Options for Transferring Risk

There are many ways to approach a comprehensive risk transfer program. When reviewing a proposal from an associational trust or "pool", it is important to recognize the differences between a fully insured program and a pool. This document is for illustrative purposes only and is not intended to influence any insured to select one option over another. For Risk Pooling, attention should be given to the bylaws and financials.

1. **Private insurance –** The purchase of insurance through a private insurance carrier.

   + Usually a diverse pool of risk. Most insurance companies spread their risk over multiple geographic areas and across sectors.
   + Guaranteed cost / non-assessable. Once you purchase the policy, you cannot be charged more than your deductible and premium (there are some exceptions if premium is auditable).
   + Form and premium rates are approved by the state's insurance commissioner, meaning there is more uniformity in coverage and possible protection via the guaranty fund.
   + Insurance companies are approved by the state's insurance commissioner and rated based on size and financial stability.
   + State mandated minimum 60-day notice of cancellation and non-renewal.
   + Can be flexibility in the coverage, but with limitations.

   - Insurance companies are usually for-profit companies, so shareholder returns can influence premiums.
   - Generally, no premium refunds to insured with some exceptions of dividend plans.
   - Large market trends can have significant impact on the carrier's appetite for your risk, impacting your premium and coverage.
   - You are part of the carrier's portfolio, over which you have no control.

2. **Risk pooling –** Like organizations band together to pool/share risk. Risk pooling is not insurance.

   + Accountable to its members, not shareholders.

+ If losses are low, members can receive premium dividends.
+ Coverage can be tailored to fit the members' needs.
+ Reduced diversification of risk and territorial presence.

- Coverage document, not a contract for insurance
- Collectively share the risk and losses of all members, usually of a limited size.
- Some include pooled loss limits for both property and liability programs.
- Members can be assessed if there are significant losses and inadequate fund balances.
- Not insurance and therefore not rated by AM Best or approved by the state's insurance commissioner.
- Not required to give 60-day notice of cancellation or non-renewal
- Regular review of financial condition critical to assure program health.
- Bylaws bind city to administrative terms. Leaving usually requires notice, and you can be prohibited from rejoining and forfeit dividends if you leave.
- Can include no right of recourse if a dispute.