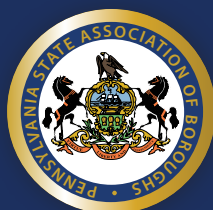


BOROUGH NEWS

A PRIMER TO BOROUGH OFFICE

2019 FOLIO:
**EDDIE
OZZIE**
AND
HONORABLE
MENTION
AWARDS



- 22** Navigating the Borough Code
- 26** Duties and Responsibilities of a Borough Council Member
- 51** Useful Resources

David R. Leng, CPCU, CIC, Executive Vice President, Duncan Financial Group

Myth-Busting Municipal Insurance

The Top 4 most commonly misunderstood insurance program issues

What do doughnuts, Swiss cheese, and insurance policies have in common? Holes.

Municipalities buy insurance to pay their claims. Understanding what the insurance company does not cover, or the holes in coverage, is critical.

Myth #1 – Workers' Compensation

Workers' compensation is not typical insurance. It is a finance system in which the insurer fronts the cost of employee injuries. Employers will then pay back to the insurer every dollar the insurer spends on claim costs with interest. Essentially the borough is borrowing money to pay for injuries at interest rates of 50 to 200%.

Whether a municipality is with an insurance company, trust, or pool, the borough's experience modifier, which helps determine insurance cost, is based on data, claim dollars, and payroll amounts over three years, not including the most recent completed policy year.

The modifier is developed by comparing a municipality to its peers. For example, a 1 experience modifier means that the municipality is "average" compared to peers, so there is no credit nor surcharge.

Overall, the lower the experience modifier is, the lower the premium with the reverse true as well.

Even if an insurance agent says workers' compensation premiums are decreasing, the state rating bureau, or their pool/trust program, may still surcharge the premium through an experience modifier.

If, for instance, the modifier is 1.20, 1.40, or 2-plus, the borough is paying 20%, 40%, or even more than 100% over what the average municipality pays.

Solution: Ask for and *know* what the borough's experience modifier is. If the modifier is over 1, the municipality should be concerned and determine how to improve safety and injured-employee management. Also, municipalities' goal for the modifier should be less than one.

Myth #2 – Public Officials Liability Coverage

Public officials and employment practices liability policies are designed to protect a municipality and its municipal leaders from legal actions taken against them based on their decisions. Common lawsuits that municipal leaders look to their policy to defend them include:

1. An older employee who alleges discrimination after termination;
2. Harassment by a coworker;
3. Accusation of breach of duty;
4. How council issued a bond or financed a project, or even raised taxes;
5. Zoning changes for a property; and
6. Breach of contract for services rendered and/or the amount of money owed.

Public officials policies have different terms and conditions than a general liability policy. There are times when the policy will pay for both damages and the official's

defense. Other times, it may only provide defense or minimal defense but no damages. Or worst-case, it will provide no defense nor damage payments.

There are municipal insurance programs where the cost of defense is within policy limits, meaning that every dollar spent defending the case erodes what is left to pay damages. Some policies state that the cost of defense does not erode policy limits.

What is really confusing is that no two insurers have the same public officials' policy language.

After performing a deep coverage comparison, the only insurance program that addresses all of the above scenarios was the Pennsylvania State Association of Boroughs' insurance program.

Solution: When a municipality is determining how to protect itself best, officials can't just look at it as "we have \$1 million public officials liability coverage on each quote, so things are comparable." More questions have to be asked to find all of the potential holes in coverage.

Myth #3 – 'Blanket Coverage' Property Policies

The book *Insured to Fail* analyzed why 86 businesses that suffered a disaster were unable to reopen or closed within three years of their disaster, despite the damage being covered. The author also analyzed almost three dozen businesses that had to pour money into their business to survive despite being insured.

The book highlights the confusion between what is covered property and property not covered within standard building and business personal property coverage.

For example, the municipality is rebuilding its largest structure and turns over invoices for excavating, pouring the new foundation, and backfilling. The insurer responds that foundations, excavations, and backfilling are not covered property and doesn't cover these costs.

The problem with the term "blanket coverage," which implies everything is covered. However, the property



What do doughnuts, Swiss cheese, and insurance policies have in common? Holes.

policy language may state that if the building, location, or item is not specifically listed on the declaration page, it is not included within a blanket coverage policy.

There are many times when a coverage analysis of a municipality reveals uncovered items such as traffic signals, storage sheds, sewage pump stations, and pavilions. Many property items are often not listed as a covered item or covered location in the policy.

Solution: Municipal officials must understand what their policy considers covered and not covered property. An insurer can add endorsements to a property policy that changes specifically listed items within the definition of property not covered into covered, but each item must be clearly spelled out.

Also, take a detailed inventory of all of the buildings, property, locations, including lights, signs, and traffic signals, etc., so that anything the borough expects the insurer to pay for when it's damaged is specifically listed in the policy.

continued on page 84

IN THE WORKPLACE

continued from page 83

Myth #4 – Apples-to-Apples Quotes

Each insurance company has different endorsements to include, or exclude. And, unfortunately, there is no such thing as apples-to-apples quotes.

In *Insured to Fail*, many of the business leaders interviewed learned this lesson too. When comparing competing proposals, they often looked at the typical listed “coverages” but then got lost within the details or, more importantly, the lack of details.

This lack of details led to poor decisions based on perceived savings, or the leaders stayed with the same program because of the relationship with the agent or insurance company. Both scenarios left them without needed coverages.

Solution: Officials need to dig into the details to determine what is and is not covered. Also, the agent should provide a thorough coverage analysis of the minimum when it comes to coverages. The more time spent identifying and spelling out risk and coverage needs, the better prepared the borough will be to protect its property and budget.

Ultimately, officials need to make sure that the municipality’s agent truly understands the risks and how to best cover them, along with the ability to dig into the fine details. **B**



ABOUT THE AUTHOR

David R. Leng, CPCU, CIC, CBWA, CRM, MWCA, is the author of the Best-Selling books, *The 10 Laws of Insurance Attraction*, *Insured to Fail*, *Turning Premiums Into Profits*, and a top-selling book on workers’ compensation for employers, *Stop Being Frustrated & Overcharged*

and is Executive Vice President of the Duncan Financial Group in Irwin, PA, a member of Keystone. He is also an instructor for the Institute of WorkComp Professionals (IWCP), a member of the Independent Agents and Brokers National Technical Affairs Committee and has presented multiple times at the PSAB Annual Conference. Leng can be contacted at dleng@duncangrp.com.

ABOUT KEYSTONE

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PSAB Events Calendar Online

Don’t know when the deadline for the COSTARS salt contract is? Check the PSAB online calendar.

In one convenient location, you’ll find PSAB webinars & classroom trainings, important events, grant & reporting deadlines, and much more.

When applicable, a link to the online resource will be available. You can view and print the full calendar, as well as save an event to your own calendar. Access the calendar at boroughs.org.