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Board of Trustees Meeting of March 9, 2020
Executive Director Report

On February 6, 2020, Willis Re facilitated meetings for me and Sherwin Archibald with 52 property reinsurers in Charleston, South Carolina. While news in the property market continues to be bleak, we were again able to present NJSIG as a favorable account to keep or add to these reinsurance programs.

Since returning from South Carolina, we have been busy working with our reinsurance brokers on the rates and keeping them stable for NJSIG's members. Our projections for those rates will be presented later in the meeting. I will then ask the Board to vote to approve a worst-case scenario total reinsurance cost amount. Despite voting on that amount today, NJSIG will continue negotiating to lower those reinsurance rates up until the beginning of April, which is when NJSIG will start issuing quotes to the members.

Given the hardening property market and volatility of the GL market, we are also exploring increased retentions on these lines. Actuaries are working on determining what kind of rate decrease members could expect, if any, if NJSIG took on more risk in-house on the GL, AL or property lines.

We are confident that we are exploring all opportunities this year to keep the rates stable and have ideas about how we want to change this process for next year. Most importantly, we would like to get rate guidance out to NJSIG's membership earlier because that is when the members need it. In the past, we have issued rate guidance at our broker meeting in mid-March; this year, we provided rate guidance in the first week of March (as outlined below). But we recognize that issuing guidance in March is difficult for our members, since that is when our members need to finalize their budgets. Ideally, we would like to be able to provide budgetary guidance to our members as early as January 1. We are in early discussions with Willis Re to examine options to make this happen and will turn our attention to employing those tactics in early July so as to ensure readiness for the 21/22 policy year.

At our March 5th Broker meeting, NJSIG released budgetary guidance to brokers so that business administrators could budget for their districts' insurance needs. Overall, the news was very positive, considering the constriction in the property market and the uncertainty in the GL market. Budgetary guidance was provided – rather than actual rates -- as individual members' rates will depend on loss experience, exposure and Board of Trustee approval. The guidance issued was as follows:

- Workers' compensation is down more than 6% pool-wide. This is great news as it typically represents the largest part of members' property & casualty insurance budgets. As the Board discussed at our January meeting, in light of the substantial hardening of the property and GL lines, the reduced Workers' Compensation rates can help to offset potential increases on the other lines and ensure that, in the aggregate, members' insurance costs remain stable.

- While the overall property rate guidance was an increase of 15%, the increase is all coming from the reinsurance market, not the NJSIG layer.

    - Cyber is currently part of the property line and is significantly increasing. Since we contemplate getting some coverage enhancements and increasing the aggregate limit, it is projected that the premium on this line could increase significantly. In the future, NJSIG is looking to make this pass-through policy a standalone coverage so members would be able to see that line separately. While the projected increase is unfortunate, it does not come as a surprise, in light of the claims experience this year. NJSIG has been getting a great deal for its members on this line for quite some time, and even with the increase, it remains price competitive for our members, as standalone coverage is has traditionally been significantly more expensive.

      Environmental is also part of the property line (and is also a pass-through coverage), and is down about 5%. This is a very different discussion than in prior years, where there was a discussion of significant increases.

However, implementation of a deductible applicable to mercury flooring claims managed to preserve the overall program and resulted in the rate reductions that we are now seeing. This decrease on the environmental coverage helps to offset the other increases on the property line.

The general liability rate is up, but the auto liability rate is down. We presented a blended rate on these lines, so that as to demonstrate how increases on GL are offset with the decreases on AL. On general liability, auto liability and auto physical damage (GL/AL/APD), this blended rate is up 2%. However, for members with general liability and hired non-owned auto (GL/HNOA), that blended rate is up 15%.

- Errors and omissions coverage is up 5%, which is good news, as this coverage increased by 10% last year. This line of coverage is completely reinsured, so there is no NJSIG retention. Here we are really seeing the results of recent legislation and the reinsurance markets' reaction to it. Recent amendments to the Law Against Discrimination (LAD) (i.e., the equal pay amendment; banning confidentiality clauses in severance agreements), and the statute of limitations expansion have made insurers uneasy, and that is reflected in the rate.

- Equipment breakdown coverage is up 43%. This is a pass-through coverage. While NJSIG was somewhat surprised by the property increases because NJSIG's actual experience does not merit a significant increase, the same cannot be said for this line of coverage. Claims have been active and significant. NJSIG was looking at a rate increase of over 70%; however, 43% was available if mandatory $25,000 deductibles were instituted for all boilers, pressure vessels, steam piping, hot water heaters, chillers, and air conditioning equipment/air handlers. When faced with these kinds of decisions, NJSIG tries to determine what is in the best interests of all members in the aggregate, and what will ensure stability of the pool. By increasing deductibles to $25,000 on the above equipment, NJSIG hopes to ensure the long term strength of the program, much like what occurred with the environmental coverage. This is only our second year with our current carrier, but we have heard good feedback from the members regarding the service levels this carrier is providing. Given our recent losses, we are pleased that the carrier is willing to work with us. As outlined above, NJSIG's environmental program had been faced with a spate of mercury claims. By implementing a deductible on those claims, the program stabilized. In fact we are now looking to that program to offset increases on other lines.

- On crime, bond and supplemental indemnity, these coverages are all flat. This is also the last year for bond coverage. The carrier initially wanted off of the program entirely, however, NJSIG was able to negotiate one more year of coverage for its members so as to give them more time to seek alternatives. It is our understanding that there is a robust direct-placement bond market; therefore, this transition should not be difficult.

Although the guidance indicates some significant increases on certain lines, NJSIG is looking at an overall decrease with all lines combined, on a pool-wide basis, of about 0.5%. In a year that looked very grim, this is especially good news to be able to deliver to members. And, as outlined above, we continue to work with reinsurers to get the final rates as low as possible, so we are hopeful that the final rates will be even better than projected.

In March, NJSIG begins its budget process for the upcoming year. Michele Carosi and I will be meeting with each department manager to determine their proposed department budgets. The budget will be presented to the Finance Committee before coming to the full Board at the May meeting for a vote.

We have received feedback regarding NJSIG's surplus. While there are a variety of opinions as to what should be done about it, it is prudent to first obtain the advice of an actuary to determine the reasonableness of NJSIG's surplus. Should the actuaries deem the surplus to be too large, we would then determine the best way to get it back to the membership. Once we have more information on the reasonableness of the surplus, we will present various options to the Board for consideration.

On March 14, NJSIG is presenting "Insuring Public School Districts" at the NJSBA new board member orientation. This is a great opportunity to help explain some basics on insurance coverage and limits to newly elected board of education members. NJSBA has given NJSIG feedback that this presentation has been well received in the past, and we look forward to presenting again next weekend.

Respectfully Submitted,

Jill Deitch, Esq.
Executive Director
New Jersey Schools Insurance Group