



Underwriting Committee Standard Operating Procedures

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Introduction

In every conversation we have, every initiative we explore, and every action we take, we must hold them up against PRISM's. Together, the Mission, Vision and Core Values are our strategic framework and clarify why PRISM exists and what we aim to be. As you review this document, please keep these in mind:

Mission:

PRISM is a member-directed risk sharing pool of public agencies committed to providing risk coverage programs and risk management services, which drive member stability, efficiency, and best practices.

Vision:

PRISM will continue to be internationally recognized as a leading risk sharing pool for its member-directed operating philosophy and commitment to member fiscal sustainability. PRISM will continue to influence and shape the future of the risk management profession.

Core Values:

PRISM is dedicated to preserving a member-directed culture, defining standards for quality and performance throughout the industry, and ensuring programs and services are:

- **C**ompetitive in scope and price over the long term
- **A**daptable and customized to meet member needs, based on high-quality standards
- **R**esolute in delivering timely solutions that address present and emerging risks
- **E**quitable in allocating costs and services between various members in a fair and consistent manner
- **S**table in supporting cost-effective, fiscally prudent operations *and* long-term solvency, and in building long-term relationships with members and program/service partners.

Composition

The Committee is comprised of 11 members that participate in the EWC and/or GL1 Programs, of which 9 are voting members and 2 are alternates, who are eligible to vote at any meeting where a voting member is absent. The Committee's 11 positions are designated as follows:

- Nine voting and two alternate committee members, with

- One designated public entity representative voting seat, and
- One designated GL1 Program Deductible Buy-Down seat (voting or alternate)

Reference: [Committee Composition](#)

Roles

Committee:

The Underwriting Committee is responsible for the approval of applications by non-members for membership in PRISM's EWC and GL1 Programs, subject to ratification by the Executive Committee.

Pursuant to the Bylaws, the Committee shall:

- Formulate, advise and make recommendations to the Executive Committee regarding the allocation of premiums to members and prospective non-members
- Advise and make recommendations regarding the distribution of such premiums
- Assess the stability of insurers and reinsurers and advise and make recommendations regarding said insurers and reinsurers
- Perform such other functions as the Board of Directors and/or Executive Committee may direct

From time to time, the Committee may consider contracting with outside parties for services. PRISM's Executive Committee has adopted a Service Provider Contracting Policy which outlines the process for competitive bidding as well as protocols and authorities for entering into such contracts. The Underwriting Committee is responsible for determining whether a competitive selection process should be used for procurement of any new member service offerings or a new service provider for an existing member service in excess of \$50,000. Any renewal contract must go to the Committee for approval of the vendor and the amount to be expended.

Reference: [Service Provider Contracting Policy](#)

Chair:

- Call/Authorize meeting to be scheduled
 - Staff will contact Chair to arrange date, time, location (in-person or Web/Video Meeting)
 - Once authorized, staff will notify the Committee members via e-mail
- Call the meeting to order
- Orchestrate agenda items
- Recognize members to facilitate orderly debate
- Preside over voting

- Enforce rules of the group
- Expedite the business of the group
- Declare meeting adjournment

Staff:

- Assist Chair in facilitating meeting, prepare agenda, take minutes, summarize meeting for those not in attendance
- Advisory to the Committee
- Will make recommendations to assist Committee
- [Sarah Bishop](#) is the staff liaison for this Committee.

Broker:

- Advisory to the Committee
- Will make recommendations to assist Committee

Reference: [EWC & GL1 Scope of Services from Alliant Contract](#)

Consultants:

PRISM utilizes consultants for various services, including but not limited to legal advice, third party claims administration, and underwriting. Their role is to:

- Advise the Committee
- May make recommendations to assist Committee

Responsibilities

Oversight for Policy Matters:

Renewal Timeline Policy

The Underwriting Committee oversees the provisions of the Renewal Timeline Policy and will:

- Recommend changes to the Executive Committee and Board from time to time in regard to established due dates and penalties
- Make the final decision on any appeals of penalties
- Determine how to proceed for any member that has not submitted data by December 31st

Reference: [EWC & GL1 Renewal Timeline Policy Statement 10/3/14](#)

Underwriting & Claims Administration Standards

The Underwriting Committee oversees the provisions of the Standards and may recommend changes to the Executive Committee and Board from time to time in regard to:

- The requirement for members to have an actuarial review at least once every 3 years

- Maintaining and providing loss data to PRISM upon request

The Underwriting and Claims Review Committees have established a policy regarding the application of the guidelines.

Reference: [Underwriting & Claims Admin Standards 07/01/2019](#)

Reference: [EWC Standards & Guidelines Policy Statement 9/27/02 & 11/15/02](#)

Approval of New Members

The Board has adopted a resolution delegating authority to the Executive Committee to approve new members in the EWC and GL1 Programs, and the Executive Committee has further delegated such authority to the Underwriting Committee. A policy statement has been developed outlining the underwriting process for prospective members.

The Underwriting Committee has established a policy extending their approval to join a program through the end of the program year or 60 days, whichever is greater.

The Underwriting Committee, as part of the Underwriting of Prospective New Members Policy, approved a methodology for handling instances where the Program's carriers require a rate higher than the Program's overall rate for adding prospective members that fall outside of the approved Underwriting Restrictions. The carrier's premium difference resulting from the two rates will be isolated to the new member joining the Program so the rest of the members won't be adversely affected by the Program's growth. This premium differential will bleed off as outlined in the policy, depending on the criteria for which the prospective member fell outside of the Underwriting Restrictions.

The Underwriting Committee approved allowing the GL2 program to join the GL1 program in order to obtain additional limits for new GL2 members in the SIR to \$10M layer. The Committee delegated authority to staff to add new GL2 exposures to the GL1 program (after the prospective members have been reviewed and approved by the GL2 committee to join that program), subject to SIRs no less than \$5M and GL2 members being priced at the 80% confidence level, based on an individual actuarial evaluation.

Reference: [Delegation of Authority - Additional Named Insureds 3/2/01](#)

Reference: [Policy Regarding Underwriting of Prospective Members](#)

Reference: [EWC & GL1 Length of Approval of New Members 2/5/04](#)

Reference: [Executive Committee Delegation of Authority Policy Statement](#)

Reference: [Underwriting Committee Approval of GL2 Membership & SIR Buy-down](#)

External Underwriting Services

The Underwriting Committee has approved proposals from Alliant Underwriting Services (AUS) and Alliant Specialty Insurance Services (ASIS) to provide additional expertise and professional underwriting services for the EWC and GL1 Programs. The determination of whether to utilize the services is made on a case-by-case basis and generally is only used for prospective members with unusual exposures. The Committee can also determine if an annual AUS review will be required. The cost for the service is 2% of the premium, subject to a maximum of \$20,000. The costs are passed on to the entity if they join the program as part of their premium. There is no cost to PRISM if the entity does not join the program.

Reference: [Addendum D to Alliant Contract](#)

Underwriting Restrictions

From time to time, reinsurance and insurance partners may impose restrictions for underwriting of new members. Those will be reviewed and agreed to by the Underwriting Committee as part of the binding terms.

Reference: [21/22 EWC Underwriting Restrictions](#)

Reference: [21/22 GL1 Underwriting Restrictions](#)

Memorandum of Understanding

The Underwriting Committee oversees the provisions of the EWC and GL1 Program MOUs and will recommend changes to the Executive Committee and Board from time to time.

The Underwriting Committee also makes recommendations to the Executive Committee and Board on:

- Premium allocation methodologies
- Funding levels for the upcoming year
- Assessments and dividends
- Purchased insurance and/or reinsurance

The Underwriting Committee also makes decisions on matters further delegated by the Executive Committee such as approval of new members into the EWC and GL1 Programs.

Reference: [EWC MOU 3/6/09](#)

Reference: [GL1 MOU 3/6/09](#)

Reference: [RES 01-001 Auth to Add Pub Ent to EWC & GL1](#)

Controlled Unaffiliated Business (CUB) Agreements

The Underwriting Committee oversees the provisions of the EWC and GL1 CUB agreements and will recommend changes to the Executive Committee and Board

of Directors. The CUBs are a service agreement between PRISM and non-California participants, and are a requirement of Utah regulators to establish a relationship between PRISM and the participant. Amendments may be made from time to time, with approval from Utah regulators, and execution of the amended CUB will be a condition of the participant's renewal, similar to the process when PRISM MOUs are amended.

The Committee and the Board of Directors approved that out of state participants will not be subject to assessments or eligible for dividends, that the programs may use their pool capacity to take risk in various layers, and that the programs may reinsure another pool's MOC, subject to a review of differences in conditions.

Reference: [EWC CUB Agreement 1/1/22](#)

Reference: [GL1 CUB Agreement 1/1/22](#)

Reference: [October 2020 Board Approval of National Expansion](#)

Reference: [Executive Committee Delegation of Authority Policy Statement](#)

Oversight for Coverage Matters:

Memorandums of Coverage & Endorsements

The Underwriting Committee oversees the provisions of the EWC and GL1 Program Memorandums of Coverage (MOC) and may recommend changes to the Executive Committee and Board from time to time.

The Board has delegated authority to the Underwriting Committee to incur expenses to have coverage documents reviewed by independent legal counsel.

The Board has also delegated authority to staff to issue non-premium bearing MOC endorsements including additional insured endorsements and underlying insurance endorsements. Staff is also authorized to re-issue all endorsements properly added on a previous MOC at renewal. Annually, staff will provide a report to the Underwriting Committee regarding the authority exercised during the preceding calendar year.

The Board has delegated authority to the Executive Committee to approve additional named insureds pursuant to JPA Article 3(b). However, the Executive Committee has further delegated authority for this responsibility to the Underwriting Committee.

With the dissolution of redevelopment agencies in 2012, the Board recognized that some members may have a unique situation and need to add their affiliated successor agency and/or oversight board as an additional covered party. Authority was delegated to the Underwriting and Executive Committees to make

those determinations on a case by case basis (6/1/12 Board Minute Order, item 3.D.5.).

Members often enter into contracts where the contract wording generally includes the member's agreement to waive their rights of subrogation against the other party. The Underwriting Committee has authorized issuance of a blanket waiver of subrogation endorsement to the EWC Program's MOC, (2/27/13 Underwriting Committee Meeting, item 3.A.3.). For GL1, they have authorized issuance of a blanket waiver of subrogation as well as a blanket primary and non-contributory endorsement (2/27/13 Underwriting Committee Meeting, item 3.B.4.). In both cases, the waiver only applies where it has been agreed upon prior to a loss and in a written contract.

Reference: [EWC MOC 7/1/21](#)

Reference: [GL1 MOC 7/1/21](#)

Reference: [EWC & GL1 Underwriting Policy Statement 3/3/00](#)

Reference: [6/1/12 Board of Directors Minute Order](#)

Reference: [2/27/13 Underwriting Committee Minute Order 3.A.3](#)

Reference: [2/27/13 Underwriting Committee Minute Order 3.B.4](#)

Reference: [Underwriting Exception Report](#)

Reference: [Executive Committee Delegation of Authority Policy Statement](#)

SIR Changes

The Board has delegated authority to staff to approve SIR increases up to and including double the member's current SIR. Staff will disclose all approvals made within their authority to the Underwriting Committee at their next meeting.

The Board has delegated authority to the Underwriting Committee to approve member requests to decrease their SIR and increases of more than double the member's current SIR. Actions of the Underwriting Committee are disclosed to the Executive Committee and Board of Directors at the next meeting following such action.

For EWC, the Underwriting Committee will consider different SIRs for a member for different exposures within their organization. For GL1, the Underwriting Committee will consider high SIRs, those being over \$1 Million, on a case by case basis (2/11/09 Underwriting Committee meeting, Item 5.N.).

Reference: [EWC & GL1 Underwriting Policy Statement 3/3/00](#)

Reference: [EWC Split SIRs 4/30/08](#)

Reference: [2/11/09 Underwriting Committee Minute Order](#)

Additional Named Covered Parties

The Board has adopted a policy to delegate some authority to staff to approve additional named covered parties as long as:

- A completed application is received

- It is determined that a significant relationship exists between the member and the entity
- Evidence is received that the governing board has accepted responsibility for the entity, their SIR, any premium payments, and for providing risk management services
- There are no unique or unusual exposures
- The exposure is no more than 25% of the sponsoring member and no more than 5% of the entire Program's exposure

If the request falls outside of the parameters, the Underwriting Committee has authority to approve the additional named covered party (also referred to as "named insured").

Reference: [EWC & GLI Delegation of Authority to Add Pub Entities-Addl Named Insds 3/2/01](#)

Approval of Affiliated Non-Profit Named Covered Parties

The Underwriting Committee has been delegated authority by the Board to approve the addition of non-profit entities as additional named insureds in EWC and GL1 subject to:

- Receipt of a completed application including a governing board resolution or minute order
- A determination that it is an acceptable risk
- The member must be willing to accept responsibility for the SIR, premium payment, and to act as a liaison for risk management and loss prevention issues
- The member must provide renewal information
- The member must agree to provide appropriate loss prevention services
- A written agreement must exist between the member and the non-profit

Reference: [Non Profits Policy Statement Amended 5/31/12](#)

The Underwriting Committee has delegated authority to staff in specific circumstances to add non-profit entity named insureds:

Reference: [05/03/17 UW Committee Minute Order AORMA](#)

Reference: [11/10/17 UW Committee Minute Order CA Fair Services Authority](#)

EWC - Application of SIR & Limit for Loss Involving Multiple Members

The Underwriting Committee has adopted a policy statement specifying that in the event of a loss involving more than one member, the SIR and Limit will be allocated based on each member's proportion of the loss.

Reference: [EWC Policy Statement Regarding Limit & SIR 6/1/05](#)

Optional Coverage Buy Backs

From time to time, members request to have an exclusion in the MOC removed. Generally, the requests are for removal of the fixed-route transit exclusion, racing exclusion or charter school exclusion. The Committee has determined that their desire is for the member to place coverage for these exposures outside of the GL1 or EWC Programs. However, if a member cannot find coverage elsewhere and they have exhausted all other alternatives, the Committee will consider requests for removal of the exclusion on a case-by-case basis (9/8/08 and 8/22/13 Underwriting Committee Meetings). Annually, staff will provide a report to the Underwriting Committee summarizing the underwriting exceptions made by the Committee during the preceding calendar year. A similar report will also be provided to the Board.

For removal of the fixed-route transit exclusion, the Committee has determined circumstances under which it will consider providing a fixed-route transit buy back option and adopted an underwriting policy and premium rating methodology.

Reference: [9/3/08 Underwriting Committee Minute Order](#)

Reference: [8/22/13 Underwriting Committee Minute Order](#)

Reference: [Fixed Route Transit Underwriting & Rating Policy](#)

Reference: [Underwriting Exception Report](#)

Reference: [Dependent Charter School Minute Order](#)

GL1 - School Support Groups

The GL1 coverage does not automatically cover school support groups or auxiliary organizations of a member entity. There is concern over the lack of control that member school districts have over these types of organizations. Because coverage for these types of organizations is readily available from other sources at a reasonable cost, the Underwriting Committee established a policy to discourage inclusion of school auxiliary organizations. On an exception basis, underwriting authority is delegated to staff to approve endorsements adding coverage if all of the guidelines outlined in the policy are met. If any of the guidelines are not met, then the Underwriting Committee may extend coverage on a case-by-case basis.

Reference: [GL1 School Support Groups Policy 8/16/17](#)

GL1 – Individual Member Corridor Deductible's (IMCD's)

The Board has adopted a policy to delegate some authority to staff to approve IMCD options for GL1 Members as long as they are not higher than the members existing retention. Staff and the Underwriting Committee have the authority to approve IMCDs within the parameters of the preapproved IMCD pricing policy. This delegation of authority ensures that the Committee will review and approve any situations where the member is taking on significant additional risk via the IMCD.

Reference: [1/21/21 UW Committee Minute Order](#)

Reference: [February 2021 Meeting Approving IMCD Pricing Policy](#)

Reference: [IMCD Pricing Policy](#)

Crisis Incident Management

The Program has adopted a policy to provide pre and post Crisis Incident Management Services up to a \$50,000 limit. These services will be funded from the program's surplus.

Reference: [EWC Crisis Incident Management Policy](#)

Reference: [GL1 Crisis Incident Management Policy](#)

Oversight for Premium Rating Matters:

The Underwriting Committee is responsible for overseeing the premium calculations and allocation amongst the members for the EWC and GL1 Programs.

Risk Tolerance

Each PRISM program has determined its own appetite for risk, which generally ranges between very low to neutral (PRISM Risk Tolerance). A low tolerance for risk creates a bias towards transfer of risk. A high tolerance for risk is characterized by a bias toward retention of risk. The Underwriting Committee has determined that the risk tolerance for the EWC program is Neutral to High and for the GL1 Programs is between Low and Neutral.

Reference: [PRISM Risk Tolerance](#)

Premium Allocation Methodologies

The Underwriting Committee oversees the provisions of the EWC and GL1 premium allocation methodologies and may recommend changes to the Executive Committee and Board from time to time. In addition to other changes, both the EWC and GL1 allocation methodologies were changed in the 2011/12 year to incorporate an experience modification factor (ExMod) in the rating model, include credibility weighting of each member's own loss experience, and integrate a premium adjustment provision for members who brought large excess losses. These changes were transitioned according to a 5-year phase-in period and were completely implemented during the 2015/16 year. The allocation methodology for the EWC program more recently was amended in the 2016/17 year to split up the public entity-rating group into two separate Low Safety and High Safety Public Entity groups. This changed was phased-in over a 5-year period and will be completely implemented in the 2020/21 year.

The Underwriting Committee also makes recommendations to the Executive Committee and Board on:

- Funding levels for the upcoming year

- Assessments
- Dividends
- Allocation of reinsurance or insurance premiums

The Underwriting Committee has been delegated authority to:

- Approve premium deviations from the standard allocation methodologies

The Underwriting Committee has also established the following policies:

- Rating of new public entity members in the Program
- Rating of discontinued operations
- Payroll audit and premium adjustment process
- Minimum premiums
- Clarification regarding the implementation of the allocation methodology changes
 - GL1 approved in October 2010 by the Board (10/21/10 Minute Order, Item 3.A.1.)
 - EWC approved on 3/4/2016 by the Board

Reference: [10/21/10 Underwriting Committee Minute Order](#)

Reference: [Underwriting of Prospective Members EWC & GL1 Programs](#)

Reference: [EWC & GL1 Rating of Discontinued Operations 9/27/02](#)

Reference: [EWC Payroll Audit Process 3/6/09](#)

Reference: [GL1 School Premium Allocation Policy 6/5/03](#)

Reference: [Fixed Route Transit Underwriting & Rating Policy](#)

Reference: [GL1 Minimum Premium for Lower Pool Limits 2/4/10](#)

Reference: [EWC Premium Allocation Methodology](#)

Reference: [GL1 Premium Allocation Methodology](#)

Target Funding Guidelines

The Target Funding Guidelines are reviewed annually by the Underwriting Committee, Executive Committee, and the Board of Directors. The Underwriting Committee will recommend changes to the Executive Committee and Board from time to time.

Reference: [EWC Target Funding Guidelines](#)

Reference: [GL1 Target Funding Guidelines](#)

Actuarial Discount Assumption

The Board approves the actuarial discount assumption to be used in evaluating the outstanding portfolio of losses and the rates for future funding. This decision is based on the long-term investment projections so the assumption rate does not change frequently. Annually, the Underwriting and Executive Committees will make recommendations to the Board on the appropriate discount assumptions, which has been 3% for the EWC Program since 2016/17 and 1.75% for the GL1 Program since 2011/12.

Program Budget Policies

Each year, the Board reviews the Program budget policies and receives input from the Underwriting, Finance, and Executive Committees for any changes. As part of the process for obtaining the Government Finance Officers Association (GFOA) Award for a Distinguished Budget, it was recently recommended that the program budget policies include both short and long term goals, which have been incorporated.

Reference: [EWC Program Budget Policies](#)

Reference: [GL1 Program Budget Policies](#)

Premium Credit for CAJPA Accreditation

The Board has adopted a policy to provide premium credits in the EWC and GL1 Programs for member JPAs that have been granted accreditation status by the CAJPA. This policy was affirmed by the Underwriting Committee at their 12/19/13 meeting. The premium credit is determined as of May 1st each year based on the level of accreditation:

- Accredited with Excellence - 3% of pool premium up to a maximum of \$7,500
- Full Accreditation - 1.5% of pool premium up to a maximum of \$5,000
- If a member participates in both EWC and GL1, the credit is provided for both Programs

Reference: [EWC & GL1 Policy Stmt Re CAJPA Accreditation Credits 3/4/05](#)

Premium Charge for Affiliated Non-Profits

The Underwriting Committee has adopted a policy to charge a \$1,000 minimum premium for each non-profit entity added under the member's coverage as Additional Named Insured in the EWC and GL1 Programs.

Reference: [EWC & GL1 Min Premium Charge for Non Profits 4/19/06](#)

Cost Allocation for Claims Audits

Claims audits are required to be conducted once every two years. The Underwriting Committee has adopted a policy for the allocation of costs associated with required claim audits pursuant to the Underwriting & Claims Administration Standards. Claim audits will be conducted by the auditor(s) selected by PRISM unless an exception is made when a member's SIR is \$1M or greater or the member's claims are self-administered.

Reference: [EWC & GL1 Claim Audit Frequency & Cost Allocation 10/1/13](#)

EWC - Additional Premium for High Risk Volunteers

The Underwriting Committee has established a policy for the EWC Program in which an additional premium may be charged for high-risk (police and fire) volunteer exposure of any member, to be determined by the Underwriting Committee on a case-by-case basis.

Reference: [EWC Premium for Volunteers Rev 12/2/04](#)

GL1 – Additional Premium Charge for Fixed Route Transit EPL Exposures

The Underwriting Committee has directed staff to develop an appropriate calculation to charge members who buyback EPL coverage for their fixed route transit operations additional premium for their fixed route transit operations.

Reference: [5/3/2017 Underwriting Committee Minute Order](#)

Meetings

Code of Conduct/Ethics Policy:

The Board has adopted a Code of Conduct which is applicable to all members, staff, committees, and the Board.

Reference: [Code of Conduct](#)

Scheduling:

The Underwriting Committee will meet as needed and at the call of the Chair. Below are generally when the Committee will meet to address certain matters:

- **Early February**
 - Recommendations to the Executive Committee and Board on pool funding for upcoming year
 - Review and Approve new member applications
- **Early March**
 - Authorize SIR changes
 - Review and Approve new member applications
 - Recommendations to the Executive Committee and Board regarding insurance and reinsurance renewal terms
- **Early June**
 - Review and Approve new member applications
- **August Meeting**
 - Meet jointly with CRC to discuss broader, strategic issues affecting the GL1 and EWC programs
 - Meet separately to review the renewal and address any current action items

- **November/December**
 - Preliminary renewal updates

Reference: [2022 Schedule of Meetings & Topics](#)

Quorum:

Pursuant to the Bylaws, a quorum consisting of a majority of the Committee (at least 5 members) must be present in order to conduct a meeting.

Voting:

Voting Requirements

Pursuant to the Bylaws, the voting requirement is a majority of the Committee (at least 5 members) for all actions of the Underwriting Committee

Conflicts

Pertinent PRISM Code of Conduct Provisions:

2. We are committed to the concepts of democratic, effective and efficient governance by responsible, knowledgeable members of the Board of Directors and Committees with an understanding that official decisions made and actions taken by the Authority are always made in the best interests of the Authority's membership, as opposed to the interests of the Authority's staff, service providers, or other outside interests.

9. We are committed to the principle that conflicts of interest, (defined as situations in which a person has a financial or other interest or the appearance of a conflicting interest that would call into question the person's ability to act in an impartial manner with respect to a matter affecting the Authority) should be avoided and where present shall be fully disclosed. This includes situations when a member of the Board, a Committee, Staff, or vendor has personal interests (including those of his/her family) that are contrary to his/her loyalty to the Authority.

Vote on behalf of PRISM or the Entity I Represent?

Attorney General Opinion No. 00-708 dated 12/8/00 concluded that a member of the governing board (in this case the Legislative Committee) of a joint powers agency may cast a valid vote on a matter before the agency that is inconsistent with the position by the legislative body which appointed the member.

Reference: [Attorney General Opinion No. 00-708](#)

Voting When Conflict Arises:

According to FPPC:

- Disqualification
 - For financial interest (exception when action required)

- Abstention
 - Conflicting loyalties
 - Perception you can't be fair
 - Ethical dilemmas (exception for necessity to take action)

According to Roberts Rules of Order:

- Duty to vote if you have an opinion
- Right to abstain
- Personal interest - must abstain except
 - Vote for self in an election
 - Vote if other's interests are included in the motion

Closed Session:

Closed sessions may be held in accordance with the provisions of state law and the Brown Act. Information discussed in closed session is confidential. In addition to the Underwriting Committee and Legal Counsel, only individuals necessary for the discussion will be present. The Executive Committee has appointed PRISM's General Counsel, the Claims Review Committee's Legal Counsel, and the Claims Review Committee's Alternate Legal Counsel to serve as legal counsel to PRISM's Board of Directors and all PRISM Committees for purposes of obtaining legal advice during closed sessions in accordance with the Brown Act (2/2/12 Executive Committee Meeting, Item 5.B.). All votes in closed session will be made by roll call.

Reference: [2/2/12 Executive Committee Minute Order](#)

Glossary of Terms

Aggregate: The term used to describe the cumulative amount of all losses for a period of time.

Aggregate Stop Loss: A financial arrangement with the JPA's excess carrier that caps the aggregate to a predetermined limit at which point the excess carrier would "drop down" and pay losses within the JPA's SIR or pooled layer.

Attachment Point: The dollar amount of a loss where the next layer of insurance begins to pay for the loss.

Burning Cost: The premium needed to cover future anticipated losses based on historical experience.

CAJPA (California Association of Joint Powers Authorities): Association of insurance and risk management pools in California. CAJPA performs regulatory and legislative lobbying as well as accreditation of JPAs to promote financial stability and best management practices.

Commutation: A clause in a reinsurance agreement which provides for estimation, payment and complete discharge of all future obligations for reinsurance losses incurred regardless of the continuing nature of certain losses.

Confidence Level: The confidence level is a percentage estimate of the ultimate pool layer costs. The actuary's expected costs are shown at slightly more than average (approximately 55%). About half the time, the actual costs will be lower than the actuary's estimates and half the time the actual costs will be higher. To be more conservative, pools set aside additional sums of money to increase the chance that enough funds are available to pay claims. For example, if the actuary's estimate at the 70% confidence level is \$1M, then there is a 30% chance that losses will exceed \$1M.

Deposit Premium: Amount of premium paid at the beginning of the coverage period, which is then adjusted to a final premium amount at the end of the coverage period. This is most common in workers' compensation where premiums are based on estimated payroll amounts at inception and adjusted based on actual payroll amounts afterwards.

EWC: PRISM's Excess Workers' Compensation Program

GL1: PRISM's General Liability 1 Program

IBNR (Incurred But Not Reported): This is an actuarial term referring to the estimated future loss development as well as the estimated cost of claims that have happened but are not yet included in the claims data. A reserve for IBNR is established by the actuary as part of the Ultimate Loss Costs to contemplate for these future estimated costs.

Incurred Loss: This is the expected value of any claim. It includes the amount already paid plus the estimated amount yet to be paid (reserves).

Inverse Condemnation: Both the United States Constitution and the California Constitution require that a private citizen be compensated if property is "taken" by a public entity. When the property is taken proactively it is called eminent domain. When the property is taken "accidentally" without due course it is called inverse condemnation.

Law of Large Numbers: A mathematical concept which postulates that the more times an event is repeated (in insurance, the larger the number of homogeneous exposure units), the more predictable the outcome becomes. In a classic example, the more times one flips a coin, the more likely that the results will be 50% heads, 50% tails.

Limit of Liability: The most that will be paid in a loss.

Loss Adjustment Expense: All expenditures of an insurer associated with its adjustment, recording, and settlement of claims, other than the claim payment itself.

Loss Development: The process of change in amount of losses as a policy or accident year matures, as measured by the difference between paid losses and estimated outstanding losses at one point in time, and paid losses and estimated outstanding losses at some previous point in time. In common usage, it might refer to development on reported cases only, whereas a broader definition also would take into account the IBNR claims.

Loss Portfolio Transfer (LPT): A reinsurance treaty in which an insurer cedes policies and the loss reserves to pay them to a reinsurer. LPTs remove liabilities from the balance sheets and transfers risk.

MOC (Memorandum of Coverage): The policy or coverage document issued by the JPA outlining coverage to its members.

Non-Admitted Insurer: An insurance company not licensed in a state may engage in business in the state if an admitted, properly filed company issues the policy and reinsures losses to the non-admitted reinsurer.

Occurrence: An accident or event, which results in personal injury or property damage, neither expected nor intended from the standpoint of the member.

Policy Year: The year commencing with the effective date of the policy or with an anniversary of that date.

Pooled Loss: The portion of a loss that is allocated to, or paid by, the self-insured pool. For example, the JPA Liability Program I pools, or self-insures the difference between a members' SIR and \$5M of each occurrence. Loss costs exceeding this amount are paid by excess insurance.

Outstanding Reserve: The claims administrator's estimate of the ultimate expected value of each claim. As monies are paid out for a claim, the outstanding reserve amount is decreased.

SIR (Self Insured Retention): This is the amount of each loss for which the member will be responsible. Once the value of the claim has exceeded their SIR, the member may seek reimbursement for those expenses in excess of their SIR.

Surplus: The excess of assets over liabilities of an insurance carrier. Surplus determines an insurer's or reinsurer's ability to write business. PRISM refers to its "surplus" as Net Equity.

Trending: The necessary adjustment of historical statistics (both premium and losses) to present levels or expected future levels in order to reflect measurable changes in insurance experience over time, which are caused by dynamic economic and demographic forces, and to make the data useful for determining current and future expected cost levels.

Ultimate Net Loss: The total sum that the insured, or any company as his insurer, or both, become obligated to pay either through adjudication or compromise.

Wholesale Broker: A licensed broker providing specialized insurance products to retail insurance agents and brokers. A wholesale broker will utilize insurers who can consider accounts that the retail agent cannot place with their standard markets. These insurers underwrite specialized or hard to place insurance.