

Insurance for Water Utilities

What Your System Needs, How to Find It, and How to Reduce Costs

By **Jamie Knotts** • NESCA Contributing Writer

Planning for tomorrow's problems may not be the easiest thing to do when a water system is trying to meet today's needs. But when that problem is a lawsuit against the utility or a worker's injury claim, having a backup—or more specifically insurance—is a must, even for small systems struggling to contain costs and stay within a budget.

Some utility boards and administrators mistakenly believe they are exempt from lawsuits because they are a public entity. Consequently, they don't see insurance as a necessary expense. How wrong they are. Small utilities can and have been successfully sued.

What insurance should systems have?

Lisa Ross of the Oklahoma Rural Water Association (ORWA) says that at a minimum a utility needs three kinds of insurance. "What is necessary is the general liability, errors and omissions, and bond coverage. Those are the three things that every system should have. Not all systems have property, so property insurance may not be necessary."

Liability insurance covers the risk of incurring legal liability to pay money damages. This insurance guarantees financial protection for a utility that might be required to pay damages resulting from legally negligent conduct.

The negligent act might cause personal injury, death, or property damage. Liability for negligence may result not only from the conduct of the utility, but also from the conduct of the utility's agents and employees. Liability insurance is sometimes called third-party insurance because the insurance company protects the insured against suit by a third party, that is, the claimant.

Errors and omissions insurance, sometimes called professional liability insurance, is coverage for claims arising out of actual or alleged breach of duty, neglect, error, misstatement, wrongful hiring or firing, sexual harassment, or financial impropriety committed by the board in providing water to customers. This insurance covers areas



of business where general liability coverage does not. It often covers defense costs and charges and expenses incurred from claims or suits filed against the utility's board or officers.

Bond insurance covers money and property loss as a result of dishonest or fraudulent acts by employees. Such dishonesty might include theft of property, disappearance and destruction of property, stolen money, or cashed checks.

Covering Employee Healthcare

Scott Johnson of Benefit Management Strategies, LLC in Overland Park, Kansas, is an agent providing coverage to approximately 50 drinking water systems across the country.

He says that small systems find it difficult to afford worker's health insurance.

"Smaller water systems find it very difficult to bear the cost of these (health insurance) programs,"

he says. "Many systems tend to have older employees and the rates for these employees are moderate to very high. Older employees can increase the cost of insurance roughly \$200 to \$400 per employee per month.

"Generally, water systems are small groups having under 10 employees and so they are limited in the options they have. In most cases, employers choose benefits for the employee." He says employers have a wide range of deductible and co-insurance options they can choose from, but the rates are set by the state, so most agents have little room to offer discounts. "Rates are controlled by state and when you get a quote from me, you get the best quote I can give."

Johnson says that states adopted laws in an effort to control costs. The laws are not the same in all states and are usually administered by each state's department of insurance.

"The laws were passed for two reasons," he says. "They felt by leveling the playing field, if you offer it, anyone can get it. They also thought that by limiting what insurance companies could write up in policies, they could control the rates, as sort of a community rating concept. What it's done is drive insurance companies out of the business, giving less choices of

providers to water utilities and others."

Johnson says workers want health care coverage in their benefits package. "Utilities are getting more and more pressure to offer this to their workers," he says. "It's a cost squeeze that employers are facing in trying to cover the cost. Health insurance rates are going up roughly eight to 12 percent a year, and this only adds to this pressure."

For a utility that wants to offer health care insurance, but can't afford it, there is one option they can investigate. "Systems can offer to reimburse employees X dollars per month to reimburse them on health insurance the worker buys," he says. "It allows the system to control the cost by giving a flat contribution per month." The employees would cover any additional costs.

Johnson says this option is not without controversy. "Some systems are doing this but it becomes discriminatory to a point in that the healthier employees get the best rates and the older employees get the higher rates," he says. "The older employees can't afford the coverage even with the utility's reimbursement, so it becomes a problem for management to consider 'do I offer any insurance?'"

What's the best way to find providers?

Alan Ice of WesBanco Insurance services, Inc., in Shinnston, West Virginia, says that water utilities shouldn't have trouble finding a good insurance provider. "Most commercial agents can write coverage for small systems," he says. "It's not complicated to write policies. It's open and shut. But while price is a consideration, service is still the most important aspect."

He suggests that managers check with other water systems to see who they are using or check if the state insurance commission recommends or offers a list of agents in a particular area. Looking through the yellow pages of the phone directory is also an option. One unique feature managers should consider when choosing an insurance provider is how some states handle their worker's compensation insurance.

"In most states, workers' compensation will be part of the insurance package that they must consider," he says. "But West Virginia is one of five states where it is





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monopolistic in that the state offers the policy. Utilities have to go to the state board to buy that coverage separately.”

Ice echoes Johnson’s feeling that health care coverage is a tremendous expense for small water systems. “It is one of the biggest expenses they have outside of salary.” Ice recommends that utilities thoroughly compare insurance providers to get the best rates. “Each insurance company will vary from state to state,” he says, “and that means that coverage is going to be very local.” He notes that joining a health maintenance organization (HMO) may be something to consider. “A system needs to do a lot of research to get the best possible cost and coverage.”

Reduce Costs

Penny pinching water boards wanting to reduce insurance costs do have a few ways to save money.

“Water systems are not much different than anyone else,” Ice says. “They can opt for higher deductibles on vehicles and other coverages.” He recommends that utilities need to construct buildings within fire codes to keep prices as low as possible. He also suggests that system managers take a close look at their insurance claims because fewer claims

keep insurance costs down. Competitive bidding of insurance providers is also a way to possibly reduce costs. “It is important that an agent make a presentation and show both his knowledge of his product, and most importantly, his knowledge of the client’s operation,” Ice says. “The lowest price is not always the best buy.”

Ice says that it is possible for training to help reduce cost, “but for most water systems, employee skill level is controlled by state mandates and they almost have to have the training to do the job anyway.” He does note that defensive driver training is an important measure that can help lower insurance costs.

“One of the biggest losses I’ve seen comes from employee dishonesty where the directors and employees have very few checks and balances on their books,” Ice says. “Folks in these systems need to make sure they have these checks and balances on inventory, purchases, and on their accounting systems. You don’t want the same person taking payments who also is reconciling accounts. This applies both to directors and officers, as well as employees. If one person has direct control, the possibility of a loss is much, much greater.” (For more information about

checks and balances, see the article “Checks and Balances: Internal Control for Small Water Systems” on page 50.)

Safety Programs Can Help

Steve Pappas, director of loss control for Indiana-American Water Co., Inc., says that an effective loss control and safety program has led to lower insurance premium costs in the utilities he works with.

“Lower costs aren’t going to be seen overnight,” he says. “It will take two to three years at a minimum to see cost savings. Training programs will, over time, help to reduce accidents and liability claims, change or modify people’s behaviors, and lower insurance costs.”

He credits his safety program as a success at saving the water company money in the past four years. “Everyone has a shared ownership and responsibility,” he says, “but you need support from all levels, from management down to the workers.”

The safety program Pappas oversees covers workers’ defensive driver training, process safety management, personal protective equipment, job hazard analysis at each facility, and hazardous communication skills.

Consider Pool Insurance

Not to be mistaken with insurance that covers you against mishaps while swimming, pool insurance is a program that combines the resources of insurers of similar interests or characteristics, such as local government pools or water utility pools. Often created through state legislation, these pools generally offer lower rates for those participating.

The ORWA has been offering group insurance for drinking water systems for more than 12 years. Lisa Ross manages the Oklahoma Rural Water Assurance Group and says utilities in Oklahoma seem to be pleased with the service they offer. “We are doing pretty good,” she says. “We don’t have any trouble keeping people.”

The association offers group insurance for general liability, auto, errors and omissions, property, bonds, and employment practice liability. They do not carry health insurance.

“In Oklahoma, water systems can only be sued for \$25,000 on property and \$100,000 on bodily injury, and this may differ from state to state because of different laws and tort levels,” she says. “Some states say a municipality or water systems can’t be sued at all.

“We offer utilities insurance up to those levels,” Ross says. “Other insurance

companies try to give them too much coverage. If a system buys more than the \$25,000 and \$100,000 levels, the system forgoes its rights and can be sued at any amount over that point. A lot of water systems don’t know this, and I’m sure it’s the same in other states.”

Incentives Keep Costs Down

“We give systems a loss experience credit, which means that if they don’t have a claim, they get a percentage of their premiums back,” Ross says. “If they’ve been in the program for two years without a claim they get five percent of their premiums back.” The amount returned increases with the number of years without a claim. “Twelve years in the program without a claim will get you 28 percent of your premium back. We’ve given over half a million dollars back to the systems that paid premiums.”

The program expects to offer discounts in the near future for systems that get adequate training. “We’re working on that now,” she says. “By law, board members will need six hours of training, and they will get a discount on their liability on so many hours of training.”

While Ross says no other state rural water associations have comparable programs, she says the ORWA is working to help other associations get one started.

“We’ve been told from insurance brokers that the market is going up, with property insurance rates especially,” she says. “The rates we offer have never gone up in 12 years. They’ve only gone down. We were set up by people who work in drinking water systems, so it’s set up to meet their needs.”

For more information about the Oklahoma Rural Water Association insurance program, visit their Web site at www.okruralwater.org or call Lisa Ross at (405) 672-8925.

To learn more about different kinds of insurance and related topics, go to the Insurance Information Institute’s Web site at www.iii.org.

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More information about worker’s compensation is available in the article “Worker’s Compensation 101: What Employers and Employees Need to Know” exclusively on the National Environmental Services Center Web site www.nesc.wvu.edu.

