

Board of Education

INFORMATION

TITLE: Current Proposals, Bids and Renewal

DATE: July 7, 2023

RESPONSIBLE ADMINISTRATOR: Charles Warren, CFO

BACKGROUND/CONSIDERATIONS:

The following is information related to current bids and proposals. Award status may be pending agreement on final pricing and contract.

1. Insurance

Requested by: Charles Warren, CFO

Selection Method: Renewal

Funding Source: Operating Funds

Award:

Policy	Provider	2022-2023	Difference	2023-2024
Student Accident	L.E. Smith & Assoc.	\$ 78,072	none	\$ 78,072
Professional Liability	BHC	\$ 30,189	(\$ 452)	\$ 29,737
Property, Vehicle & Mobile Equipment	ASBA	\$836,489	\$978,804	\$1,815,293
Totals		\$944,750	\$978,352	\$1,923,102

The District's student accident premium and Professional Liability premium were relatively unchanged. The Property insurance premium increased substantially due to a number of factors, including...

- Our Vision 2023 renovations increased our property values to insure.
- Insurance rates are going up across the state and nation.
- Our experience rate exploded due to hailstorm damage claims in the last two years.

The District has a number of outstanding hailstorm damage claims still in process. The District may prepare an RFP in the future, but significant reductions in insurance costs will not likely happen.

RECOMMENDATION:

This is an information item. No recommendation is required.

Please note that a risk consultant with the Arkansas Insurance Department has provided insight to the marketplace. It is listed on the second page of this document.

Commercial Property Insurance market conditions continue to decline. Insurance markets are reducing the amount of capacity they are willing to offer, if they offer any at all. Many insurance companies no longer offer commercial property insurance. This year, the primary insurance company participating in the Arkansas Public School Insurance Trust (APSIT) property insurance will reduce capacity 75%. As a result, other markets will have to fill the void. This is not the buyer's market the APSIT enjoyed for several years. The Risk Management Division of the Arkansas Insurance Department strives to maintain quality underwriting data so that the APSIT can get the best terms and conditions. Without that quality data this year, many insurance companies would decline to even consider our program. Based on expected market pricing, the 2023-2024 renewal premium for the APSIT property program is estimated to increase by 200%. Risk Management estimates that **premiums** to the participating districts will need to **increase 170%**. This is a shocking number. From our understanding, a comparable Arkansas school pool program is experiencing similar renewal woes. Here are a few of the market conditions tied to the increase:

- **Natural Disasters & Catastrophic Storm Loss** have increased not just in the U.S. but globally in recent years. In 2022, there were 18 weather/climate disaster events exceeding \$1billion each. The average from 1980-2022 for those events has been close to 8 annually. According to National Oceanic and Atmospheric Administration (NOAA), the annual average for the most recent years (2018-2022) is 18 events, per NOAA's first quarter 2023 release. The recent tornado events in Arkansas have brought worldwide public attention to Arkansas.
- **Inflationary Impact** – inflation has been a significant influence when settling property claims due to skyrocketing increases in construction costs, including building materials and labor costs. U.S. Bureau of Labor Statistics (PPI- Jan 2023 – Tables 7-14) reports that costs increased from 2020-2023 more than 30% in every category of nonresidential construction building types.
- **Increased Claims Costs** – Supply chain demand for products has also impacted claim settlements as it takes longer to obtain materials to reconstruct damaged or destroyed buildings. According to Gen Re, business interruption loss estimates also need to reflect longer reconstruction periods, disrupted supply chains and planning constraints. Twelve months is rarely, if ever, adequate to indemnify an insured for a large loss.
- **Reinsurance Pricing and Capacity** – the factors above have significantly impacted the cost of reinsurance, forcing many commercial insurance carriers to retain more risk at a higher cost due to less reinsurance capacity and increased pricing. Business Insurance reported that property catastrophe reinsurance rates for loss hit U.S. accounts jumped between 45% and 100% at Jan. 1 renewals, according to a Gallagher report.

Additionally, the deductible structure of the APSIT will change. The brokers for the APSIT property program are trying diligently to avoid percentage wind/hail deductibles. However, there will be following deductibles if the APSIT aggregate deductible is eroded. The following deductible for Wind/Hail will be \$250,000 per occurrence and All Other Perils will be \$100,000 per occurrence. Also keep in mind that the minimum deductible for districts had to go up to \$10,000 this year.

I know this is little consolation, and we are exploring possible solutions for the future, but this is the first rate increase for the APSIT program since the 2012-2013 renewal.

The Auto Insurance rate is flat. Final pricing to your district will depend on the automobiles on the vehicle schedule.

Timothy Miles

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