

**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
ANNUAL REPORT ON GOALS, OBJECTIVES, AND POLICIES**

**January 2009**

Program ID/Title: AGS-203/State Risk Management and Insurance  
Administration

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**I. Goal**

The program will endeavor to protect the State against catastrophic losses and to minimize total cost of risk. The result will ensure losses of the State are controlled and financed on a well-coordinated basis.

**II. Objectives and Policies**

- A. #1 - Identify and analyze the State's loss exposures to determine risks that should be self-insured versus commercially insured and purchase applicable Statewide property, liability, and crime insurance policies at cost effective terms.
- B. #2 - Coordinate loss control and cost containment activities to minimize accidental and fortuitous losses.
- C. #3 -Settle informal tort claims (up to \$10,000), adjust automobile claims and property losses fairly and promptly.
- D. #4 - Manage a revolving fund to assure the availability of funds for the purchase of insurance policies, and payment of self-insured and insured losses and other risk management service.
- E. #5 - Operate a management information system to identify and analyze loss exposures to determine frequency and severity of losses, to forecast losses, and to determine the most economical method of financing losses.

**III. Action Plan with Timetable**

- A. #1 - Identify and analyze the State's loss exposures to determine risks that should be self-insured versus commercially insured and purchase applicable Statewide property, liability, and crime insurance policies at cost effective terms.

### Past Year Accomplishments

1. Purchased property insurance policies with the significant improvements in the limits of coverage and decreased premium. The coverage increased from \$100 million to \$175 million. Coverage limits for flood and earthquake increased from \$40 million to \$175 million. The premium reduced from \$12.4 million to \$11.2 million, a savings of \$1.2 million. The property loss deductible remained the same as last year at \$1 million per occurrence. The deductible for the catastrophic losses (hurricane, earthquake, and flood) remained at 3% of the value of the building and contents. Most large organizations and government entities sustained increases up to 5%. The excess liability policy was purchased with the same limits, \$10 million per occurrence, to protect the State against its liabilities; however, the self-insured retention was increased from \$3 million to \$4 million per occurrence for a premium savings of \$450,000. The coverage continued to include liability arising from dams. The crime insurance policy remained the same as last year, \$10 million per occurrence, with a slight reduction in premium from \$149,000 to \$146,000.
2. The property data survey to identify all State buildings and determine replacement cost value for the purpose of insurance remains an ongoing project. This project has been instrumental in marketing the State's property insurance program and is partially responsible for the reduction in premiums and increase in coverage.

### One Year

1. Maintain or improve on prior year's insurance coverage with increased limits and more advantageous terms and conditions.
2. Issue a Request for Proposal (RFP) for insurance brokerage services for the December 1, 2009 renewal of the statewide insurance policies.
3. Determine the feasibility of outsourcing the claims handling functions to an outside vendor to improve the efficiency of the Program. Reducing the claims handled by the Program's staff will provide the ability to concentrate on the core business – securing the most advantageous insurance program for the State and reducing losses. Implement if determined to be advantageous to the State.
4. Continue the property data survey for the assessment of the State's physical assets, such as buildings and contents.

5. Review standard minimum insurance limits for general liability and automobile insurance for State contracts and revise if needed.

#### Two Years

1. Continue the One Year goals and objectives.
2. Evaluate the performance of the statewide insurance broker.
3. Evaluate the performance of the claims vendor and its impact on the performance of the Program.

#### Five Years

1. Continue One and Two Year goals and objectives.
  2. Issue an RFP for statewide insurance brokerage services.
- B. #2 - Coordinate loss control and cost containment activities to minimize accidental and fortuitous losses.

#### Past Year Accomplishments

1. Conducted 3 property assessments of State facilities.
2. Conducted 5 training sessions in conjunction with the State's insurance broker for training on insurance and effective economical loss control measures for State facilities, including sessions in Kahului and Lihue.
3. Program implemented quarterly reports to assist the departments in managing their risks and make them aware of the losses and trends of concern. The two quarterly reports provide an overview of how the departments are performing and provide loss controls suggestions. The two quarterly reports issued are:
  - a) The department head receives a summary of the department's activities for the quarter and year-to-date in comparison with the prior fiscal year.
  - b) The departmental risk management coordinator receives a report on the details of the claims received, pending and closed during the quarter, along with a copy of the summary.
4. Issued 4 editions of the Risk Management Coordinators Newsletter – "RISK E-NOTES". This newsletter provides current information regarding the Program and loss control articles.

### One Year

1. Conduct loss prevention surveys of State facilities such as airports, schools, convention center, hospitals and other public facilities on a two to three year cycle.
2. Develop additional cost containment programs related to employee and property losses, such as deductibles for recurring types of losses.
3. Consider installation of alarm/security systems for other programs that meet certain needs criteria.
4. Continue training.
5. Continue newsletter.

### Two Years

1. Continue the One Year goals and objectives.

### Five Years

1. Continue the One Year goals and objectives.
- C. Objective/Policy #3 - Settle informal tort claims (up to \$10,000), adjust automobile claims and property losses fairly and promptly.

### Past Year Accomplishment

1. The program received 829 tort claims in FY 2008, a 23% increase from FY 2007 (677) and received 257 pothole claims (included in the tort total), a 53% increase from FY 2007 (168). The program resolved 784 tort claims in FY 2008, a 4% decrease from FY 2007 (814) and resolved 168 pothole claims (included in the total tort claims), a 23% decrease from FY 2007 (316). The number of pending tort claims for FY 2008 was 211, an increase of 13% from FY 2007 (187) and pending pothole claims (included in the tort total) was 46, an increase of 1% from FY 2007 (43).
2. The program received 339 claims from auto accidents in FY 2008, a 9% decrease from FY 2007 (374). There were 424 claims resolved in FY 2008, a decrease of 7% from 2007 (458). The number of pending claims for FY 2008 was 142, a 7% decrease from FY 2007 (152).

3. The program received 160 property claims in FY 2008, a decrease of 40% from FY 2007 (267) and resolved 348 in FY 2008, an increase of 148% from FY 2007 (100). Of those closed in FY 2008, 189 were related to the October 15, 2006 earthquake. The number of pending claims in FY 2008 was 93, a decrease of 76% from FY 2007 (269). In FY 2008, the program assisted in two significant property insurance settlements:
  - a) The Department of Transportation – Harbors Division sustained significant damage to Kawaihae Harbor facilities from the October 15, 2006 Kiholo Bay earthquake resulting in insurance proceeds of \$3.1 million.
  - b) The Department of Education received \$394,000 for the fire loss at Pa`ia Elementary Cafeteria which occurred December 17, 2005.
4. The Program continued processing claim payments by the automated interfaces between the Program's claims management system, Financial Management System (FMS), and Financial and Management Information System (FAMIS). It has reduced the data entry time to ¼ by eliminating double data entry by clerks in the Program and Administrative Services Office. The average processing time was reduced by 5 – 7 days.

#### One Year

1. Update the Risk Management Manual that had been published in 1992.
2. Continue to have the staff process all claims to minimize the cost of processing claims without compromising quality and productivity.
3. Determine the feasibility of outsourcing the claims handling functions to an outside vendor to improve the efficiency of the Program. Reducing the claims handled by the Program's staff will provide the ability to concentrate on the core business – securing the most advantageous insurance program for the State and reducing losses.
4. Workshops to train departmental risk management coordinators in the procedures for handling claims to ensure claims are investigated and processed properly will continue to be conducted during FY 2009 with the assistance of the insurance broker. Annual informal training will continue as changes occur or new coordinators are added.

#### Two Years

1. Continue workshops to train departmental risk management coordinators.

2. Review and update the program's procedures.

Five Years

1. Continue Two Years goals and objectives.

- D. Objective/Policy #4 - Manage the revolving fund to assure the availability of funds for the purchase of insurance policies, payment of self-insured and insured losses, and other risk management service.

Past Year Accomplishment

1. The Program funded the purchase of the Statewide insurance policies and the payment of claims made against or for the State.
2. The State Risk Management Revolving Fund analysis was completed by the State's insurance broker on January 25, 2008.
3. Agencies were billed based on the cost allocation process.

One Year

1. Reevaluate the methodology of cost allocation process.
2. Reevaluate the amount to be assessed in the risk management cost allocation.
3. Annual evaluations of the cost allocation assessments will be done after the December 1<sup>st</sup> insurance renewal and will be provided to the departments for budget purposes by August 1<sup>st</sup> of each year.

Two Years

1. Continue One Year Goals.

Five Years

1. Continue One year Goals.

- E. Objective/Policy #5 - Operate a management information system to identify and analyze loss exposures to determine frequency and severity of losses, to forecast losses, and determine the most economical method of financing losses.

Past Year Accomplishment

1. No significant changes were made to the management information system for claims tracking, loss control, and loss finance in FY 2008. The changes made in FY 2007, completed by Systems and Procedures Office in connection with the program, have proven successful. These changes were:
  - a) Processing of payments was interfaced with FMS and FAMIS. See section III.C.4.
  - b) Quarterly reports for the auto and property losses were developed to provide departments and agencies a summary of their claim activity (implemented in FY 2008).

#### One Year

1. Continue review of program and work with Systems and Procedures Office on additional enhancements to allow flexibility and greater capability of managing the information in order to produce reports.
2. Work with Systems and Procedures Office to develop program for additional data entry capability for claims, such as file notes and scanning of documents, to move towards less paper being used and stored.

#### Two Years

1. Continue One Year goals.

#### Five Years

1. Continue One Year goals.

### IV. Performance Measures

- A. Customer Satisfaction measure - All State agencies receive risk management service. Service includes the purchase of insurance to protect against catastrophic losses at cost effective terms, payment of self-retained losses fairly and promptly, and loss control evaluations.

The Program launched its intranet (<http://www.higov.net/portal/Members/dagsrmo>) and internet (<http://hawaii.gov/dags/rmo>) web sites in September 2007. Both sites provide general information regarding the Program, including claim forms and instructions:

- General Public Claim Information
  - FAQs
  - Claim forms and instructions
- State Departments and Agencies
  - FAQs
  - Forms and instructions
  - Newsletter (Risk E-Notes)
  - Power Point Training sessions (intranet site only)

The program seeks feedback from training evaluations, quarterly claims activity reports, and the newsletters in order to improve performance.

- B. Program Standard measure – Monitor the Measures of Effectiveness for timely resolution of claims and payments. Establish tolerable limit of losses based upon frequency. Identify and utilize opportunities to expand risk management service without increasing overhead.
- C. Cost Effectiveness measure - Establish tolerable limits of losses based upon severity. Consider deductibles for claims based upon frequency or cause. Investigate ways to contain and/or minimize the frequency and severity of losses that have greatest impact on total cost or risk.