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**Board of Trustees Meeting March 20, 2023**  
**Action Item**  
**Rate review for the July 1, 2023-2024 policy year**  
**NJSIG No. 0323-01**

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Each year NJSIG's actuary, Willis Towers Watson (WTW), evaluates the member contributions necessary to cover NJSIG's retained risk on specified lines of coverage, i.e., NJSIG's self-insured retention ("SIR"), or the portion of risk that NJSIG holds in-house. WTW indicates the range of contributions they recommend NJSIG should collect from members so as cover the self-insured retention on the specified coverages. The coverage extended to members beyond this self-insured retention risk is covered by excess or reinsurance that NJSIG purchases in the commercial market.

In determining the appropriate level of member contributions in the 2023/2024 policy year, within the WTW range for NJSIG's SIR, I believe it is important to consider the cost of the SIR to the membership in conjunction with the cost of excess and reinsurance. As we discussed during the January 2023 meeting, as an organization we are facing two primary issues during this renewal: 1) a fourth consecutive year of double digit rate increases on the property coverage due to widespread hardening of the property excess/reinsurance market; and 2) a second consecutive year of hardening of the professional and casualty market driven by legislative changes and catastrophic losses.

More specifically, based on what we know from the property reinsurers to date, we can anticipate a 45.00% increase on the property reinsurance. The cost of reinsurance forms approximately 76.37% of our overall blended property rate. The other approximately 23.63% of our blended property rate comes from NJSIG's self-insured retention.

Following our January 2023 Board meeting, we met with our excess/reinsurance providers on the general liability and auto liability lines. The excess reinsurers for these lines indicate an 8.15% increase. They are attributing these increases to member experience, the continued erosion of tort claims protections for public entities and

continued concern regarding legislation that amended the Tort Claims Act with regard to sexual assault claims. Reinsurance forms approximately 26.34% of our overall blended general liability rate. Reinsurance forms approximately 52.64% of our overall blended auto liability rate. Finally, our workers' compensation reinsurer has also indicated an anticipated increase of 5.03%, although reinsurance cost makes up a much smaller portion of the overall blended workers' compensation rate (approximately 2.67%).

We are once again considering retaining additional risk on the errors and omissions fund. For the last several years we have considered retaining the first \$1,000,000 in risk rather than obtaining insurance to cover this risk. Retaining this risk would involve funding a self-insured retention, and hiring additional staff to adjust these claims. We are still awaiting the formal quotation for errors and omissions coverage for the first \$1,000,000 of risk. However, so as to have the option to retain this risk, I have requested the actuaries prepare guidance on the errors and omissions line as well, which is why you are seeing that below for the first time since I became Executive Director.

The 2023/2024 year will be the second year of operation for NJSIG's cyber liability fund, and I am happy to report that the imposition of minimum cyber security controls for members appears to be having a stabilizing effect on the program. The cyber self-insured retention is projected to go up 48.5%, and makes up 33% of the blended cyber rate. Reinsurance is projected to go up only +1.7% on this line, and will make up 67% of the blended rate. Because last year was our first year with a self-insured retention, we are still zeroing in on a sustainable funding level for this coverage, and we have seen some significant cyber claims. So we are actually seeing the reinsurance stabilizing the self-insured retention this year on this line.

The cyber program is far more stable than it was last year now that we have implemented an SIR and minimum cyber security controls. Of note, the claims we have seen on this line have occurred with members who do not meet the minimum cyber security controls. So, our work is not done yet on cyber, and we need to continue encouraging members to get their minimum cyber security controls in place. We have come a long way on cyber since last year, and I think we are finally seeing some welcome stability.

These projected reinsurance increases must be balanced against the long-term goal of the organization to keep NJSIG's rates as cost-effective and stable as possible, with the least amount of volatility. However, we also need to stay within the range deemed to be reasonable by NJSIG's actuaries, to avoid having to impose assessments on our members in the future.

In an effort to address the above market conditions and claims trends, I requested that NJSIG's actuaries prepare proposed rate guidance on NJSIG's self-insured retention. I recommend that the Board adopt the following rate change percentages on NJSIG's self-insured retention, which are within the ranges identified as reasonable by our actuaries:

Workers' compensation: -2.9%

Property: +3.4%

Errors and omissions: -7.3%

General liability: +3.0%

Automobile liability: 0.0%

Automobile physical damage: +8.0%

Cyber liability: +48.5%

Crime: 6.10%

If implemented, these changes make for an overall rate decrease of -2.2%. However, when accounting for member experience modifiers and other factors, these changes combine to an overall increase of 2.8% in self-insured retention contributions for all of the above coverages combined for NJSIG's SIR/retained risk.

This overall change falls within the reasonable range from the WTW actuarial report that was presented at today's Board meeting. NJSIG's actuaries have opined that they believe that this proposed rate change is reasonable. If implemented, this guidance would help to offset significant increases in the reinsurance rates, as outlined above. When combined with our current best estimates for reinsurance at this time, these changes would result in an overall increase in premium of approximately 9.02% across all lines.

Recommended Resolution: Approve the Willis Towers Watson rate review for the July 1, 2023/2024 policy year report dated March 6, 2023, and the rates contained therein.