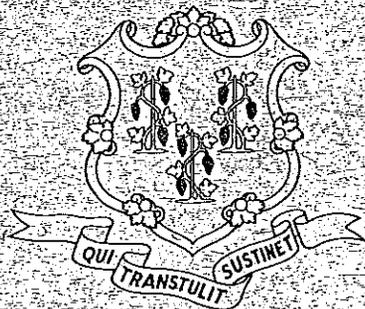


State Insurance Purchasing Board

Connecticut
General Assembly



LEGISLATIVE
PROGRAM REVIEW
AND
INVESTIGATIONS
COMMITTEE

SUNSET 1983

CONNECTICUT GENERAL ASSEMBLY

LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

The Legislative Program Review and Investigations Committee is a joint, bipartisan, statutory committee of the Connecticut General Assembly. It was established in 1972 as the Legislative Program Review Committee to evaluate the efficiency and effectiveness of selected state programs and to recommend improvements where indicated. In 1975 the General Assembly expanded the Committee's function to include investigations and changed its name to the Legislative Program Review and Investigations Committee. During the 1977 session, the Committee's mandate was again expanded by the Executive Reorganization Act to include "Sunset" performance reviews of nearly 100 agencies, boards, and commissions, commencing on January 1, 1979.

The Committee is composed of twelve members, three each appointed by the Senate President Pro Tempore and Minority Leader, and the Speaker of the House and Minority Leader.

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STATE INSURANCE PURCHASING BOARD

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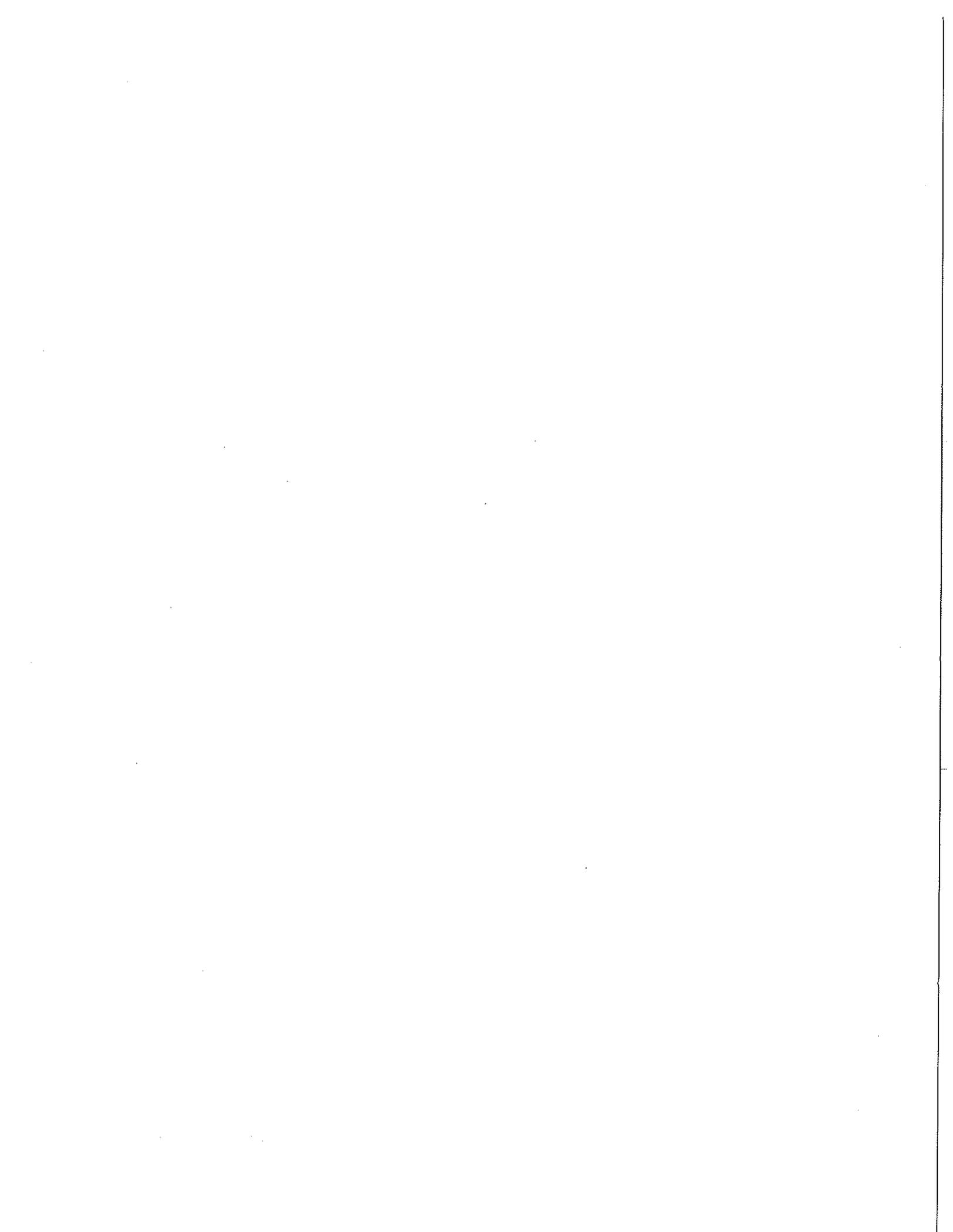
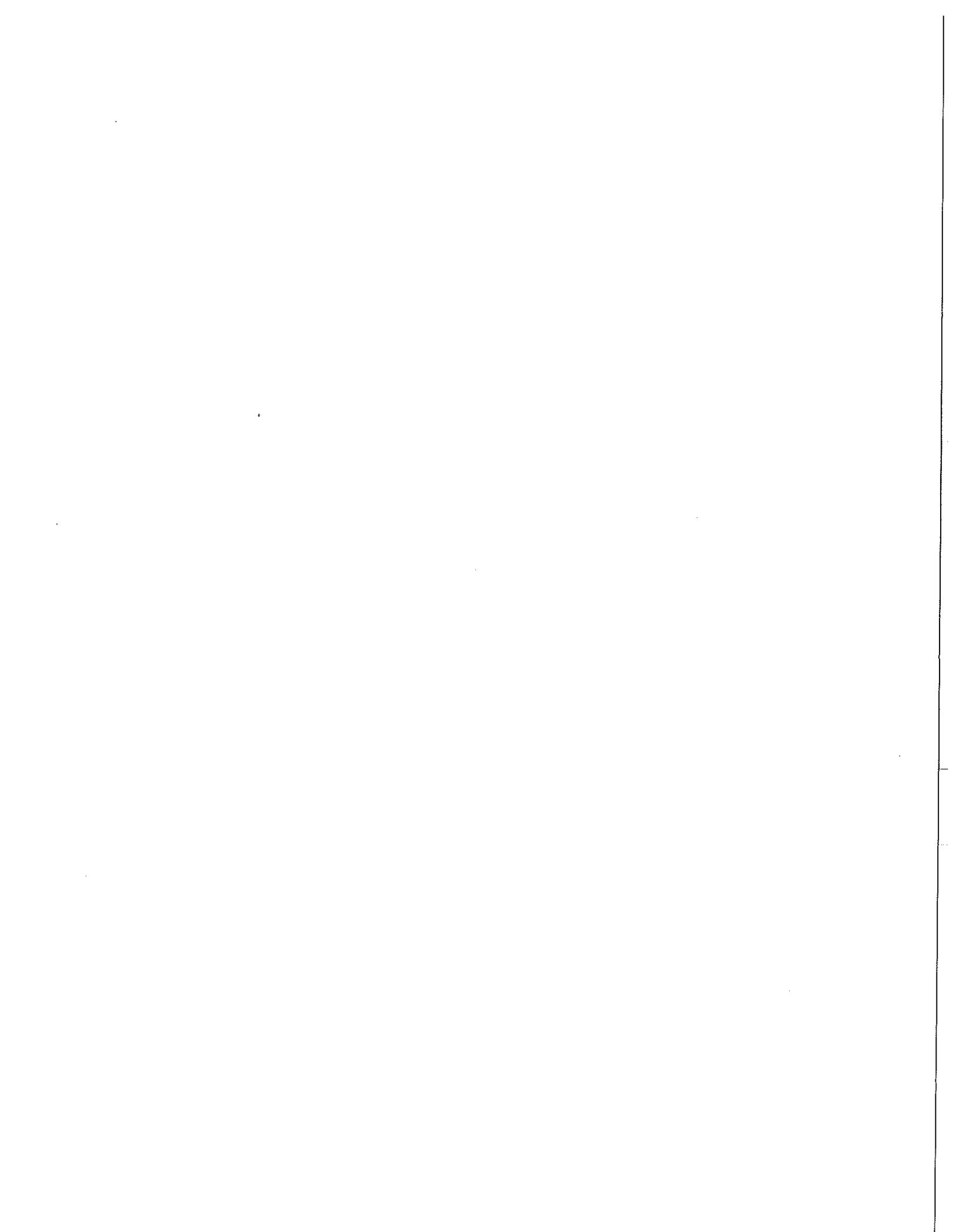


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STATE INSURANCE PURCHASING BOARD

SUMMARY

In 1963, due to improprieties uncovered in the way the state purchased its insurance, the governor created a commission to study the entire purchasing procedure. The commission's major recommendation was to establish a central control mechanism to oversee the purchase of the state's insurance. The legislature established the State Insurance Commission through P.A. 63-348, and changed the name in 1965 to the State Insurance Purchasing Board (P.A. 313).

The board's major responsibility is to purchase the broadest coverage for the state at the lowest possible cost. To achieve this, the board is empowered to: determine the method(s) for insuring the state; direct negotiations for the purchase of insurance, including insurance and bond premiums; designate the agent(s) of record and negotiate the agent's commissions; and issue an annual report of its activities to the governor.

The State Insurance Purchasing Board is located in the Department of Administrative Services for administrative purposes only. The board is comprised of 11 members appointed by the governor--7 with knowledge and experience in the insurance area and 4 public members. The comptroller is an ex officio member.

The board's staff consists of a business services officer and a clerk typist. The board also appoints an agent of record who is paid a commission (not to exceed six percent) on the state's business. The agent employs four full-time and three part-time people to manage the state's insurance business.

The five major areas of insurance under the board's jurisdiction are: general liability insurance, which is limited because Connecticut still retains sovereign immunity; physical plant insurance covering state property; liability comprehensive and no-fault coverage on state vehicles; a blanket surety bond covering negligence and dishonesty of state employees; and separate coverage for the state's electronic data processing and media equipment.

The actual appropriation to the board for FY 1981-82 was \$6,092,776 from which \$6,063,330 was used to purchase insurance policies for the state. However, the board received agency reimbursements totaling \$2,440,428, resulting in net expenses of \$3,652,348.

ANALYSIS AND RECOMMENDATIONS

The Legislative Program Review and Investigations Committee's sunset review of the State Insurance Purchasing Board focused on: the continuation of the board and the concept of self-insurance for the state; the appointment procedure of the agent of record; and membership and operating procedures of the board.

Existence of the Board

The program review committee recognized that the State Insurance Purchasing Board makes a valuable contribution to the state through its oversight of the state's purchase of insurance. Because board members are volunteers, however, the board may not be fully evaluating the effectiveness of the program as mandated by statute. Despite this, the committee was reluctant to recommend that the board's functions be transferred to another state agency now because the committee believed that a transfer would be cost-beneficial only if the state was to adopt a largely self-insured program.

No comprehensive study of the benefits of self-insurance has been conducted in Connecticut, although committee staff analysis of some policies within the board's scope indicates a cost-savings would have resulted in some areas if the state had been self-insured. The program review committee believes this self-insurance concept deserves further examination.

Therefore, the Legislative Program Review and Investigations Committee recommends that the current insurance purchasing system be maintained, but require the Department of Administrative Services to contract for an independent, comprehensive study to be conducted, including but not limited to: the feasibility of placing all insurance purchasing functions within one section of state government; the suitability of self-insurance for these programs; and how the program would be administered. The study should be submitted to the governor and the General Assembly by February 1, 1984.

Appointment Procedure for the Agent of Record

The board has statutory responsibility for appointing the agent of record, although no guidelines for carrying out this procedure are outlined in statute or regulation. Further, no time limits exist on the length of appointment for the agent of record, which could easily give the appearance of impropriety.

Therefore, the Legislative Program Review and Investigations Committee recommends that the State Insurance Purchasing Board establish specifications for the agent of record and request bids on the contract which would be for a specified period of time. Also the board would be required to perform an annual written evaluation of the agent of record.

Membership and Standard Operating Procedures

Observation of board meetings and review of its minutes indicate that the comptroller (or his representative) introduces motions and votes on matters coming before the board, even though it is not clear in statute whether the comptroller's ex officio status gives voting rights or not.

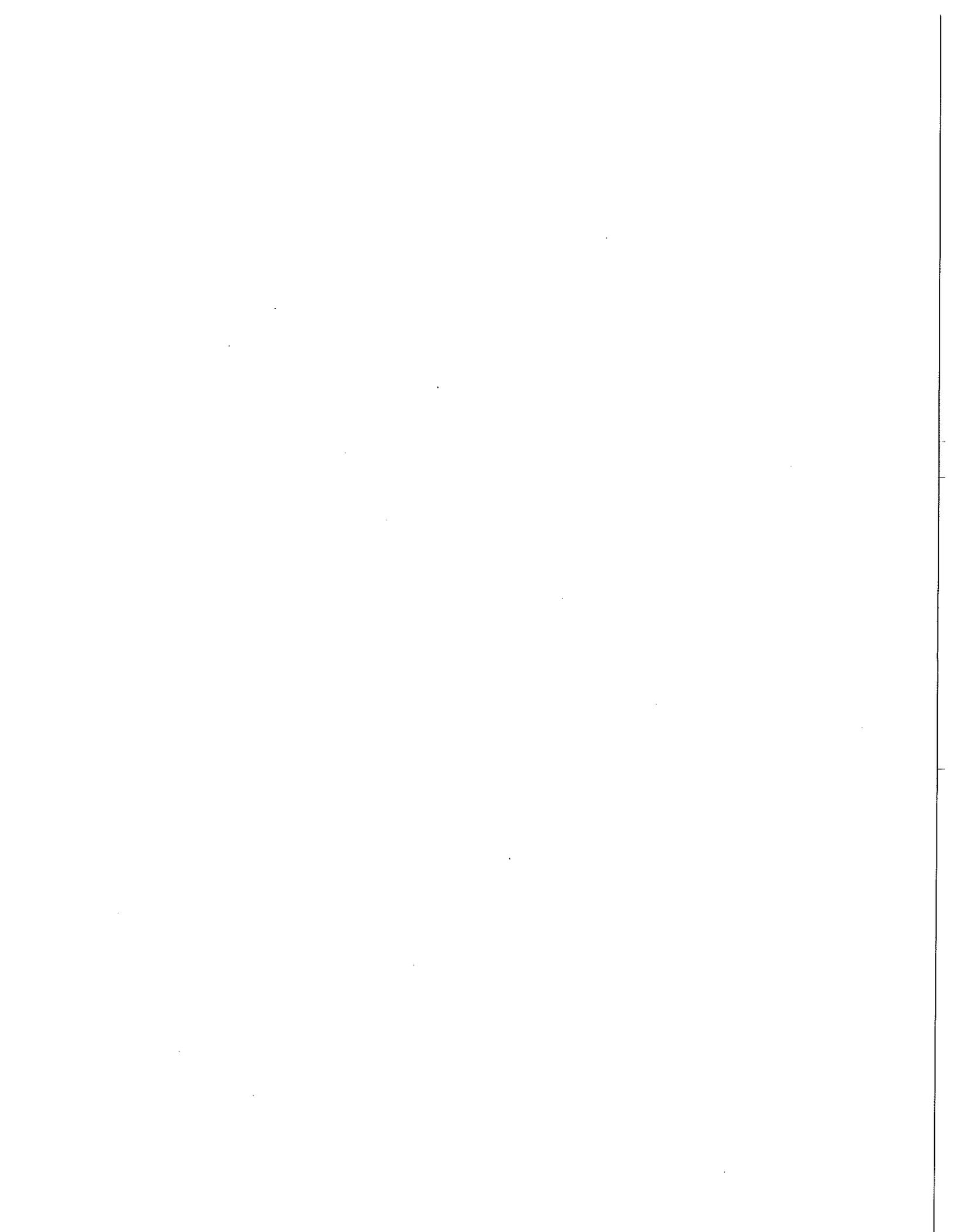
The committee determined that the comptroller having voting power would not present a conflict or an appearance of a conflict, and, therefore, the Legislative Program Review and Investigations Committee recommends that there be a clarification in the statute that the comptroller's ex officio status be with full voting rights.

Finally, to lessen discrepancy among the boards' operating procedures and improve efficiency, the Legislative Program Review and Investigations Committee recommends that the following provisions be adopted for the State Insurance Purchasing Board:

Appointment. All members of the State Insurance Purchasing Board shall be appointed by the governor in accordance with Section 4-9a. All board vacancies shall be filled by the governor for the remainder of the term vacated and successors shall have the same qualifications as the member succeeded. No member shall serve more than two consecutive terms.

Meetings and Quorum. The State Insurance Purchasing Board shall meet at least once in each quarter of a calendar year and at such other times as the chairman deems necessary, or at the request of a majority of the board members. Notice of any special meeting shall be given in accordance with Section 1-21. A majority of members shall constitute a quorum. Any member who fails to attend three consecutive meetings or who fails to attend 50 percent of all meetings during any calendar year shall be deemed to have resigned from office.

These procedures, consistent with recommendations the program review committee made in its 1980 General Sunset Report, were legislatively adopted for other boards in Public Act 80-484.



INTRODUCTION

Purpose and Authority

Chapter 28 of the Connecticut General Statutes provides for the periodic review of certain governmental entities and programs and for the termination or modification of those which do not significantly benefit the public health, safety, or welfare. This law was enacted in response to a legislative finding that a proliferation of governmental entities and programs had occurred without sufficient legislative oversight.

The authority for undertaking the initial review in this oversight process is vested in the Legislative Program Review and Investigations Committee. The committee is charged, under the provisions of Section 2c-3 of Chapter 28, with conducting a performance audit of each entity or program scheduled for termination. This audit must take into consideration, but is not limited to, the four criteria set forth in Section 2c-7. These criteria include: (1) whether termination of the entity or program would significantly endanger the public health, safety, or welfare; (2) whether the public could be adequately protected by another statute, entity, or program or by a less restrictive method of regulation; (3) whether the governmental entity or program produces any direct or indirect increase in the cost of goods or services and, if it does, whether the public benefits attributable to the entity or program outweigh the public burden of the increase in cost; and (4) whether the effective operation of the governmental entity or program is impeded by existing statutes, regulations or policies, including budgetary and personnel policies.

In addition to the criteria contained in Section 2c-7, the Legislative Program Review and Investigations Committee is required, when reviewing regulatory entities or programs, to consider, among other things: (1) the extent to which qualified applicants have been permitted to engage in any profession, occupation, trade, or activity regulated by the entity or program; (2) the extent to which the governmental entity involved has complied with federal and state affirmative action requirements; (3) the extent to which the governmental entity involved has recommended statutory changes which would benefit the public as opposed to the persons regulated; (4) the extent to which the governmental entity involved has encouraged public participation in the formulation of its regulations and policies; and (5) the manner in which the governmental entity involved has processed and resolved public complaints concerning persons subject to review.

Methodology

The Legislative Program Review and Investigations Committee's sunset review process is divided into three phases. The initial phase focuses on collecting quantitative and qualitative data related to each entity's background, purpose, powers, duties, costs and accomplishments. Several methods are used by committee members and staff to obtain this information. These include: (1) a review of statutes, transcripts of legislative hearings, entity records (e.g., minutes, complaint files, administrative reports, etc.), and data and statutes of other states; (2) staff observation of meetings held by each entity during the review period; (3) surveys of selected persons and groups associated with each entity; (4) formal and informal interviews of selected individuals serving on, staffing, affected by or knowledgeable about each entity; and (5) testimony received at public hearings.

During the second phase, the staff organizes the information into descriptive packages and presents it to the committee. The presentations take place in public sessions designed to prepare committee members for the hearings, identify options for exploration and alert entity officials to the issues the committee will pursue at the hearings.

The final step of the review involves committee members and staff following up on and clarifying issues raised at briefings and public hearings. During this period, the staff prepares decision papers and presents recommendations to the committee. The committee, in public sessions, then debates and votes upon recommendations for the continuation, termination or modification of each entity.

BACKGROUND

Legislative History

Prior to 1963, the Office of the Comptroller was responsible for purchasing the state's insurance. However, there was no central body to oversee and evaluate the state's total insurance program. The statutory responsibility of the comptroller was limited:

[He was] authorized to make contracts for insurance for the highway department covering public liability resulting from injuries or damages caused by any department employees, also contracts for insurance covering public liability and property damage resulting from the use of any vehicle of said department, and insurance covering loss from fire or theft of any such vehicle, stock in any building or loss by fire of any building; and contracts of insurance covering public liability and property damage for which there shall be liability on the part of the state.¹

Due to alleged abuses in the state's insurance purchasing system, the legislature's Insurance Committee began an investigation in 1963. One of the improprieties uncovered was that extraordinary commissions were being paid out on the state's insurance business. The agent of record, who was appointed by the comptroller, was receiving a 20 percent commission on all state business, from which he kept 5 percent and divided the remaining 15 percent among sub-agents throughout the state.

To prevent this from re-occurring, the governor appointed a seven-member committee to study the system and recommend how it could be improved. The committee report, released in May 1963, called for the creation of "a nonsalaried committee of citizens, who, out of a sense of duty to the state, would be willing to take on the difficult but necessary assignment of supervising the state insurance program."²

¹ Connecticut General Statutes, Revision of 1949, Vol. 1, Sec. 2183

² Report of Special Committee on State Insurance Coverage, May 1963, p. 16.

Legislation adopting this recommendation was introduced immediately--in the 1963 legislative session. Despite opposition from some legislators, who felt the proposal would abrogate the responsibility of each department head for his/her agency and place too much authority in this one commission, the legislation passed. The act (P.A. 63-348) mandated the creation of the State Insurance Commission consisting of seven members, all with knowledge and experience in the insurance area. Not more than four of the seven members were to be from the same political party.

In 1965, Public Act 313 was passed, changing the name of the commission to the State Insurance Purchasing Board; two years later, the Executive Reorganization Act (P.A. 77-619) placed the board in the Department of Administrative Services. Also passed in 1977 was P.A. 563, transferring responsibility for the purchase of surety bonds from the comptroller to the board, but stipulating that the board's purchases be at the request of the comptroller.

A year later, Public Act 78-303 became law, adding 4 public members and bringing the board's total to 11. In 1979, a final change was made to the State Insurance Purchasing Board--Public Act 560 stated that not more than 6 members could come from the same political party.

Structure

The State Insurance Purchasing Board is located within the Department of Administrative Services for administrative purposes only. The board is comprised of 11 members--7 with knowledge and experience in the insurance area and 4 public members. The comptroller is statutorily designated as an ex officio member. The board employs two staff persons--a business services officer and a clerical person. The business service officer is responsible for making all payments to companies for the state's insurance policies as well as recording state agency reimbursements to appropriate policies. The clerical person handles typing, filing and other clerical duties.

The board also benefits from the services of the board-appointed agent of record. The current agent of record is Francis M. Jackson, Associates, an independent insurance agency located in the Hartford area. The agent of record employs four full-time and three part-time people to take care of the state's business.

The board is located in the City of Hartford in the same building and on the same floor as the comptroller's office. The proximity of the offices of the board and the comptroller is important since there is considerable communication between

the two concerning insurance policies, losses and payments.

Purpose, Powers and Duties

The State Insurance Purchasing Board is established under Section 4-37 a, b, c of the Connecticut General Statutes. The purpose of the board is to purchase the broadest insurance coverage for the state at the lowest possible cost. The powers and duties assigned to the board to meet this objective are:

- determine the method by which the state shall insure itself against losses by the purchase of insurance governed by state statute;
- direct negotiations for purchase of insurance and determine when the state shall act as a self-insurer, including the appropriateness of deductibles;
- designate the agent or agents of record and select the companies from whom insurance coverage shall be purchased;
- negotiate all elements of insurance and surety bond premiums, as well as the agent's commission; and
- issue an annual report of its activities to the governor.

The annual report to the governor is required by statute to include the following:

(a) an evaluation of the state insurance program in terms of adequacy and reasonableness of cost; (b) a complete statement of the costs of said program enumerating lines of coverage; (c) an evaluation of the effectiveness of each portion of the program involving deductibles or partial self-insurance; (d) a statement of the agent or agents of record; (e) a breakdown of the commissions paid as a percentage of the total premium and in terms of dollars of commissions; and (f) such other matters as the board determines to be appropriate and necessary.³

³ Connecticut General Statutes, Section 4-37c.

Fiscal Information

The State Insurance Purchasing Board has its own operating budget that includes the cost of staff for the board as well as the cost of purchasing a wide variety of insurance policies for all state agencies. The budget figures for the State Insurance Purchasing Board are shown in Table II-1.

Table II-1. State Insurance Purchasing Board Budget.

	<u>Actual</u> <u>FY 1980-81</u>	<u>Actual</u> <u>FY 1981-82</u>	<u>Appropriated</u> <u>FY 1982-83</u>
Personal Services	\$ 25,378	\$ 28,657	\$ 30,902
Other:			
Insurance	6,040,751	6,063,330	6,554,165
Operating	<u>1,198</u>	<u>789</u>	<u>1,360</u>
Total	6,067,327	6,092,776	6,586,427
Reimbursements	<u>-2,625,215</u>	<u>-2,440,428</u>	<u>-2,811,680</u>
Net Expenses	\$3,442,112	\$3,652,348	\$3,774,747

While the board's budget includes the total amount expended for all policies procured by the board, it also reflects reimbursement for a number of policies from state agencies, particularly those receiving federal monies for projects requiring special insurance. Those reimbursements are also indicated in the Table II-1 budget.

No figure is shown in the budget for payment to the agent of record, since the agent is paid through commissions on the state's policies. The board sets the ceiling on the percentage the agent may earn at 6 percent. The total commission amounts earned by the agent for the past two calendar years are: \$323,000 in 1980 and \$338,700 in 1981.

ACTIVITIES

The Board

The State Insurance Purchasing Board's major responsibility is to serve as the central control over the purchase of the state's insurance. There are five basic areas of insurance that fall within the board's purview.

The first area is general liability insurance. In Connecticut, because sovereign immunity has not been waived, policies covering the state's liability are few--limited to those areas where statutes or contracts require liability insurance, such as medical malpractice insurance for physicians at the University of Connecticut Health Center.

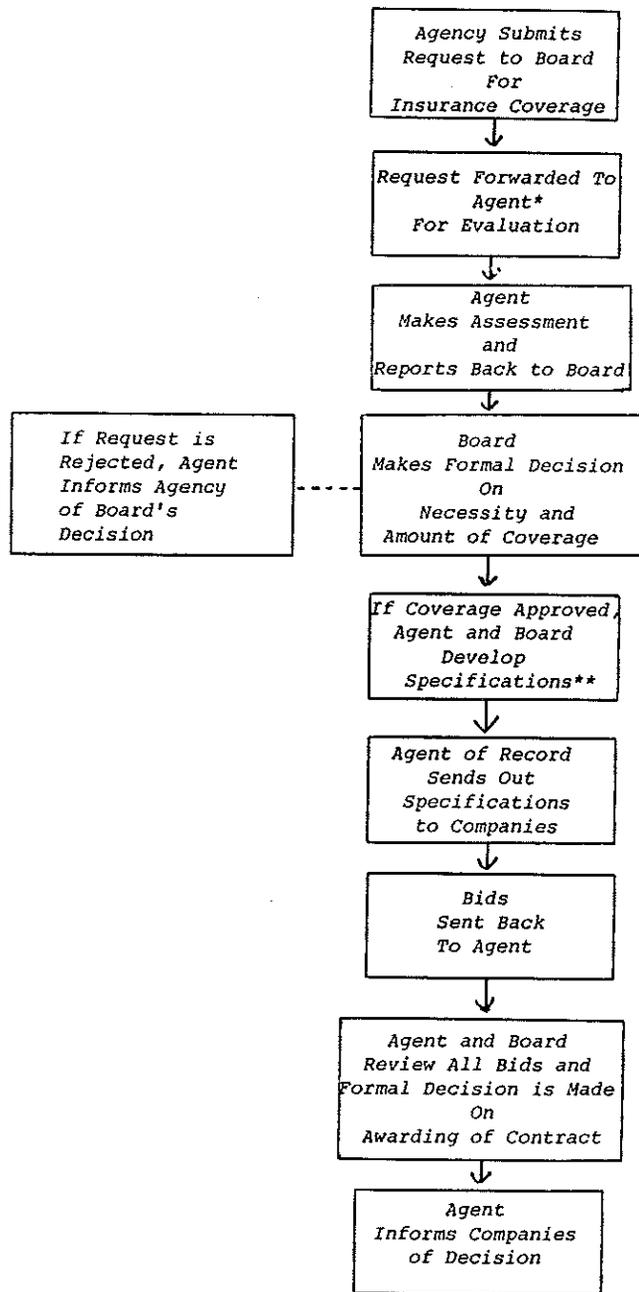
The second and probably most important area of the state's insurance program is physical plant insurance. This blanket coverage consists of approximately 100 policies underwritten by numerous insurance companies. Due to the breadth of coverage in the property area, the board negotiates the policy rate (per \$100 of coverage) with several insurance companies. This differs from the state's other insurance policies, which are sent out to bid. All state properties are automatically insured for actual cash value, subject to an agreed upon total amount. As of October 1, 1982, the policy, which is subject to deductibles, provides all-risk coverage that includes losses incurred from flood, earthquake, and rent on dormitories at state colleges and universities, as well as the more typical perils of fire and vandalism.

A third area of coverage is vehicle liability, including general state auto and truck fleet, buses, and highway liability. In addition to liability protection, no-fault coverage and comprehensive material damage are also included. Collision coverage is provided on certain unusually high-value vehicles.

Fourth, the state purchases an employee blanket bond that covers acts of dishonesty, disappearance and/or destruction of money perpetrated by state employees. The total cumulative amount of coverage under the bond is \$1 million. Finally, the state has separate coverage for its electronic data processing and media equipment.

The board does not hold regularly scheduled meetings, but meets as the state's insurance needs require--approximately once every two months. During calendar year 1981, the board held seven official meetings. The board typically meets in

Figure III-1. Procedure for Purchase of Insurance.



* Agent of Record

** Except for property insurance for which a rate is negotiated with several insurance companies

the Office of the Comptroller in Hartford, and average attendance is 7.5 members. Agendas and minutes are distributed to members about a week prior to meetings, and the agent of record prepares a set of working papers related to agenda topics to assist board members in their deliberations.

Meetings usually begin with acceptance of the previous meeting's minutes, followed by members approving those premium payments processed since the board's previous meetings. The board also keeps abreast of which insurance policies are due for renewal and reviews requests by state agencies for first-time insurance policies. Sets of specifications are developed by the board and the agent of record and sent out for any proposed or renewal policy where the premium is expected to be over \$7,500 (except for property insurance, as explained previously). All bids received are reviewed by the board, and a decision is made at the board's meeting as to which proposal will be accepted. (For a full outline of the procedure, see Figure III-1).

The meetings also include a report from the chairman, outlining the progress of property rate negotiations, an appraisal of whether premiums to date are staying within budget guidelines as well as other information needed for board deliberations. The agent of record, who attends each board meeting, also delivers a report containing: information on state agency requests for insurance; communications from any of the insurers to the board; a discussion of any legislation that might affect the board; and responses to any requests made by the board at previous meetings. Table III-1 shows a breakdown of the number of specifications sent out during calendar year 1981, the number of positive bids received and the amount of the approved proposal.

The Agent of Record

The overall responsibility of the agent of record is to serve as the intermediary between the board and the state's insurers. The agent of record is appointed by the board and serves at the board's pleasure. The board has developed a list of 42 duties the agent of record is expected to perform. The tasks fall into four main categories:

- general--includes preparation of a variety of materials for the board, as well as maintaining frequent contact with the comptroller's office and other state agencies;

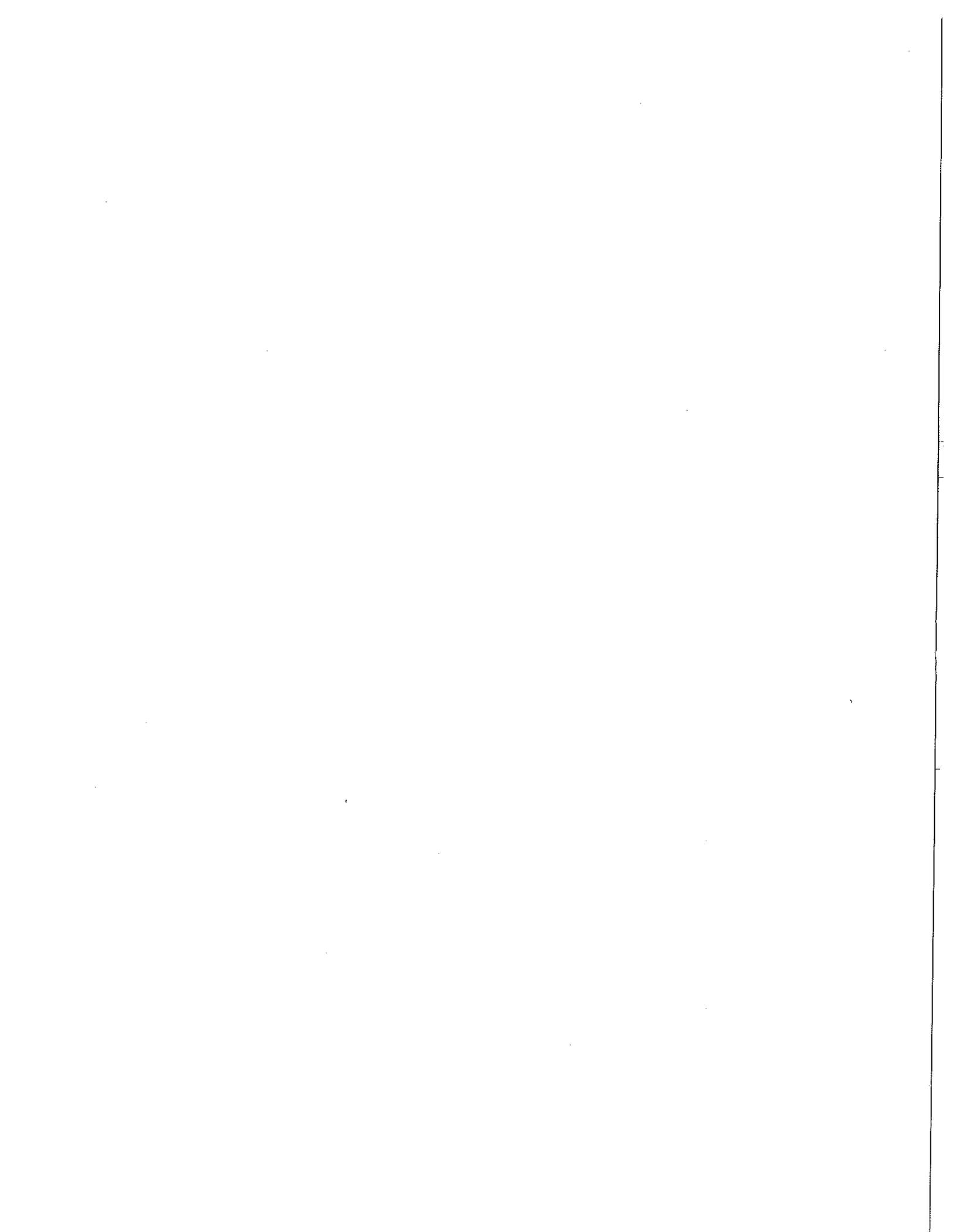
Table III-1. Tabulation of Bid Responses--Calendar Year 1981.*

Type of Policy	Number of Specifications Sent Out	Number of Responses Returned	Percentage of Responses Returned (rounded)	Amount of Approved Proposal
Fleet	14	3	21%	3 year policy \$7,335,408
UHC Liability	11	2	18%	383,818
CETA Liability	9	3	33%	10,780
State Library	10	3	30%	7,657
Airport Liability	8	3	38%	3 year policy 140,363
Armed Forces	9	2	22%	26,273
Boardsley Terrace Liability	19	1	5%	30,000
Pequonnock	20	1	5%	19,100
State Police Liability	17	1	6%	125,000
Boiler & Machinery	--	--	--	81,470
Bond for State Board of Education	--	--	--	3 year policy 3,577
Railroad	15	4	26%	470,940
CETA	10	1	10%	314,832
Bond for Sherrifs	19	4	21%	6,775
Board of Education for Blind	13	3	23%	11,821
State Employees Blanket Bond	19	1	5%	3 year policy \$121,497

*Information for the table was taken from board minutes.

- underwriting--includes writing new forms of coverage for specific needs; conducting field inspections; verifying all policies, audits and endorsements;
- losses--includes assistance to the comptroller's office in maintaining loss records; providing support in the processing and following-up on claims; and
- inventories--includes writing an inventory manual for the comptroller's approval; helping the comptroller's department maintain an up-to-date inventory of state property.⁴

⁴ For a full listing of the agent of record's duties, see Appendix C.



ANALYSIS AND RECOMMENDATIONS

In conducting its sunset review of the State Insurance Purchasing Board, the program review committee focused on: the continuation of the board and the concept of self-insurance for the state; the appointment procedure of the agent of record; and membership and operating procedures of the board.

Existence of the Board

In deciding whether to continue the State Insurance Purchasing Board, the committee considered the following options:

- a) continue the board as currently structured;
- b) alter the role of the board to an advisory one; transfer responsibility for the purchase of insurance to the Department of Administrative Services, with the option of contracting out for administration of programs or setting up an internal risk management section within the department; or
- c) maintain the current system, but require a comprehensive study be conducted, including, but not limited to: the feasibility of placing all insurance purchasing functions within one section; the suitability of self-insurance for these programs; and how the program would be administered.

The committee acknowledged that the board does make a valuable contribution to the state. The board's decisions concerning the state's insurance program involve millions of dollars. The majority of board members have considerable expertise in the insurance area, and are, therefore, extremely capable of making such decisions. Further, the board provides the service at no cost to the state since its members receive no compensation or reimbursement for expenses.

However, the program review committee found that because the board members are volunteers and have other demands on their time, the board has not been successful in meeting all its statutory responsibilities. For example, while the board's enabling statutes mandate that the board issue an annual report including "an evaluation of the effectiveness of each portion of the program involving deductibles or partial self-insurance," the last evaluation of the state's program involving self-insurance was conducted in December 1978. As a result of this lack of review, it could be questioned whether the state is actually receiving the broadest coverage for the lowest cost.

In exploring the alternative of making the board an advisory body and transferring the purchasing responsibility to the Department of Administrative Services, the committee found a lack of a firm foundation upon which to base this recommendation. First, the committee determined that this recommendation would be cost-beneficial only if the state adopted a largely self-insured program rather than the commercial-intensive one now followed. To date, there has been no commitment on the part of the state to retain its own risks. Second, there have been no comprehensive studies done in Connecticut analyzing the pros and cons of adopting a self-insurance program. While committee staff did an analysis of several current state policies (contained in Appendix B) showing that a cost-savings would have been realized for a number of the policies if the state had been self-insured for the last five years, the committee determined that the analysis was not comprehensive, since it did not encompass any programs outside the board's purview and only a number of the total policies under the board's purview were analyzed. Therefore, the program review committee was reluctant to make such a far-reaching recommendation as the one contained in option b.

However, the committee did find that the results of the staff analysis warrant further study and decided that such a study should include those areas not under board jurisdiction. *Therefore, the Legislative Program Review and Investigations Committee recommends that the current insurance purchasing system be maintained, but require the Department of Administrative Services to contract for an independent comprehensive study to be conducted, including but not limited to: the feasibility of placing all insurance purchasing functions within one section of state government; the suitability of self-insurance for these programs; and how the program would be administered. The report should be submitted to the General Assembly and the governor by February 1, 1984.*

The committee concluded that this type of study could gauge the commitment on the part of the state for moving to a greater self-insurance program and would be able to examine how and by whom it should be administered. Further, a study like the one proposed should go beyond the scope of sunset in analyzing the effectiveness of the state's other insurance areas, such as worker's compensation, health and group insurance.

Information obtained from other states during this review, all of which indicated positive experiences with self-insurance, reinforced the committee's view that such an examination would be valuable. For example, a study done in Louisiana in 1979 noted that risk-managers polled in states with property self-insurance "all planned to either maintain the status quo or expand self-insurance into other insurable

areas."⁵

Appointment Procedure for the Agent of Record

The second major area of deliberation concerning the State Insurance Purchasing Board was the procedure for appointing the agent of record. The options considered were:

- a) continue to allow the board to informally appoint the agent of record for an indefinite period of time; or
- b) require the board to establish specifications for the agent of record and request bids on the contract for a specified period of time; also require an annual written evaluation of the agent of record.

The board is currently given the responsibility for appointing the agent of record, although no guidelines for carrying out this procedure are outlined in either statute or regulations. The current appointment process is a very informal one, with no time limitations. In fact, the same agency has been the agent of record since the board's inception in 1963, although the agency has changed names because of new ownership.

At the August 19, 1982 program review committee hearing, the chairman of the State Insurance Purchasing Board spoke in favor of the current appointing system, stating that the arrangement is working without a problem. On the other hand, the committee realized that the present practice could easily give the appearance of impropriety, especially since the current agent has not changed since 1963. In addition, the committee concluded that considering the amount of money involved in commissions (over \$300,000 annually) for the state's business, there should be greater competition.

A stipulation that design professionals bid on state projects over a certain dollar figure was established under P.A. 79-450. The committee reasoned that such a requirement would be appropriate. The committee judged that despite the fact that the procedure may become somewhat more bureaucratic, the state would ultimately benefit from the competition.

⁵ Self-Insurance: A Risk Management Alternative for Louisiana, prepared by Legislative Fiscal Office, (Baton Rouge, 1979) p. 70.

Based on these beliefs, the Legislative Program Review and Investigations Committee recommends that the State Insurance Purchasing Board establish specifications for the agent of record and request bids on the contract, which would be for a specified period of time. Also the board would be required to perform an annual written evaluation of the agent of record.

Membership and Standard Operating Procedures

The final issue area explored was the membership and standard operating procedures of the State Insurance Purchasing Board. This included an examination of the comptroller's statutory ex officio status and standard procedures that would bring the board into conformance with those entities reviewed under prior sunset studies.

The review of minutes and observations at board meetings indicated that the comptroller (or his representative) was introducing motions and voting on matters coming before the board, even though it is not clear in statute whether he has voting rights or not. In a letter from the State Insurance Purchasing Board to the program review committee, the board noted that the comptroller should be a member with full voting rights. The committee considered the board's wishes as well as the fact that the comptroller having voting power seemed to present no conflict or appearance of conflict.

Therefore, the Legislative Program Review and Investigations Committee recommends that there be a clarification in the statute that the comptroller's ex officio status be with full voting rights.

Finally, to lessen discrepancy among boards' operating procedures and improve efficiency, the Legislative Program Review and Investigations Committee recommends that the following provisions be adopted for the State Insurance Purchasing Board:

Appointment. All members of the State Insurance Purchasing Board shall be appointed by the governor in accordance with Section 4-9a. All board vacancies shall be filled by the governor for the remainder of the term vacated and successors shall have the same qualifications as the member succeeded. No member shall serve more than two consecutive terms.

Meetings and Quorum. The State Insurance Purchasing Board shall meet at least once in each quarter of a calendar year and at such other times as the chairman deems necessary, or at the request of a majority of the board members. Notice of any special meeting shall be given in accordance

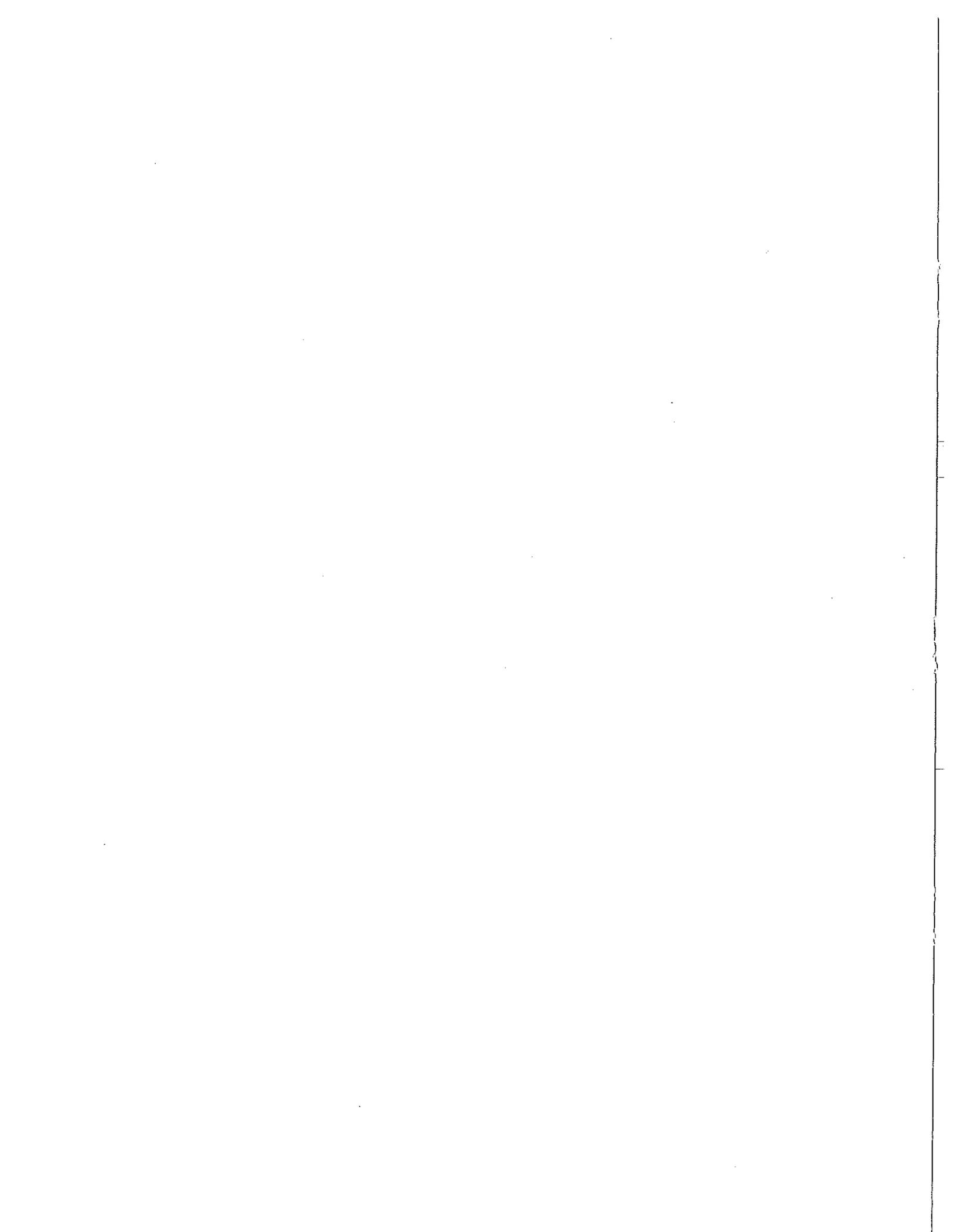
with Section 1-21. A majority of members shall constitute a quorum. Any member who fails to attend three consecutive meetings or who fails to attend 50 percent of all meetings during any calendar year shall be deemed to have resigned from office.

These procedures, consistent with recommendations the program review committee made in its 1980 General Sunset Report, were legislatively adopted for other boards in Public Act 80-484.

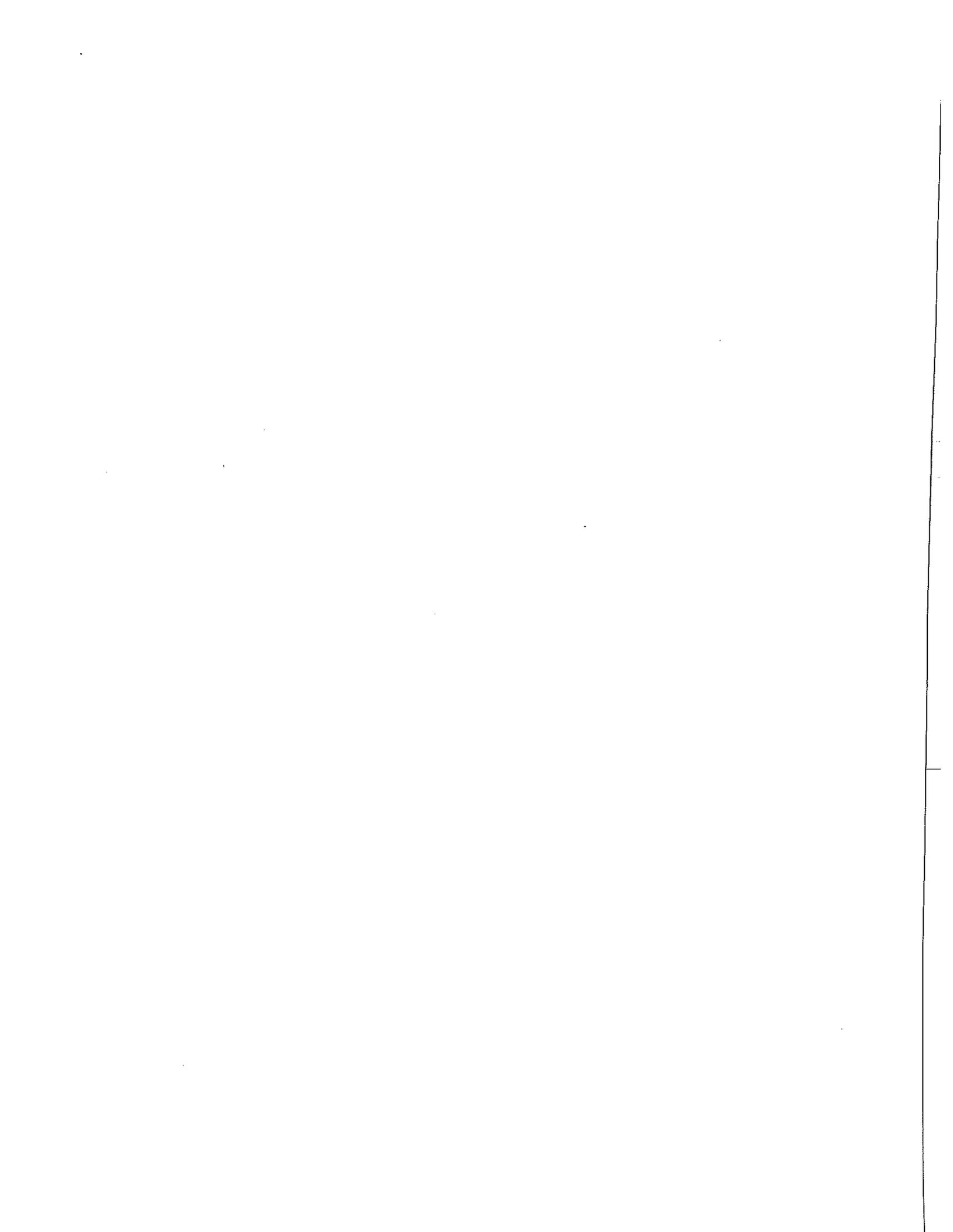
Other Issues Considered

The Legislative Program Review and Investigations Committee explored whether the board should continue to have full discretion in deciding how the state should insure itself or whether the board should be required to identify to the Appropriations Committee areas where loss history indicates a substantial cost-savings would result. The Appropriations Committee could then set aside an amount to self-insure these areas. However, the committee judged that it would be inappropriate to make the latter option a recommendation at this time, considering the recommendation already made that a comprehensive study be conducted on all the state's insurance programs.

The program review committee was likewise reluctant to recommend any change in the claims handling function, although it did consider transferring the duty from the comptroller's office. Again, since the recommendation for the comprehensive study includes a provision to examine how the program should be administered, the committee believed it would be premature to change any aspect of administration at this point.



APPENDICES



APPENDIX A

STATE INSURANCE PURCHASING BOARD

STATUTORY REFERENCE: C.G.S. Sections 4-20 and 4-37a, b, and c

ESTABLISHED: 1963 (P.A. 347)

ORGANIZATIONAL LOCATION: Department of Administrative Services for Administrative Purposes Only

PURPOSE: To obtain the broadest coverage of insurance for the state's needs at the most reasonable cost.

POWERS AND DUTIES:

- To determine the method by which the state shall insure itself against losses by the purchase of insurance governed by state statute;
- To direct negotiations for purchase of insurance and determine when the state shall act as a self-insurer, including the appropriateness of deductibles;
- To designate the Agent or Agents of Record and select the companies from whom insurance coverage shall be purchased;
- To negotiate all elements of insurance and surety bond premiums, as well as the agent's commission;
- To issue an annual report to the Governor of its activities.

STAFF: Two - one business services officer and one clerical person

<u>BUDGET:</u>	<u>Actual 80/81</u>	<u>Actual 81/82</u>	<u>Requested 82/83</u>
Personal Services	\$ 25,378	\$ 28,657	\$ 30,902
Other:			
Insurance	6,040,751	6,063,330	6,554,165
Operating	1,198	789	1,560
Total other	<u>6,041,949</u>	<u>6,064,119</u>	<u>6,555,525</u>
Reimbursements	<u>-2,625,215</u>	<u>-2,440,428</u>	<u>-2,811,680</u>
Net Expenses	\$3,442,112	\$3,652,348	\$3,774,747

MEMBERS: 11 members: 7 with insurance or related experience
4 public members
Comptroller is an ex officio member

APPOINTING AUTHORITY - Governor

STATISTICS (FY 1981-82)

MEETINGS: 7 Formal
24 Informal (between Agent of Record and representatives of state agencies)
22 Informal (between Agent of Record and representatives of insurance companies)

CLAIMS: (Approximate) 2468

MAJOR AREAS OF COVERAGE UNDER BOARD'S PURVIEW

- General Liability - none, unless required by statute, contract or conditions of employment (e.g., medical, malpractice insurance for physicians at UConn Health Center).
- Physical Plant Insurance - fire/property insurance for state of Connecticut property is issued for perils of fire, extended coverage, vandalism and malicious mischief, subject to policy deductibles (major fire/property insurance policy October 1/81-82 has a \$1,000 "per occurrence" deductible, \$100,000 aggregate loss deductible). Approximately 100 policies provided by numerous insurance companies make up the overall blanket protection for all state property. All state properties automatically insured for actual cash value subject to agreed upon total of \$1,690,000,000 at a rate of .068, until October 1, 1982.
- Vehicle Liability - general state auto and truck fleet, buses, and highway liability - \$1,000,000 liability protection in addition to required no-fault coverages and comprehensive material damage. Collision coverage provided only on certain unusual high value vehicles.
- Public Employee Blanket Bond - state employees are covered to limit of \$1,000,000 total. Additional part of this coverage provided for dishonesty, disappearance, and destruction of money.
- Electronic data processing equipment and media - insurance coverage provided for scheduled equipment and media as reported by each agency to State Data Processing Center.

APPENDIX B

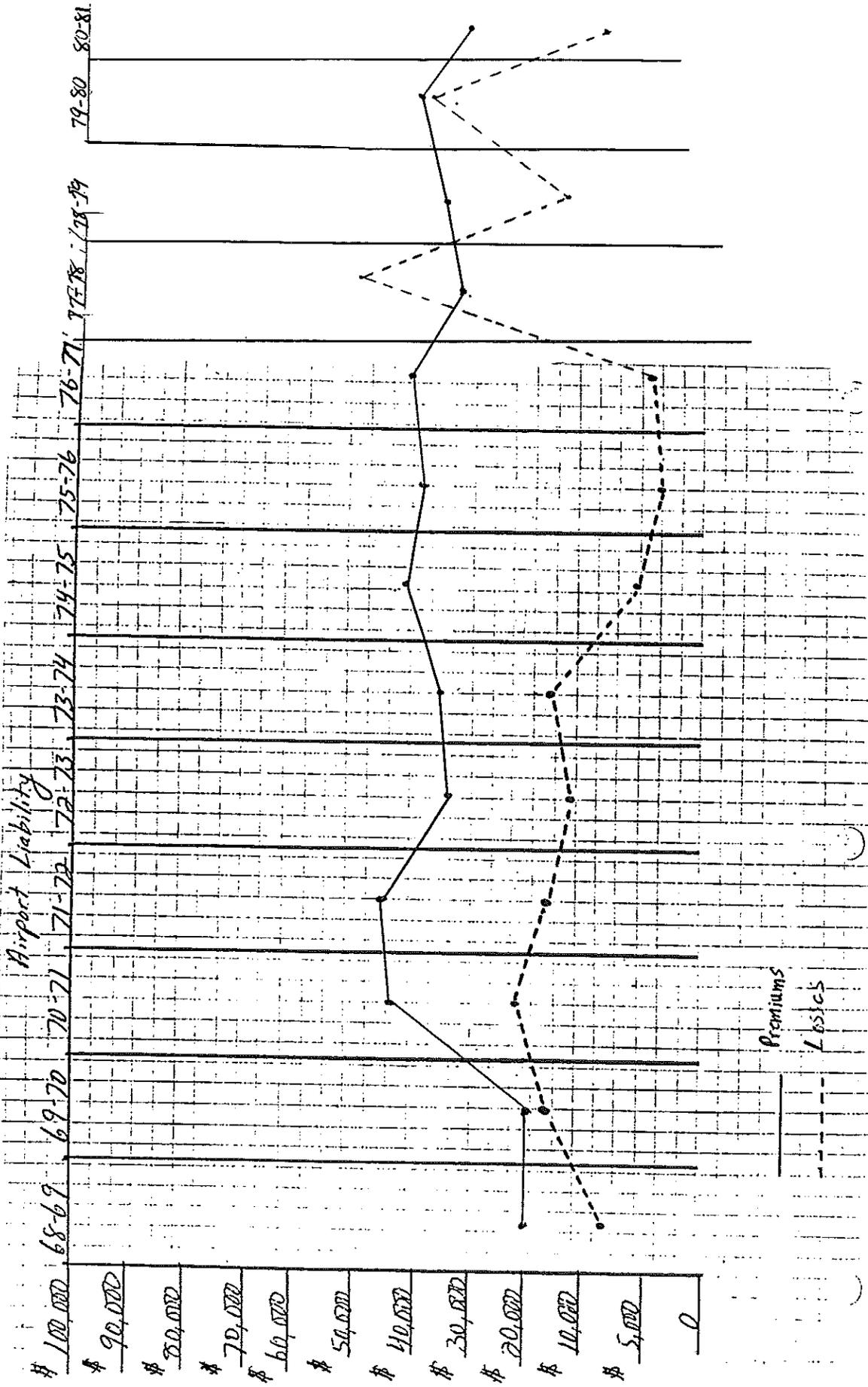
Staff Analysis of Board Policies

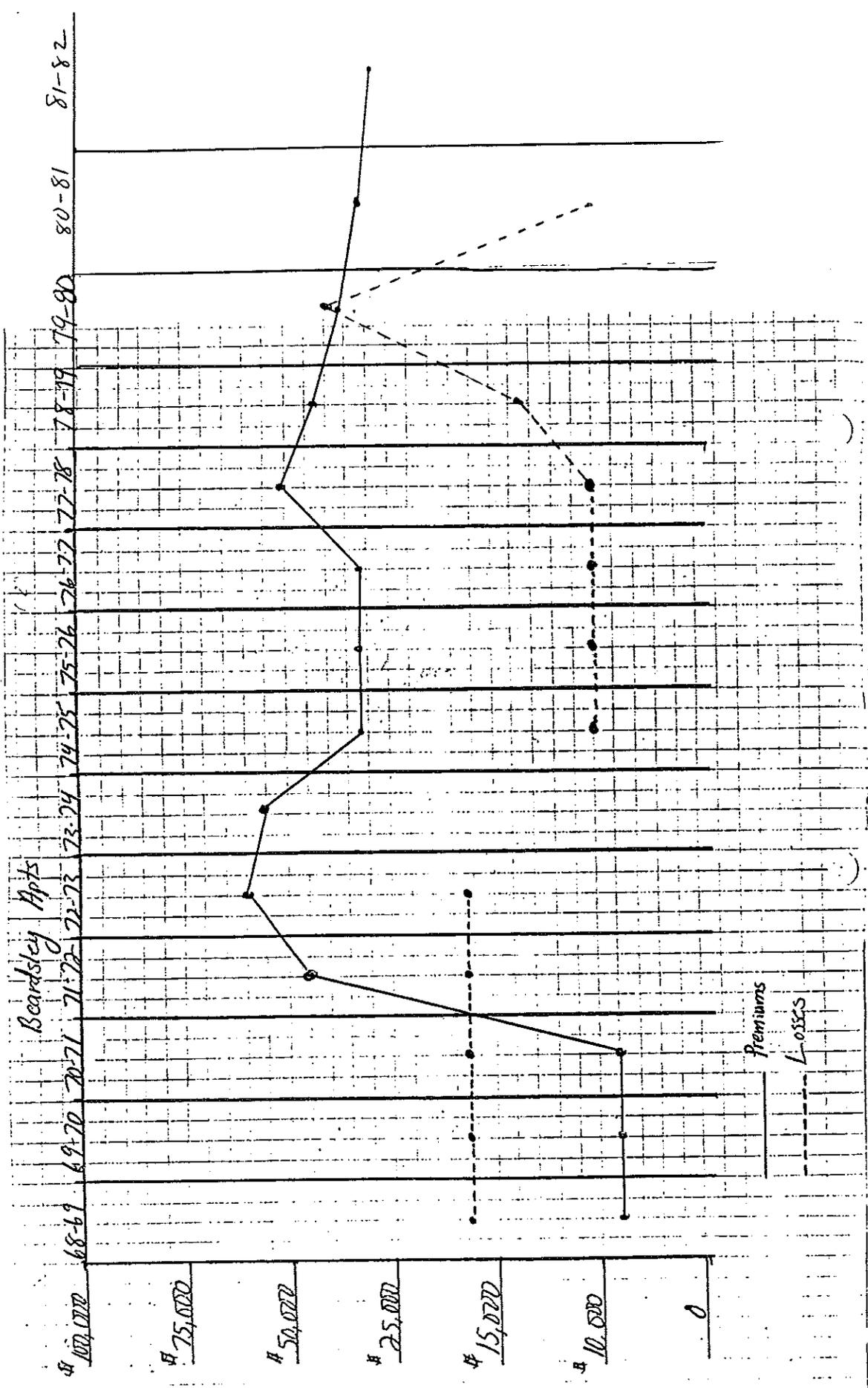
Section 1) - Includes a series of nine graphs indicating what the state spent on each of the nine policies (over a particular period of time) in premium dollars, and what was returned in losses paid.

Section 2) - Includes a series of nine tables (for the same policies as shown in the graphs) indicating what the state would have saved (or lost) if the state had self-insured these nine separate policies. The analysis is done by subtracting the losses paid from the premiums and establishing the difference. From this balance we have subtracted 10% of the premium dollars as the state's administrative costs and determined the net savings or loss. We have then established what the "present value" would be, assuming a seven percent interest rate.

It should be noted that the savings (or loss) assumes that no excess insurance was purchased in these areas. It should also be noted that this is not a comprehensive analysis, since it does not include all state insurance policies.

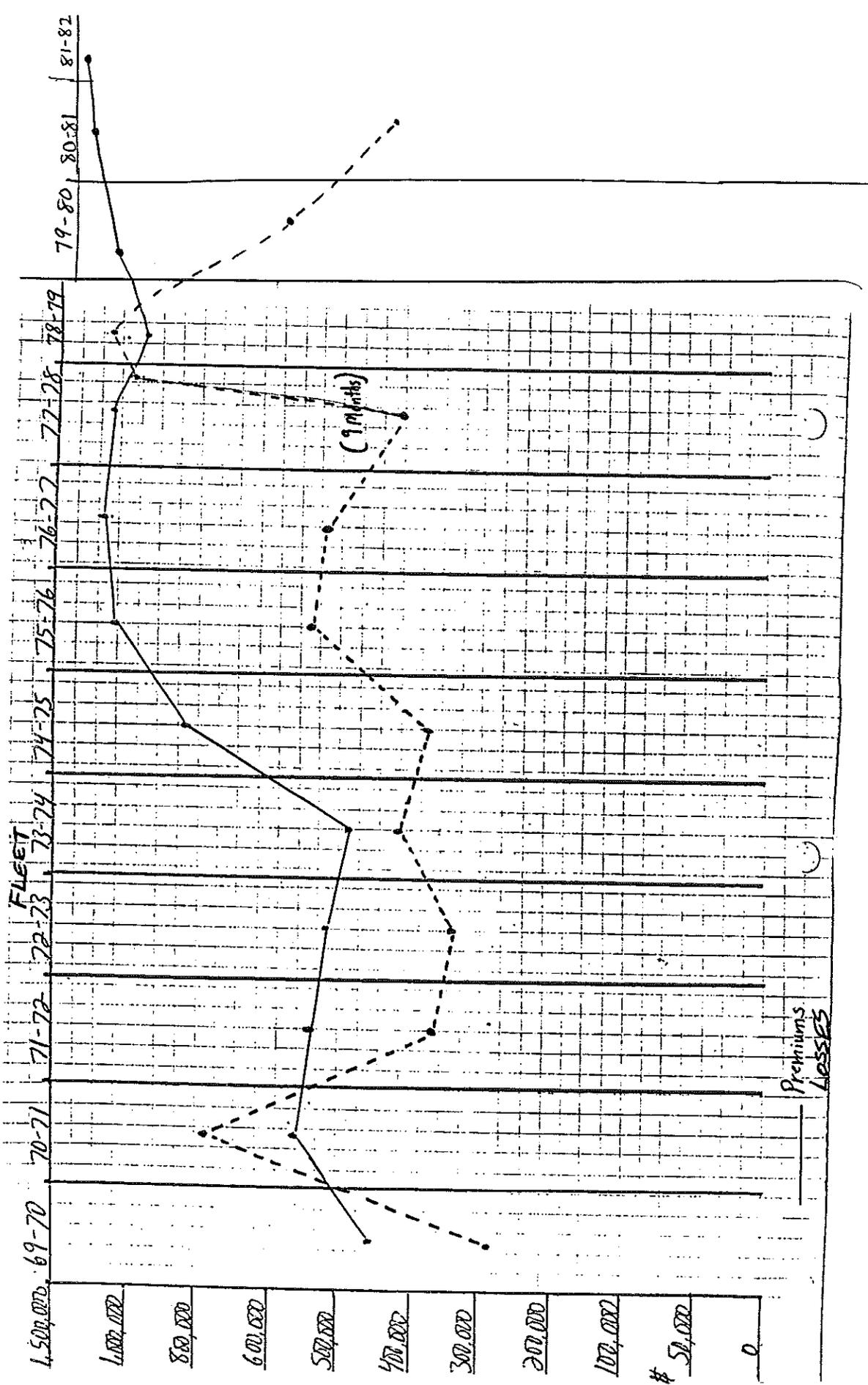
SECTION 1

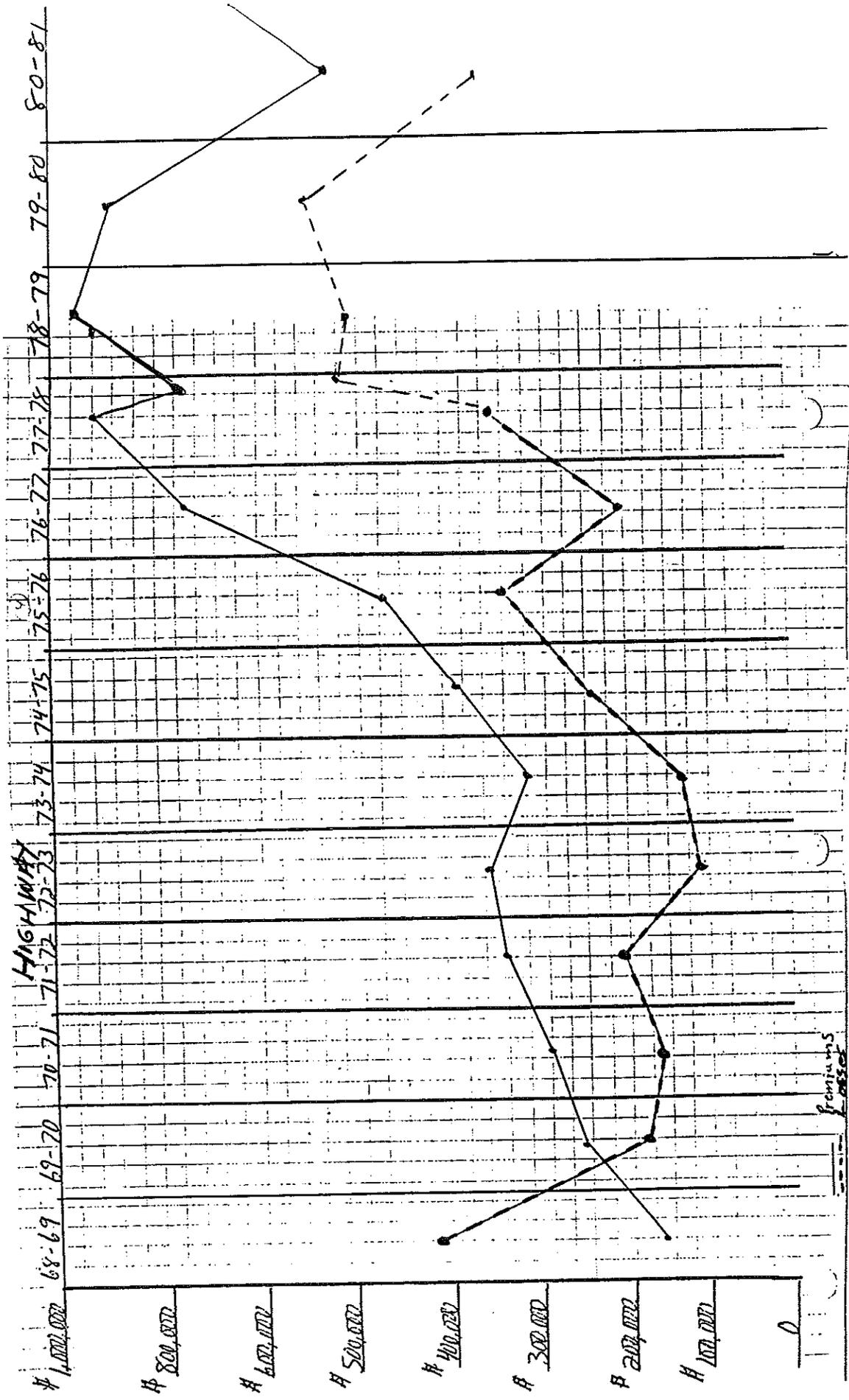


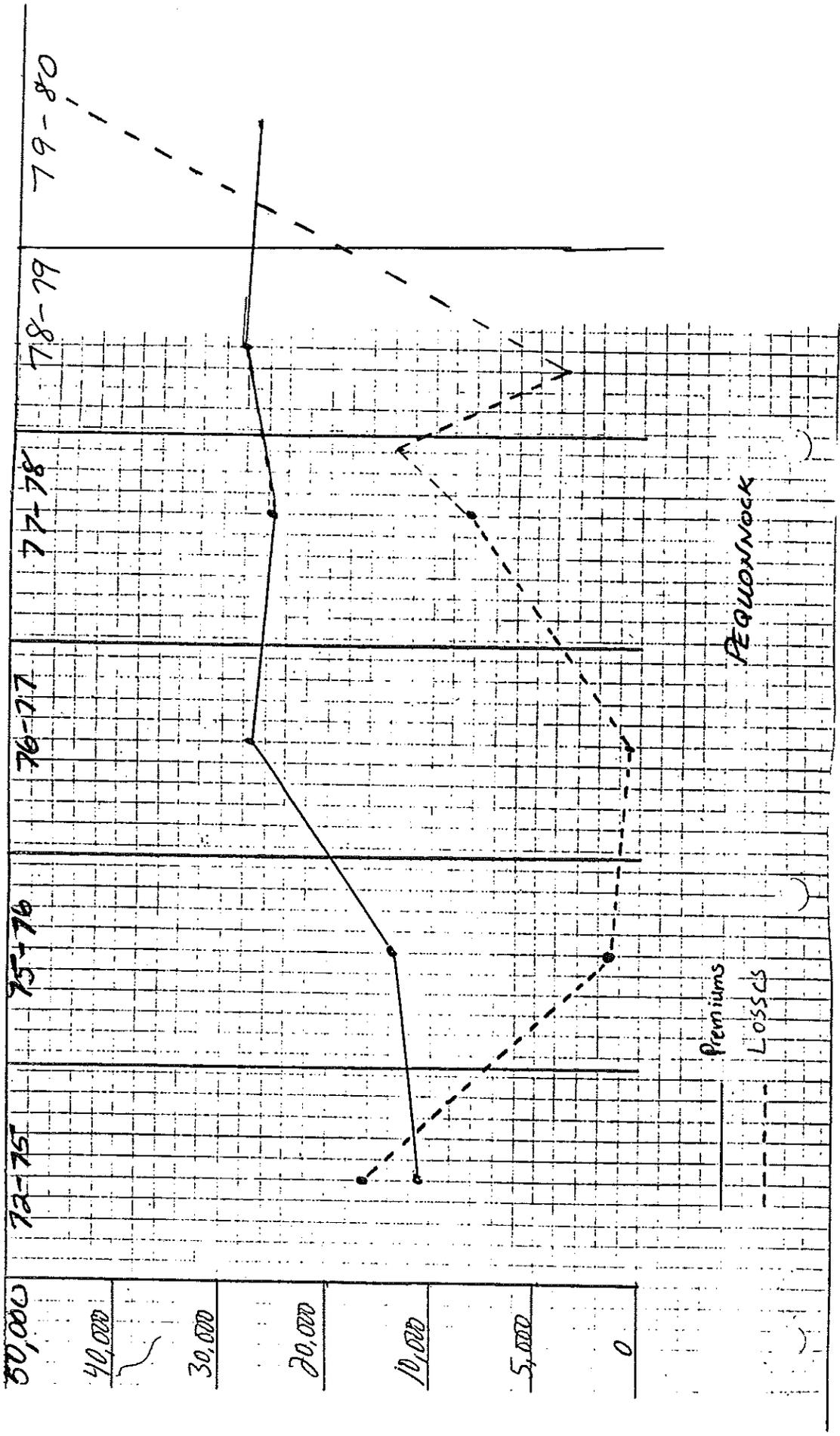


Premiums
Losses

\$ 100,000
\$ 75,000
\$ 50,000
\$ 25,000
\$ 15,000
\$ 10,000
0

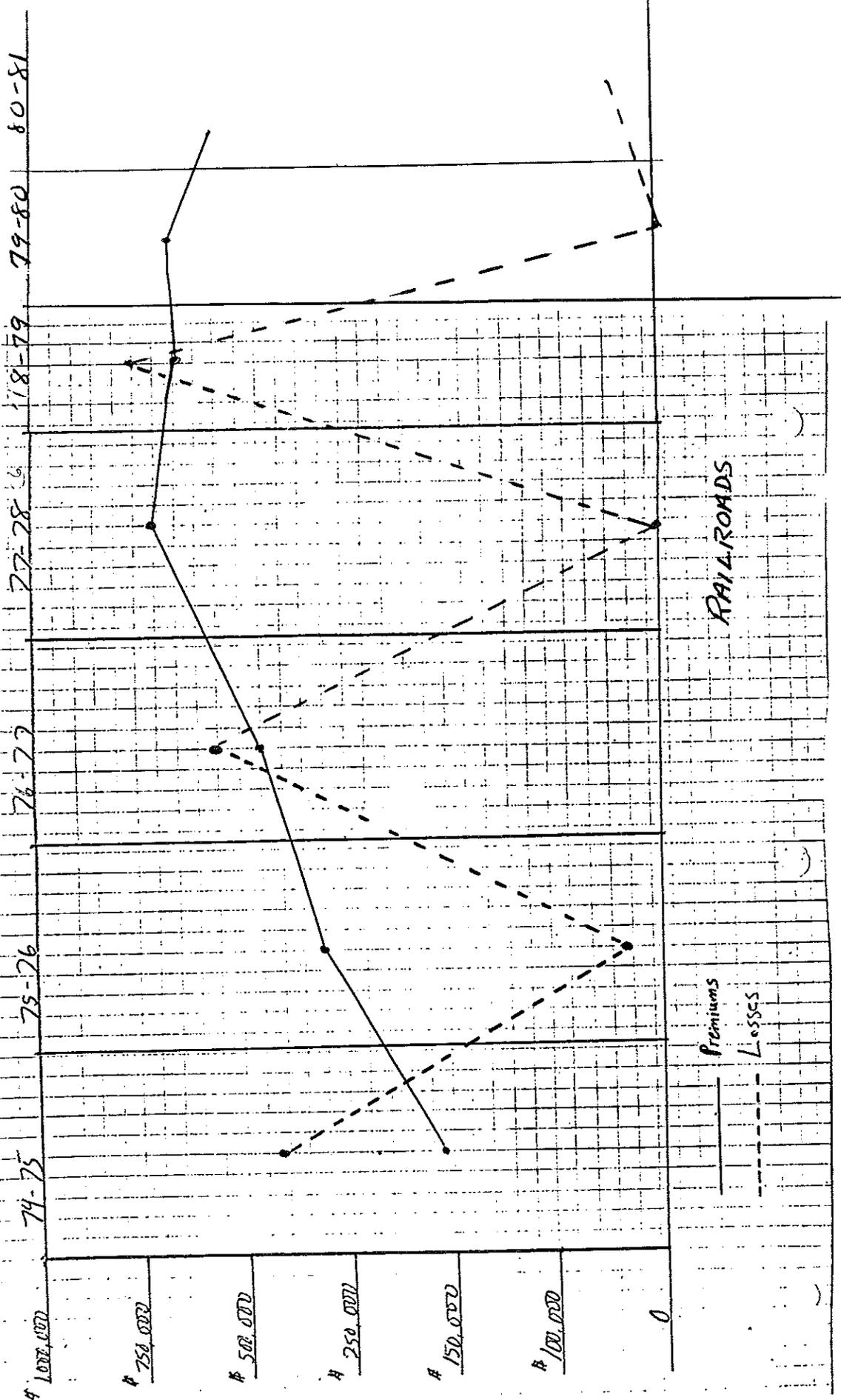


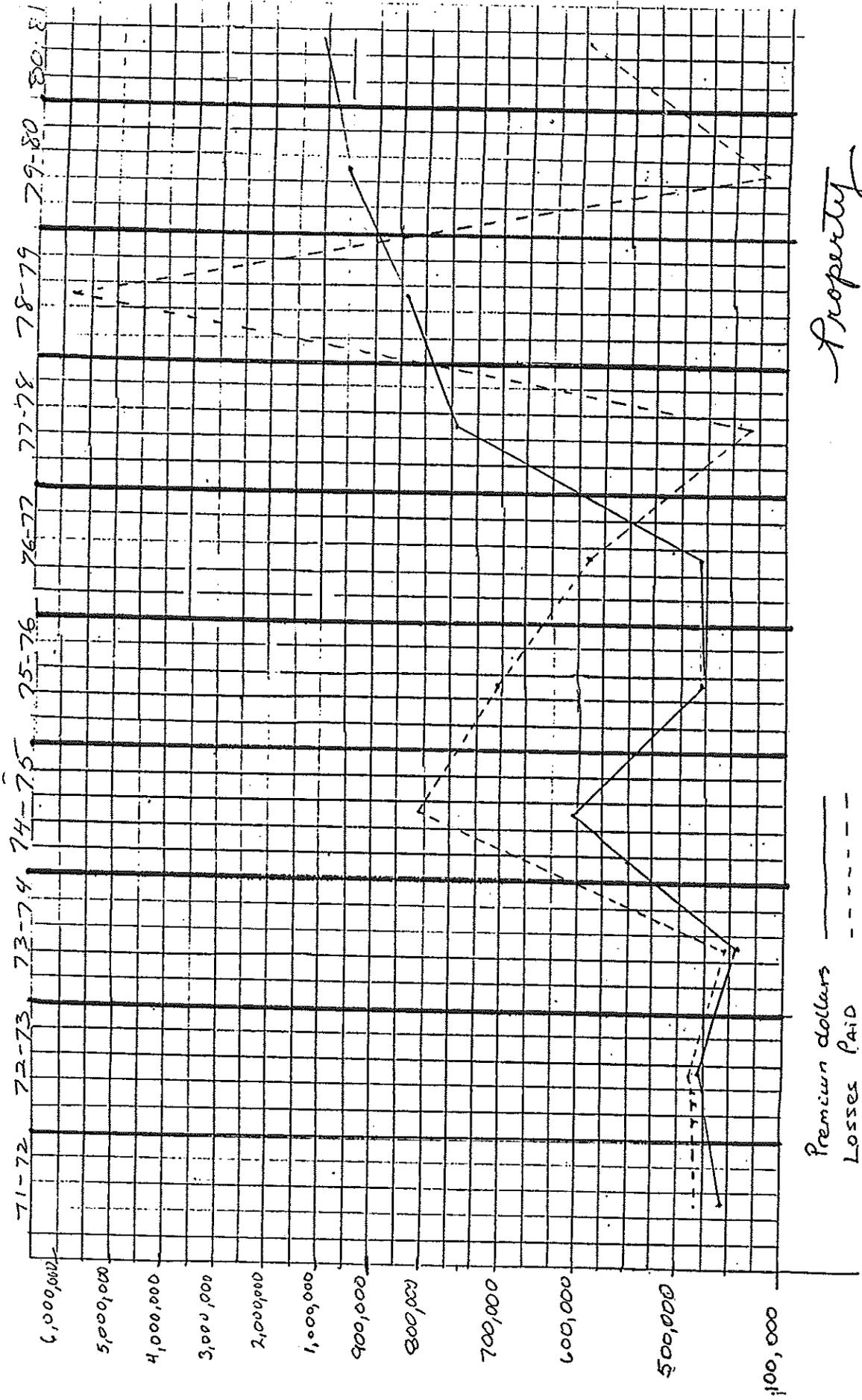




Premiums

Losses



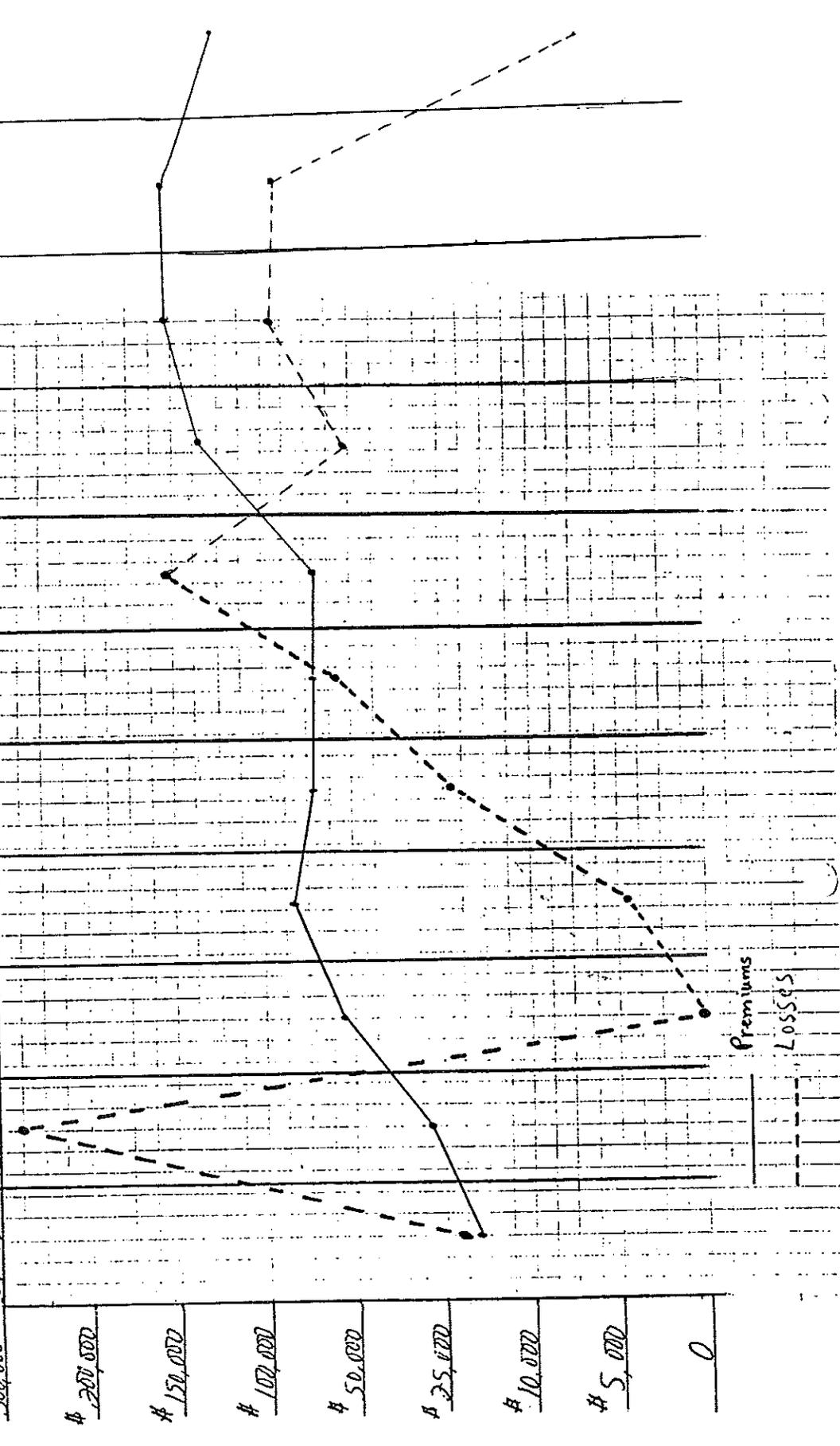


Property

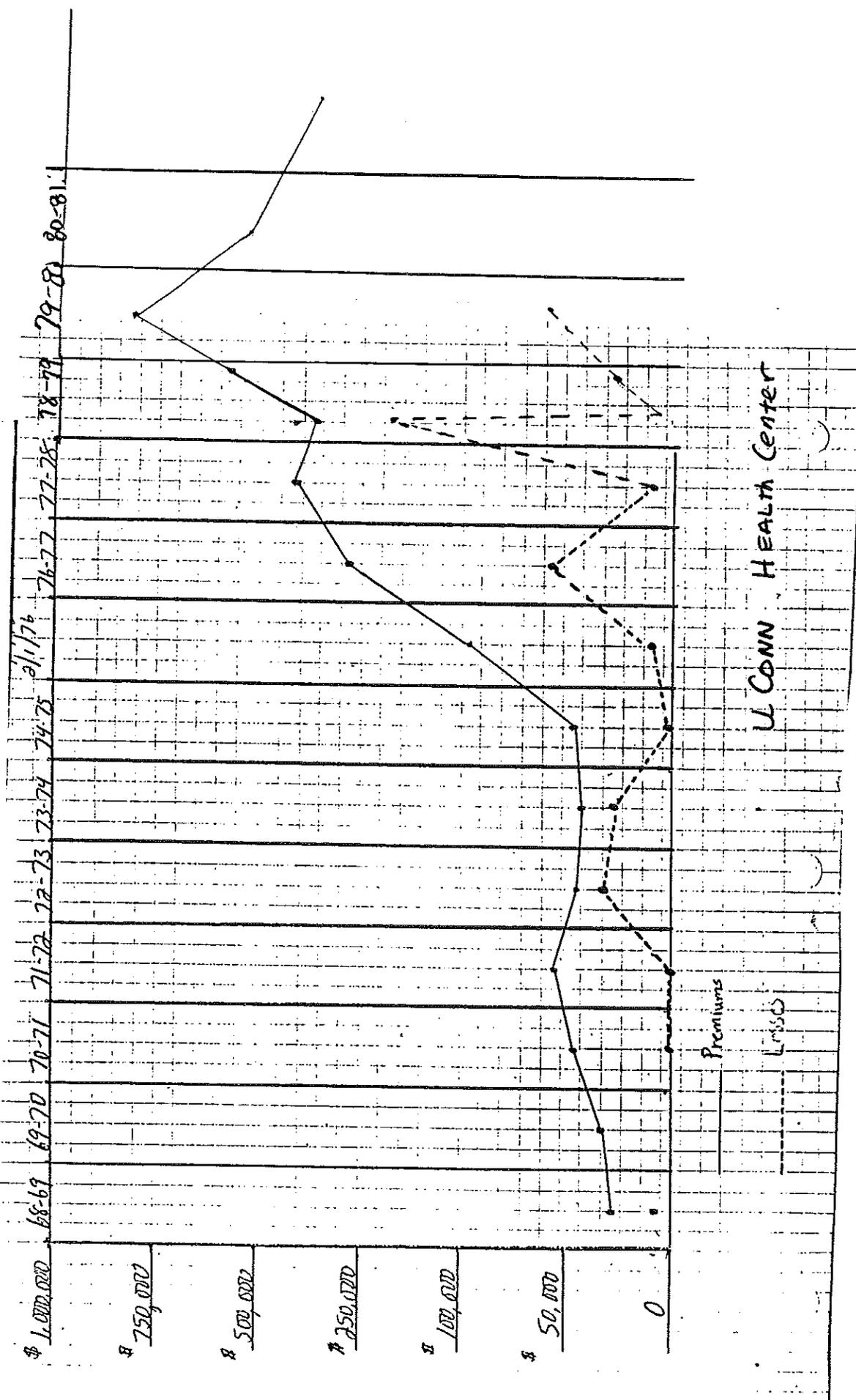
Premium dollars ———
Losses Paid - - - -

STATE POLICE

300,000 81-82
 # 250,000 80-81
 # 150,000 79-80
 # 100,000 78-79
 # 50,000 77-78
 # 25,000 76-77
 # 10,000 75-76
 # 5,000 74-75
 0 73-74
 72-73
 69-72



Premiums
 Losses



SECTION 2
AIRPORT LIABILITY

Premium Year	Premium Dollars (P.D)	Losses Paid	Difference	Administrative Costs	Net Savings (Loss)	Present Value (7%)
77-78	32,877	49,414	(16,537)	3,287	(19,824)	(25,969)
78-79	34,158	14,710	19,448	3,415	16,033	19,721
79-80	40,344	39,805	539	4,034	(3,495)	(3,984)
80-81	33,000	8,096	24,904	3,300	21,604	23,116
81-82	46,788	CURRENT YEAR - CLAIMS UNAVAILABLE			Total Net Savings (Loss)	12,883

		BEARDSLEY	TERRACE (LIABILITY)			
77-78	50,000	13,446	36,554	5,000	31,554	41,336
78-79	44,500	14,710	29,790	4,450	25,340	31,168
79-80	37,500	39,805	(2,305)	3,750	(6,055)	(6,903)
80-81	33,500	8,096	25,404	3,350	22,054	23,598
81-82	30,000	CURRENT YEAR - CLAIMS UNAVAILABLE			Total Net Savings (Loss)	89,199

FLEET						
77-78	1,064,740	999,231	65,509	106,474	(40,965)	(53,664)
78-79	932,055	1,169,080	(237,025)	93,205	(330,230)	(406,183)
79-80	1,074,401	591,697	482,704	107,440	375,264	427,800
80-81	1,300,000	442,180	857,820	130,000	727,820	778,767
81-82	1,322,364	CURRENT YEAR - CLAIMS UNAVAILABLE			Total Net Savings (Loss)	\$746,720

HIGHWAY						
77-78	725,633	513,944	211,689	72,563	139,126	182,255
78-79	878,616	481,175	397,441	87,862	309,579	380,782
79-80	842,830	559,663	283,167	84,283	198,884	226,728
80-81	523,000	330,394	192,606	66,261	126,345	135,189
					Total Net Savings (Loss)	\$924,954

PEQUONNOCK APARTMENTS (LIABILITY)

Premium Year	Premium Dollars (P.D)	Losses Paid	Difference	Administrative Costs	Net Savings (Loss)	Present Value (7%)
77-78	24,150	11,969	12,151	2,415	9,736	13,630
78-79	25,371	2,932	22,439	2,537	19,902	26,072
79-80	25,000	68,500	(43,500)	2,500	(46,000)	(56,580)
80-81	25,000		CLAIMS STILL OPEN			
					Total Net Savings (Loss)	(16,878)

RAILROADS (PROPERTY)

76-77	476,000	536,996	(60,996)	47,600	(108,596)	(162,894)
77-78	667,420	0	667,420	66,742	600,678	840,949
78-79	586,315	753,445	(167,130)	58,631	(225,761)	(277,686)
79-80	586,690	0	586,690	58,669	528,021	649,466
80-81	525,611	30,000	495,611	52,561	442,960	504,974
					Total Net Savings (Loss)	1,554,809

PROPERTY

76-77	418,435	584,845	(166,410)	41,843	(208,253)	(291,554)
77-78	767,908	234,401	533,507	76,790	456,717	598,299
78-79	828,300	5,772,542	(4,944,242)	82,830	(5,027,072)	(6,183,298)
79-80	950,400	184,644	765,756	95,040	670,716	764,616
80=81	1,140,500	595,222	545,278	114,050	431,228	461,413
					Total Net Savings (Loss)	(4,358,970)

STATE POLICE

Premium Year	Premium Dollars (P.D)	Losses Paid	Difference	Administrative Costs	Net Savings (Loss)	Present Value (7%)
78-79	137,500	53,832	83,668	13,750	69,918	91,593
79-80	154,000	85,191	68,809	15,400	53,409	65,693
80-81	154,000	84,120	69,880	15,400	54,480	62,107
81-82	125,000	7,159 (8 mos.)	117,841	12,500	105,341	112,715
82-83	107,950		CURRENT YEAR UNAVAILABLE Total Net Savings (Loss)			<u>332,108</u>

UCONN HEALTH CENTER

77-78	374,847	191,507	183,340	37,484	145,856	191,217
78-78*	304,038	17,126	286,912	30,403	256,509	315,506
78-79	568,600	31,391	537,209	56,860	480,349	547,598
79-80	782,763	58,481	724,282	78,276	646,006	691,226
80-81	508,210		CURRENT YEAR UNAVAILABLE Total Net Savings (Loss)			<u>1,745,544</u>

* Change in policy year to coincide with the Medical Society's Fiscal Year.

APPENDIX C
Tasks of Agent of Record

GENERAL

1. Meeting two full afternoons weekly with Chairman.
2. Business visits with the State Insurance Purchasing Board or Comptroller's Department or other budgeted agencies daily.
3. Multiple telephone calls with the State Insurance Purchasing Board or Comptroller's Department or other budgeted agencies daily.
4. Review all claims presented to the Claims Commission to determine whether or not insurance is involved.
5. Prepare feasibility studies of all phases of insurance including deductibles and self-insurance for the Board.
6. Prepare State Insurance Purchasing Board budget annually for insurance coverages.
7. Consultations with State auditors.
8. Insurance seminars with various budgeted agencies.
9. Analyze many State contracts of budgeted agencies for insurance purposes. (E.G. ConRail - D.O.T. and University of Connecticut.)
10. Prepare loss and other exhibits for review of the Board.
11. Attend each meeting of the State Insurance Purchasing Board.
12. Prepare statistical matter for negotiations. (Fire and others.)
13. Prepare all specifications for proposals on all policies with premiums in excess of \$7500.
14. Conduct meetings with company personnel for all purposes.

UNDERWRITING

1. Full knowledge of all rating plans.
2. Full knowledge of State Statutes and bond issues regarding insurance purchases by the Board.
3. Full knowledge of all lines of insurance.
4. Prepare computation sheets for each policy and endorsement.
5. Ascertain that proper credits are given as specified by the law.
6. Write new forms of coverage to specifically cover certain needs of the State.
7. Verify all audits, policies and endorsements.
8. Field inspections.
9. Arrange sprinkler and water pressure tests and be present when necessary. (Engineering.)
10. Work in conjunction with the companies in the preparation and filing of forms and rates.

LOSSES

1. Give full assistance to the Comptroller's Department in their maintaining of loss records.
2. Conduct loss and safety meetings.
3. Process all losses except automobile, highway liability and fire.
4. To expedite automobile and highway liability claims the loss report goes directly to the company with copies to the Comptroller, who furnishes our office with a copy.

5. Process claims to the companies with all follow-ups to the companies and Comptroller.
6. Forward disposition notices to the Comptroller and clear each claim.
7. Follow-up fire claims for final cost sheets and acceptance letters.
8. Analyze quarterly fire reports to ascertain the correctness against the individual groups in that quarter.
9. Review all subrogation claims for accuracy and process through the Comptroller's Department.
10. Arbitrate frequently on two-party claims. (For the convenience of all parties concerned, a casualty and property adjuster's license is extremely useful.)
11. Availability twenty-four hours a day for emergency claims.
12. Process all Writs received on claims.

INVENTORIES

1. Assist the inventory section of the Comptroller's Department in maintaining inventories.
2. Arrange for field inspections for inventory and safety purposes and be in attendance.
3. Review final cost sheets on State projects in conjunction with representatives of the insurance companies on the property schedule to eliminate uninsurables.
4. Write Inventory Manual for the Comptroller's approval.
5. Assist in the preparation of the general letter sent by the Comptroller to all budgeted agencies in accordance with the State Statutes.

6. Consult with the Comptroller on appraisals. (Hospitals.)

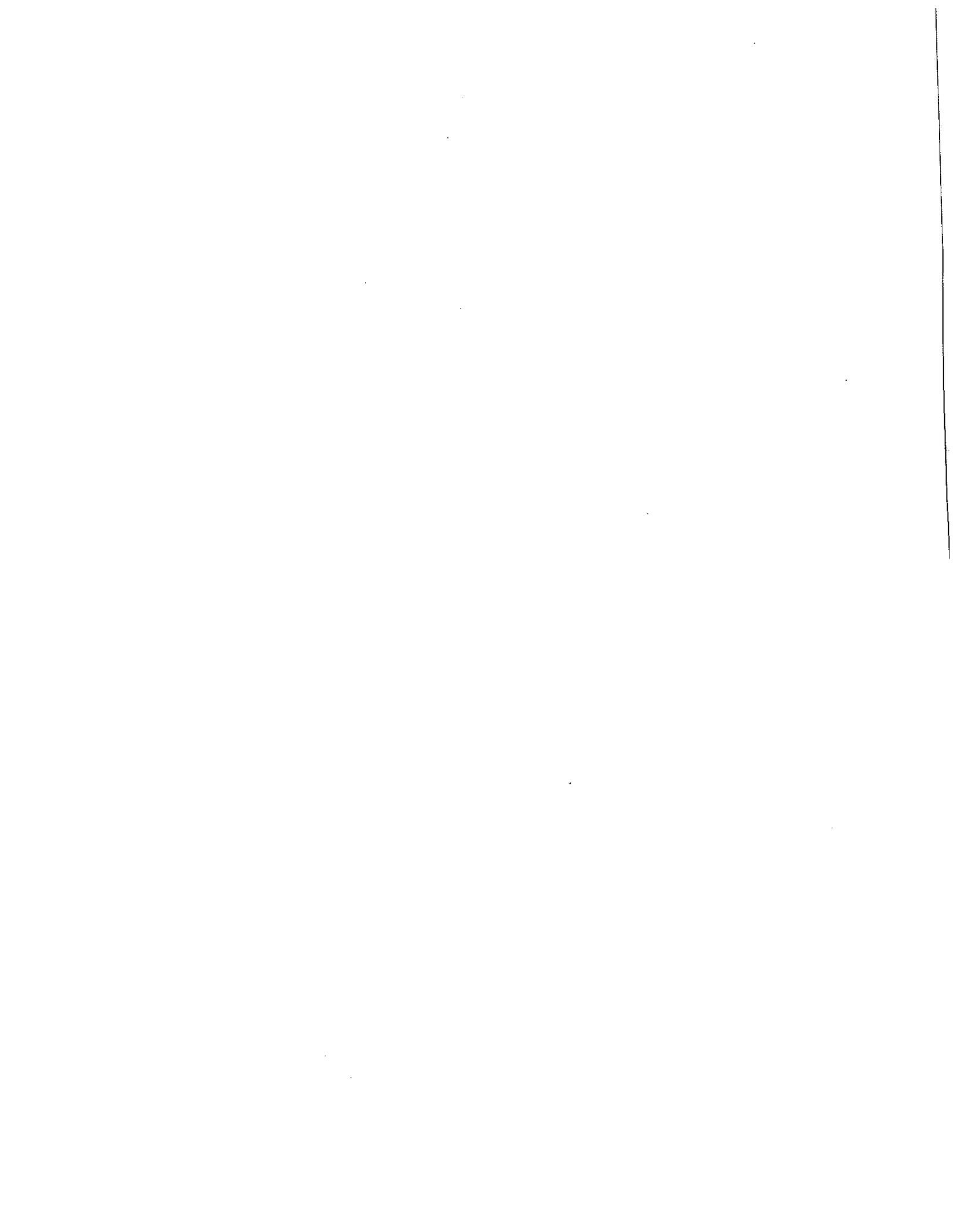
It is reasonable to state the above guidelines are the very minimum areas of service with which the State of Connecticut insurance program can be operated. It is imperative that an office be maintained in metropolitan Hartford since the entire operation revolves around the State Capitol. It will take a minimum of four experienced people and one part-time person to carry out the duties required of this account.

In the operation of this account time is always of the essence. It is imperative some person is available to answer all requests of State personnel.

APPENDIX D

INSURANCE PROGRAMS - OTHER STATES (43 states)
(Statistics 1978)

Automobile Liability		Property	
Commercial Insurance First Dollar	- 24 (CT)	Commercial Insurance First dollar (only on property valued at \$300,000)	- 1
No Insurance Program	- 6	Commercial Insurance with deductibles	- 25
Self-Insured with excess	- 3	- \$10,000 per occurrence and \$1,000,000 annual aggregate (1)	
Self-Insured no excess	- 8	- \$100,000 per occurrence (3)	
Commercial insurance with deductibles of \$5,000 - \$75,000 per occurrence	- 2	- \$1,000 per occurrence and \$100,000 annual aggregate (2) (CT)	
		- \$2.5 m annual aggregate (1)	
		- \$2.250 m annual aggregate (1)	
		- \$1.5 m per occurrence and \$3.5 m annual aggregate (1)	
		- \$125,000 per occurrence and \$350,000 annual aggregate (1)	
		- \$500,000 per occurrence and \$1 m annual aggregate (1)	
		- \$10,000 per occurrence and \$100,000 annual aggregate (1)	
		- \$50,000 annual aggregate (1)	
		- \$50,000 per occurrence (2)	
		- \$500,000 per occurrence (2)	
		- \$5,000 per occurrence and \$1.5 annual aggregate (1)	
		- \$25,000 per occurrence (2)	
		- \$25,000 per occurrence with \$1,200,000 annual aggregate (1)	
		- variety of deductibles within the state (4)	
		Self-Insure - no excess	- 3
		Self-Insure - no excess on some state property - on others, commercial with deductibles	- 5
		Self-insure - to \$3 m annual aggregate Catastrophic coverage to \$35.m	- 1
		Self-Insured - Excess Combined Property and Liability of \$5,000,000	- 1
		Not Included in Programs No formal insurance	- 7



APPENDIX E

Legislative Changes to Implement Legislative Program Review and Investigation Committee's Recommendations

- Add a section to Chapter 46a of the Connecticut General Statutes to require that the Department of Administrative Services to contract for an independent comprehensive study to be conducted, including but not limited to: the feasibility of placing all insurance purchasing functions within one section of state government; the suitability of self-insurance for these programs; and how the programs would be administered. The report should be submitted to the governor and the General Assembly by February 1, 1984.
- Amend Section 4-37b of the Connecticut General Statutes to require the board to establish specifications for the agent(s) of record and request bids on the contract, which would be for a specified period of time. Also add the requirement that the board perform an annual written evaluation of the agent(s) of record.
- Amend Section 4-37a of the Connecticut General Statutes to clarify that the ex officio status of the comptroller is with full voting rights.
- Amend Section 4-37a of the Connecticut General Statutes to reflect the change in the limit on number of terms a member may serve, and membership attendance requirements.