

# Loss Control *NOTES*

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## Pooling Program Assessability

### **Assessability: a definition**

Some insurance pools and insurance companies are required by law to have “assessment” provisions. These assessment provisions are a method by which an insurance company or insurance pool can go back to its participants to make up any financial shortfalls resulting in losses and expenses that exceed the loss reserves. In other words, if the insurance pool doesn’t plan adequately for losses and expenses, an assessment provision permits it to tap its members to make up the deficit. There is no time limit for “assessing” its members. An assessment can be levied one year or five years or more after the year in which the shortfall occurred.

If you are in the business of insuring Alaska schools and municipalities as APEI is, you can establish either an Alaska Reciprocal Insurance Company or an Alaska Joint Insurance Association (pool).

An Alaska Reciprocal Insurance Company must have assessment provisions. The insurer is required to inform each participant that the member has a contingent assessment liability for payment of actual losses and expenses occurred while the member was in the Reciprocal.

Alaska pools such as APEI and AML/JIA are formed under Alaska Statute 21.76 as Joint Insurance Associations. There is no requirement under that statute that pools have an assessable provision. AML/JIA chooses to be assessable. APEI chooses to be non-assessable. This is a huge difference to a prospective member.

### **The assessable feature should be disclosed**

The most important document that a member signs when joining a pool is the Cooperative Participation Agreement (CPA). The insurance program is important, but the CPA can carry a much higher financial risk to its members. When you are considering alternative quotes from both Alaska pools, your broker should give you a detailed analysis of the provisions of the CPA as well as the provisions of the insurance quotes. If your broker tells you that there is no real difference between the CPA agreements of the AML/JIA and APEI, consider getting a new broker because there are major differences that can affect each member.

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*Loss Control NOTES* is published by Alaska Public Entity Insurance to provide some management guidelines for your organization’s risk management program. The information provided is advisory only.

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