

RFP 11MISC13
PROPERTY AND CASUALTY INSURANCE
(RENEWAL)

FACT SHEET

A. **Overview:** This recommendation is to renew the contract for property and casualty insurance coverage for Frederick County Public Schools (FCPS).

1. **Other Facts:**

- Coverage will be extended and renewed on an annual basis, if approved by the Board of Education; the renewal would be effective July 1, 2013 through June 30, 2014.
- This insurance will provide protection for loss/damage to real and personal property, including business interruption; data processing; boiler and machinery; business automobile; commercial general liability; crime coverage; builder's risk; errors and omissions and others.
- Approximately \$1,052,339 was spent in FY13 on FCPS insurance coverage. The new estimated annual cost is \$1,142,545. (An additional \$100,000 was placed in the FY2014 operating budget in anticipation of a potential increase).
- The increase over last year's contract amount can mostly be attributed to the following:
 1. An increase in Real and Business Personal Property premium which increased approximately \$10,471. The deductible also increased from \$5,000 to \$10,000. This increase brings the premium closer to industry standard rates based on total market claims as well as FCPS specific claims.
 2. An increase in Commercial General Liability Insurance premium which increased approximately \$69,203. This increase brings the premium closer to industry standard rates based on total market claims as well as FCPS specific claims.
 3. An increase in Business Auto Insurance premium which increased approximately \$12,850. This increase brings the premium closer to industry standard rates based on total market claims as well as FCPS specific claims.
 4. Cyber Liability insurance was added this year at a cost of approximately \$1,185.
- FCPS retained insurance consultant Peter Hudson from the Hudson Group to analysis and compare a proposal from the Maryland Association of Boards of Education (MABE) Insurance Pool to the renewal proposal from BB&T. The BB&T offering is approximately \$335,695 less than the MABE proposal. See attached analysis: "Property and Casualty Insurance Review and Comparison of Commercial Insurance Offerings to the MABE Group Insurance Pool". A comparison of coverage's between FCPS and Frederick County Government is also attached.
- Based on the above comparison and the quotes that our Broker, BB&T Frederick Underwriters obtained from multiple insurance companies for FCPS insurance needs; this renewal is market competitive based on FCPS's claims history and current market conditions.
- The following updates were made to BB&T's renewal after the consultant's analysis:
 - a. Boiler and Machinery premium reduced by \$3,741.
 - b. Real and Business Personal Property deductible decreased from \$25,000 to \$10,000 and the Premium increased by \$29,011.
 - c. Cyber Liability insurance was added at the approximate cost of \$1,185.
 - d. Due to updates above, the BB&T offering is now approximately \$310,929 less than the MABE offering.
- The contract will be administered by Leslie Pellegrino, Executive Director of Fiscal Services.

2. **Source of Funding:** FY14 Approved Operating Budget.

B. **Recommendation:** The Facilities and Finance Committee recommends renewal of RFP 11MISC13, Property and Casualty Insurance to BB&T Frederick Underwriters (Frederick, MD) at a total of \$1,142,545.

C. **Action taken by the Board (Purchasing use only):**

_____ Approved	_____ Denied	_____ Deferred	_____ Other	SB/jpl
_____ Date	_____ Date	_____ Date	_____ Date	BOE Mtg.: 06.26.13

FY 2014 FCPS Insurance Renewal

	FY 2013 BoE Renewal			FY 2014 BoE Renewal				
	Exposure	Rate	Premium	Exposure	Rate	Premium	Ded	%
Real & Business Personal Property	\$1,459,441,717	\$0.0324	\$472,859	\$1,459,441,717	\$0.0330	\$481,616	\$10,000	1.9%
Ordinance or Law			incl			incl	\$10,000	
BPP of Others	\$90,000	\$0.0324	\$29	\$90,000	\$0.0330	\$30	\$10,000	2%
Earthquake	\$10,000,000		\$1,600	\$10,000,000		\$1,600	\$25,000	0%
Loss of Income w/ Extra Expense								
B/EE with No Monthly Limitation	\$5,000,000	\$0.0324	\$1,620	\$5,000,000	\$0.0330	\$1,650	24 hrs	2%
Valuable Papers & Records	\$100,000	\$0.021	\$21	\$100,000	\$0.021	\$21	\$10,000	0%
Accounts Receivable	\$100,000	\$0.014	\$14	\$100,000	\$0.014	\$14	\$10,000	0%
Inland Marine								
Electronic Data Processing & Telephone	\$30,000,000	\$0.050	\$15,000	\$30,000,000	\$0.050	\$15,000	\$1,000	0%
Contractors Equipment	\$2,974,515	\$0.300	\$8,924	\$2,974,515	\$0.300	\$8,924	\$1,000	0%
Leased/Rental Equipment	\$75,000		\$500	\$75,000		\$500	\$1,000	0%
Audio Visual	\$2,834,439	\$0.050	\$1,417	\$2,834,439	\$0.050	\$1,417	\$1,000	0%
Musical Instruments	\$2,088,635	\$0.250	\$5,222	\$2,088,635	\$0.250	\$5,222	\$1,000	0%
Athletic Equipment	\$1,307,061	\$0.100	\$1,307	\$1,307,061	\$0.100	\$1,307	\$1,000	0%
Towers, Radios	\$68,000	\$0.600	\$408	\$68,000	\$0.600	\$408	\$1,000	0%
Electronic Equip other than EDP	\$1,683,602	\$0.050	\$842	\$1,683,602	\$0.050	\$842	\$1,000	0%
Library Books	\$19,673,996	\$0.050	\$9,837	\$19,673,996	\$0.050	\$9,837	\$1,000	0%
Valuable Papers other than Books	\$100,000	\$0.050	\$50	\$100,000	\$0.050	\$50	\$1,000	0%
Fine Arts	\$500,000	\$0.095	\$475	\$500,000	\$0.095	\$475	\$1,000	0%
Historic Papers	\$50,000	\$0.095	\$48	\$50,000	\$0.095	\$48	\$1,000	0%
Employees' Tools	\$25,000	\$1.500	\$375	\$25,000	\$1.500	\$375	\$1,000	0%
Transportation Floater	\$100,000		\$500	\$100,000		\$500	\$1,000	0%
Vacant Building Coverage			\$29,838			\$27,162	\$1,000	-9.0%
Boiler & Machinery	\$100,000,000		\$37,863	\$100,000,000		\$37,863	\$10,000	0%
Property Subtotal			\$588,749			\$594,860		1.0%
Builders Risk (MNC Rate, \$1,000 Ded)	\$30,000,000	\$0.070	\$5,000	\$30,000,000	\$0.070	\$5,000	\$1,000	0%
Deposit premium shown								
Comprehensive Crime								
Employee Dishonesty (\$2,500 ded.)	\$500,000		\$9,028	\$500,000		\$9,028	\$2,500	0%
Forgery & Alteration	\$500,000		\$1,000	\$500,000		\$1,000	\$2,500	0%
Theft, Disappearance & Destruction	\$100,000		\$1,800	\$100,000		\$1,800	\$2,500	0%
Computer Fraud	\$500,000		\$672	\$500,000		\$672	\$2,500	0%
Commercial General Liability	40,487	\$2.738	\$110,853	40,487	\$4.475	\$180,056	\$0	62.4%
Fellow Employee Coverage			incl			incl		
Employee Benefits Legal Liability	5,987	\$0.263	\$1,575	5,987	\$0.263	\$1,513	\$0	-4%
Business Auto								
Liability	649	\$354.73	\$230,220	649	\$357.00	\$231,693		0.6%
Physical Damage	649	\$102.60	\$66,587	649	\$117.99	\$76,576	See	15.0%
Hired & Non-Owned			\$307			\$307	Proposal	0.0%
Garage Keepers			\$612			\$2,000		226.8%
School Leaders Errors & Omissions	\$1,000,000		\$33,180	\$1,000,000		\$33,180	\$25,000	
Student Medical Professional	147	\$18.75	\$2,756	196	18.75	\$3,675	\$0	0%
Data Compromise (Cyber/Information Risk)				\$250,000		\$1,185	\$2,500	
Total Premium			\$1,052,339			\$1,142,545		8.6%
Optional Terrorism (Property and GL)					0.004	\$2,660		

**PROPERTY AND CASUALTY INSURANCE
REVIEW AND COMPARISON OF
COMMERCIAL INSURANCE OFFERINGS
TO THE MABE GROUP INSURANCE POOL**

June 5, 2013

Conducted by:

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Preface.

We have conducted an indepth review of the Maryland Association of Boards of Education Insurance Pool as of June 3, 2013 including the Arthur B. Bell & Associates Independent Auditors report of June 30, 2012, Risk Management Services overview, by-laws and the scopes of coverage provided by the Pool for the Property, Liability, Crime and Education Legal Liability coverages. In addition, we conducted a question and answer work session with Steven James and the Pool's Insurance Consultants on June 3rd 2013.

Our review did not include any of the Employee Benefit or Pension plans offered by the Pool or the Worker's Compensation plan of which FCPS is already a participant.

The purpose of this review is to determine scope of coverages offered, historical rating and loss history, overall actuarial results for the last five years , claim settlement procedures, plan exit provisions and penalties and overall desirability and benefits of enrolling FCPS into the MABE Property and Casualty Pool all per our engagement letter dated February 1, 2013. We would also like to advise FCPS that we are not actuaries and we cannot provide recommendations with regard to the rate making process.

We have attempted to highlight the most important provisions in each offering (Commercial vs. Pool) for our comparison exhibits and discussions, however they are not all inclusive. Complete copies of the policies are available to the Board for further, more detailed, analysis.

Lastly, throughout this report, we make reference to the Maryland Association of Boards of Education Group Insurance Pool as "MABE Pool" or the "Pool". We have made reference to the Frederick County Public Schools as "FCPS" and we have referenced to the Hudson Group as "HGI"

Financial Considerations

I. Premiums

With regard to premium comparisons please refer to Exhibits 1 and 2 on the following page. Exhibit 1 illustrates a composite annual premium for the lines of coverage afforded by both the Commercial insurance market place as well as the MABE Pool. Exhibit 2 further breaks out the specific underlying coverages and extensions. With regard to Exhibit 1, it is clearly evident that the Commercial insurance is considerably lower for the 2013-2014 proposed renewal than the Pool. In addition, the Pool requires a Property Appraisal be undertaken by a Pool contracted appraiser. This is a one- time charge. In addition, the Pool also requires a surplus contribution for all newly enrolled members. The \$74,236 charge represents 1/3 of the surplus required, however the Pool allows the surplus contribution to be spread out over three years.

Exhibit 2 breaks down the specific lines afforded by coverage type and in total constitute the \$548,513 in Property premiums found on Exhibit 1. The reason for the breakout under the commercial column is based upon the fact that these underlying coverages have specific limits and rates that vary from the Real and Personal Property rates.

II. Underwriting

While the underwriting of these premiums and the rate development process is very similar for each, the scope of coverages and limits vary greatly. The Commercial insurance industry develops its rates based upon historical claims history of their overall client base, exposures to loss, premium to loss ratios of their portfolios, reinsurance premiums, market conditions, rate of return on investments of surplus and overall portfolio profitability. Once rates are established, the insurance companies must then get rate approvals in each state in which they want to be admitted to.

EXHIBIT I

<u>Line of Coverage</u>	<u>BB&T Ohio Casualty</u>	<u>MABE Pool</u>
Property	\$529,675 (1)	\$ 738,836
Boiler & Machinery	\$ 41,604	Included in above
Crime	\$ 12,500	Included in above
General Liability	\$181,569	\$ 261,292
Business Auto	\$310,576	\$ 369,110
School Leaders E&O	\$ 33,180	Included in GL
Student Medical	\$ 3,675	Included in GL
Builder's Risk	\$ 5,000	Included
Property Appraisal	N/A (2)	\$ 10,000 (4)
Surplus Contribution	<u>N/A (2)</u>	<u>\$ 74,236 (3)</u>
Totals	\$1,117,779	\$ 1,453,474
If GL is capped at \$100,000	- <u>41,886</u>	
	\$1,075,893	

(1) Does not include Flood

(2) N/A = Not applicable/required

(3) 1st year installment of 3 year installments for Surplus Contribution

(4) Property Appraisal (1 time fee)

EXHIBIT II
Further Premium Breakdown

<u>Line of Coverage</u>	<u>BB&T Ohio Casualty</u>	<u>MABE Pool</u>
Property	\$454,319	\$738,836
BPP of Others	29	Included
Earthquake	1,600 (1)	Included
Flood	N/C	Included
Business Income	1,625	Included
Valuable Papers	21	Included
Accounts Receivable	14	Included
EDP	15,000	Included
Contractors Equipment	8,924	Included
Leased/Rented Equipment	500	Included
Audio Visual	1,417	Included
Musical Instruments	5,222	Included
Athletic Equipment	1,307	Included
Towers/Radio	408	Included
Other EDP	842	Included
Library Books	9,837	Included
Valuable Papers Other	50	Included
Fine Arts	475	Included
Historic Papers	48	Included
Employee Tools	375	Included
Transit	500	Included
Vacant Buildings	27,162	Included
Boiler & Machinery	41,604	Included
Builder's Risk	5,000	Included
Crime	12,500	Included
General Liability	181,569	\$261,292
Business Auto	310,576	\$369,110
School Leaders E&O	33,180	Included in GL
Student Medical Prof.	<u>3,675</u>	<u>Included in GL</u>
	\$1,117,779	\$1,369,238
Property Appraisal	N/A	10,000
Surplus Contribution	<u>N/A</u>	<u>74,236</u>
	\$1,117,779	\$1,453,474

In the case of the Pool, all members are of a single homogenous group, meaning that all have very similar exposures to loss and predicting future losses is relatively easy.

The exception to this theory is the Property insurance which has a separate set of exposure analysis including such considerations as Construction Type, Occupancies, Protection Features (sprinklers, alarms, etc.) and surrounding exposures. It is for this reason that the Pool retains a small part of the risk and relies on re-insurers to provide excess insurance over and above the portion they retain. The Pool retains the first \$500,000 of a loss with Lexington Insurance Company picking up the excess.

Solvency

The Commercial marketplace's solvency tests are undertaken (for the most part) by independent State Appointed Accountants and Actuaries, as well as the A.M. Best Company which is similar to Standard & Poors, however A.M. Best focuses almost entirely on the Insurance Industry. Each insurance company is assigned rankings based upon a number of criteria.

The Pool on the other hand is reviewed by an outside independent accounting firm by way of annual audits, with the day to day operations overseen by the Pool Administrator. A Board of Trustees made up of the Member participants make up the oversight and management of the Pool. Each Member and Trustee are essentially "Owners" of the Pool.

Premiums or contributions into the Pool are used to pay claims, purchase re-insurance and deposit surplus into investment accounts. Should the Pool experience positive claims experience in any given year, the members are entitled to participate in the Pools Risk Management incentive program, whereby a portion of the surplus is returned to the participating members. This is generally in the form of a reduction in the following years' premium ranging from 1% to 5%. The Pool also maintains a Rate Stabilization Fund (RSF).

The following further explanation of the fund is an excerpt from the accounting form of Arthur Bell from their Auditors Report of October 18, 2012.

“Rate Stabilization Fund

The Trustees annually evaluate at the time of their consideration of potential dividends to the members, a potential contribution of the Pool’s surplus of the preceding fiscal year to the Rate Stabilization Fund (RSF). Whether such contributions are made and the amount of such contributions, if any, to the RSF is determined by the Trustees after consideration of the Pool’s overall surplus as of the preceding fiscal year and the loss experience in the current fiscal year. Any contributions are allocated to the current membership of the Pool based on each member’s historical loss experience and total premium contributions to the Pool. Investment income earned by the Pool for each fiscal year, if any, is allocated to each member’s portion of the RSF. Investment loss is not allocated to the RSF. At July 1 of each fiscal year, each member may use one-half of its share of the RSF balance as credit towards its premium contributions due for that year. The RSF is owned by the Pool and former or departing members may not withdraw any of their allocated portion of the RSF.

At June 30, 2012, the balance of the RSF was \$4,162,681. During 2012 and 2011, the Trustees allocated \$0 to the RSF and the members use a total of \$1,334,946 and \$308,765, respectively, of the RSF as a credit towards their premiums. During 2012, the RSF was allocated \$0 of investment income. The RSF balance is reported as a component of fund balance.”

Recent financial statements prepared by the Bell firm revealed the following recent financial and solvency report for the years 2012 and 2011.

“Financial Highlights

Assets of the Pool at the close of fiscal year 2012 were \$28.3 million compared to \$32.1 million in 2011, a decrease of \$3.8 million or 12% over the prior year. Liabilities of the Pool at the close of fiscal year 2012 were \$11.6 million compared to \$13.8 million in 2011, a decrease of 16% over the prior year. Fund balance decreased to \$16.7 million in 2012 from \$18.3 million in 2011, a \$1.6 million decrease or 9% primarily due to members using significantly more Rate Stabilization Fund credits to offset 2012 premiums compared to 2011.

Total revenues for fiscal year 2012 were \$6.1 million compared to \$8.9 million for 2011, a decrease of 31% over the prior year. Significant components of total revenue include net premium income and investment income. Net premium income for fiscal year 2012 was \$6.0 million as compared to \$6.4 million for 2011, which represents a 6% decrease from the prior year.

Investment income for fiscal year 2012 was \$16,000 as compared to \$2.4 million for 2011 to the \$1.3 million Rate Stabilization Fund credits used in 2012 and a \$2.4 million decline in investment income between fiscal year 2012 and 2011.

Total expenses decreased to \$7.7 million for fiscal year 2012, compared to \$9.6 million the previous year. The decline in expenses of \$1.9 million or 20% over the previous year was primarily due to the decrease in claims expense at \$1.9 million.

Deficiency of revenue over expenses is \$1.6 million for fiscal year 2012 as compared to \$0.8 million in 2011. This increase in the deficiency is primarily the result of the following items noted above: increase in the rate stabilization fund credits used, decrease in investment income, and decrease in claims expense. “

However Exhibit 3 on the following page illustrates that the fund has performed well over its historical lifespan. Premiums have remained stable from year to year and overall claims have been adequately forecasted and reserved for.

Exhibit 3

MARYLAND ASSOCIATION OF BOARDS OF EDUCATION GROUP INSURANCE POOL NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 0. CLAIMS DEVELOPMENT INFORMATION - CASUALTY AND PROPERTY *

	2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		2012			
	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve	Case	Reserve		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Premiums, investment and interest revenue:																								
Code#	3,400,578	3,400,578	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	2,865,183	
Net earned	5,759,186	5,759,186	7,256,212	7,256,212	7,944,321	7,944,321	7,944,321	7,944,321	8,638,968	8,638,968	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	9,333,615	
Unallocated expenses (including amortized expenses)	1,144,080	1,144,080	1,356,292	1,356,292	1,418,241	1,418,241	1,418,241	1,418,241	1,505,555	1,505,555	1,592,880	1,592,880	1,592,880	1,592,880	1,797,856	1,797,856	1,797,856	1,797,856	1,797,856	1,797,856	1,797,856	1,797,856		
Unallocated losses (including amortized expenses)	3,790,815	3,790,815	4,248,217	4,248,217	4,564,321	4,564,321	4,564,321	4,564,321	5,133,010	5,133,010	5,436,031	5,436,031	5,436,031	5,436,031	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760		
Net incurred	3,790,815	3,790,815	4,564,321	4,564,321	4,564,321	4,564,321	4,564,321	4,564,321	5,133,010	5,133,010	5,436,031	5,436,031	5,436,031	5,436,031	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760	6,035,760		
Net paid	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Net year-end reserves to be set:																								
One year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Two year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Three year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Four year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Five year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Six year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Seven year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Eight year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Nine year later	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815	3,790,815		
Re-estimated coded losses and expenses																								
End of accident year																								
One year later																								
Two year later																								
Three year later																								
Four year later																								
Five year later																								
Six year later																								
Seven year later																								
Eight year later																								
Nine year later																								
Change in amount of claims and expense from end of accident year																								

* Figures for 2008 accident year, casualty losses have not been noted for member delinquents.

Summary

While the Pool should not be considered as an investment tool, Rate Stabilization is extremely valuable, particularly when the Commercial marketplace experiences market shifts. Currently, the Commercial market is in fact hardening, meaning that premiums are on the rise and underwriting scrutiny is taking place. We, HGI, have seen increases on average rise 8% over 2011-2012 rates, mandatory increase in retentions (deductibles) are on the rise and the appetite for new business is on the decline. For this reason, we must believe self-funded Pools and Captives are very effective tools to offset the difficulties inherent with a hard market.

However, FCPS has enjoyed, for many years, an extremely competitive premium for its largest exposure, its vehicle fleet. Current and past per vehicle rates are 1/3 of the going rate, which is extraordinary considering the large fleet of school buses. We believe a reversal in this pricing is likely to occur in the coming year(s).

Sovereign Immunity

Under common and statutory law, the Maryland Boards of Education enjoy caps on Tort claims. The cap on liability is currently \$100,000 per claimant.

Historically FCPS while subject to the Immunity Laws, has procured Commercial Insurance with liability limits in excess of the liability cap. It is our understanding that the reason higher limits have been purchased is to provide a “back-up” in the event of a Gross Negligence claim or Punitive Damages, in which case a plaintiff may successfully litigate a claim not under the Act. In addition, in certain cases, the FCPS Board may be involved in a serious and egregious incident in which significant social pressure may be applied against the Board in which case a potential waiver of the Immunity may be necessary.

The MABE Pool takes the position that the Immunity is absolute and will not undertake any waiver of its right to waive the statute.

This is the reason that all of its Casualty lines are capped at \$100,000. According to Steven James of the MABE Pool, there have been numerous cases in which claimants have attempted to breach the immunity in an attempt to seek a higher award for the plaintiff and they have not been successful.

The Pool does however have coverage up to \$1,000,000 in the event that a court of final appellate jurisdiction denies any covered person the defense of Sovereign Immunity. This applies to both General Liability and Auto Liability.

Summary

In summary, should FCPS pursue joining the MABE Pool. It should be understood by FCPS that the Pool will aggressively use the Immunity rights regardless of the degree of negligence, the emotional and social impacts and the potential negative press associated with such events in the limited amount of settlement allowed under the Immunity Statute.

Plan Enrollment and Exit Provisions

Eligibility Requirements

3.01 Eligibility Requirements

- (a) In order to participate as a Member of the Pool, each Board shall:
1. Satisfy any approvals required by the Commissioner.
 2. Submit evidence satisfactory to the Trustees that the Board is authorized to participate in the Pool.

3.02 Approval of Membership

- (a) A prospective Member shall submit an Application to the Trustees, along with an application fee as may be determined by the Trustees.
- (b) The Application must be approved by a majority vote of the Trustees.

Termination

Cancellation and Termination of Membership. Membership of a Member shall continue until it ceases under one of the following provisions:

Cancellation. The Trustees shall have the authority by an affirmative vote of two-thirds (2/3) of all Trustees to cancel the membership of any Member for cause including but not limited to the following: non-payment of Premium, failure to implement reasonable safety or loss prevention requirements; failure to cooperate with a Service Company or attorney representing the Pool; or any action which may be detrimental to the fiscal soundness or efficiency of the Pool. Such Cancellation shall become effective after thirty (30) days written notice to the Member, and no liability shall accrue to the pool for any Casualty claim otherwise covered or any Covered Claim, any of which arise after the effective date of such Cancellation.

Each Member agrees that regardless of any attempt to submit to arbitration its termination, the Member, upon notification of such Cancellation by the Trustees, will secure adequate provision for the insurance coverages so canceled, either by the purchase of insurance or by self-insurance so that such coverage is in effect on the effective date of the Member's Cancellation.

If the Member prevails in the arbitration process, it shall be reinstated in the Pool within 30 days of the arbitration award, and the Pool shall have no liability for any insurance premiums or expense, or for any Covered Occurrences or Covered Claims incurred by the Member, from the date of Cancellation until the date reinstated.

After Cancellation, the Member shall still be liable for any assessment made. In addition, the Trustees may assess the Canceled Member up to one hundred twenty-five percent (125%) of its last full annual contribution for coverages under the Pool. The cost may be less, at the discretion of the Trustees. This assessment may be made at any time up to one year after the date that all claims for the Pool are closed for any period of time that the Canceled Member was a Member of the Pool.

Termination by Member Any Member may Terminate its membership in the Pool at the end of any Pool Year by giving at least ninety (90) days' notice in writing to the Trustees and no liability shall accrue the Pool for any casualty claim otherwise covered or any Covered Claim any of which arise after the effective date of such Termination.

After Termination by a Member, the Member shall still be liable for any assessment made by the Trustees. In addition, the Trustees may assess such Terminated Member up to one hundred twenty-five percent (125%) of its last full annual contributions for coverages to the Pool. The cost to Terminate may be less than this amount at the discretion of the Trustees. This assessment may be made at any time up to one year after the date that all claims for the Pool are closed for any period of time that the cancelled Member was a Member of the Pool.

Lastly, it should be noted that a potential gap in coverage could occur in the situation that a claims made policy, as in the case of the MABE Pool Education Legal Liability policy, is cancelled. The MABE Pool does not offer any retro-active coverage or “Tail” so that the FCPS would have to seek out a Commercial carrier that would offer such coverage retro-active to the period in which the FCPS was a Member of the Pool.

No such conditions exist under the Commercial insurance acquisitions.

Market Conditions

As mentioned earlier in this report under Financial Considerations, the commercial insurance marketplace is becoming more difficult or in insurance language it has become “Hard”. This means premium to loss ratios are out of balance and the carriers need to raise their rates to offset their losses. Examples of such events are illustrated in the proposed renewal quotations received by BB&T for the 2013-2014 renewal. Premiums have fluctuated as follows:

<u>Coverage Line</u>	<u>Premium 2012-2013</u>	<u>Premium 2013-2014</u>
Package Policy	\$599,552	\$529,675
Automobile	\$297,726	\$310,576
Boiler & Machinery	\$ 37,863	\$ 41,604
Student Medical Prof.	\$ 1,764	\$ 3,675

The total annual premiums have increased from \$1,051,347 to \$1,117,779 or an increase of \$66,432.

We expect this trend to continue in 2014 and 2015 potentially as far out as 2018. As illustrated in Exhibit 3, premiums for the entire Pool have averaged around \$10,000,000 for the past ten years and it is expected that they will continue to remain stable in the future.

We believe this to be very important and a beneficial fact to consider when evaluating FCPS’s options.

Insurance Limit Comparisons

As is highlighted in Exhibit 4 on the following page, there is a significant difference in the amount of insurance available by line of coverage between the BB&T proposal and the MABE Pool. It should be noted however that the limits under the BB&T column are client specific whereas the limits under the Pool column are aggregate limits for all of the Members. As is evident and discussed earlier in this report, all Pool casualty lines are capped at \$100,000. With respect to the Property and Boiler & Machinery, the cap is \$1,000,000,000 and \$100,000,000 respectively. We do not have any issues with respect to the Boiler limit however we are somewhat concerned about the \$1,000,000,000 cap for Property. FCPS' assets alone exceed 2 Billion Dollars let alone the total exposure of the Membership. We requested a copy of the total Membership Property replacement values but had not received it up to this point of this report's production.

According to Steven James of the MABE Pool and its consultant, an evaluation was undertaken which resulted in the fact that the spread of risk was so great that the Pool has drawn the conclusion that no single occurrence, event, storm, or other could result in a collateral total loss in excess of 1 Billion dollars. In addition, the Pool does purchase re-insurance.

This we believe to be one disadvantage to FCPS as we are of the belief that a single Earthquake of high magnitude could in fact create widespread serious losses. In addition, considering the geographical risk associated with those Members on the Eastern Shore with older buildings, a direct hit by a large hurricane could in fact generate substantial Property loss.

Exhibit 4
Coverage limits

	<u>BB&T</u>		<u>MABE Pool</u>
	<u>Ohio Casualty</u>		
Property	\$1,706,990,014		\$1,000,000,000
General Liability	\$3,000,000 General Aggregate	\$	100,000
	\$3,000,000 Prod. Comp. Ops.		Included
	\$1,000,000 Personal Injury	\$	100,000
	\$1,000,000 per occurrence	\$	100,000
	\$ 500,000 damages to premises	\$	100,000
	\$ 10,000 medical expense		N/C
	\$1,000,000 Employee Benefit	\$	100,000
Crime	\$ 500,000 except	\$	2,500,000
	\$100,000 Money & Securities	\$	250,000 Money & Securities
		\$	1,000,000 checks
Boiler & Machinery	\$5,000,000		\$ 100,000,000
Student Medical Professional	\$2,000,000 per incident	\$	100,000
	\$4,000,000 aggregate		
School Leaders E&O	\$1,000,000 aggregate	\$	100,000
	\$ 500,000 IEP Hearings	\$	5,000,000 aggregate
	\$ 100,000 Desegregation		
	\$ 100,000 Breach of Contract		
	\$ 25,000 Breach of Fiduciary		

Business Auto	\$1,000,000	\$ 100,000
	\$ 2,500 P.I.P	\$ 1,000,000 Contracted Bus Drivers
	\$ 5,000 Med. Pay	\$ 2,500 P.I.P & 5 \$ 50,000 U.M.
	\$ 100,000 Garagekeepers	\$ 100,000
	\$1,000,000 Garage Liability	N/C

Property Coverages

Both the Ohio Casualty Commercial coverage and the MABE Pool offered Property coverage. For the sake of clarity, the Property policies include the following:

- 1) Real Property (Buildings)
- 2) Business Personal Property (Contents)
- 3) Inland Marine
- 4) Crime
- 5) Boiler & Machinery

Both policies are what is known as Special Cause of Loss Forms (or All Risk). The Ohio Casualty policy is written on what we in the industry refer to as Commercial paper which means many of the terms, conditions, coverage and exclusions are consistent between one carrier and another. This is beneficial for a number of reasons. First coverage provisions are similar to each carrier which makes comparisons easier. In addition, many of the scopes of coverage and exclusions have been tested in court so there is precedence of their scope and intent.

The MABE Pool program is written on what is known in the industry as manuscript, or in other words, customized.

In addition to providing “All Risk” coverage except what is excluded, each policy affords extensions to the primary coverage which essentially “add” or “clarify” the intent of the coverage and the respective limits.

Please note the extensions on Exhibit 5 on the following page.

Exhibit 5
Property Extension Comparison

<u>Extension & Limit</u>	<u>BB&T</u> <u>Ohio Casualty</u>	<u>MABE Pool</u>
Increased Cost of Construction/Ordinance	Included in Policy Limit	\$ 25,000,000
Transit	\$ 250,000	\$ 25,000,000
Valuable Papers	\$ 100,000	\$ 25,000,000
Accounts Receivable	\$ 100,000	\$ 10,000,000
Landscaping	\$ 25,000	\$ 1,000,000
Fine Arts	\$ 25,000	\$ 2,500,000
Business Interruption	\$5,000,000	\$ 500,000
Extra Expense	Included above	\$ 50,000,000
Builder's Risk	\$2,000,000 Frame Constr. \$30,000,000 all other	\$ 75,000,000
Unnamed Locations	\$ 50,000	\$ 25,000,000
Earthquake	\$10,000,000	\$100,000,000
Flood	N/C	\$100,000,000
Flood Zone A	N/C	\$100,000,000
Boiler & Machinery	\$5,000,000	\$ 50,000,000
Expediting Expense		\$100,000,000
Hazardous Substance		\$ 1,000,000
Ammonia Contamination		\$ 10,000,000
Crime	\$500,000 except \$100,000 Money & Securities	

The extensions offered by Ohio Casualty are client specific whereas the MABE Pool extensions are aggregate limits for all Members. This does not mean that these full limits would not be available to FCPS rather the available limits could be impacted and/or eroded by other Members in which case MABE Pool would be forced to purchase more re-insurance.

As the exhibit on the previous page reflects, limits for these extensions under the MABE Pool are substantially greater than what is being offered by Ohio Casualty. This is considered to be more beneficial to the Members than what would be available in the Commercial marketplace. The MABE Pool program also offers additional coverage extensions such as Flood at no additional premium, as well as Board of Education related extensions such as:

- Livestock and Animals \$100,000
- Mold Extraction from covered loss \$250,000
- Biological & Chemical Removal \$250,000
- Asbestos Clean Up \$250,000
- Builder's Risk for Vocational Educational Projects \$250,000
- Greenhouse Stock \$100,000

Ohio Casualty has a carved out coverage for specific Vacant Buildings. MABE Pool has confirmed that Vacant Buildings are included along with non-vacant properties, provided notice is given to the Pool Administrator.

In our opinion, the MABE Pool Property coverage is broader in scope.

With respect to the Inland Marine exposures which include Builder's Risk, Transit coverages and Contractors Equipment, the BB&T proposal breaks out the coverages and applies specific limits for each coverage and extension. The MABE Pool on the other hand treats each of the above coverages automatically with sub-limits of definition of what constitutes an insured article and each line of

coverage has access to the full One Billion Dollar limit. This is also a very positive feature of the MABE Pool program.

Retention and Deductibles

Exhibit 6 illustrates the proposed deductibles offered through Ohio Casualty and the MABE Pool by line of coverage. As is noted, the deductibles for the Property and Earthquake coverages are far less under the Pool however the opposite is true (with the exception of the School Leaders E&O) of the other lines. This is important to FCPS as the higher the retention the more out of pocket costs are incurred. At the time of the report we did not have the deductible for the Student Medical. Also, the Property deductible under Ohio Casualty has increased significantly at this renewal over previous year, again due to the current market conditions.

Exhibit 6
Deductible Comparisons

<u>Line of Coverage</u>	<u>BB&T Ohio Casualty</u>	<u>MABE Pool</u>
Property	\$25,000	\$5,000
Earthquake	\$25,000	\$5,000
Inland Marine	\$ 1,000	\$5,000
Vacant Buildings	\$ 1,000	\$5,000
Boiler & Machinery	\$10,000	\$5,000
Builder's Risk	\$ 1,000	\$5,000
Crime	\$ 2,500	\$5,000
General Liability	\$ -0-	\$5,000
Employee Benefits	\$ 1,000	\$5,000
Business Auto	\$ 2,500	\$ -0-
School Leaders	\$25,000	\$5,000 (1)
Student Medical	TBD	\$5,000

(1) Differs by County. Range is from \$2,500 to \$15,000. Federal coverage extensions such as Failure to Integrate, Attorneys Fees under Federal Statutes, American Disabilities are subject to a \$5,000 per claim, \$100,000 annual aggregate.

Casualty (Liability) Discussion

As discussed and as illustrated on the Exhibit of the MABE Pool limits, all of its casualty limits are capped at \$100,000 with the exception of the Independent Bus Drivers, who have access up to \$1,000,000. The Ohio Casualty policy continues to maintain limits of \$1,000,000 per claim and a \$3,000,000 aggregate. BB&T has also offered a discounted premium should the FCPS decided to elect the lower immunity limit of \$100,000. Both policies offer similar coverage for Bodily Injury and Property Damage, Personal Injury and Employee Benefit Legal Liability as well as Automobile. Medical expenses are not included in the MABE Pool program.

One important consideration that should be considered is the exposure associated with the case of Sexual Molestation. The Ohio Casualty policy does not contain an exclusion for this exposure so one would argue that it is covered. If the FCPS elects to maintain coverage with the incumbent, we recommend the coverage be specifically negotiated into the policy with provisional wording. The MABE Pool addresses the exposure although in a very obscure way. We are not comfortable with the intent of the coverage under the MABE Pool.

Ohio Casualty also segregates its Auto exposure by application of a specific Commercial lines policy versus the MABE Pool, which incorporates it into their General Liability (Casualty Policy). Here again, due to the application of Immunity the MABE Pool limits are capped at \$100,000 limit with the exception of Contracted Bus Operators insured for \$1,000,000 and sublimits of \$2,500 for MD Personal Injury Protection and \$50,000 Maryland Uninsured Motorists. There is also a sublimit of \$100,000 for Garagekeepers Legal Liability.

The BB&T proposal affords the following limits:

Liability	\$1,000,000
Personal Injury Protection	\$ 2,500
Medical Payment	\$ 5,000
Uninsured Motorists	\$1,000,000
Hired and Non-Owned	\$1,000,000

Garage Keepers Legal	\$ 100,000	Comp and Collision
Garage Liability	\$1,000,000	
Hired Car Physical Damage	\$ 35,000	

There is very little difference between the two plans with the exception of the \$100,000 limit for the liability.

Student Medical Professional Liability

As with the other Casualty lines, this coverage is subject to the Immunity cap of \$100,000 and a \$5,000,000 aggregate under the MABE Pool. The BB&T proposal offers limits of \$2,000,000 each occurrence and a \$4,000,000 aggregate, \$1,000,000 limits applies to the School Leaders E&O coverage.

The BB&T proposal involves two separate policies for this exposure. A standalone Medical Professional policy and a separate School Leaders Errors & Omissions policy. The Medical Professional affords coverage for any act or omission in furnishing Professional Health Care Services to a patient or client, whereas the School Leaders policy affords coverage for Wrongful Acts. There acts also include such breaches as IEP Hearings, Desegregation issues, Breach of Contract or Breach of Fiduciary Duty.

The MABE Pool's policy addresses the Errors & Omissions exposure while the General Liability policy addresses claims arising out of the Student Medical Activities and is subject to the Immunity caps. The limits under the E&O coverage is also \$100,000 with the exception of specific actions related to Federal Violations, in which case an annual aggregate is available up to \$5,000,000.

Crime Coverage

Both BB&T and the MABE Pool provide separate standalone policies for the exposure of Crime/Employee Dishonesty. Below is an exhibit which illustrates the coverages and respective limits for each

<u>Coverage</u>	<u>Limits under BB&T</u>	<u>MABE Pool limits</u>
Employee Dishonesty	\$500,000	\$ 2,500,000
Forgery	\$500,000	\$ 2,500,000
Theft of Money		
Inside	\$100,000	\$ 250,000
Outside	\$100,000	\$ 250,000
Checks (stolen)	N/A	\$ 1,000,000
Computer Fraud	\$500,000	\$ 2,500,000
Funds Transfer	N/C	\$ 2,500,000

BB&T's proposal does not specify any limit for stolen checks rather the exposure is picked up under one of the above coverages depending upon how the loss occurred. BB&T did not propose coverage for Electronic Funds transfer.

BB&T's Employee Dishonesty coverage is subject to a \$2,500 deductible and no deductibles are applicable to the other lines.

MABE Pool applies a \$1,000 deductible for the Employee Dishonesty.

Overall, the MABE Pool proposal is broader in scope. We could not determine which proposal was the least inexpensive inasmuch the Crime premium is incorporated within the Property premium.

Summary and Conclusion

BB&T and the MABE Pool both have presented viable proposals. However they are very different in the scope of coverage and the approach used to insure the exposures. BB&T through Ohio Casualty (for the most part) utilized a Commercial Insurance Carrier using Commercial insurance forms (also known as paper) while the MABE Pool program is manuscripted. This makes it difficult to compare each on an apples to apples basis. For the most part the MABE Pool program offers significantly higher limits on virtually every type of Property coverage; however the Pool's Casualty limits are limited to the Immunity Cap of \$100,000.

The scope of the coverages, we believe to be broader under the MABE Pool in that they have been underwritten to be very broad based upon:

- 1) Members are Owners and have greater input on the scope of coverage.
- 2) Coverages are written based upon the needs of their Members.
- 3) Flexibility in their underwriting as the exposures of the Members are relatively the same.
- 4) Payouts are capped at \$100,000 so it is easier for the Pool to forecast their loss exposure.

With this said, there are two major drawbacks for the MABE Pool program. First, the differential in proposed premiums between the two is substantial. The BB&T program is \$335,695 less than the MABE Pool proposal. In addition, they adhere to a strict application of the Sovereign Immunity which does not allow for any flexibility should FCPS believe that it has a responsibility of providing greater benefits to an injured party for which it is clear that Immunity caps are insufficient.

It is our recommendation that FCPS renews its coverages with BB&T and Ohio Casualty at the lower premium for this renewal. FCPS should in the future strive to obtain renewal estimates in advance at least 60 days prior to the renewal in order to determine the extent of any market shifts. If it appears rates are increasing enough to be within \$100,000 of the Pool's rate, we would recommend you move your business to the MABE Pool program.

**COVERAGE COMPARISON BETWEEN
FREDERICK COUNTY PUBLIC SCHOOLS AND FREDERICK COUNTY GOVT.**

	<u>FCPS</u>	<u>FCG</u>
I. <u>Property</u>		
Special Cause of Loss (all risk)	Yes	Yes
Replacement Cost	Yes	Yes
Earthquake	Yes (\$10,000,000)	Yes (\$7,500,000)
Flood	No	Yes (\$7,500,000)
Ordinance or Law	Yes (policy limit)	Yes (\$3,500,000)
Newly Acquired	Yes (\$500,000)	Yes (\$2,000,000)
Signs-Outdoor	Yes (\$10,000)	Yes (\$100,000)
Back-up Sewer & Drains	Yes (\$50,000)	Yes (\$50,000)
Property in Transit	Yes (\$250,000)	Yes (\$100,000)
Utility Services	Yes (\$25,000)	Yes (\$250,000)
Pollutant Clean-Up	Yes (\$25,000)	Yes (\$100,000)
Fine Arts	Yes (\$25,000)	Yes (\$584,258)
II. <u>Business Income</u>		
Special Cause of Loss (all risk)	Yes	Yes
Limits	\$5,000,000	\$7,500,000
III. <u>Valuable Papers</u>	Yes (\$1,000,000)	Yes (\$1,000,000)
IV. <u>Accounts Receivable</u>	Yes (\$100,000)	Yes (\$1,650,000)



V.	<u>Electronic Data Processing</u>		
	Limits	Yes (\$30,000,000)	Yes (\$5,500,000)
	All Risks	Yes	Yes
	\$1,000 deductible	Yes	No (\$5,000)
VI.	<u>Crime Coverage</u>	Yes	Yes
	A) Employee Dishonesty	Yes (\$500,000)	Yes (\$10,000)
	B) Forgery	Yes (\$500,000)	Yes (\$25,000)
	C) Theft of Money	Yes (\$100,000)	Yes (\$20,000)
	D) Money Orders	No	Yes (\$25,000)
VII.	<u>Boiler & Machinery</u>	Yes (\$5,000,000)	Yes (Policy Limit)
	A) Spoilage	Yes (\$25,000)	Yes (\$250,000)
	B) Ammonia Contamination	Yes (\$500,000)	Yes (\$25,000)
	C) Hazardous Substance	Yes (\$500,000)	Yes (\$250,000)
VIII.	<u>Commercial General Liability</u>	Yes	Yes
	Limits	\$3,000,000	\$3,000,000
	A) General Aggregate	\$3,000,000	\$3,000,000
	B) Products & Completed Ops.	\$3,000,000	\$3,000,000
	C) Personal & Advertising Injury	\$1,000,000	\$1,000,000
	D) Each Occurrence	\$1,000,000	\$1,000,000
	E) Rented Premises	\$1,000,000	\$1,000,000
	F) Medical Pay	\$ 10,000	-0-
IX.	<u>Other Liability Lines</u>		
	G) Nursing Homes	N/A	Yes
	H) Employee Benefits Legal	Yes (\$1,000,000)	Yes 1M/3M
	I) Professional Liability	Yes (School Leaders)	Yes (Public Officials)
	J) Employment Practices	Yes	Yes \$1,000,000
	K) Law Enforcement	N/A	Yes \$1,000,000
	L) Rec. Counsel	N/A	Yes
	M) Fiduciary Liability	No	Yes \$5,000,000



	N) Publishers Liability	No	Yes \$1,000,000
	O) Excess Umbrella	No	Yes \$9,000,000
	P) Cyber Liability	No	Yes \$2,000,000
	Q) Medical Professional	Yes (students)	Yes
	R) Abuse & Molestation	Yes (policy limit)	Yes \$1M/2M
X.	<u>Business Automobile</u>	Yes	Yes
	Liability Limit	\$1,000,000	\$1,000,000
	P.I.P.	\$ 2,500	\$ 2,500
	Medical Payments	\$ 5,000	N/C
	Uninsured Motorists	\$1,000,000	\$1,000,000
	Garage Keepers	\$ 100,000	\$ 300,000
	Garage Liability	\$1,000,000	No

Prepared by: The Hudson Group, Inc.

