



New Jersey Schools Insurance Group
6000 Midlantic Drive, Suite 300 North
Mount Laurel, New Jersey 08054
www.njsig.org

Board of Trustees Meeting of October 20, 2021 Executive Director Report

NJSIG employees returned to the office two days a week beginning September 13, 2021 and operations have been running smoothly. For now, we intend to keep the status quo and monitor the COVID-19 situation. We are exploring remote work policies outside of COVID-19 and expect to bring one to the Board to review in the upcoming months.

At the September 15, 2021 board meeting, the Board voted to perform an initial member refund of 10% of net contributions for the workers' compensation fund for the 338 days of the 2020/2021 fiscal year for which the public health emergency was in effect. This represents approximately \$6,346,945.53 from July 1, 2020 until June 4, 2021. As a comparison, if approved, the average member refund for this second COVID-19 refund would be roughly double that of the COVID-19 refund we did for the 2019/2020 fiscal year. The COVID-19 initial member refund totaled \$3,279,199: \$3,100,232 in workers' compensation member contributions for the 2019/2020 fiscal year, and of \$178,967 in auto liability member contributions for the 2019/2020 fiscal year.

As you know from last time, school board insurance group regulations (N.J.A.C. 11:15-4.21) preclude refunds from being issued until at least twenty-four months have elapsed from the end of the fiscal year. We are finalizing the letter to the Department of Banking and Insurance to seek permission to waive this requirement, as we did last year. The only outstanding item to add to that letter is the final version of the audit report, which you will be voting on during this meeting. We are hopeful that DOBI will grant NJSIG's request again. We will not be able to start issuing these refunds until we get approval from DOBI. If and when it is, we expect that members will be able to request a check, or request a credit on a future invoice, by about May 2022. I will keep you updated of any response from DOBI.

Next, the cyber market is presenting a daunting challenge. There has been a significant increase in cybercrime in the last few years. In 2020 alone, the FBI received over 790,000 individual cyber complaints, with reported losses exceeding \$4 billion. According to the FBI, this represented a 69% increase in total complaints from 2019 to 2020. Unfortunately, NJSIG members have not been spared from this trend, and NJSIG's cyber insurer, Beazley Group, has paid out substantially in claims over the last several years to NJSIG's members.

While these claims prove that buying cyber insurance was a smart move, these losses make the path forward difficult. The cyber security safeguards that NJSIG's members have in place run the gamut. This lack of consistent cyber security safeguards makes it impossible for NJSIG to secure cyber insurance for the pool, with lower deductibles, from commercial insurers.

To drive this point home, the first round of sub-fund meetings this fall will focus on cyber liability and what our members can expect in the 22/23 renewal. Five of the sub-funds, ERIC NORTH, MOCSSIF, CAIP, NJEIF, and ERIC WEST, presented a joint webinar last week, on October 14, 2021, entitled "Cyber Underwriting Requirements—renewals could be at risk!," which offered 1 QPA CREDIT. Over 200 participants tuned in to watch.

As with the issues that have faced us all with COVID-19, what the future holds with respect to cyber risk is not clear. As we see it, as a pool, we have two basic options should we choose to try and offer a solution to this coverage for our members:

- Option one, offer a basic pass through coverage to NJSIG members, with no minimum cyber security threshold required. This option has the upside of making sure all NJSIG members have cyber coverage, no matter their cyber security controls; however, it comes with the very real downside of very large member deductibles. As of now, this is the only option available in the commercial pool market. Indeed, the most any carrier was willing to offer us as a pool last year was the cyber coverage we currently offer from Beazley Group – which carries substantial deductibles.
- Option two, offer a more comprehensive coverage, with lower deductibles available for members that have stronger cyber security controls in place, and much higher deductibles for members that do not. This option has the upside of providing NJSIG members with lower deductibles; however, it comes with some very significant downsides. Primarily, the commercial market will not accept this risk, so NJSIG would likely need to retain this risk itself. This represents risk for NJSIG's members, in that if our actuaries do not estimate the losses correctly, we might need to perform a supplemental assessment. That means that we would have to go back to the members to collect enough money to cover the claims that came in. That is obviously the last thing we would want to do. The other downside is that this option is likely to be significantly more expensive than our existing basic coverage.

With these options in mind, at last week's sub-fund meeting, I requested feedback from NJSIG members and brokers on what we should be doing on cyber.

Specifically I asked them:

- Do you want NJSIG to impose minimum cyber security controls on all members?
- If so, what minimum cyber security controls would be reasonable to have in place by July 1, 2022?
 - Multifactor authentication?
 - Endpoint protection (which is akin to what anti-virus protection used to be)?
 - Active employee training?
 - Comprehensive protocols on backups and testing backups?
- More generally, do you want NJSIG to take on additional cyber risk as a pool?
- And finally, are you willing to pay substantially more for cyber coverage if the deductibles were far lower?

I think it is important to get feedback from our members and brokers to know how to best accommodate our districts' cyber needs. While it seems incredible, if we want to pursue option two, there is little time to waste. To that end, I have asked our actuarial team to explore what that pricing would look like. I will report back once I have more details.

Respectfully Submitted,

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