develop the appropriate legal framework for joint exercise of insurance purchasing powers.

6. Request conceptual proposals from insurance agents capable of marketing the joint insurance program.

7. Select one or more insurance agents to market the program with designated insurance companies.

8. Review proposals received and select the one which offers the best combination of coverage, services and premium cost.

9. Implement the joint purchase program.

The time frame over which such a program can be implemented varies from one group to the next, but generally ranges from seven to ten months. If the plan of action is begun by May, 1980, we believe the joint purchase program can be implemented by January 1, 1981. Since 11 of the 17 participants presently purchase their insurance on a calendar year basis, this would be the optimum time to implement the group program.

Implementing a joint purchase program would permit the group to gain experience in working together on insurance-related problems, provide a forum to discuss such problems and be a natural stepping stone to implementation of the joint protection program at a later date.

APPENDIX A

Selecting An Insurance Broker
(from Practical Risk Management)

A permanent reference for the active risk manager — monthly additions

Practical Risk Management

Editor: Ros McIntosh
Written by: David Warren CPCU
Donn P. McVeigh CPCU
C. C. (Bud) Griffin CPCU

Date AUGUST 1978 (Revised) Number A-1 Page 1

SELECTING AN INSURANCE BROKER *

Today many major insurers write direct, large companies have risk managers, and consultants are increasingly available. Do we still need a broker? Our answer is a definite yes — but with two major qualifications:

1. Satisfy yourself he has the experience and ability to do the job well. A wide range of capabilities exists and unless you investigate the field thoroughly, you will never know yours is the most qualified.

2. See that he emphasizes those services you need and does not waste his or your time with non-essentials. One way to do this is to define your needs clearly (a written contract could help) and relate the broker's compensation (whether commission or fee) to actual services rendered.

MARKETING

One function for which the broker is usually indispensable is marketing. Marketing involves:

1. Selecting from the hundreds of possible insurers the few who are likely to be most suitable.

2. Deciding how to structure an offering to the insurer; that is, whether it should be put in one or several packages, whether special risks such as aircraft products or professional liability should be taken to separate underwriters, whether it would be better to have many underwriters share in a single offering (vertical layering), or have one primary insurer with other underwriters taking different layers of excess insurance (horizontal layering), etc. These are critical decisions which can properly be made only by a wise and experienced broker.

3. Negotiating with the underwriter on terms and conditions of coverage and price. Much skill — both professional and psychological — is needed here. Individual underwriters have their own strengths, weaknesses, and predilections. The broker who knows them from wide personal experience has a considerable advantage.

DIRECT WRITING INSURERS

(See Issue A-10)

Many large and capable insurers do not pay a commission to a broker. There are two ways the insured can handle these direct writers: (1) deal with them directly, omitting the broker entirely or (2) use the broker as an intermediary, paying him a negotiated fee for his services. Both techniques have their place.

The first is preferred when the insured knows the direct writer has the best overall program and periodically has a broker offer competitive quotations. The second is preferred in those small companies where the broker plays a dominant role in the risk program and coordinates all insurance functions.

There are other pros and cons, but the important point is which broker services you need and which you are prepared to do without.

The broker's fee for acting as intermediary with a direct writer is usually based on the net premium — often 10%. Unless special services such as loss prevention are included, this is usually excessive. The direct-writing company has built-in sales expenses which agency-writing

* *The term broker is used to denote either an insurance agent or broker. In most situations there is no practical or legal difference. The few technical differences are of little concern to the insured.*

companies do not, and the insured should not have to pay twice for sales costs. Also, basing the fee on premium is a disincentive for the broker to push for the lowest possible cost. It is better for the insured to negotiate a flat fee with the broker based on the broker's presentation of precisely what it is he plans to do and the amount of time and expense entailed. Usually, this will be somewhat less than 10% of the premium, unless extensive services are involved — such as engineering or claims adjusting.

FEES VERSUS COMMISSIONS

Much debate has occurred on the emotionally-tinged subject of whether a broker should be compensated in the traditional manner of taking a percent of premiums or whether he should be paid a professional fee related to services rendered. Most — though not all — brokers prefer commissions because:

1. Commission income is usually higher than the fees they feel they could negotiate.
2. The broker's remuneration is not readily visible to the insured, and thus is not subject to cost-cutting attacks.
3. Brokers are often unable to cost account their time and expenses in a way needed to develop reasonable but not excessive fees.
4. If salary and overhead of a major account executive are translated into an equivalent hourly fee, it may appear embarrassingly high.

Brokers in many states are restricted by the anti-rebate laws — something RIMS would do well to lobby against since in effect they are anti-consumer. A few states do not license brokers (Michigan, for example) and therefore won't allow fees. However, in most instances, the broker can negotiate any commission he wants, down to zero on some lines. Liability is normally more flexible than property, allowing the desired fee to be attained.

Risk managers, by a large majority, favor the negotiated fee over commissions. Some reasons are:

1. Many feel commissions are too high.
2. Fees give more flexibility in paying for services needed and omitting services not needed.
3. Fees eliminate the financial incentive to sell more insurance.
4. Fees are more professional since compensation is based on service rather than an amount of a product.
5. Fees generate better cost accounting and greater broker efficiency. Some responsible risk managers object to lavish entertainment, expensive offices, and other evidence of expenses unrelated to service.

We should mention, however, that a number of quite sophisticated risk managers are satisfied with the commission arrangement and even believe they can get more work from the broker under commissions than they would through a fee.

COMMISSION INCOME

The amount of commission received by brokers varies widely. In most property and liability lines it lies between 10% and 15%. Agents generally receive a little more than brokers and in some states and some lines specific commissions go to 20% and even 30% (bonds).

If you are not one of the largest industrials, be skeptical if a large broker tells you his overall commission is 7% or 8%, or less. Though possibly true as a total average, it probably includes some very low commissions on jumbo lines, workers' compensation, or employee benefits.

Here are some representative commissions of a medium-sized brokerage firm for a $100 million a year manufacturing company:

Primary liability	7.5%
Specialty liability	10
Umbrella	7.5
Factory Mutual fire	10 of net (fee)
Directors and officers	15
Other property	15 - 20
Marine	15
Fidelity	20
Workers' compensation	2.5 - 3

As an average of total premiums, this came out about 8.5%, chiefly because of a large workmen's compensation premium.

Every insured should know what his broker is receiving in compensation for his account. Some risk managers say this does not matter to them as long as they believe total costs are in line. However, as in any field, knowledge is preferable to ignorance. It is surprising how often a little information can raise questions or suggest actions that would otherwise be overlooked.

Some brokers will refuse to divulge their income, some using the analogy that a store doesn't tell you how much they mark up their goods. This is a merchandising approach, not a professional approach sought by the better brokers. The more professional firms will rarely refuse to tell their clients what they are receiving. They know they are worth it.

ACCESS TO MARKETS

Even when a broker works on a fee basis, he rarely can be totally objective with regard to market utilization. This is so because insurance marketing is a highly individualized function. The largest brokers theoretically have access to the entire marketplace, but in practice use only a fraction of the underwriting sources for most placements. Close relationships are developed between broker and market personnel. Some markets are therefore used much more heavily than others, not only because of the personal business relationship, but also because of the broker's need to deliver large amounts of business to insurers in order to develop rapport and leverage. No matter how large the brokerage firm, it will not be able to establish a close working relationship with all markets. Also, each broker has some markets with which he can produce better results than others.

Maintain a system of periodically testing your program through competing brokers or consultants. Do not open the program to direct competition at every renewal, but keep enough contact with competing brokers to be aware of trends and new developments. Whatever your insurance sources, don't let them become complacent.

OTHER FUNCTIONS

We gave marketing as the one indispensable function of the broker. He supplies, of course, many other services. Some have great value and some only shuffle paper. Which is which depends on your company and its specific needs.

Here are some functions the broker may perform:

1. **Checking policy wording and accuracy.** Each policy, as it is received from the underwriter, should be read carefully to see that wording actually does give the desired coverage. Mistakes are common and should be corrected before the policy is passed on to the insured. Brokers often become careless with this function, and even when they are not, the insured also should read each policy as it is received. (See the case of Parris & Sons vs. Campbell, 196 SE 2d 334, where the judge stated that the insured had a duty to read his policy and should not rely on the agent.)

2. **Fire protection and safety.** Some of the larger brokers have staff specialists (a few are engineers) to make inspections, advise on new construction, analyze fire rates, and review recommendations from insurance company inspectors. Some of this work is excellent but a great deal is wasteful duplication of effort. For instance, for a company with adequate in-house fire protection engineers, use of a broker's engineer may just pyramid the bureaucracy. Only you can decide what is needed and what is not. Such services should be performed, not because they are available, but because they fill a need.

3. **Valuations.** An often useful function is assistance in establishing insurable values. While this does not give very accurate results, it is often adequate for insurance needs. Even when the broker does not perform the actual valuation, he can be the source of data for updating old valuations.

4. **Drafting the policy wording.** The broker's ability to word a policy properly can be quite important. Wording must be tailored to fit the risk, yet still make it acceptable to

underwriters. He must know how to structure the wording, often unique, to stand the test of a large loss but also understand when standard language is preferred.

5. **Auditing reserves.** Public liability and workmen's compensation cases often drag on for years. Each case is estimated by the underwriter as to its ultimate cost, and the reserve (the total estimate minus amounts paid to date) is charged to the insured in the year the loss is incurred, whether you have retrospective or experience rating. Two points should be watched. First, the reserve amount should be reasonable and revised as conditions change. Second, the reserve should be taken off the books as soon as the case is closed. Underwriters are not always meticulous about this. The broker can be quite helpful in this regard, though it requires a knowledgeable and aggressive individual. In some cases on large accounts, the broker may actually audit the procedures of the claims adjusters – checking timeliness of adjuster's response and reports, judgment in settling or resisting, follow-up on subrogation potentials, and general effectiveness. If the broker does this well, he is worth his weight in gold. However, we have observed cases where this was done only superficially, so actual performance should be verified.

6. **Verifying rates and premiums.** Most policies utilize rates established by rating bureaus, sometimes with complicated rating formulas. Premium calculations can be involved. Errors do occur which the broker can detect. This should not require a great deal of time or expense.

7. **Risk identification and evaluation.** All brokers should be thoroughly conversant with the insured's activities and assist him to identify and measure risks. Needs here vary greatly.

8. **Collecting losses.** Brokers can assist an insured to collect his losses, but abilities vary, as do needs. Some straightforward settlements require no assistance while really complicated cases require a claims adjuster who has more expertise than is possessed by most brokers. If a good public adjuster (one who works only for the insured) is available, he may be preferable.

9. **Computer services.** Some of the larger brokers offer data processing services ranging from loss and claims analysis and insurable value printouts to probability forecasts. Check these carefully to see that they represent the most efficient way to achieve your goal and do not lock you in forever to one broker's services.

QUESTIONS RE BROKER SELECTION

After determining what broker functions are needed, several additional questions arise:

Q. *Should we have one or several brokers?*

A. Though strong opinions are voiced both ways, there is no pat answer. Generally, one broker should have enough of the account to know it well and provide the needed services. Some say there should be two brokers who are continually jockeying for more of the account. Here, the break could be along functional lines – one broker handling all property and another all liability – or one handle all domestic and the other, foreign. Also, there are specialty lines which call for other brokers. Each situation has its own dynamics.

Q. *One large firm says that they are so big they can get concessions from underwriters that other brokers cannot. Is this claim valid?*

A. Generally, no. It is true that different brokers have different degrees of influence with underwriters. Size is one factor, but overall size worldwide may not be as important as volume of placements of a particular type at a particular office. A more important factor is the broker's reputation for character and ability, which is quite independent of size. Also, some smaller brokers have a larger volume of a specialty line than the larger firms, thus obtaining greater expertise and leverage. The size of a brokerage firm should have little to do with the decision except as it affects specific services available.

Q. *How important is the accounts man – my contact?*

A. The accounts man is the most important factor of all. A decision among competing brokers should be based first on the individual capabilities of the accounts man (with the assurance that he will indeed stay with your account) and second, on the company itself.

Q. *As risk manager, I must use the broker selected by top management. How can I escape this restriction?*

A. Show management this report. Executives seldom realize the harm they do to a risk manager's program by dictating a particular broker. First, he may not have the specific combination of skills needed. Second, he may not be responsive to the risk manager as an individual. This is necessary to achieve a good balance, as the risk manager orchestrates the many factors of administration, claims adjustment, loss prevention, and insurance placement. A rapport between the broker and risk manager should exist for best results. Third, in most situations, he does not feel the hot breath of competition as strongly. In those few situations where management does demand frequent bidding, the results are even worse because no broker will be able to perform adequately.

Q. *With many foreign operations, do I need a broker with worldwide facilities?*

A. Not necessarily. First, determine what services are needed. This may depend on whether your management is centralized or decentralized (but for insurance, centralization of the master program is strongly recommended). Select the local broker (if any) who can best perform these services. This may or may not be the arm of the large broker. Selection of a good local broker by someone on the scene (assisted by the risk manager) and close coordination with your principal broker can be achieved with large or small brokers.

SELECTION TECHNIQUES

After consideration of all pertinent factors, you may choose a method of broker selection from the following alternatives:

1. **Appointment.** An outright appointment without competitive bids. This is the cleanest method.

   Advantages:

   a. Does not disturb markets. Underwriters give their best efforts to a broker who has the account in hand. With several brokers coming to him, an underwriter will not extend himself as much and may even refuse to quote. (Also, see discussion of market blocking under Alternative 4.)

   b. Broker has opportunity to negotiate alternative proposals in domestic and foreign markets, creating a competitive atmosphere between underwriters rather than between brokers.

   c. Suggests a long-term arrangement offering continuity to underwriters, particularly important if good experience credit has been built up. Be wary here, though. Good experience could mean excessive premiums.

   d. More productive time can be spent by the broker and insured together to arrange the best possible program.

   Disadvantages:

   a. Could be more expensive.

   b. May create an appearance of impropriety.

   c. Reduces insured's exposure to new ideas and developments of other brokers.

The appointment technique is best suited to a company whose risk manager is well acquainted with all available firms. However, the appointment should be preceded by a review similar to that described in (2) below.

The appointment technique is least suited to public bodies, where disadvantage (b) may be dominant.

2. Broker's proposal. Selected brokers are requested to present their own proposal for an insurance program, without approaching any markets. They could be pre-selected by reputation, geographical location, size (premium volume or number of professional employees), or any other pertinent characteristic. Where political pressures exist, it may be desirable to express the criteria for consideration in writing to make clear why certain firms could not qualify.

   Each applicant should supply:

   a. Brief history and description of his firm and its experience with names of clients having risk problems and exposures similar in size, nature, and complexity to yours.

   b. Comments on coverages proposed or suggested, along with alternative plans to achieve your risk management goals.

   c. Description of how the broker would propose to market the program, including a list of companies he would approach.

   d. Qualifications and experience of brokerage personnel who would be assigned to work on your account.

   e. A specific explanation of how the broker's in-house specialists can be utilized to control risk management costs through loss prevention and claim control efforts.

   f. The method by which the broker proposes to be compensated.

   In the selection process, objective assessments should be made of many factors, chief of which are:

   a. What are the qualifications of the individual, or individuals, who will spend the most time on the account? This is quite important as the vice president who makes the initial sales call may never be seen again after the account is obtained.

   b. Does the broker's proposal exhibit a high degree of imagination and responsiveness to your specific problems, or is the emphasis principally directed to less important criteria, such as the amount of pressure they can bring to bear on an underwriter?

   c. What is the broker's track record on marketing difficult or unusual lines of coverage? Ignore their promises. Find out precisely what they have done.

   d. Does the broker have an in-depth understanding of what "risk management" really means? That is, does he have the capability of understanding your business problems, internal administration, self-insurance potentials, loss prevention needs, etc. Avoid the broker who has only a superficial knowledge and who merely talks about insurance.

After the written proposals are received and reviewed by the risk manager and other top executives of the corporation, the eligible brokerage firms should be asked to make an oral presentation. This should be done by the individual person who will be assigned by the brokerage firm to act as account executive.

If a single choice is unanimous after the above process, the chosen broker can be given the go-ahead on the entire program. If a choice is not apparent, the field should be narrowed to a small number – usually two or three. At this point, "qualified competitive quotes" (see next section) may be used.

Advantages:

a. Does not disturb markets.

b. You receive a variety of ideas.

c. You receive a cost indication.

d. Allows continuity with existing markets after selection is made.

Disadvantage:

a. Broker can overstate coverage and understate premium.

The broker's proposal technique is a practical method for many organizations but has the defect of not allowing any one broker to achieve much depth of understanding of the insured's special characteristics. However, the understanding could come after selection and the proposed program appropriately modified. Also, a useful variation of this technique is to have detailed specifications for broker's services prepared by the risk manager or a consultant. Each broker would then respond to the specific points brought out in the specifications.

3. Qualified competitive quotes. The insured selects two or three brokers, giving written specifications to each, authorizing them to negotiate in specific markets to avoid conflict. Each broker can submit a list of companies he plans to use, listed in order of preference. The insured checks the list and gives letters of authorization to each broker for those companies he appears best able to represent. Where companies appear on more than one list, the broker placing it highest on his preference list may be authorized to use it.

   Advantages:

   a. Does not disturb markets.

   b. Creates competition between underwriters and between brokers, probably with lower premium.

   Disadvantages:

   a. Each broker loses opportunity to utilize combination of markets where they best fit, as with primary and excess layers.

   b. Complete separation of markets is not always possible where high limits and reinsurance are involved. If so, competition could be limited to primary lines only. Excess lines involve relatively little premium and are often best handled by the broker on a non-competitive basis.

   c. Some markets will refuse to negotiate until a broker is appointed, though in most cases, letters of broker authorization as described above should overcome this problem.

The qualified competitive quote technique is usually quite successful and is the one most generally desirable. It does, however, require preparation of specifications and evaluation of quotations by an experienced risk manager or consultant.

4. Unrestricted competition. Any firm is allowed to quote on written specifications. Sometimes the bid procedure is advertised.

   Advantages:

   a. Possibly lower premium cost.

   b. Elimination of political criticism.

   Disadvantages:

   a. Underwriters do not extend themselves and sometimes refuse to quote when many companies are bidding. Because of this, ultimate costs may be higher.

   b. Insurance markets may possibly be substandard, though this can be avoided by prequalifying markets (minimum rating by Best) or reserving the right to reject companies.

   c. Low cost could last only one year (but then few things in life are eternal).

   d. The emphasis is on price rather than service and skill. However, if specifications have been adequately drawn and services properly detailed, coverage should be complete. Price can then represent the major variable.

   e. Some markets may have been blocked (committed to only one broker or the price fixed at an unrealistically high level) by an unsuccessful bidder. Brokers sometimes go to an underwriter with a "suggested" price. If several brokers advise different levels, the highest will often prevail for all.

      Also, markets could be blocked and not used — an all too frequent occurrence.

Though not usually the best approach, unrestricted competition can be successful, with

professional preparation of specifications and evaluation of quotations. Without such professional attention, the results can be disastrous — and the unfortunate thing is that the insured may not even know it.

For large insureds, a well-rounded program may employ all four techniques for different segments.

To summarize, selection of a broker is a most important and highly technical matter. It should receive the attention of principal executives, including the chief financial officer; but when there is a full-time risk manager, he should have the ultimate decision. If management does not consider him adequate for this responsibility, they should get a new risk manager. Selection should be made by one of the techniques described but periodic testing by competitive firms is essential to a healthy program.

APPENDIX B

Claim Management Report

CLAIM MANAGEMENT REPORT

SCOPE

The following claim locations were visited and personnel interviewed:

Milwaukee Transport Service, Inc. — Milwaukee

Wally Bartz, Secty & Claims Counsel
Dan Krier, Asst. Claim Manager
Karl F. Abendroth, Treasurer

Employers of Wausau — Milwaukee

George A. Hagemann, Regional Claim Manager

Home Insurance Co. — Milwaukee

Randy Ran, Superintendent
Grant Lubin, Adjuster

U. S. F. & G. — Milwaukee

William L. Milkent, Supervisor

Further telephone interviews were conducted with the following:

Keith Finkel, Claim Manager - Hartford Insurance Co. - Milwaukee office

Don Snyder, Claim Manager - Hartford Insurance Co. - Madison office

Leland Buss - Madison Service Corp. - Madison

Neville De Valle - Transit Casualty - Los Angeles

FINDINGS

Based on our file reviews and interviews, it is apparent that Milwaukee Transport Service, Inc. operation provides claim handling service superior to that under fully insured programs.

MILWAUKEE

Milwaukee Transport Service, Inc. has been the managing entity for the Milwaukee system since the system went public in 1975. Under Mr. Wally C. Bartz, the claim department is staffed by three outside adjusters, one workers' compensation examiner, a full-time clerk and one part-time clerk. At the time of our review, Mr. Bartz had budgeted two additional adjusters.

This system averages about 3,000 reported incidents per year.

With the exception of "blind claims" (reported by the claimant without a corresponding report from the bus operator) every claim was reported to the claim department within 24 hours of the occurrence. The files, with few exceptions, were created upon receipt of the claim report and assigned to an adjuster.

Investigations were complete and clearly showed the degree of liability. Special damages were documented.

Settlements were very reasonable and properly reflected the liability and damages. Denials were prompt and supported by the investigations. There was no reluctance to defend an unmeritorious claim, and it was evident this reputation is known to the plaintiff's bar. (In 1978, 17 lawsuits were tried to a conclusion, all of which resulted in defense verdicts.)

Reserves were adequate. Records are maintained manually.

MADISON
GREEN BAY

The Madison system, managed by American Transit Corp./Madison Service Corp., is fully insured by Home Indemnity Co. (except for collision). Collision recoveries are pursued by Mr. Leland Buss of American Transit. Approximately 600 claims are reported annually to the Milwaukee office of Home Indemnity Co. and about 420 are referred back to a resident staff adjuster in Madison. The remainder are handled by mail or telephone from Milwaukee. At the time of our study the resident adjusters position in Madison was vacant and assignments necessarily went to independent adjusters on a time and expense basis. The Milwaukee office of Home Indemnity Co. does not receive any experience report listing the claims experience for this system. Experience is reported from New York to the broker, Alexander & Alexander in St. Louis.

Until recently, Mr. Buss contacted most claimants immediately for control purposes, leaving any possible later settlement to the Home Indemnity Co. adjuster. He has since been instructed not to contact claimants. He usually waits for the written police report of the accident before reporting it to Home Indemnity Co. This adds three to seven days to the reporting process. As a result, the ratio of represented claimants is increasing.

The City of Green Bay is insured by Home Indemnity Co. with the bus system included on the same policy. Claims are handled by a resident adjuster and reported to the Milwaukee office of Home Indemnity Co. At the time of our study, this resident adjuster position was also vacant.

RICE LAKE
WAUSAU
MANITIWOC

The above systems are fully insured by Employers of Wausau and claims handled by resident adjusters reporting to the Wausau office. See below.

KENOSHA
JANESVILLE
FOND DU LAC
BELOIT

The above systems are also insured by Employers of Wausau with claims handled by branch offices or staff resident adjusters reporting to the Milwaukee Regional Office. The resident and branch adjusters are supervised by Ms. Melanie Musser. Minor claims lending themselves to telephone adjusting are handled by the Milwaukee Regional office. The claims reviewed averaged a 6.5 day delay between the date of accident and date received by the carrier. Investigations were complete and settlements properly reflected liability and damages. The Kenosha resident adjuster, Mr. Paul Werner, came nearest to reaching quality of settlements demonstrated by the staff of Milwaukee Transport Services, Inc.

APPLETON
LA CROSSE
STEVENS POINT
WATERTOWN

The above systems are fully insured by National Indemnity which does not have a claim office in Wisconsin. Claims are handled through their Omaha, Nebraska home office and assigned to independent adjusters in Wisconsin on a time and expense basis. Ms. Barbara Weddle, home office supervisor controls assignments and authorizes settlements. Smaller claims are handled by mail.

The independent adjusters assigned are:

Appleton - Crawford & Co.

La Crosse - National Claims

Stevens Point - Desorcy Claims Service

Watertown - Casualty Loss Control Association

RACINE
OSHKOSH

These systems are insured by Transit Casualty which does not have an office in Wisconsin. Claims are handled through their Providence, Rhode Island office and assigned to various independent adjusters in Wisconsin. Smaller claims are handled from Providence by mail or telephone.

EAU CLAIRE
MERRILL

Both systems are insured by Hartford Insurance Co. Eau Claire claims are reported to and handled by the Hartford's Madison, Wisconsin office. Until recently the claims were assigned to General Adjustement Bureau but are now assigned to a staff adjuster.

Claims emanating from the Merrill operation are serviced from the Appleton office of Hartford Insurance Co. and reported directly to that office.

Neither Hartford office has a loss experience report.

SHEBOYGAN

Sheboygan Transit System is insured by U. S. F. & G. and handled through their Milwaukee office. Claims are reported to the broker, Bauer Insurance Agency who report to U. S. F. & G. through their agent, Roberts & Ryan. If a serious case, Bauer Insurance Agency reports direct to the Milwaukee U. S. F. & G. office. This results in a general delay of four days to one week. U. S. F. & G. in turn assigns the claims for handling to General Adjustment Bureau in Sheboygan.

The Milwaukee office does not receive a copy of any loss experience report.

APPENDIX C

Summary of Vehicle Liability Premiums
and Losses

Wisconsin Department of Transportation

PRIMARY VEHICLE LIABILITY PREMIUM SUMMARY

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Appleton	N/A	N/A	N/A	$ 54,023	$ 63,456	$ 63,456
Beloit	$ 932	$ 1,519	$ 3,572	6,681	21,924	25,056
Eau Claire	28,137	29,984	21,149	27,228	36,636	31,027
Fond du Lac	N/A	3,762	11,286	19,843	24,260	19,392
Green Bay	9,387	16,266	20,693	35,864	50,952	46,724
Janesville	N/A	N/A	18,021	26,243	78,576	65,558
Kenosha	N/A	N/A	13,128	33,866	39,844	51,996
La Crosse	N/A	22,511	30,901	41,637	45,075	38,139
Madison	121,494	242,820	245,571	218,157	327,995	210,000
Manitowoc	N/A	N/A	N/A	N/A	18,990	16,058
Merrill	1,048	3,671	4,032	5,814	6,801	4,599
Milwaukee	----------Self-Insured----------					
Oshkosh	N/A	N/A	N/A	72,392	55,167	44,100
Racine	N/A	N/A	37,971	55,624	56,224	66,684
Rice Lake	N/A	3,750	3,900	7,920	6,510	4,307
Sheboygan	12,442	17,600	22,300	31,000	41,000	34,000
Stevens Point	6,447	8,199	7,803	2,235	8,255	7,010
Watertown	2,439	2,368	2,962	3,262	3,967	3,951
Wausau	12,224	15,498	15,390	30,567	34,754	23,435
TOTALS	$194,550	$367,948	$458,679	$672,356	$920,386	$755,522

N/A = Not Available

Exhibit C-1

Wisconsin Department of Transportation

SUMMARY OF VEHICLE LIABILITY LOSSES

	1974/75 Amount (#)	1975/76 Amount (#)	1976/77 Amount (#)	1977/78 Amount (#)	1978/79 Amount (#)
Appleton	N/A	N/A	N/A	$ 20,022 (36)	$ 23,705 (22)
Beloit*	N/A	$ 347	$ 1,031	1,276	3,126
Eau Claire	$ 3,581 (7)	7 (1)	6,229 (10)	1,201 (7)	949 (9)
Fond du Lac*	N/A	743	2,461	1,956	3,818
Green Bay	18 (2)	2,074 (6)	1,237 (5)	7,516 (22)	7,933 (7)
Janesville	N/A	N/A	5,231 (7)	23,680 (23)	21,196 (9)
Kenosha	N/A	240 (4)	4,071 (18)	36,368 (27)	32,150 (32)
La Crosse	N/A	24,897 (23)	8,392 (9)	11,348 (12)	1,869 (9)
Madison	353,989 (126)	44,462 (95)	24,668 (74)	73,538 (115)	56,989 (95)
Manitowoc	N/A	N/A	N/A	N/A	2,364 (1)
Merrill	N/A	- 0 -	42 (1)	931 (2)	40 (2)
Milwaukee	201,042 (502)	230,916 (243)	199,546 (398)	401,410 (475)	350,547 (671)
Oshkosh	N/A	N/A	N/A	109 (4)	5,339 (14)
Racine	N/A	N/A	18,783 (55)	31,192 (60)	6,140 (14)
Rice Lake	N/A	N/A	N/A	N/A	N/A
Sheboygan	1,900 (9)	7,692 (28)	6,463 (9)	16,219 (42)	18,699 (40)
Stevens Point	1,701 (6)	676 (9)	575 (5)	914 (6)	1,144 (2)
Watertown	1,435 (3)	2,241 (10)	- 0 -	- 0 -	1,664 (4)
Wausau	883 (7)	3,659 (11)	7,853 (20)	6,307 (11)	5,853 (13)
TOTALS	$564,549	$320,214	$286,582	$633,987	$543,525

* Losses Estimated from City's Loss Runs

N/A = Not Available

Exhibit C-2

Wisconsin Department of Transportation

PRIMARY VEHICLE LIABILITY PREMIUM AND LOSS COMPARISON

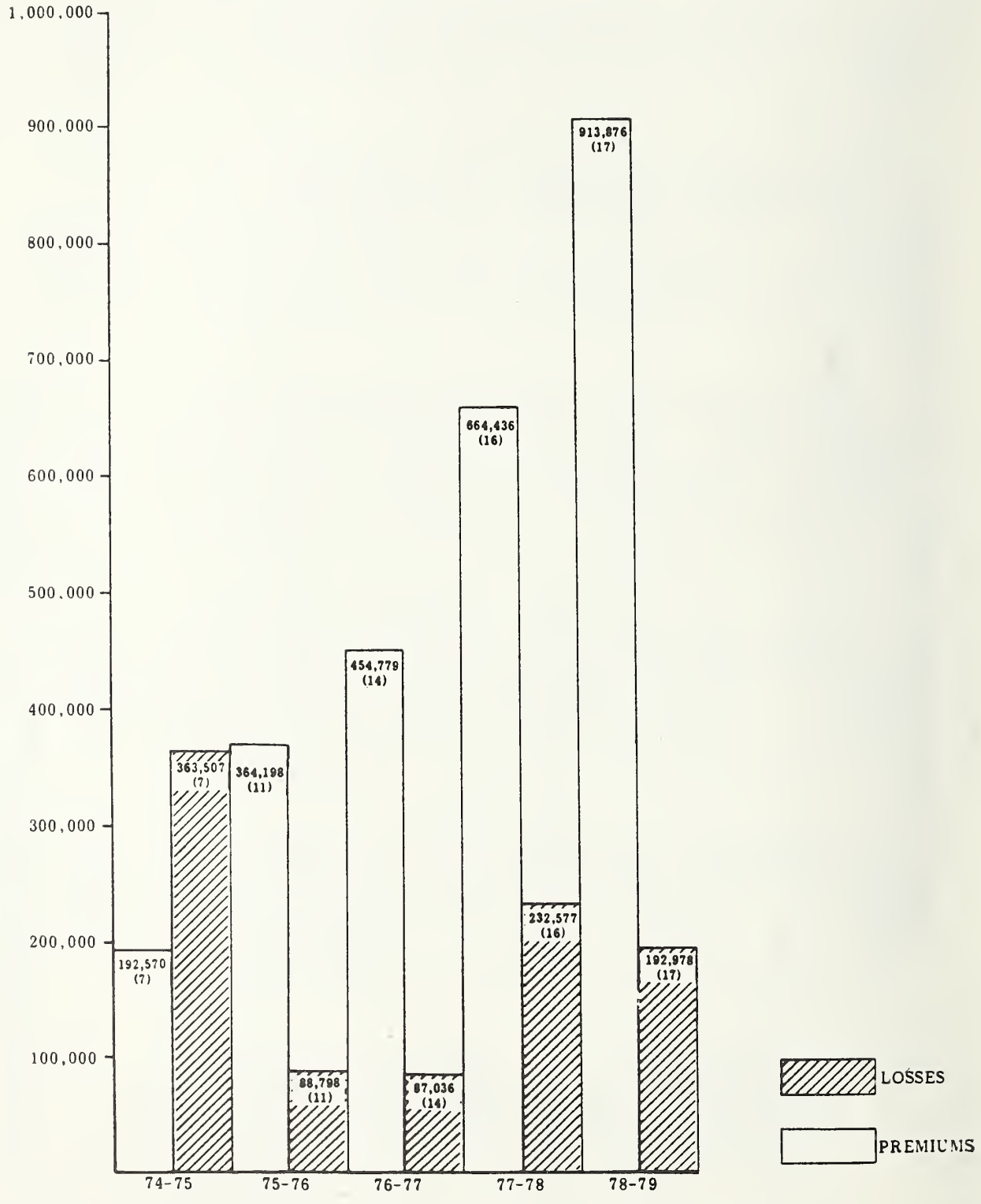
	1974-1975			1975-1976			1976-1977			1977-1978			1978-1979			TOTALS		
	Prem.	Losses ($)	LR (%)	Prem.	Losses ($)	LR (%)	Prem.	Losses ($)	LR (%)	Prem.	Losses ($)	LR (%)	Prem.	Losses ($)	LR (%)	Prem.	Losses ($)	LR (%)
Appleton		———			———			———		$ 54,033	$ 20,022 (36)	37	$ 63,458	$ 23,705 (33)	37	$ 117,476	$ 43,737 (58)	37
Beloit		———		$ 1,519	$ 347 (1)	33	$ 3,572	$ 1,031 (1)	36	9,681	1,776 (1)	19	31,934	3,128 (1)	14	33,868	5,780 (4)	17
Eau Claire	$ 36,137	$ 3,581 (7)	13	39,884	7 (1)	0	31,149	6,239 (10)	39	37,328	1,201 (7)	4	36,836	849 (9)	3	143,134	11,967 (34)	8
Fond du Lac		———		3,763	743 (1)	30	11,286	3,461 (1)	32	19,643	1,956 (1)	10	34,386	3,818 (1)	18	58,151	8,878 (4)	15
Green Bay	8,387	18 (3)	0	18,366	3,074 (8)	13	20,693	1,337 (5)	8	35,884	7,516 (33)	31	50,952	7,633 (7)	16	133,183	19,778 (43)	14
Janesville		———			———		18,031	5,231 (7)	39	36,343	33,680 (33)	80	78,576	31,196 (6)	37	133,846	50,107 (38)	41
Kenosha		———			———		13,136	4,071 (18)	31	33,866	36,368 (37)	107	39,844	32,158 (32)	81	86,838	72,589 (77)	84
La Crosse		———		23,511	34,897 (23)	111	30,901	8,392 (9)	27	41,637	11,348 (13)	27	45,075	1,888 (8)	4	140,124	46,506 (53)	33
Madison	131,494	353,888 (138)	291	343,820	46,462 (95)	19	245,571	24,868 (74)	10	318,157	73,536 (115)	34	337,995	58,888 (85)	17	1,156,037	555,646 (585)	48
Manitowoc		———			———			———			———		18,990	2,384 (1)	13	18,990	2,384 (1)	13
Merrill		———		3,871	- 0 - (0)	0	4,033	42 (1)	1	5,814	931 (2)	18	6,801	40 (3)	1	20,313	1,813 (5)	1
Milwaukee		Self Insured			Self Insured			Self Insured			Self Insured			Self Insured			Self Insured	
Oshkosh		———			———			———		73,392	109 (4)	0	55,167	5,338 (14)	18	177,558	5,448 (18)	4
Racine		———			———		37,971	18,763 (55)	49	55,874	31,193 (80)	56	58,224	8,140 (14)	11	148,818	58,115 (138)	37
Rice Lake		———			———			———			———			———			———	
Sheboygan	17,447	1,900 (8)	15	17,600	7,692 (79)	44	22,300	6,463 (9)	29	31,000	16,718 (42)	54	41,000	18,698 (40)	46	174,347	50,873 (178)	41
Stevens Point	8,477	1,701 (8)	78	8,199	876 (9)	9	7,803	575 (5)	7	2,735	814 (8)	41	8,355	1,144 (7)	13	132,838	5,010 (78)	15
Watertown	7,438	1,435 (3)	59	2,368	2,741 (10)	95	2,967	-0-	0	3,282	-0-	0	3,967	1,664 (4)	42	14,988	5,340 (17)	36
Wausau	17,324	883 (7)	7	15,486	3,859 (11)	74	15,390	7,853 (20)	51	30,587	6,307 (11)	71	34,754	5,853 (13)	17	108,433	74,555 (671	23
TOTALS	$197,570	$363,507 (180)	189	$384,198	$88,798 (185)	24	$454,779	$87,036 (215)	19	$664,436	$737,577 (369)	35	$913,876	197,678 (775)	71	$7,588,853	$964,896 (1204)	37
TOTALS Excluding Madison	$ 71,078	$ 8,518 (34)	13	$171,378	$47,336 (90)	35	$709,208	$62,368 (1411	30	$446,779	$159,039 (254)	36	$585,881	$135,988 (180)	33	$1,437,818	$488,250 (699)	28

Note: Information is shown for only those systems on which both loss and premium information was available for the indicated year.

Exhibit C-3

Wisconsin Department of Transportation

AUTO LIABILITY PREMIUMS + LOSSES



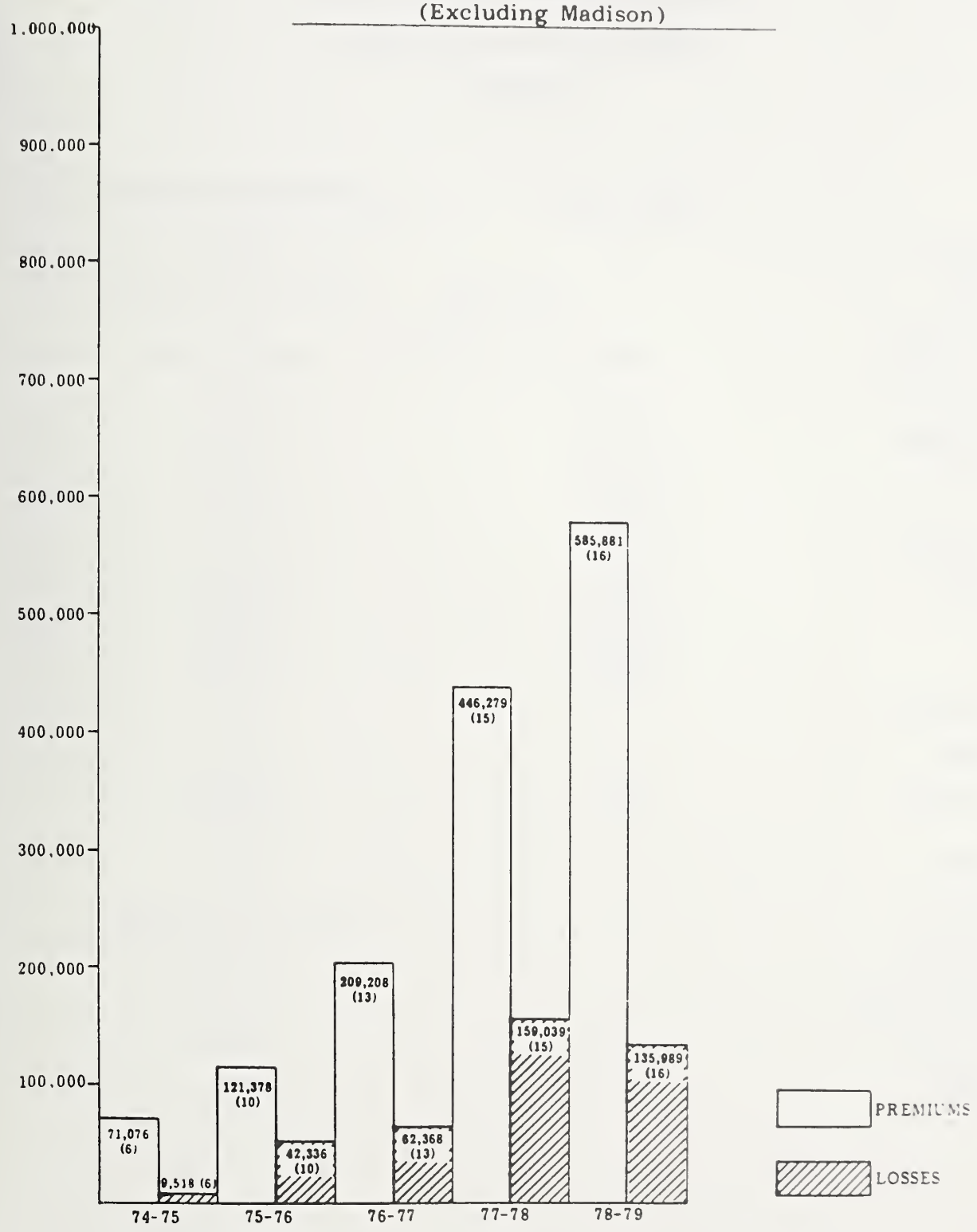
Note: The numbers in parenthesis are the numbers of systems reporting information for the year indicated.

Exhibit C-5

Wisconsin Department of Transportation

AUTO LIABILITY LOSSES + PREMIUMS

(Excluding Madison)



Note: The numbers in parenthesis are the numbers of systems reporting information for the year indicated.

APPENDIX E

Vehicle Summary

Wisconsin Department of Transportation

VEHICLE SUMMARY

Transit District	Number of Vehicles			
	Buses	Private Passenger Car	Other Vehicles	Total Vehicles
Appleton	31	- 0 -	- 0 -	31
Beloit	8	- 0 -	1	9
Eau Claire	19	- 0 -	2	21
Fond du Lac	12	- 0 -	1	13
Green Bay	22	1	2	25
Janesville	19	- 0 -	- 0 -	19
Kenosha	28	2	1	31
La Crosse	23	- 0 -	- 0 -	23
Madison	161	4	11	176
Manitowoc	4	- 0 -	- 0 -	4
Merrill	3	- 0 -	- 0 -	3
Milwaukee	597	- 0 -	- 0 -	597
Oshkosh	21	2	- 0 -	23
Racine	25	2	2	29
Rice Lake	3	- 0 -	- 0 -	3
Sheboygan	23	- 0 -	1	24
Stevens Point	4	- 0 -	- 0 -	4
Watertown	3	- 0 -	- 0 -	3
Wausau	26	- 0 -	1	27
TOTALS	1,032	11	22	1,065

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