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**GENERAL LIABILITY CLAIMS ADMINISTRATION GUIDELINES (ADDENDUM B)
AND
GENERAL LIABILITY CLAIMS AUDIT
PURPOSE AND EXPECTATIONS**

GENERAL LIABILITY CLAIMS ADMINISTRATION GUIDELINES (ADDENDUM B)

Purpose

The underlying purpose for Addendum B is to protect the assets and resources (i.e. reserves) of members in the payment of claims. Ultimately, the end result or purpose of the Guidelines is to keep the costs of claims down. Lower claim costs result in each member having adequate reserves to cover their self-insured retention (SIRs), and in all members collectively (i.e. the Authority or pool) to have an adequate reserve and low contributions/premiums for reinsurance to cover claim costs in excess of the SIRs. As members of the Authority, each member's adverse loss experience negatively impacts costs to other members (the pool) and vice versa. As members of the Authority, each member is to have an active role in controlling the costs of claims. Thus adherence to the Guidelines is a condition of the Memorandum of Understanding between General Liability members.

Yet since PRISM is an Authority or pool, it offers coverage, not insurance. Thus the Guidelines serve not as an insuring document, but as a governing document. In other words, though adherence to the Guidelines is part of a member's "understanding" with other members, the Guidelines also serve as a foundation from which members derive expectations from each other in order to share in the protection of assets and resources.

As a governing document, and given the fact that the Guidelines provide a foundation or structure in the administration of claims for all members, the Guidelines also permit a degree of flexibility. There may be situations where claim facts or member circumstances warrant practices other than as outlined in the Guidelines. Such variations from the guidelines are sometimes necessary; however, they should be on a claim-by-claim basis and noted in each individual claim file. Variations on a program-wide basis shall be reviewed by the appropriate member committee. (Primary General Liability (PGL) Committee, Claims Review Committee (CRC), or General Liability II (GLII) Committee).

Expectations

Addendum B is divided into claim handling categories and, where necessary, sub-categories providing detailed expectations for claims handling processes that fall within

those broader categories. Claim handling categories include claims investigation, excess reporting requirements, tort claim requirements/government code, documentation, case settlement factors, and litigated files. These categories are subject to change with each review and revision of the Guidelines but, in general, are intended to be applicable areas of importance in administration of all general liability claims.

GENERAL LIABILITY CLAIMS AUDIT PROCESS

Purpose

The purpose of the audit program is to ensure claims administration is consistent with the stated end-results of administration efficiencies and reduced claim costs. Each audit helps ensure that claim administrators are meeting the expected outcomes of the Guidelines.

Audit Frequency

The audit requirements in the General Liability program require an audit every two years for each of the three programs, PGL, GLI & GLII. Some exceptions to this include a requirement for an audit within one year after a change in Third Party Administrators (TPAs) or other circumstances that would warrant the PGL Committee, CRC or GLII Committee ordering an off-cycle audit. Additionally, there is an exception for a JPA member seeking CAJPA accreditation, who may need audits completed in two year cycles.

Audit Methodology

PRISM contracts with an independent auditor(s). The auditor(s) uses the Guidelines as the basis for the audit, comparing actual performance to the Guidelines' expectations. Deviations in performance are noted by the auditor(s), and accounted for by the member.

The auditor(s) is allowed a certain level of latitude in recommending best practices in claim administration. This means that certain auditor recommendations may not be found in the Guidelines. The auditor(s) has been instructed to not score a member based upon these recommendations outside the Guidelines. However, if the auditor(s) is able to connect – directly or indirectly – their recommendations to the Guidelines, then a score would be appropriate.

The audit process involves a physical review of a random selection of claim files. The number of files audited is determined by a formula based on the number of open claims. The audit focuses on claims administration by the TPA or self-administered member, whichever is applicable. If a TPA is handling claims for more than one member, a representative number of claims from each member will be selected. During the audit, the TPA or self-administered member will be kept informed of the audit findings and given an opportunity to respond to deficiencies as they are found. A wrap-up meeting will be conducted with the TPA, with the member invited to attend, or directly with the

member if they are self-administered. Once this field work is completed, a formal audit report will be prepared.

The report will be sent simultaneously to PRISM, the member and the TPA, if applicable. The member will be asked to provide a response to the audit, addressing any areas of deficiency, auditor recommendations and outlining a plan for improvement. The member may delegate the task of responding to the TPA, may work in tandem with the TPA in providing a response, may provide their own response or may have the TPA provide a response in addition to their own response. Ultimately it is the member's responsibility for efficient claim administration.

EIA staff compiles the audit report and member response for presentation to the appropriate member committee (PGL Committee, CRC, or GLII Committee). In general, if scores are low, follow-up action with a member may be necessary. If the audit report and member response are acceptable, no further action will be taken by the member committee and the regular audit cycle will remain in effect.

If the audit results and/or member or TPA response is not acceptable, further action may be taken by the appropriate member committee (PGL Committee, CRC, or GLII Committee). "Not acceptable" can mean that the audit results were below expectations and the member did not respond, or the response did not adequately address the areas of concern or outline a plan of action for addressing areas of deficiency. Further action might include:

- Directing staff to conduct guidelines training with the TPA or self-administered claims staff to ensure an understanding of claims handling expectations.
- Directing staff to work with the member/TPA to develop an improvement plan and/or conduct an informal interim audit to measure progress and give a chance for further improvement prior to the next formal audit.
- Ordering an off cycle formal audit in one year rather than within the normal cycle.
- Inviting the member to attend a PGL Committee, CRC, or GLII Committee meeting to discuss the audit results and suggestions for program improvement.
- Referring the matter to the Underwriting Committee to determine any impact the claim results may be having on the pool – this may also help focus efforts on specific claims driving program costs.
- Referring the matter to the Executive Committee for further direction in assisting the member.

Use of the General Liability Claims Administration Guidelines and the entire audit process is meant to be a tool for members and the pool to use to ensure the best possible claims service is being received and best possible claims outcomes are being

achieved. The process is meant to be positive, not punitive and is meant to help members strengthen the performance of their individual programs which, in turn, will strengthen the performance of the General Liability pool, overall.

AUTHORITY, OBLIGATION AND GOVERNANCE

Authority

Each member of the General Liability Programs has executed a Memorandum of Understanding which delineates the respective obligations and responsibilities of CSAC EIA and each member. Specifically, Exhibit B, Underwriting and Claims Administration Standards, state the obligations of each member of the Programs including that each member "shall be responsible for the investigation, settlement, defense and appeal of any claim made, suit brought or proceeding instituted against a member." Further, each member "shall use the Authority's General Liability Claims Administration Addendum B Guidelines (also referred to as Guidelines) and shall advise its claims administrator that these Guidelines are utilized in the Authority's general liability claims audits.

Member Obligation

Therefore, Addendum B is an authoritative document – part of a pooling governing document - where member compliance with which is intended to protect the Authority's assets and resources, such that all members have maximum excess coverage available at the lowest contribution/premium cost. In other words, Addendum B is intended and designed to protect member assets and resources in the payment of claims, not only incurred directly by the member's SIR, but incurred by all members who share in general liability risks. It is in the best interest of each member, and all members collectively, to ensure that claims administration practices are consistent and efficient. It is the intent of Addendum B to guide each member in maintaining these consistent and efficient claims administration practices.

The objective of Addendum B is to provide direction to the General Liability Program's members regarding consistent and efficient claims administration. It is the member's obligation to share Addendum B with its TPA, if applicable, and ensure the guidelines are met.

Governance

Review: The PGL Committee, CRC, and GLII Committee will review and update Addendum B on an as needed basis, with staff to review the Guidelines annually, and bring them to the CRC and GLII Committee when the need for change is identified. Updated Guidelines are circulated for review and comment to all program members before submitting to the Executive Committee, which will then recommend approval to the Board of Directors.

Audit: To ensure that each member is utilizing efficient claims administration practices, each member's claims administration is audited. Addendum B is the basis for the claim

audit scoring. TPAs and self-administered claims programs are evaluated primarily based on their performance in compliance with Addendum B, as demonstrated through the claim audits.

Following is a general description of Addendum B, the audit process, and the purposes and expectations of each.

The Claims Review Committee: August 22, 2013