

RESEARCH PAYS OFF



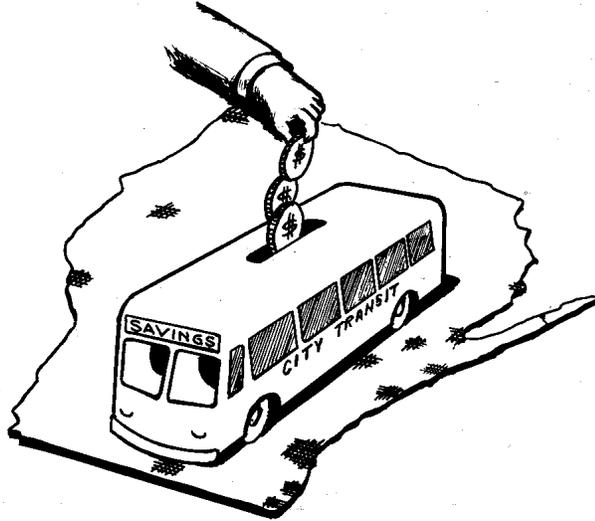
Wisconsin DOT Saves on Transit Insurance

Because the cost of insurance can be a major expense of operating an automobile, motorists shop around for favorable rates when renewals become due. Not unlike private individuals, most transit agencies carry some form of insurance to protect the transit system from liability and medical payment claims for which they are responsible and from losses due to accidents involving uninsured motorists and physical damage where such damages cannot be recovered from the responsible party.

Problem During the latter part of the 1970s insurance premiums associated with the operations of urban transit systems in Wisconsin increased at an accelerated rate. Because most transit systems in

Wisconsin were units of city government, insurance procurement for the transit systems was included in nontransit operations; in most cases transit managers had little involvement in the procurement process. An analysis of vehicle insurance for the 19 urban transit systems in Wisconsin showed that the primary liability rate on a pervehicle basis varied between 39 percent below and 45 percent above the statewide average. It was obvious that some municipalities were overpaying for their vehicle liability insurance. In fact, a 5-year combined loss ratio (paid claims divided by premiums) was found to be .23; that is, during a 5-year period only 23 percent of the insurance premiums collected was paid out in claims. In light of this situation, the Wisconsin Department of Transportation decided to make an effort to reduce rising premium costs.

Solution With funding from the Urban Mass Transportation Administration, the Wisconsin Department of Transportation commissioned the Newport Beach, California, firm of Warren, McVeigh and Griffin to undertake a risk management research study to evaluate insurance coverages, procurement methods, and loss control activities and to make recommendations for improved management practices. Study findings were as follows: (a) there is insufficient competition during the procurement process; (b) transit managers should be more involved in the procurement process; (c) specifications for coverage should be improved; (d) safety engineering programs and services provided by insurance agents should be improved; and (e) group insurance programs should be investigated.



Application The study findings and recommendations clearly showed that changes in the procurement process of insurance for transit systems were in order. To implement the recommended changes, 12 systems established the Wisconsin Municipal Transit Insurance Commission. The Commission's objectives were to jointly purchase liability and physical damage insurance and to improve the transit systems' risk management programs. To ensure stability, municipalities entering the Commission were required to participate in the joint purchase program for 3 years. As one of its first actions, the Commission solicited conceptual proposals from a number of insurance agents. Two agents were chosen to submit competitive insurance programs from various insurance companies. The most appropriate program was chosen from those responding.

Benefits The benefits of the new common procurement of insurance have been substantial. In the first year an aggregate savings of 47 percent of current premium rates was realized by the group. This amounted to a savings of \$255,000 in annual insurance premiums. The group is now into its second year with no increase in insurance rates. In addition, services, such as claim handling, safety engineering programs, and loss reporting, as well as limits of coverage terms, have been improved.

Because the Commission has been realizing such impressive savings in insurance premiums, 4 additional Wisconsin transit systems have elected to enter the program, bringing the total to 16. The project has been documented in a special publication by the Technology Sharing Program, Office of the Secretary of Transportation, Washington, D.C. Several other states are now exploring this statewide approach to insurance procurement.

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