THE RISK MANAGEMENT FUNCTION IN MUNICIPAL GOVERNMENT

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ABSTRACT

The increase in assets, population served, diversity of services provided, and public liability of municipalities in the last twenty years has increased both their exposures to loss and their officials' concern over the political and financial effects of a large property loss or liability judgment. While well-managed business corporations have recognized the need for special skills and techniques in the efficient analysis and treatment of such risks, the results of a comprehensive survey of small and medium-size municipalities in nine states show that this need for specialized attention to risk analysis has not been recognized by many municipal officials. Rather, the risk management specialty has yet to emerge from the role of part-time insurance purchasing. Municipal policy relating to the analysis and treatment of risk is usually unwritten, and unclear. Many municipal officials are unaware of certain exposures to loss or how to reduce the costs of insurance and other risk control devices.

Since World War II, the increase of industrialization and specialization of skills has been paralleled by an increase in urbanization. Not only have urban areas become more extensive, but the services demanded by the citizenry have required annual expenditures and investment of public capital at a rate of increase well in excess of that of the national income and national product.[1] Larger school systems and police and fire departments have become necessary. Expansion of sewage and water systems, park systems, and transportation and highway systems have become inevitable. As new functions are undertaken, such as libraries, zoos, airports, redevelopment, and public housing, personnel and payrolls grow. As additional facilities and more services are demanded, administrative machinery expands. Specialization occurs, and with it comes more sophisticated delegation of responsibility and authority.

Each new service or facility offered introduces new possibilities for property and liability loss exposures. When such exposures are recognized, the problem is generally considered by most municipal officials as requiring the purchase of insurance. As the amount and character of municipal property changes in the aggregate, however, the appropriate mix of budgeted loss reserves, loss prevention activities, and insurance changes.

The function of identifying and analyzing loss exposures requires specialized skills and knowledge, especially in the modern complex environment. In the business world, many firms employ full or part-time risk managers to attend to this function. The problems of risk analysis

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[1] Jerome P, Pickard, *Taxation and Land Use in Metropolitan and Urban America* (Research Monograph 12, Urban Land Institute, Washington, D.C., 1966), p. 9.

and control for the municipality, large or small, often require such specialized services. These problems have been magnified by the recent court decisions and statutes recognizing increased liability exposures of municipalities to third parties.

The immunity of government bodies from liability for the actions of their officers and employees, based on the medieval concept that the "king can do no wrong," is gradually disappearing. The municipal corporation, like the business corporation, has been held liable for the negligent actions of its employees. Even the failure to act, particularly by high officials, may subject the municipality to liability suit. The failure to exercise greater effort to protect and conserve the assets of the government itself may be actionable.

These factors, then—the increased value of municipal capital assets per citizen, the expansion of services creating an increase in both property and liability exposures to loss, and the extension of public liability to governmental operations—have caused municipal governments increased concern over the possible effects, both financial and political, of a large property loss or liability judgment. Compounding this concern is the realization that competing demands on citizen resources have placed restraints on municipal tax rates, focusing public and political attention on the efficient utilization of municipal revenue.

Long-term capital budgeting has been employed to create priorities and stability in public fiscal planning. Since tax levels have tended to be held constant by political pressure, the need to replace a capital asset would either upset the long-term capital budget or tax stability if the loss were not shifted or avoided. As cities have become sensitive to the need for predictability of cash flows, they have adopted various techniques of financial management, as reflected in the increased appearance of the financial management specialist in the official municipal family.

While cities are beginning to think in terms of stronger personnel administration, systems analysis, and financial management, it would appear that the risk management specialty has yet to emerge from the role of insurance purchasing. The purpose of this study, then, was to investigate current municipal use of modern risk management concepts and techniques, and to inquire whether more extended use of these concepts and techniques in municipal government would be advantageous.

Current Practices

To investigate current practices of municipal governments, a survey was conducted of all municipalities with populations of 20,000-400,000 in nine states. The nine states selected were among the first in which the courts have abolished the governmental immunity of municipalities for injuries and damages caused by negligent conduct of their employees or officials. Since there appears to be a trend toward complete abolition of immunity from suit for municipalities, it was felt that a study of municipalities in states which had already abolished such immunity might prove more instructive in future years as immunity is abolished in other states. The study excluded the large metropolises with their complex problems and administrative organizations and the smaller municipalities where specialization is undeveloped and alternatives for risk control more limited.

The forty-two percent response (158 municipalities out of 375) was quite satisfactory considering the length of the questionnaire (eleven pages) and the fact that time and cost did not permit a follow-up. Although no statistical inferences can be made about medium-size municipalities in general, many of the results of this study may be applicable to municipalities in other states, except to the extent that laws differ. As it happened, the nine states surveyed[2] represent all parts of the country—East, West, Midwest, South, and Southwest—and varying types of economies—farming, industry, and tourism.

Statement of Municipal Risk Management Policy

Contrary to ideas expressed in many articles on municipal insurance programs, the first step in establishing an effective program is not the centralization of risk management responsibility and authority or the preparation of records and statistics on current loss experience and insurance coverages. Rather, it is the establishment or clarification of the overall goals of an effective risk management program. Then the municipal officials must develop municipal policies to guide the decision-making of those responsible for risk management, so that the goals can be achieved in the most efficient manner.

Professor R. C. Davis, a noted author and consultant in industrial management, defined a business policy as ". . . essentially a principle or group of related principles, with their consequent rules of action, that condition and govern the successful achievement of certain business objectives toward which they are directed."[3] Thus, the principle might be stated that total loss costs (i.e., insurance premiums, loss prevention costs, and assumed losses) are minimized by insuring only major losses of assets or profit earning facilities. The rule may be to carry deductible amounts on transit, workmen's compensation, fire and business interruption insurance policies.

Although policies are often unwritten or established only when problems arise, unless certain rules of action and the principles supporting them are embodied in a written policy statement, the risk manager may be forced to seek a statement of policy from his superior each time a decision must be made, in direct violation of the doctrine of "management by exception." On the other hand, a sound policy facilitates the performance of the risk management function in several ways:[4]

1. It tends to prevent deviations from planned courses of action.
2. It insures consistency of action.
3. It promotes intelligent cooperation.
4. It facilitates coordination of action.
5. It fosters an intelligent exercise of initiative.
6. It provides a guide for determining equitable personnel relations.
7. It furnishes a basis for determining the quality of executive action.
8. It provides a guide for thinking in future planning.

Only thirty-four of 158 municipalities responding to the survey have written policy statements regarding insurance matters. Only half of these specify the city's attitude toward deductibles. Roughly half specify the use of commercial insurance and hold harmless agreements and less than one third provide for the use of self insurance. Most (79.4 percent merely specify how insurance should be purchased.[5]

In 61.4 percent of the cities surveyed the city council determines city policy on insurance practices. The council acts alone in less than half of these cities, however. In most cases, it works with either the mayor or the city manager, the finance

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[2] The nine states are Alaska, Arizona, California, Florida, Illinois, Michigan, Minnesota, New Jersey, and Wisconsin.

[3] Ralph Currier Davis, *The Fundamentals of Top Management*, (New York: Harper and Brothers, 1951), p. 173.

[4] *Ibid.*, p. 175-176.

[5] For detailed tables of survey results, see Jerry D. Todd, "The Risk Management Concept Applied to Municipal Government" (a doctoral dissertation, The University of Wisconsin, January, 1968), Chapter III.

director, the insurance committee, some other city official or some combination of these, in that order.

Delegation of Risk Management Responsibility and Authority

The final responsibility for preserving the assets and the financial position of the business firm lies with top management and the board of directors. Thus, the responsibility for policy making lies with them. In municipal government, this responsibility lies with the elected officials. However, just as responsibility for financial administration, legal problems and personnel administration is delegated to various officials, the responsibility for risk management should also be delegated, so that top officials will have time for policy making and long run planning.

The security function, as Henri Fayol referred to what is herein called the risk management function, is the responsibility of all levels of management (i. e., even the shop foreman is responsible for the safety of his workers).[6] Nevertheless, the technical knowledge required and complex decision processes relating to pure risks have encouraged forward looking business managers to assign pure risk responsibilities to certain individuals or departments in the business. Few municipalities surveyed, however, consider the function of risk management as more than the "whens" and "hows" of insurance purchasing and the filing and payment of claims. Only nine municipalities, out of 158 responding to the survey, indicated having a risk or insurance manager.

The purchase of insurance, however, is centralized, although it could not be determined from the survey whether the decisions to insure, amounts of insurance needed, or the types of insurance needed were determined in a central office or on a departmental basis. Centralization of purchasing is important because contact with insurers or agents through one office creates more uniformity and efficiency and facilitates greater use of blanket insurance. The following persons were named most often as purchasers of liability and property insurance in cities surveyed:

Director of Finance	72
Mayor or City Manager	57
City Purchaser	24
Insurance Committee	23

(more than one answer possible)

There is considerable variation in practice as to who files claims with insurers. Again, the finance director is responsible for this job in more cities than any other official, followed by the city manager or mayor's office. Final authority for the purchase of insurance generally rests with the city council, the city manager or mayor, or both, the most prevalent being the former.

Seldom does the insurance purchaser's responsibility include public housing or redevelopment authorities or school boards. Of the one-fifth or less of municipalities surveyed which have such semi-independent organizations, few (less than one fourth in all instances) indicated that the city insurance purchaser was also responsible for purchasing insurance for these authorities. Evidently, possible efficiencies in this area have been overlooked by city officials.

The Identification of Loss Exposures

The next and probably most important step in establishing or improving a formal risk management program, once objectives and policies have been established and responsibility and authority clearly defined, is the identification of potential losses facing the municipality—the risk recognition or risk discovery process. Failure to recognize a potential loss will inevitably lead to failure to provide for

[6] Henri Fayol, *General and Industrial Management* (New York: Pitman Publishing Corporation, 1949), p. 10.

its consequences. Municipalities surveyed, however, appear to be quite insurance-oriented as opposed to risk management oriented. When a municipality attempts a review of its "insurance" needs, its first step is likely to be the examination of its present policies, comparing them with policies available. In effect, the city is examining its need for various existing insurance policies rather than systematically identifying its exposures to loss, measuring them, and deciding how best to control them.

The majority of cities responding to the questionnaire do not make their own surveys of loss exposures, but instead rely on the help of insurance companies, agents, and private consultants. In fact, only 18 of 158 cities indicated that their sole means of identifying exposures is a survey by an employee, and in these cases it appears that little is known about how the employee makes the survey (i. e., what he examines). In 60 percent of the cities, an insurance company makes the survey but many of these cities also make their own or have the insurance company's survey reinforced by that of an agent. Private insurance consultants are not frequently used.

Surveys by insurers and agents are both useful and economical, especially for smaller municipalities whose officials generally lack the knowledge and skills of experienced risk analysts and whose risk management needs are not sufficient to justify full-time experienced risk managers. However, complete reliance on such surveys is not in the best interest of citizens because insurers and agents are not responsible to the citizens for their actions. Municipal officials would be wise to make their own loss exposure surveys (perhaps with the aid of local business risk managers) and check these against those of insurers and agents. Periodic reviews by private consultants are also useful as checks.

The Liability Exposure

Since the case of *Russell* vs. *Men of Devon* in 1788, municipalities have been granted immunity from liability for tortious conduct of their employees, under the principle ". . . that it is better that an individual should sustain an injury than that the public should suffer an inconvenience."[7] In the past several years, however, state courts have been reversing this decision and legislatures have not disagreed with the courts, except occasionally to limit the liability imposed by the judiciary. As a result of this constant change and threat of change in their liability risk, municipal officials are many times confused as to how they can best control this risk.

Although recent court cases indicate that governmental immunity from tort liability no longer exists for the municipalities surveyed, almost twenty per cent fail to recognize this liability for negligent acts of their employees. Furthermore, great uncertainty exists about the personal liability of municipal officers. Variations in the results, in fact, were so large as to suggest that municipal officials have not given this matter sufficient attention and may find themselves defendants in serious law suits.

Indeed, municipal officials are generally personally liable for the commission of ultra vires acts (those outside the scope of their authority),[8] have been held liable for negligently fulfilling their capacities,[9] and have been held personally liable for failure to insure or otherwise protect municipal property from loss.[10] Admit-

[7] *Russell* vs. *Men of Devon*, 2T.R.667 at 673, 100 Eng. Rep. 359 (K.B. 1788) at 362.

[8] Eugene McQuillin, *The Law of Municipal Corporations*, 3rd Edition, Vol. 18 (Mundelein, Illinois, 1963), p. 148.

[9] See *Lake Worth* v. *First National Bank in Palm Beach* (Fla.) 93 So. 2d 49.

[10] *Warren* v. *Glens Falls Indemnity Co. of Glens Falls*, New York (Fla.) 66 S9. 2d 54.

tedly the law in these areas is unclear but that very lack of clarity suggests a need for increased attention to this problem area, especially since there appears to be a marked trend toward less immunity and more liability.

The Measurement of Loss Exposures

The purposes of measuring risks are threefold: (1) to determine their relative importance, (2) to aid the risk manager in deciding the best methods to use in their control, and (3) to establish insurable values for insurance purposes (both to purchase insurance coverage and to substantiate claims). No decisions can be made as to the method of control or the relative priority of risks in terms of their impact on the financial condition of the municipality without proper measurement. Furthermore, no values for competitive bidding specifications would be available and overinsurance or underinsurance could easily result.

The logical steps in measuring risks are to calculate the potential size of loss to each exposure, to investigate the relative frequency of loss and the perils which are most likely to cause the loss, and to analyze the relative importance of each potential loss exposure in terms of its total effect on the municipality's finances. Finally, the catastrophic loss potential must be considered before selecting the best methods to control the risks.

Few surveyed cities appear to go beyond the first step, since they have previously decided to insure the exposure and all they need is the insurable value. Even these cities can suffer financial setbacks, however, if they do not calculate this value carefully, because a total loss might not be fully compensated for or the city might be forced to share a partial loss with the insurer because of failure to meet the coinsurance requirement. On the other hand, overinsurance results in unnecessarily high premium payments.

When it is decided that insurance is the only logical means for minimizing risk, then replacement cost values must be established for physical loss exposures. The majority of the cities surveyed establish replacement cost values on their buildings, contents, and vehicles (buildings—82.3 percent of the cities, contents—76.0 percent, vehicles—67.1 percent). The method by which such values are determined, however, varies considerably:[11]

	buildings	*contents*	*vehicles*
1) private or professional appraisal	35.4%	27.5%	10.4%
2) insurance company appraisal	39.2	25.0	22.6
3) original cost records	31.5	43.3	55.7
4) original cost and price index	17.7	15.8	17.9
5) other	7.7	9.2	6.6

Results of the survey indicate that although replacement cost values are established by many cities, they are not adequate for claims purposes. This is most likely the result of using unadjusted original cost records as replacement costs and of not keeping records up-to-date.

Liability limits are more difficult to determine than are property insurance limits. Consequently, 66.5 percent of cities surveyed use the limits suggested by a consultant or agent who is more likely to be aware of the trends in court awards in liability suits than would most city officials. Only a small percentage (19.0 percent) review recent liability judgments themselves.

[11] Figures may add to more than 100 percent because multiple answers were permitted.

Controlling the Risk

The Role of Insurance. The purchase of insurance from private insurers is the dominant means used to reduce municipal risks. A very small percentage of those cities responding to the survey acknowledged using any other method of controlling risks besides insurance, especially for liability risks. The only exception is workmen's compensation, which is insured in state workmen's compensation firms in more than one-third of the municipalities. The decision to insure is a logical one for most small and medium-size municipalities because there is little spread of risk, the frequency of loss is low, and the potential size of loss, especially in relation to the financial strength of the municipalities, is large.

Having chosen to insure their loss exposures, the next logical step would be to seek ways to reduce the cost of insurance. The use of coinsurance clauses and deductibles would reduce insurance costs, yet only slightly over half of the cities surveyed have coinsurance clauses in their fire insurance policies (generally 90 percent or 80 percent clauses) and only one-third use deductibles (two-thirds of which are under $1,000 deductibles). The size of deductibles is most often determined by agents or consultants.

Self-Insurance and Self-Assumption of Losses. Retention of risk can take several forms. It can be active or passive. If the municipality recognizes the existence of a risk and decides to actively retain it, it has two alternatives. It can either establish a continuing fund for future possible losses or it can appropriate money to meet losses as they occur or as they are expected to occur from year to year (assuming the losses are regular and fairly predictable from year to year). The choice depends on the frequency and severity of possible losses and the predictability of their occurrence.

A municipal self-insurance fund was defined in the survey as a ". . . reserve fund to which appropriations are made each year until the amount reaches a certain limit, from which losses are paid." This is perhaps not the best definition, but it does distinguish a continuing insurance fund, to which annual appropriations are made to cover specified risks, from a system of no insurance, where certain losses are provided for "after the fact" through special budget appropriations, bond issues, or other spur-of-the-moment public financing. For such a fund to be financially sound the city must be able to predict fairly accurately the maximum probable loss for which the fund would be liable (i. e., it could accomplish this prerequisite by purchasing excess insurance). The fund should be provided for risks where only small losses or no losses are normally expected, since large regular losses could deplete the fund yearly.

The city must also be able to administer the plan, value properties, pay claims, provide engineering and inspection services, set premium rates and achieve a reasonable spread of risk—all the functions that a professional insurer normally performs.[12] It must not be an emergency reserve fund which merely places an arbitrary amount of funds at the disposal of the government to pay for losses should they occur, but rather must reflect the potential losses that could occur.

The main advantage accruing to a municipality which decides to self-insure

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[12] The municipality can seldom achieve the spread of risk that an insurer can. The important factor is that there should be enough independent exposures (not necessarily of equal size or even kind) to produce a relatively stable loss experience. Professor Goshay suggests that the loss experience have a range of fifteen percent or less over the past three years to fulfill this prerequisite for self-insurance. See Robert C. Goshay, *Corporate Self-Insurance and Risk Retention Plans.* (Homewood, Illinois: Richard D. Irwin, Inc., 1964), p. 25.

certain of its risks is savings in insurance premiums, since 30-50 per cent of the premium dollar normally goes to defray administrative and sales expenses of the insurer. However, the disadvantages tend to cause small and medium-size municipalities to use this risk control device even less than business corporations.

Only seventeen of the cities surveyed said that protection of any kind is provided solely by means of a municipal self-insurance fund. Ten of these admitted that there is no real fund—that losses are paid on a pay-as-you-go basis. Furthermore, only three of the remaining seven indicated that the size of the self-insurance fund is related fairly closely to the risk involved. The remainder are more or less emergency reserve funds available to pay losses not otherwise covered by insurance, the sizes of such funds being determined by an arbitrary annual appropriation or by premiums saved. In addition, four municipalities indicated having a fund set aside which was supplemented by excess insurance.

Unlike self-insurance, self-assumption of losses does not involve actively establishing a continuing fund out of which losses are paid. Instead, it usually involves paying losses out of whatever current funds are available. Few of the municipalities surveyed rely entirely on self-assumption as a means of paying losses. However, many assume a portion of their losses through use of deductibles and excess insurance coverages. About two-thirds of the municipalities surveyed use deductibles on some of their policies. Undoubtedly, a large percentage of these deductibles are motor vehicle collision coverages, however, since neither fire nor liability insurers generally encourage the use of deductibles. In this case, the municipality need only be liquid enough to meet small deductible amounts as long as there are not an extraordinarily large number of occurrences in a short period of time.

Liability claims, including workmen's compensation claims, are often ideal risks to insure on an excess basis. Medium-size cities, in particular, pay out many small claims every year and expect to continue paying out these "normal" liability claims, which can be estimated within reasonable limits. Surprisingly, however, such claims are rarely paid by the municipality out of annual budget appropriations. Instead, over three-fourths of the municipalities surveyed carry full liability insurance. Yet less than half feel that their liability insurance coverage is sufficient to pay an unusually large liability judgment. Thus, they are in effect assuming the top end of catastrophic losses. Most of these municipalities said that they would have to use unused or unallocated capital funds (including the general fund) or make a special tax assessment to pay for an unusually large liability judgment. Some indicated that they had not considered the possibility or thought it impossible.

Avoidance and Transfer of Risk. One way a municipality can avoid risk is to avoid the activity. Thus, by not operating public swimming pools, ice rinks, utilities and zoos, the municipality does not incur the risk of loss of assets from physical or legal perils. Some of these activities may be abandoned to private interests. However, many are not suitable for private operation and yield a service to citizens much greater than the cost of providing risk control devices.

Where the activity cannot be avoided, sometimes the exposure to loss can be shifted. All of the cities responding to the survey require contractors to name the city as an additional insured under their liability policy to avoid subrogation rights of the insurer. Thus the risk is shifted and the municipality is assured of the financial ability of the contractor to pay the claims.

Rather than carry nonowned automobile liability insurance, the municipality could merely require its employees to carry their own automobile liability insurance, which would include the vicarious liability of the municipality for injuries caused while the employee was driving in an employee capacity. According to the survey, however, few municipalities make use of this method of transfer. Only 31 percent of the municipalities require their employees to carry their own liability insurance. The majority (77 percent) carry liability insurance for non-owned automobiles. The endorsement is not expensive and most of these cities probably feel that it is easier and safer to insure the exposure in this way rather than attempt to set up procedures to check periodically the amount and status of employees' automobile liability policies.

Administering the Risk Management Program

The task of identifying, measuring, and controlling the risks of municipalities is not satisfied by a one-time survey or even by periodic reviews of insurance programs. A significant omission in the risk control programs of municipal governments surveyed is an organized system of coordination and communication networks and procedures to keep those responsible for administering the function alert to all changes in exposures and to let other employees know what is required of them to help achieve risk management objectives. Procedures must be defined: (1) for identifying changes in exposures and reporting them to the person responsible for risk management, (2) for placing insurance coverages and seeking new forms of coverages, (3) for limiting the amount of exposures to loss (particularly liability exposures), (4) for reducing losses to present exposures through loss prevention efforts, (5) for allocating the costs of insurance and administration of the program among the various departments and boards, (6) for handling claims, (7) for analyzing and recording various reports and other data, and (8) for evaluating the overall performance of the risk manager. Such procedures are necessary to assure that adequate coverage is continually provided and to reduce the long-run costs of premiums and uninsured losses.

Claims Procedures. It is vital to an efficient administration system that the employee be informed of the desired procedures to be followed in case of injury to himself or to city property, or injury to others or their property. Eighty-seven percent of the municipalities surveyed claim to have fixed claims procedures of which the employees are informed. However, only 31 percent have written policy statements concerning claims handling. The remainder evidently use only oral communication, which is easily forgotten or misunderstood, especially if not repeated often. More efficient claims handling procedures could have three possible advantages to the city: the reduction of indirect and consequential losses, the ability to substantiate claims quickly and systematically, and reduction in long-run premiums through loss control "after the fact."

Placing Insurance Coverages. Once the decision is made to insure a risk and the type of policy desired, amount of protection needed, and whether to use deductibles, coinsurance clauses, etc., have been determined, then the decision must be implemented by establishing procedures for purchasing insurance. The authority to purchase insurance and restrictions on that authority must be examined and insurance carriers must be selected.

Twenty-five percent of the municipalities surveyed are legally restricted as to how property insurance must be purchased. Most of these require competitive bidding as opposed to the use of local agents' associations or individual agents or brokers. Only ten percent are restricted as to the kind of insurance company from which coverage can be purchased; almost all of these are restricted from securing coverage from a mutual company. Most of the restrictions are city ordinances, not state laws.

In practice, although only a small percentage have such legal restrictions, the large majority of municipalities insure only with stock insurers and competitive bidding is the most-used method of placing insurance. Roughly, fifty percent of those responding use competitive bidding to place fire insurance, vehicle damage insurance, and vandalism and malicious mischief insurance. A slightly lower percent place burglary and theft insurance and fidelity bonds by competitive bidding procedures and a slightly higher percent place general and motor vehicle liability insurance in this manner. Of those who purchase private workmen's compensation insurance, two-thirds use competitive bidding. The type of competitive bidding, however, was not specified in any of the cases.[13]

Roughly, one-third of the cities responding place fire, vehicle damage, burglary and theft, and vandalism and malicious mischief insurance through local agents' associations. A slightly lower percentage place general and motor vehicle liability insurance in this way, and only one-fifth place workmen's compensation in this manner. Only about one-sixth place all policies through individual agents or brokers, except for theft and dishonesty insurance and workmen's compensation insurance. For these types, individual agents are used more frequently.

The Collection of Loss Statistics. Some of the most important data which should be collected and summarized by municipalities in order to lower insurance costs and help loss prevention efforts are loss experience statistics. Three-fourths of the municipalities surveyed collect loss statistics for employee injuries, but less than two-thirds collect and summarize claims paid to the public. Only about half keep loss statistics on court judgments against the city or on property destroyed or stolen. There is little variation by population, except that the proportion collecting and summarizing loss statistics in general is slightly higher for the larger cities (100,000-400,000).

There are no uniform practices as to where such records are kept. Usually the finance department or the insurance company are the most likely places to find such records. However, in a small municipality, the city clerk's office or agent's office might be the place to look. Statistics on court judgments and claims paid are more likely to be found in the legal department. A couple of the large cities also keep employee injury records in the legal department. It matters not so much where such statistics are kept as their ready availability to the risk manager and their accuracy.

General Conclusions

The typical municipality currently does not treat risk management as a separate function of municipal government, as does the large well-managed business corporation, yet the need for doing so is at least as great in the former case. This need for conserving the present assets in order to guarantee that budget plans will be attainable is heightened by (1) the increasing cost of physical assets needed to provide an expanding prosperous population with the goods and services it requires, (2) the increasing social obligation to provide continuity of service and to be financially responsible for injuries caused others, and (3) the limited resources of

[13] For a good discussion of types of competitive bidding procedures used by municipalities, their relative advantages and disadvantages, see C. Arthur Williams, Jr., "Competitive Bidding and Municipal Property and Liability Insurance," *The Journal of Insurance*, September, 1963, pp. 345-362.

individuals with vested interests from which new capital must be generated.

That municipalities are not utilizing effective risk management techniques is illustrated by the following: (1) 78 percent of municipalities surveyed have no written policy statements concerning insurance matters, and of those that do, the statements are far from comprehensive; (2) in almost half the municipalities surveyed, either the city council or city manager (or mayor) alone determines city policy on insurance practices; (3) only nine of 158 municipalities surveyed indicated having an "insurance manager"; (4) only about half collect loss statistics for property losses or liability judgments; and (5) large numbers of municipal officials are unaware of the extent of their exposure to liability.

It is undesirable for a municipality to be unable to provide its public with the goods and services which it requires because of unplanned-for losses to assets. Thus, financial budgets must be stabilized in order to secure the ability to perform public services. Avoidance of unplanned-for catastrophic losses is the single most important objective of municipal risk management.

Much additional research into the problems of municipal risk management is needed to help officials perform this function effectively. Accounting practices in many municipalities are in great need of revision before risks can be identified and measured effectively. More cost data is needed, especially replacement costs, to make present statements useful for risk management purposes. There is a need for additional study of the municipal liability exposure to clarify the confusion created by existing laws, both common and statute. In addition, municipalities, in states still granting governmental immunity to municipalities for their torts, want to know to what extent they can rely on that immunity, especially when it has not recently been tested.

Other possible methods for controlling municipal property and liability exposures should be explored by state municipal leagues and municipal finance officers associations. If sophisticated methods can be derived for allocating costs, for example, perhaps all the municipalities in a metropolitan area could coordinate their risk management programs so that self-insurance plans and blanket insurance plans become more practical and economical and the experiences gained by one are shared by all. Furthermore, the prospect of school districts, county governments, municipal and county hospitals, and other semi-independent agencies working with municipal governments to solve common risk management problems should be investigated.

This study is not intended as a reference to all municipal risk management problems, but rather as a stimulant, introducing some of the problems with some suggested approaches to solving them based on the evolving concepts and techniques of risk management, inviting future researchers to uncover and provide solutions for the more intricate difficulties involved. An effective program requires the combined efforts and study of individuals, groups, and organizations both within and outside of municipal government.