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Executive Summary

Enduris is a government entity pool which was formed in 1987 to provide property and liability coverage through risk-sharing for its member entities. Since then, it has grown from under 100 to over 500 members. Most members are small with limited risk management resources and often rely on Enduris for claims and risk related services.

Mr. Bowlus has served as the pool's property and casualty claims auditor since 1998. Our contacts during the audit were Sheryl Brandt - Executive Director and Susan Looker – Claims Manager.

A review of 30 files (23 open files, 7 closed files) was conducted at the Enduris office from June 24 - 26, 2019. The principal focus was to examine files with large exposures. Included were 29 files which included 52 "suffixes" (individual claims) and one file with over 200 suffixes. A representative sample from the membership and coverage groups was selected. Most of the files requiring reporting to the excess insurer were examined.

The total incurred value on the files examined was \$9,209,960, or an average of \$307,000 per file. As with previous audits, we focused on files with larger incurred values. Only six of the files had incurred values of under \$25,000. The total incurred values of the files seen in 2018 was \$4,834,657, or an average of \$167,000 per file. Most of this increase was associated with one auto liability file with a total incurred value of over \$4.2 million.

The audit conformed to Enduris' Administrative Policy document, which requires:

2.1 The audit review will include, at a minimum, an evaluation of:

- 2.1.1 Claims handling performed in a timely and efficient manner
- 2.1.2 Communication with Enduris, members, and claimants by the claims administrator
- 2.1.3 Condition of Enduris' claims handling and reserving practices
- 2.1.4 Case reserving practices
- 2.1.5 Loss experience reports accurately reflect case reserves and payments
- 2.1.6 Member satisfaction with claims handling

All these factors were included in this year's audit. Communication and collaboration with the members is good. This has been achieved while taking a firmer stance on claims where coverage might be questionable, such as on maintenance issues associated with property claims. The claims management system continues to operate well and enhancements are ongoing. The audit concludes that Enduris is meeting best practices for public sector claims and litigation management.

Recommendations made in 2018 include:

1. Do a cost-benefit analysis on fees paid to Evergreen Adjusting Company for activities that can be handled in-house versus another adjuster salary, taking into account the fact that existing caseloads are already high.

Accomplished

2. Consider the possibility of specific loss prevention efforts, perhaps defensive driver training, for fire departments.

Under consideration

Recommendations in this report:

1. Create a section within Origami that captures copies of all communication with excess carriers.

2. The methodology related to tracking recoveries in Origami is still complex and hard to follow and can be improved.
3. Claims Manager level review should occur on all losses that exceed a specific incurred value (\$25,000).
4. Enduris may want to consider the occasional assignment on large property losses to a firm other than Evergreen Adjustment Services.

Review Scope

Claim audit worksheets (Section 3) were prepared for each of the 30 files examined. Files were reviewed for timeliness and completeness of investigation including: communication with pool management, members and claimants; control over vendors; reserve development including accurate reporting on case reserves and payments; reporting to reinsurers and excess insurers; litigation management; risk transfer evaluation; deductible collection; salvage management; subrogation collection; and coverage evaluation. Some salient statistics are tracked below.

A. Statistical Findings

1. Incurred Value Summary

The files examined over the past five years can be sorted into bands, with aggregated value on all suffixes in a file as follows:

	2015	2016	2017	2018	2019
0 - \$24,999	11	9	6	4	6
\$25,000 - \$49,999	4	5	3	4	5
\$50,000 - \$99,999	5	4	5	10	5
\$100,000 - \$249,000	3	5	9	7	7
\$250,000 - \$999,999	3	2	3	3	6
\$1,000,000 and over	1	0	0	1	1
	27	27	26	29	30

The total incurred and average values for all files examined over the past five years are summarized below ("incurred" meaning the amount paid plus the amount of money that has been estimated will be paid, or "reserved"). As in prior years, the value of these files is much higher than that seen in an average Enduris file because the audit focused on higher than average value claims, those that present the most serious exposure to the pool.

Audit Year	2015	2016	2017	2018	2019
Files Audited	27	27	26	29	30
Incurred Value	\$3,510,846	\$3,275,984	\$3,290,774	\$4,834,657	\$9,209,960
Average	\$130,000	\$121,000	\$127,000	\$167,000	\$307,000

In this year's sample, the total primary incurred value for all files examined was \$9,209,960, or approximately \$307,000 per file. We included amounts eventually recovered from excess, so all figures are "ground up". This year's total almost doubled the 2018 value and is related to one file with multiple serious injuries involved. The total incurred value and the average incurred value on files examined this year was significantly higher than over the past four years. We focused on tracking developments on the problem files seen last year, and most of those were high value claims. Larger, more complex files remain the focus of the audit since 2015.

2. Claims History

Annual counts on closed files continue to increase. This was factored into Enduris' recent decision to increase internal claims staffing.

Year	2015	2016	2017	2018
Closed Count	189	238	284	336

3. Entity Type

Entity Type	File Count	Total Incurred	Average Incurred
Fire District	8	\$1,958,603	\$245,000
Health District	7	\$1,054,088	\$151,000
Irrigation	2	\$90,496	\$45,000
Port	8	\$1,908,337	\$239,000
Special District	3	\$49,308	\$16,000
Water & Sewer	2	\$6,045	\$6,000
	30	\$4,834,657	\$167,000

Fire districts continue to lead in average severity and match ports in terms of the number of files reviewed. The average incurred may moderate going forward unless there is another multi-party claim in the future. Port claims continue to represent a frequently audited member type and are generating claims across all coverage classes. If one were to look at suffix counts, health districts would far outpace any other member type due to the 200+ individual claims associated with one occurrence on a “bad building” lawsuit.

4. Loss Type

Coverage Type	File Count	Total Incurred	Average Incurred
Automobile Liability	7	\$5,367,838	\$767,000
Automobile Property Damage	4	\$436,172	\$109,000
Employment Practices	5	\$617,407	\$123,000
General Liability	9	\$491,434	\$55,000
Property	6	\$2,176,466	\$242,000
	31*	\$9,209,960	\$307,000

*File 119-085 has both APD and AL suffixes

Automobile Liability

File 116-052 involves a fire engine which made an ill-advised entry onto US 101, cutting off a van, which then hit the engine. There were seven passengers inside. Reserves on the seven BI claims were approximately \$1.1 million a year ago. Over the past few months, additional medical information was received, and counsel’s discussions with member employees revealed facts which eliminated any possibility of comparative negligence on the part of the other driver; in fact, some of the facts would not have played well in front of a jury. These developments led to a decision to resolve all seven claims, eventually at a total of \$4,040,000.

Employment Practices Liability

Litigated Employment Practices Liability (EPL) files examined since 2015 have trended as follows:

<u>Year</u>	<u>Count</u>	<u>Average</u>
2015	7	\$53,000
2016	4	\$40,000
2017	4	\$73,000
2018	6	\$78,000
2019	5	\$123,000

The average incurred value on EPL cases reviewed this year has increased to \$123,000. The sample size is small and so one claim can skew average results. File 117-140 presents some challenges for the defense in association with interactive process issues, which is a common pitfall in employment litigation. This is the only EPL file reviewed that presents significant exposure. Pending discovery should enable Enduris to refine the existing reserves on the case.

Incidents which could become future EPL claims continue to get a high level of attention. Enduris keeps track of all EPL incidents that are reported by members where there is some level of pre-litigation activity coordinated and paid for on their behalf which is focused on reducing or eliminating exposure to a lawsuit. This activity over the past five years is summarized below. Incident counts are based on the year in which the matter was reported.

Member Type	2014-15	2015-16	2016-17	2017-18	2018-19	Five Years
Port	11	8	11	6	8	44
Fire/EMT	17	27	17	14	17	92
Other	55	39	51	24	47	216
Total	49	83	74	64	72	342

Out of all member types, first-responders (fire and EMT) generate the highest number of EPL incidents. Over the past five years, they represent 27% of the activity. This percentage has been consistent over time. Ports (13%) represent another frequent source of incidents. EPL incidents at Health Care Districts appear to be on the rise. We noted 13 of these in the last fiscal year (five associated with the same member).

The pre-litigation fund creates a highly effective method of allowing the pool to initiate early investigations or begin management of an incident before a claim is filed. Members are encouraged to get the pool involved in employment matters where it is possible that there could be an eventual claim. With so many members being small, often without the risk management acumen needed to evaluate such matters, the ability to access resources that allow risk management specialists and attorneys to help avoid costly mistakes is invaluable. This is a true benefit of being a pool member.

The pre-litigation fund was historically budgeted at \$120,000 per year. In previous audits, we recommended adding staff to supplement Ms. Brandt, who had been the only staff member involved in managing the program. This was accounting for over 20% of her time in the office, compromising her availability to serve as the then Chief Risk Officer, a position that was inclusive of claims management duties. This has been accomplished.

Enduris has added attorney Kelly Allen to staff on a part-time basis. Kelly has a strong background in tort litigation, including handling EPL claims for Enduris in the past when with outside counsel. He is now an internal resource for Enduris and its members. This frees up time for the claims team to focus on adjusting losses and defrays outside expenses associated with pre-litigation assignments to outside counsel. The budget for pre-defense files has therefore been reduced to \$98,000.

General Liability

The loss experience associated with general liability claims reviewed this year (\$55,000) is in line with the last few years. There do not appear to be any GL claims presenting significant exposure. Only two open files present any potential excess exposure. The first (118-005) is a “bad building” lawsuit in which over 200 claimants are alleging exposure to toxic chemicals. As anticipated last year, the member was dismissed from the suit, but plaintiffs have appealed. It is likely that the member will prevail on the appeal, but legal reserves will need to be adjusted. Another serious loss with minimal exposure is (117-062) also involves a successful dismissal which is under appeal. Unfortunately, many judges like to give plaintiffs every change to have their day in court. In both cases, the resulting defense costs will exceed \$100,000.

Property

The average value on the six (6) property claims examined this year was \$242,000, up from \$198,000 last year and \$156,000 in 2017. Four of the files examined have incurred values in excess of \$250,000. Continuing improvement in audit comments relative to property claims is evident this year. We did not see any new instances of gratuitous coverage decisions and attention to validating losses is improved dramatically since 2017. We continue to recommend that Enduris look into retaining another outside adjusting company to assist with very large property losses. Evergreen Adjustment has historically been used for this purpose. While there performance is generally satisfactory, there have been a few reporting lapses, and creating competition among vendors usually helps insure attention to detail and quality of work.

B. Staffing Issues

In many of our prior audit reports we suggested that Enduris consider a cost-benefit analysis associated with adding to its claims staff. Last year, Evergreen was paid over \$350,000 to do field work on large property claims, to do some investigations on general and automobile liability claims and to fully manage to conclusion a number of files. We pointed out potential savings of over \$40,000 on just 16 files. Enduris decided to increase claims department staffing, for two principal reasons.

First, Ms. Brandt who was serving as the Chief Risk Officer, inclusive of claims management and pre-litigation management, assumed the position of Executive Director. This created a void at the most senior level. Second, it was recognized that additions to the existing staff structure made good operational and economic sense.

Susan Looker was recruited from the Washington Counties Insurance Pool to take over as Claims Manager. Susan brings over 16 years of claims management experience to Enduris. She is a general and automobile liability specialist but has also monitored property claims. Susan carries a personal caseload of about 35 large files. Other adjusters were added to provide the in-house staffing needed to effectuate better control over loss adjustments and defray outside costs.

Carrie Miller was added as a Claims Analyst to manage mid-sized losses, and at least initially, oversaw files which had been assigned to Evergreen during a transitional period addressed in last year's audit. The number of files being assigned to Evergreen is declining. Carrie has authority of up to \$75,000 to settle a claim but is usually in close communication with Susan on what is occurring in most of her files (more on that later). Her open caseload at the time of the audit was 56 files.

In recognition of the size and spread of the membership, Lisa McKeekin was also just added as a Claims Analyst with principal responsibility for claims occurring in the western part of the state. Lisa had an opening caseload of 29 files at the time of the audit.

Kathy Johns, Claims Associate, continues to handle smaller property damage claims and support other claims staff as needed on file creation, monitoring of diary and other tasks as needed. Her caseload included 26 files. Kim Lewis is another Claims Associate who assists in a similar capacity on automobile property damage claims and was involved in 19 of these at the time of the audit.

As addressed earlier, attorney Kelly Allen was hired in March of 2019 on a part-time basis to act as the principal resource in running the pre-litigation program and help with associated questions that come in from members.

This structure is much more logical than that which existed a year ago at Enduris. As will be addressed in the Supervision and Conclusion caption, our early assessment is that this has resulted in significant improvement in the overall performance of the claims process there.

C. Reserving

Reserving (projecting the ultimate future costs of investigating, settling and/or defending) was usually appropriate. Historically, about 15-20% of the files reviewed showed significant reserve year over year increases. This year's percentage (10%) was slightly lower.

Only three of the files examined had significant injury reserve increases since last year. The EPL case mentioned earlier more than doubled in value after recognition of problems with member employment termination processes. A closed fire department claim (115-205) saw a \$290,000 increase, and the multiple injury fire department case (116-052) increased by over \$3,000,000. These increases were generated when the extent of the injuries in the claimant's vehicles became clear through legal discovery. Two files (117-062 and 118-005) need moderate expense reserve increases.

The addition of a seasoned Claims Manager with ample time to review the files and make settlement recommendations was seminal in these reserve increases and settlements. Her addition should accelerate the recognition of the value of serious injuries and expedite posting of large reserves going forward. The combination of a seasoned Claims Manager and an Executive Director with deep claims experience should insure this.

D. Investigation/Contact/File Control

There are several files which incepted several years ago where investigations should have been much more extensive. Principal among these is 116-052, where an aggressive investigation early on would almost certainly have revealed the facts that led to a decision to move all the open injury files towards conclusion and would have resulted in more realistic reserves earlier on. Of course, one of the reasons for claims staff increases was to improve on this, which is occurring.

More recent files show this improvement. Some examples are seen in files 119-063, 119-096 and 119-154. File 119-195 could use more investigation concerning the claimant's reason for being at the member location on the date of loss as there is other coverage which might come into play based on her reason for being there. Early contact with the members and claimants is seen in almost all files. Efforts to maintain "control" over claimants is also evident in the files. Overall, through either internal efforts or management of those files still handled to some extent by Evergreen, performance in these areas is good.

E. Communications with Excess/Reinsurers

There are no existing files where late or under-reporting to excess or reinsurance is an issue. Reporting on all large files appears to be in order. The retention on Auto Physical Damage is \$100,000, on Property is \$250,000 and on casualty is \$1,000,000. Reporting should be triggered when the primary incurred values exceed half of the retention (or, in the case of casualty files, when certain reportable classes like death and paraplegia are involved, regardless of reserves). Communication with excess carriers on both property and casualty files are good. A recommendation here is that Enduris **create a section within Origami that captures copies of all communication with excess carriers**. All the notes and documentation in files is now in soft copy, and the coding that puts notes and documents in buckets is not yet specific to this purpose. It can be hard to find communication specific to this issue in the files under the current format.

Property/Auto Physical Damage

File 117-059 was addressed last year. As feared, the responsible party has no insurance and recovery is doubtful. The excess carrier was kept notified of developments. This file should probably be closed, as even with a legal finding, there is already an outstanding judgement of \$200,000 against Costal. File 117-110 includes some recent supplemental damages, which were immediately conveyed to excess when received.

File 117-110 has an outstanding recovery request to excess in the amount of \$45,117. This needs follow-up. File 118-020 involved a fire engine which sustained over \$250,000 in damages. Excess was kept well advised as was the case with file 118-046 involving property damage to a building.

File 119-096 was late reported by the member, but Enduris put excess on notice relatively early on. Issues around water damage that may have occurred while the roof of the property sat in a damaged condition need clarification, as the carrier appears to have some concerns about the member's potential failure to protect the property. The member appears to be relying on the US Government to take care of the damage, but they may eventually have the same questions around this issue.

General Liability

The highest incurred loss involving excess (\$4,217,827) is found in file 116-052. This file was addressed last year, with several areas needing further attention. At that time, the incurred value was about \$1,250,000. Excess has been on notice since early in the life of the file. After Susan Looker assumed file handling in February of this

year. About that time the significance of the injuries became known and the liability situation better assessed, reserves were raised significantly with the reinsurer advised. They agreed with Enduris' settlement strategy and were engaged with and agreed to the evaluations. The EPL claim (117-140) has been sent to reinsurance on a precautionary basis. It is unlikely to exceed Enduris' retention, but notification was prudent.

The horrific claim where a wheelchair bound MS sufferer burned to death (117-062) continues to look like one which does not present liability. A claim involving a health department and an alleged misdiagnosis of tuberculosis was won in law and motion, went up on appeal, which the member won. More legal pleadings have materialized, but the member should continue to prevail. Reinsurance is being kept advised. File 118-005 is a "bad-building" claim where 89 separate plaintiffs had alleged bodily injury from exposure to toxic fumes when the file was reviewed last year (multiple policy years would potentially be involved). More claimants have joined the lawsuit (over 200 by now) but it remains probable that the member will get out of this case on a summary motion. There is a reservation of rights letter from GEM (the carrier), and some questions about which policy would respond should there ever be an award in excess of Enduris' limits.

F. Litigation Management

Litigation management is generally good. A total of 10 files examined included some level of attorney involvement. Standardized reporting formats are used, insuring consistency in reporting. In most cases, attorney reporting is on a good diary. A finite number of attorneys are used, generally with certain firms used for specific types of litigation like employment practices. Legal fees appear to be under control, and there is good evidence of communication between Ms. Looker and counsel in the files. Relationships with the firms are all long term. Consideration is being given to involving additional firms with which Ms. Looker has had good success in the past. This is prudent, as competition does tend to keep law firms aggressive and on budget.

G. Settlement/Case Resolution

All the settlements reviewed were in good order. Some of the settlements on the fire truck versus party bus claim were of high value, but all appear to be realistic based on the injuries and liability situation. The settlement on EPL claim 118-075 was excellent. In the past, Enduris tended to pay for what often appeared to be maintenance related issues on some property claims. As is evidenced in file 119-069, harder questions are being asked now. In this instance, the member's assertion that lightning was the cause for a pump failure has been thoroughly investigated and seems unfounded.

H. Coverage/Contractual Issues

As was seen in the last audit, instances of questionable coverage decisions remain down significantly from prior years.

As noted in the Excess caption, file 118-005 has generated a reservation of rights from various insurers who provide coverage for Pollution Liability. The policy provides coverage for indoor environmental conditions, which is what is described in the complaint; however, the building involved is not on the schedule of insurance. A file has been set up under Enduris' general liability policy in consideration of allegations that the member failed to do proper inspections to rule out the possibility of a toxic condition. Enduris has also issued a reservation of rights to the member based on the schedule of insurance issue. Other files where coverage and contractual issues were noted and are being handled appropriately include 119-069, 119-085, 119-096, 119-164 and 119-195.

I. Deductibles/Subrogation/Salvage/Recovery

File 117-059 noted in the Excess caption involved total payments of over \$321,000. Recovery efforts, including retention of counsel, have been tried but are unlikely to succeed. As noted earlier, there was still over a \$47,000 recovery from excess pending on 117-110, but the file clearly documents Enduris' efforts to get this resolved.

File 117-238 involves a clear case of liability against an insured third party. The incident occurred almost two years ago. There was a payment made based on Evergreen's review of repair estimates, but the member decided that they did not need everything on the bid, thus there was a \$6,000 overpayment. This claim was eventually resolved with a net loss of \$47,368; however, State Farm, the insurer for the driver came up with their own repair value of \$4,432. It is not clear how our value could possibly be ten times larger than theirs. Either the loss was overpaid, or Farmers Insurance Company is wildly low on their estimate. This needs to be resolved.

Overall, pursuit of subrogation, consideration for and disposal of salvage and deductible recovery is well managed.

J. Claims Management Information System

MicroNiche was replaced with Origami over a year ago. This was a significant upgrade. "Hard files" have gone away. Data conversions and then learning a new system can be challenging, but Enduris has done a good job in both areas.

It is easy to find supervisor notes, emails are all captured, and folders have been created to track documentation. While documents are being named based on consistent protocols ("attorney report", "adjuster report", etc.) it can still be challenging for someone who is not familiar with a file to find a specific document when the file is large (there can be hundreds of documents and emails in a large file). In consideration of the importance of specific communications with excess and reinsurers on what are typically large files, we have suggested creating a folder to track this.

The financial screens are logical, and it is possible to aggregate all the financials on files where there are multiple suffixes. The allocation of legal costs in multiple suffix cases is usually focused on the first suffix rather than being prorated. This is fine if the approach is consistent. As was addressed last year, **the methodology related to tracking recoveries is still complex and hard to follow and can be improved.** Enduris' claims and accounting departments are collaborating on creating a cleaner solution for this.

Origami has resulted in a "paperless environment". None of the newer files set up since its implementation include hard copy documents.

K. Client Satisfaction Survey

The most recent member satisfaction survey undertaken by Enduris was reviewed. The "excellent to good" ratings were at 93%. In last year's report it was noted that the number of "excellent" responses had dropped by 20%. There was a 14% increase in that category in this year's report. There are references to some lingering discontent associated with prior staff who are now gone, but the overall tone of the report is highly positive.

L. Management

When we did the audit last year we indicated that Ms. Brandt and Ms. Miller were both at capacity, which is why Evergreen was being used for tasks which could have been handled in-house. Evergreen had also been given some access to Origami. While probably necessary, outside access to Enduris' claims data was not an optimal solution. This capacity problem was exacerbated when Ms. Brandt was selected to move up into the Executive Director position. Fortunately, Enduris was able to find a very competent replacement to manage its claims.

Ms. Looker's addition has yielded positive results. Her involvement in files is well documented, including file notes, suggestions and instructions given to the adjusters. There were some exceptions on files handled by Ms. Miller. On some of the files where Ms. Miller is supervising the activities on what amounts to an outsourced file, there is no input from Ms. Looker (i.e., why do we need two layers of supervision). While we agree with this in the instance of small files, we believe that **Claims Manager level review should still occur on all losses that exceed a specific incurred value** (we recommend something in the \$25,000 - \$50,000 range).

There is staff experienced in handling the day to day APD and small property claims, which should only need her input if complications arise. There is an elegant solution in effect for the pre-litigation files through the addition of a part time attorney. There are now two claims analysts capable of handling the mid-level files on both sides of the state. Evergreen no longer has access to the Enduris claims system, reducing any supervisory concerns there. In conclusion, staffing levels have been increased to the point where Ms. Looker should have the time to handle her own moderate caseload of large files and still actively supervise the balance of the claims operation.

Ms. Looker is not a property expert. Large property losses will still need substantial input from Executive General Adjuster level vendor partners, principally Evergreen Adjustment Services. As with legal counsel, there are positive aspects to using more than one vendor, and **Enduris may want to consider the occasional assignment on large property losses to another firm.**

Ms. Brandt, while available to collaborate if needed, is essentially no longer a part of the day to day claims operations; however, is quite a bonus to have an Executive Director with deep claims experience. This is especially true when coverage issues arise, or when a member takes issue with the way a claim is being managed.

M. Heat Map Analysis

The audit report includes a "heat map" providing a visual summary of audit results, indicating where there is room for improvement (a yellow cell), where significant improvement is needed (an orange cell) or an area where the entity is doing particularly well (a green cell). No color indicates that the entity is meeting industry standards. Last year, there was a great deal of activity on the heat map. The coverage section showed too many instances where file handling should have been of higher quality. There was also a concentration of problems associated with property and APD claims. This year, the results are significantly improved.

N. Summary

A combination of deterioration in adjuster level claims handling and an antiquated claims management software package led to significant negative findings in the 2017 audit report. A new software package was put in place in 2018, along with several procedural improvements. Things were trending in the right direction, but the capacity of claims staff to handle files internally was still an issue.

All the claims file capacity issued that existed a year ago have been dealt with. In consideration of readjusted caseloads, the claims manager now actually has time to supervise files. The pre-defense program has been bolstered and largely taken off of the claims manager's plate. The claims management system continues to be improved. The only mega-claim that was on the books is on the verge of conclusion. In summary, the claims operation at Enduris is now operating at a best practices level. The suggestions made in this report are intended to further the positive trends seen over the past 12 months.

Thank you for allowing me to continue to act as your claims auditor. Should you have any questions or comments regarding this report or the enclosures, please contact me.

Sincerely,



Craig Bowlus, ARM
Managing Director | Risk Pooling
Aon Risk Services