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WASHINGTON SCHOOLS RISK MANGEMENT POOL
PROPERTY & CASUALTY CLAIMS MANAGEMENT AUDIT

Audit Dates: March 26-29, 2018
Audit Location: Tukwila, Washington

INTRODUCTION

This will serve as the formal report of findings following the audit and claims handling review for the Washington Schools Risk Management Pool (“WSRMP”) with claims being administered by WSRMP’s in-house claims unit located at their administrative offices on 320 Andover Park East in Tukwila, Washington.

BACKGROUND

The Local Government Self Insurance Program provides initial approval and continuing oversight of joint property and liability self-insurance pools established by local governments per Chapter 48.62 RCW. The State Risk Manager, with assistance from the Property and Liability Advisory Board, adopts guidelines and establishes annual assessment fees to cover administrative costs. Board members are appointed by the governor.

Each member in the Washington Schools Risk Management Pool has a direct vote on how the pool is governed. The membership elects an Executive Board, which is the policy-making and appeals body. The WSRMP Coverage Agreement is written to specifically and exclusively meet the unique coverage needs of the membership. The Coverage Agreement is includes education-based coverage and services such as: Pre-Claim Investigation Coverage, Pre-Hearing Coverage, and Special Education Coverage.

Washington Schools Risk Management Pool is managed by Ms. Deborah Callahan, SLCA, Executive Director.

EXECUTIVE SUMMARY OBSERVATIONS AND RECOMMENDATIONS

Observations:

- Initial member reporting is accurate and generally timely.
- File set-up and initial member contact is timely and complete.
- Coverage was confirmed and documented in each claim file.
- Reservation of Rights letters and use of coverage counsel was utilized appropriately when issues of coverage were presented.
- Claim activity notes are present in each file.
- Investigations are conducted timely and were thorough.
- For investigative coverage and pre-hearing matters, WSRMP utilizes their approved attorney panel as well as attorney investigators.
- Reserves, overall, were appropriate, timely posted and adjusted as necessary.
- Check issuance and authority procedures are in place and are rigorously followed.
- Reporting by defense counsel was timely, complete and detailed.
- Defense counsel and claims adjusters apply applicable immunities where possible.
- WSRMP take an aggressive defense posture in cases where liability is favorable to the member. This generally leads to favorable results.
- Reserving philosophy is followed as outlined in WSRMP's Claims Manual and provides for establishing reserves based on "Jury Verdict Value" which is based upon 100% liability, discounted by the percentage chances of winning the case.
- While Praxis did not view any diary reports, files were current and up-to-date.
- Excess reporting to reinsurance is timely and updated as needed.
- The subrogation, restitution, and recovery evaluation process is well handled.
- Supervisory reviews are evident in all applicable files.
- WSRMP complies with Washington Law WAC 200-100-050.
- WSRMP complies with AGRiP's Advisory Standards specific to claims management.

Recommendations:

- Given the transition to Origami from a paper file environment, it may be helpful to implement a standard action plan file note that is documented by the claims consultant every 60 days or upon material developments in the claims file. The action plan would contain information regarding coverage, liability exposure/damages, investigation, plan of action, and reserves.
- Praxis recommends that WSRMP implement an analysis of reserves vs. settlement amounts specific to sexual assault/misconduct/harassment claims comparing historical reserving levels to the eventual financial disposition upon closure. This will assist in setting more accurate initial and subsequent reserves.
- Upon reviewing the files it was observed that there was not a consistent approach amongst claims consultants as to the documentation of reserve rationales. Praxis recommends the implementation of a more formal evaluation process to specifically document the factors considered in accessing the exposure. This will allow the claims

consultant to support the set loss reserve and to aid in identifying the strengths and weaknesses of a case.

SCOPE OF SERVICES

Praxis Claims Consulting (“Praxis”) was retained by WSRMP to conduct a Property & Casualty Claims audit.

Praxis reviewed 100 claim file features (72 liability - 62 open & 10 closed; 20 auto - 12 open & 8 closed; 8 property - 7 open & 1 closed). Per WSRMP’s request, Praxis’ review focused significantly on sexual harassment, sexual misconduct, and sexual assault claims. While the reasons remain unclear, the State of Washington seems to have seen a dramatic increase in these types of claims.

The audit was conducted by Brian D. Stiefel, CPCU and Timothy Vincent of Praxis.

Praxis reviewed and will provide, via this report narrative, our assessment and recommendations as to the adequacy of:

- Reserving practices;
- Investigations/contact
- Documentation
- Communications with excess/ reinsurers;
- Litigation management;
- Settlement/case resolution;
- Coverage issues;
- Contractual issues
- Subrogation practices;
- Supervision.

Documents supplied to Praxis during the audit process:

- Attorney Panel Guidelines
- Attorney- Investigators
- WSRMP Claims Authority
- WSRMP Organizational Chart
- Loss Run 3/9/18
- WSRMP Bios
- WSRMP Sex Abuse Prevention Program
- 2016-2017 Activity Report
- 2017-2018 Activity Report
- Claim consultant pending claim counts 4/3/18
- Claims Manual

All documents were reviewed by Praxis either prior to, at the time of, or following the file review; and utilized or referenced throughout the report narrative preparation.

EXHIBITS

The following exhibits are included with this report:

- 1) List of audit files selected and reviewed by Praxis for review
- 2) Individual review worksheets
- 3) Reserve recap matrix by line of business for all files/features reviewed

OPERATIONS OVERVIEW

Nine personnel currently work in the claims department: the Director of Claims & Litigation, Senior Claims Consultant, six Claims Consultants, and a Senior Claims Coordinator. There is no TPA and use of independent adjusters is generally minimal, except in the areas of large property losses and vehicle material damage appraisals. WSRMP utilizes attorneys to coordinate and investigate potential losses in their investigations coverage and pre-hearing coverage.

STAFFING

Deborah Callahan, SCLA: Executive Director

Deborah has been with WSRMP for 23 years serving originally as the Director of Claims and Litigation, then the Deputy Executive Director and now as the Executive Director. She has been in the industry for 41 years working for both private and public sector insurers, including 30 years for public schools. Deborah has a Bachelor of Arts in Management from the University of Redlands. Deborah has also served as the national President for the Board of Trustees of the Society of Claim Law Associates and is a Past President of the Puget Sound Claim Managers Council. Deborah has her SCLA Gold designation.

Charles Upchurch, SCLA: Deputy Executive Director

Charles joined WSRMP in 2007 after 11 years at Allstate Insurance Company as a Large Loss Adjuster. Charles has more than 30 years of experience in claims. He graduated from George Fox University with a Bachelor of Science Degree in Psychology. Charles was promoted to Claims Manager in 2012 and Director of Claims and Risk Services in 2014. He was promoted to Deputy Executive Director in 2016 and has earned his Senior Claim Law Associate (SCLA) Gold designation.

Dana Grandey, J.D., ARM: Director of Claims & Litigation

Dana joined the WSRMP in October of 2016. Dana has over 23 years of claims, litigation management and insurance experience. Dana was the Director of Risk Management and Corporate Counsel for Interstate Distributor Co. She managed large losses, lawsuits, contract review, and insurance placement for three truck lines owned by Saltchuk Resources Inc. Dana's career experience also includes Allstate Insurance, a defense law firm and the Washington Education Association. Dana obtained her Bachelor of Arts degree from Washington State University and her Juris Doctorate from the University of Puget Sound. Dana obtained her Associates in Risk Management designation, regularly takes continuing legal education credits and has an active Washington State Bar license.

Sharon Sampson, SCLA: Senior Claims Consultant

Sharon provides service for handling major claims and lawsuits for districts primarily in Pierce County. She has been with WSRMP for eight years. Sharon has more than 30 years' experience handling litigation of commercial lines liability claims inclusive of auto liability, general liability, products liability, errors/omissions liability and employment law. She has a Bachelor of Arts in Speech/Interpersonal Communications from the University of Washington. Sharon has earned her Senior Claim Law Associate (SCLA) designation.

Catherine "Cai" Hadfield, FCLS: Claims Consultant

Cai has over 18 years' experience in claims. Cai previously worked for Farmers as a supervisor in liability and subrogation, and handled complex litigated claims as an attorney-litigation specialist. She earned the Fraud Claims Law Specialist designation early in her career, and is a licensed Private Investigator in the State of Washington. Cai also worked for 3 years at Auburn High School with disabled students in the Transition Assistance Program prior to coming to the WSRMP in Sept. 2012. She also performs as a stand-up comic and runs a small bed and breakfast on the Washington coast. She has Bachelors in Journalism from University of Pennsylvania/Shippensburg with a minor in Public Policy.

Lisa Day, SCLA: Claims Consultant

Lisa joined WSRMP in 2012 and has earned her SCLA designation. She has over 20 years handling complex property and casualty in the Pacific Northwest and California. Lisa worked for Mutual of Enumclaw Insurance Company as a Claims Examiner and Aetna Casualty and Surety Company as an Operations Unit Manager and Claims Supervisor. She also worked for Washington Cities Insurance Authority as a Sr. Risk Management Representative. Lisa attended the City University New York and graduated from California State University, Northridge with a Bachelors of Arts degree in Liberal Studies. Lisa is a former second grade school teacher with the Los Angeles School District.

Nancy Hershgold, SCLA: Claims Consultant

Nancy has over 30 years' experience in claims. Nancy previously worked for State Farm Insurance Company as a claims representative, and handled complex litigated claims. Nancy handles property and casualty claims and lawsuits primarily for Districts in Pierce and Snohomish counties. Nancy earned her Associate in Claims (AIC) and SCLA (Senior Claims Law Associate) designations and has passed five parts of the Chartered Property Casualty Underwriter (CPCU) designation. Nancy has a Bachelor of Science in Health Education from the University of Utah.

Patty Nylin, AIC, ARM: Claims Consultant

Patty joined WSRMP in November of 2014 and has over 30 years' experience handling complex property and casualty claims as well as workers compensation. Patty attended Southern Illinois University and earned a Bachelor of Science degree in Business Administration and provides service for major claims and lawsuits primarily to Districts in Snohomish and Skagit counties.

Seema Pandey: Claims Consultant

Seema joined WSRMP in October of 2015 and has over 25 years' experience handling complex litigation claims for State Farm Insurance Co. Seema handles property and casualty claims in King, Pierce and Snohomish counties. Seema graduated University of Washington

with a Bachelor of Arts degree in Political Science. Seema is studying for her SCLA designation.

Sue Peterson, AIC, SCLA: Claims Consultant

Sue has been with WSRMP for 20 years, beginning her career as support staff and working her way up to an inside claims adjuster. Before coming to WSRMP, she worked in the hotel industry for 20 years. She has completed her Associate in Claims (AIC) designation, has earned her SCLA designation and has a Bachelor of Science Degree in Business Administration from City University. Sue currently handles medium level claims and specializes in automobile claims for our office.

Ingrid Brown: Senior Claims Coordinator

Ingrid has been with WSRMP for 10 years. Prior to coming to WSRMP, Ingrid obtained her Legal Secretary Certificate and spent 13 years as a legal secretary for the Attorney General's office and three Seattle-based law firms. Ingrid has successfully passed her career ladder and is now working toward her Associate in Claims (AIC) designation. Ingrid handles the subrogation and collection files in our office as well as taking on smaller automobile claims to handle.

CLAIM CONSULTANT WORKLOADS

Based on the analysis of the information provided and a comparison to industry norms, it is our conclusion that the average workload of 120 claims is reasonable but due to the distribution and severity of the cases, some workloads are on the higher end of acceptable levels for these lines of business. Factoring into this analysis is the abnormally high amount of administrative duties the claims consultants perform in addition to their adjudication duties.

The individual caseloads average 120 with the range being 77 to 164 claims.

Name	Pending files
<i>Cai Hadfield</i>	<i>113</i>
<i>Lisa Day</i>	<i>117</i>
<i>Nancy Hershgold</i>	<i>136</i>
<i>Patty Nylin</i>	<i>164</i>
<i>Seema Pandey</i>	<i>124</i>
<i>Sharon Sampson</i>	<i>77</i>
<i>Sue Peterson</i>	<i>112</i>

CLAIM RESERVE AND SETTLEMENT AUTHORITY LEVELS

	Indemnity/Expense	Reserve
Deborah Callahan Executive Director	\$250,000 per claimant (\$250,000 limit on all expenses) and 10% above Board Authority	\$20M
Charles Upchurch Deputy Executive Director	\$250,000 per claimant (\$250,000 limit on all expenses)	\$5M
Dana Grandey Director of Claims & Litigation	\$250,000 per claimant (\$250,000 limit on all expenses)	\$1M
Sharon E. Sampson Sr. Claims Consultant	\$150,000 per claimant (\$10,000 limit on all expenses)	\$1M
Lisa Day Claims Consultant	\$75,000 per claimant (\$5,000 limit on all expenses)	\$1M
Cai Hadfield Claims Consultant	\$75,000 per claimant (\$5,000 limit on all expenses)	\$1M
Patty Nylin Claims Consultant	\$75,000 per claimant (\$5,000 limit on all expenses)	\$1M
Nancy Hershgold Claims Consultant	\$75,000 per claimant (\$5,000 limit on all expenses)	\$1M
Seema Pandey Claims Consultant	\$75,000 per claimant (\$5,000 limit on all expenses)	\$1M
Sue Peterson Claims Consultant	\$75,000 per claimant (\$5,000 limit on all expenses)	\$1M
Ingrid Brown Sr. Claims Coordinator	\$25,000 per claimant (\$5,000 limit on all expenses)	\$1M

CHECK ISSUANCE

In order to issue payment for either loss or expense payments, Claims Consultants are required to complete a check issuance request form. The payment is then processed by Ingrid Brown. Blank check stock is kept in a safe and access is limited to only three individuals. Checks can only be signed by the Executive Director.

SEX ABUSE PREVENTION PROGRAM

Due to an increase in the number of incoming sexual abuse claims over the past two years, WSRMP has undertaken a comprehensive program to prevent or mitigate sexual abuse claims. WSRMP's Executive Board has established an 18-month targeted strategy to reduce student sexual abuse in member schools. The targeted strategy consists of:

- The development of a Sex Abuse Prevention Advisory Committee (SAPAC)
- Creation of a Compassionate Care Team Model
- Partnering with their member districts and other pools and organizations to develop working strategies to reduce sexual abuse
- Claims Reduction/Mitigation strategic goals
- Robust loss prevention training and education platform

The claims response component of this initiative includes training of the claims team in the area of sex abuse claims, partnering with members for early reporting and implementing the Compassionate Care Team Model, meeting with members who have a high frequency of claims, intentional early resolution, aggressive closure goals, communication with reinsurance, and this claims audit.

TECHNICAL REVIEW

Praxis reviewed 100 claim files at WSRMP's offices in Tukwila, Washington from March 26-29, 2018. Files reviewed consisted of members' liability, auto, and property with a concentration on sexual harassment, sexual assault, and sexual misconduct claims.

File Set-up/Contacts/Investigation:

This category considers the adequacy of the timing of the initial contact and the timeliness and scope of the claims investigation. Other requirements include prompt contact and documentation of damages and liability.

Pre-litigation investigation and consultation is prudently assigned to defense counsel/investigator where there is a potential for serious loss and litigation. All files demonstrated that contact was being made with either the member. When available and needed, police reports were secured, reviewed and utilized in the assessment of liability and/or further investigation needed. Follow-ups and letters were documented. Follow-up investigations are conducted when necessary.

There were no exceptions found in this area.

Coverage:

Most files reviewed reflect coverage analysis and confirmation in the file notes. Any potential coverage questions or concerns were addressed immediately with the member and the issues were clarified and documented.

If there is a need to document an issue of coverage via a reservation of rights letter (ROR), the claims consultant will review the complaint and discuss the complaint with the Director of Claims & Litigation. It will then be reviewed to confirm that all issues are addressed in the submitted ROR.

If there is a coverage question that cannot be resolved internally then it is referred to coverage counsel for legal review and opinion.

There were no exceptions found in this area.

File Documentation/Diary:

This category confirms that all files are monitored on diary by the Director of Claims & Litigation and that they contain adequate documentation. Throughout the life of the file, the claim consultant's notes should contain a chronological documentation of facts and activities, updates of activities where needed, and any changes in the facts of the cases as they relate to loss or expense exposure.

Overall diary management was very good. All files were on diary. Most notes contain meaningful content rather than just repeating what was already known.

The claims consultants were managing their files and noting the activity on a regular basis. Notes were very complete and reflected receipt and acknowledgement of documentation from defense counsel or others. In some cases information was pasted into the notes from defense counsel's reports but it was done where needed and not excessively.

WSRMP is in compliance for the category. However, given the transition to Origami from a paper file environment, it may be helpful to implement an electronic standard Action Plan file note that is documented by the claims consultant every 60 days or upon material developments in the claims file. The action plan would contain information regarding coverage, liability exposure/damages, investigation, plan of action, and reserves.

Supervision:

Supervisory involvement was evident in all applicable files and reflected regular input into the direction and actions taken. Supervisory reviews provided oversight/review as well as direction to claims consultants to help move cases to resolution.

We found no issues in this area.

Reporting to Reinsurance/Excess Carrier:

This area confirms that the claims consultant properly recognizes excess exposure and complies with required excess reporting requirements. Claims consultants are responsible for first notice and continual updates of information to reinsurers, once specific thresholds have been reached or certain claim types have occurred.

WSRMP is self-insured and self-administered subject to:

Retention of the first \$1 million of each property claim with \$1 billion per occurrence reinsurance; and

Retention of the first \$1 million of each liability claim with \$10 million per occurrence in reinsurance and \$30 million per occurrence in excess coverage.

WSRMP reports to reinsurers when the exposure reaches 50% of the retention or when the loss is caused by pre-determined category loss such as death, blindness, amputation, sexual assault, etc. Per the Sex Abuse Prevention Program, all pre-suit investigations in this realm are reported to reinsurance.

WSRMP is in compliance for this category.

Evaluation:

This category measures evaluation of the potential financial impact of a particular claim and the documentation within the claim file to support the evaluation. Acceptable claims handling practices require the claims consultant to develop and document liability probabilities together with an estimate of reasonable economic and general damages. Further, the claims consultant must adjust the evaluation as additional facts are developed. The claims consultant, as early as possible, should form an opinion as to liability by applying the facts to the law, applicable immunities, and estimate the probable outcomes in order to reach a reasonable range for settlement value. This process should also form the basis for ultimate reserve development. Evaluations should be properly documented in order to clearly explain and convey the claims representative's view of liability, damages and other factors that may influence the settlement value.

While Praxis did not identify issues with case evaluation, it was observed that there was not a consistent approach amongst claims consultants as to the documentation of reserve rationales. Praxis recommends the implementation of a more formal evaluation process to specifically document the factors considered in accessing the "Jury Verdict Value." This will allow the claims consultant to support the set loss reserve and to aid in identifying the strengths and weaknesses of a case.

Reserves & Reserve Adequacy:

Reserves should reflect neither the most optimistic nor most pessimistic but the most probable outcome. Reserves should be reviewed often and adjusted as soon as adequate facts are developed. WSRMP's reserving philosophy is followed as outlined in the claims manual and provides for establishing reserves based on "Jury Verdict Value" which is based upon 100% liability, discounted by the percentage chances of winning the case.

WSRMP recognizes liability and exposure early on and reserves are established early in the life of the claim. There is no evidence of stair stepping or suppression of reserves. In almost every file reviewed, the indemnity and expense reserve was sufficient to reflect the expected exposure.

WSRMP's defense counsel provides input of ultimate liability probabilities coupled with recommended plans of action which assist the claims consultant in determining the potential upside and/or downside to each decision made.

Overall loss and expense reserves were realistic and reflected the expectation of most likely outcome.

To complement the initiatives of the Sex Abuse Prevention Program and its claim response components, Praxis recommends that WSRMP implement and review a redundancy report to track the sexual assault/misconduct/harassment claims comparing historical reserving levels to the eventual financial disposition upon closure. Further, since over 1/3 of the open claims close without payment, Praxis recommends the establishment of a statistical reserve (suggest \$20,000) for the first few months of a claim. Reserves can be closed or raised depending upon multiple factors in the claim. This should assist in providing consistency in reserving in these cases.

Transfer of Risk/Subrogation/Recovery:

This category measures whether opportunities for subrogation, third party contribution and indemnity opportunities are identified and pursued.

From the cases reviewed, it was concluded that the claims consultants are identifying potential subrogation/deductible/restitution opportunities, allocating liability and identifying third party contributors and aggressively pursuing recovery.

Codefendants and responsible third parties are identified and, where appropriate, are brought into the case. The claims consultants properly identified files for which there was potential for subrogation.

There were no exceptions found in this area.

Litigation Management:

Here we look to determine that files being litigated are being handled in accordance with WSRMP's Litigation Section of the Claims Manual, that referrals are specific to approved counsel, that defense counsel activities are monitored, and costs are controlled. The claims consultant should engage counsel and interact in all aspects of the case, as well as ensure that litigation plans are timely and complete.

The claims consultants have the knowledge, background and experience with which to manage this important claims handling area.

In many of the litigated cases reviewed, defense counsel's initial case analysis and budget were received, detailed and complete. Counsel generally outlined the case status, reviewed potential defenses, discussed possible early motions and, when able, commented on potential exposure. Immunities available were discussed and analyzed. Follow-up status reports were timely and complete with updated issues and recommendations.

We found no issues in this area.

Case Finalization:

This category measures the negotiation and claim file disposition process to be sure claims are being settled promptly and in accordance with industry best practices. This category also measures whether negotiations to settle claims are conducted promptly and aggressively. There should be evidence of the claim consultant's and/or defense counsel's approach to negotiation and ultimate claim file disposition. We look for evidence of a pre-planned negotiation strategy, a chronology of the settlement efforts and maximum settlement value.

Closed files chosen for review reflected proper negotiation tactics and generally resulted in the claimant or plaintiff's counsel significantly reducing the demands resulting in favorable settlements. Files reflect that in most cases, the claims examiner and defense counsel take a very aggressive defensive position which generally produces favorable results.

We found no issues in this area.

Observations specific to Washington Law WAC 200-100-050:

The following summarily address the requirements of WAC 200-100-050. For more detail, please refer to the claim audit narrative above.

Claims filing procedures and forms:

All claims filing procedures and form requirements are outlined in the claim manual are followed with 100% compliance.

Standards requiring case reserves for each claim are established in the amount of the jury verdict value:

WSRMP utilizes "Jury Verdict Value" adjusted by the degree of liability, potential co-defendants and other factors for establishing and adjusting reserves. This results in reserves that accurately reflect the "ultimate expected value." We believe this is a valid approach to reserving.

Standards requiring case reserves are reviewed every ninety days or when reasonably practicable and such review is documented in the claims diary:

The file review reflects that the reserves are evaluated and, if needed, adjusted as the exposure changes. The files are on diary and are reviewed generally more often than the administrative code requires.

Standards requiring appropriate Claims Consultant workloads:

Claims Consultant average claim workloads are within industry standards considering the amount of outside field work required.

Standards requiring claims payment procedures include sufficient internal controls to ensure adequate review and approval by claims management staff:

The system for check requests, supervisory approval and director approval together with check registry and check issuance is in compliance.

Standards requiring file documentation is complete and up-to-date:

These standards are outlined in the claim manual.

File documentation was evident in notes and the physical file. The activity notes were sufficient within the physical file and the electronic claim system. The files were in compliance for this requirement.

Standards requiring timely and appropriate claim resolution practices:

The Claims Consultants, in all appropriate cases, are making efforts to move claims to resolution. The Claims Consultant responds to claimant demands and counter offers in a timely manner and uses mediation or alternative dispute resolution when appropriate. We found no deficiencies in this area.

Standards requiring opportunities for recoveries be reviewed and documented for each claim:

Opportunities for recovery are recognized early and are pursued in the form of subrogation, contribution, and deductible application. We found no deficiencies in this area.

Standards requiring compliance with Internal Revenue Service (IRS) rules for 1099MISC regulations:

WSRMP is in full compliance.

Standards requiring claims files are audited on the following categories:

Staffing, caseloads, supervision, diary, coverage, reserves, promptness of contacts, field investigations, file documentation, settlements, litigation management and subrogation.

Praxis submits this report and confirms that WSRMP is in compliance. This area is fully discussed in the narrative report.

All joint self-insurance programs shall maintain a financial system that identifies claim and claim adjustment expenses.

WSRMP utilizes an electronic claim system, Origami, to record and track claims reserving, payments and file activity notes.

All joint self-insurance programs shall provide for the purchase of goods and services to replace or repair property in a manner which will, in the judgment of the governing body of the joint self-insurance program, avoid further damage, injury, or loss of use to a member or third-party claimant.

Repair methods and materials utilized were in compliance with current building codes and recommended industry repair/replacement standards.

All joint self-insurance programs shall maintain claim expense reports for all claims made against the joint self-insurance program and its members.

WSRMP utilizes an electronic claim system, Origami, to record and track claims reserving, payments and file activity notes. This system will also allow the generation of individual "loss runs" which provide a record of a member's loss history.

All joint self-insurance programs shall obtain an independent review of claim reserving, adjusting and payment procedures every three years at a minimum. Said audit shall be conducted by an independent qualified claims auditor not affiliated with the program, its insurers, its broker of record, or its third-party administrator. Such review shall be in writing and identify strengths, areas of improvement, findings, conclusions and recommendations. Such review shall be provided to the governing body and retained for a period not less than six years. The scope of the claims audit shall include claims administration procedures listed in subsection (1) of this section.

Praxis submits this report and is independent from WSRMP and any of its brokers or claim service providers.

Observations specific to AGRiP Advisory Standards specific to claims management:

The AGRiP Advisory Standards covering Claims Management recognize the need for adequate written policies and procedures in administering claims against members. Their specific advisory requirements are listed below with Praxis' brief conformation of compliance. Detail for each category will be found in the narrative above.

The pool has written procedures that include settlement authority structure, internal review/audit procedures, and loss reserving.

In compliance per the claim manual.

The pool maintains a comprehensive claims management information system that tracks claims, develops loss data, and is distributed to members on a regular basis.

WSRMP utilizes an electronic claim system, Origami, to record and track claims reserving, payments and file activity notes. This system will also allow the generation of individual "loss runs" which provide a record of a member's loss history.

The pool maintains a litigation management program that includes, but is not limited to, establishment of a list of qualified attorneys when applicable, establishment of reporting procedures, and ongoing monitoring and case management, including evaluation of legal expenses.

WSRMP selects and manages all defense and coverage counsel. File notes reflect interaction and management of the firms. Defense firms will not proceed with expensive discovery or motion practice without approval of the claim consultant. All legal expense bills are review and approved by the claims consultant before payment is processed.

THE CLAIMS AUDIT

In addition to the tests conducted during the course of a financial audit, a claims audit is conducted at least once every three years regardless of whether claims are handled by in-house staff or by an outside service provider.

WSRMP retained Praxis to conduct a claims audit in 2012, 2015 and this audit in 2018.

The claims audit includes determination that claims were handled in a timely and efficient manner.

Confirmed that WSRMP is in compliance and is discussed in more detail throughout this report.

The claims audit includes determination that the claims administrator adequately communicated with the pool, its members and claimants.

Files notes and documentation confirm the appropriate interaction between WSRMP and its members.

The claims audit includes determination that case reserving practices were reasonable.

WSRMP utilizes “Jury Verdict Value” adjusted by the degree of liability, co-defendants and other factors for establishing and adjusting reserves. This results in reserves that accurately reflect the “ultimate expected value.” Praxis supports this as a valid approach to reserving.

The claims audit includes determination that loss experience reports accurately reflect case reserves and payments.

All files reviewed reflected the same reserve and paid data as the provided loss runs.

The claims audit is conducted by a qualified firm or individual engaged by the pool that is independent of the pool and its claims service providers.

Praxis Claims Consulting of Peterborough, NH performed the 2018 claims audit. Praxis staff average over 25 years of claims experience. Praxis has been in business since 2006 and has performed audits on behalf of cities, counties, school districts, states, special

districts, risk pools and captive carriers. Praxis' clients have primarily been public sector risk pools, as well as private sector insurers and reinsurers.

Praxis is independent from WSRMP and any of its brokers or claim service providers.

The claims auditor issues a report on the condition of the pool's claims handling and reserving practices noting significant exceptions and/or deficiencies.

Praxis submits this report in compliance with the above.

The pool adequately addresses all exceptions or deficiencies noted in the claims audit within a reasonable period of time.

TBD

Wrap-up Discussions:

Although the specific findings were not compiled on the last day of the on-site file review, a wrap-up meeting was held with Mr. Charles Upchurch and Ms. Dana Grandey in which the above-mentioned observations and recommendations were discussed.

Sincerely,



Brian D. Stiefel, CPCU, President
Praxis Claims Consulting
www.PraxisClaims.com