

POOL ORIENTATION VIA KEY PERFORMANCE INDICATORS



Michelle Carter, National Communication and Initiatives Leader



From staff to top pool executives to longtime board members, a generation of pooling talent is moving on. In many instances, novices are filling their shoes. New board members in particular may have had limited exposure to pooling, risk management and financial statements. Yet they've become responsible for setting and monitoring the strategic and financial direction of a pool.

These members will need an orientation to key areas of pool performance. This can be achieved in part, of course, through training and education, developmental assignments, dissemination of archival materials to board members, etc. But use of a key performance indicator (KPI) system can help quickly orient new board members to some of the things that really matter to the pool—and should matter to them as part of pool leadership.

Specific indicators are discussed below by functional area (governance, membership, finance, etc.). The measures we present were chosen because of their broad utility and applicability, and because they're likely to be understood by even a brand-new board member still learning the ropes. However, if you use any of these suggested metrics, be sure to consider factors unique to your pool (e.g., regulatory environment, whether or not your pool provides dividends, etc.) Additionally, please note that this is a “quick and dirty” summation designed to get you thinking about useful KPIs, particularly in the context of new board member orientation. It tends toward the general and is not exhaustive.

GOVERNANCE

Effective governance can sometimes be hard to gauge quantitatively. Still, it's an important standard to establish and maintain. You might consider threshold, full and exceptional performance levels against which to measure each director and your board as a whole. (BoardSource has a great example to get you started.) Categories you could measure include the following.

- **Board composition:** Here you can measure categories like overall board diversity; functional competencies of directors; duration of known vacancies and substantive gaps (whether related to diversity or functional competency); director retention; and number, structure and composition of board committees.
- **Director comprehension:** In order to best serve your pool, directors should be well-versed in the basics, including your pool's mission, vision, programs, financials and membership. A clear understanding of insurance basics, policies and processes of the board, the current strategic plan, and fiduciary responsibility is also essential.
- **Interpersonal effectiveness:** Directors should clearly know and respect not only each other, but also the roles and responsibilities of directors-at-large, board officers, the executive director and staff. Effective and highly functional meetings should be the norm.

MEMBERSHIP

Membership KPIs fall into four broad categories: who is staying, who is joining, how they are interacting and how happy they are. Discussion of some specific measures follow.

- **Renewal or retention rate:** This is the percent of members who stay with the pool year over year. Reporting on this metric is important in its own right, but it may also provide an opportunity to tell new directors that most pools enjoy very high retention rates because they are member-focused and mission-driven.
- **New members:** This number is just a simple count of how many members your pool has added over a specified time period (typically a year). Keep in mind, though, that if 98% of eligible members have already joined, your new member count probably isn't going to be impressive to fresh directors. So consider reporting on your market penetration rate over time instead, or in addition.

- **Engagement:** There are myriad ways to track overall member engagement. Pick the measures that will be most meaningful for your pool and illustrative for new directors. Potential metrics include but are not limited to the following.

- » Number and frequency of contacts (phone, email, in-person) with the pool
- » Number of service requests and members served
- » Loss control program utilization/attendance
- » Annual membership meeting attendance
- » Participation in satisfaction surveys
- » Online education usage
- » Website page views
- » Email open and click-through rates
- » Landing page conversion rate
- » Social media interactions

- **Satisfaction:** You should be able to quantify how satisfied members are with their interactions with staff, pool programs and services, the overall performance of the pool—really, any area in which member opinion matters. A simple way to do this is with standard Likert scale survey questions—"Strongly agree," "Agree," etc.—on specific areas of interest. Another commonly used option is what's known as the net promoter score (NPS). NPS questions take the form of "How likely are you to recommend X to a colleague?", where X could be the pool generally, a specific pool program or service, etc. The response is given on a 0-10 scale, from "not at all likely" to "extremely likely." A participant's willingness to recommend is directly and strongly correlated to their satisfaction.

However you compile them, satisfaction measures are a great way to help new members understand what's important to the pool and see how the pool is faring in these areas.

-
- ◆ However you compile them, satisfaction measures are a great way to help new members understand what's important to the pool and see how the pool is faring in these areas.
-

FINANCE

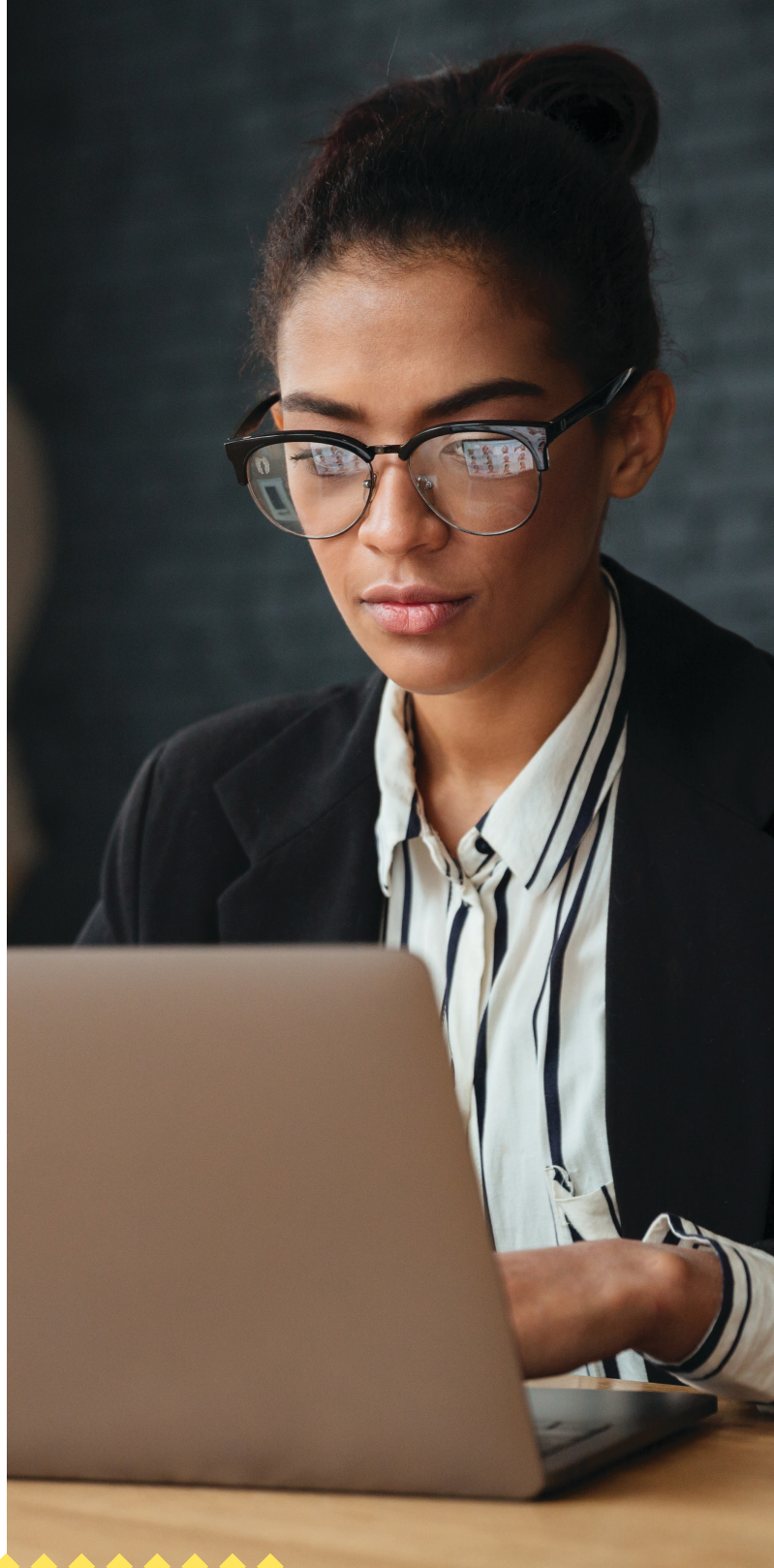
A pool must be financially viable to be successful. Here, we offer three metrics that even the greenest board member—with little understanding of finance or pooling—could readily interpret.

- **Change in net position:** This is the annual increase or decrease in your pool's assets vs. its liabilities. Whatever the change, be sure you can easily and clearly explain what caused it and whether the change tracks with the pool's goals.
- **Combined ratio:** This can be rudimentarily understood as costs in comparison with revenue. It is calculated by taking the sum of incurred losses and expenses, dividing by earned contributions, then (typically) expressing the result as a percentage. A ratio above 100 may indicate that the pool is operating at a loss.
- **Surplus level:** Appropriate surplus levels vary from pool to pool, and the right amount will fluctuate over time at the same organization. (Consult with your actuary to set an appropriate target for your pool.) In all cases, though, surplus levels provide some indication of a pool's ability to sustain a large, unexpected loss—maybe even that thousand-year event.

CLAIMS

Two simple claims performance metrics to help educate the newly initiated and measure the pool's performance are loss ratio and overall claims costs:

- **Loss ratio:** This is a measure of profitability calculated by taking the sum of incurred losses and dividing by earned contributions, then expressing the result as a percentage. Unlike the combined ratio, the loss ratio includes only claims incurred and no other expenses. Most pools establish a target or expected loss ratio that they strive to operate at or near.
- **Overall claims costs:** This includes actual dollar amounts paid, average time to settle (longer usually means more expensive) and administrative overhead. It is generally understood that the lower the costs, the better the pool is performing.



UNDERWRITING

A pool must be financially viable to be successful. Here, we offer three metrics that even the greenest board member—with little understanding of finance or pooling—could readily interpret.

- **Efficiency:** In traditional insurance, this metric is about how quickly an underwriter can turn a quote into a signed policy with the insured. It's measured in number of days. While you can certainly use this metric, you could also determine how to measure overall efficiency during your pool's renewal season. Possible KPIs include renewals processed per day or FTE hours required per policy renewed.
- **Accuracy:** Inaccurate underwriting can be costly to your pool and impact member relationships. Your loss ratio and cost per claim can be used to convey underwriting accuracy to your board—if policies are being written at the correct threshold (and there are no thousand-year events), losses and claims should be as expected.
- **Competitiveness:** It's true that pools generally enjoy strong member loyalty. But sometimes even loyalty can't overcome a low price tag from a competitor. Recognizing this, you should consistently be evaluating your pool's rates in comparison with the market. Be sure to explain to your board members—especially new ones—the reason for any ongoing disparities.

HUMAN RESOURCES

Staffing is a vital resource for effective operations. It's the job of the pool's top executive to handle staffing and workforce performance as an operational matter without input from the board. However, while day-to-day HR and management are not in a director's purview, a general awareness of overall staffing can be informative. To that end, here are some simple, useful measures.

- **Average tenure:** This retention metric is often viewed as a measure of employee satisfaction. Satisfied employees generally produce better work. Plus, a high retention rate spares your pool the expense of frequently hiring and training new talent.
- **Average age:** This metric is straightforward (simply average the age of all employees), but particularly important for any pool developing a strategic workforce plan. Which departments and competencies will experience the most turnover in the near future, and how can your pool promote, recruit or restructure to mitigate those losses?
- **Diversity rate:** Keep track of how successfully your pool creates an environment that fosters an open and accepting community. Diversity is especially important to pay attention to as incoming workforce demographics change. Your pool may miss out on abundantly qualified candidates (for both staff and board vacancies) if your culture appears unwelcoming.

ADMINISTRATION

Finally, any and all the previously referenced KPIs can be used collectively to evaluate the overall quality of administration regardless of staffing structure (fully in-house or outsourced, or some combination thereof). Pool boards can also measure operating expense—the percentage of income being used to pay for operating and administrative expenses—to evaluate administrative efficiency.



Let's Connect

RPAdmin.com

info@RPAdmin.com

