



15. Appendix

A. Historical Perspective—1988 NJSBA Ted Reid



TED REID SPEECH INTRODUCTION

The attached speech was given by Ted Reid, former NJSBA Executive Director, at the 1988 NJSBAIG annual meeting. This meeting was held during the NJSBA Workshop in Atlantic City.

It provides more insight into the formation and early history of the Group. At this point in time the Group was part of the NJSBA.

The Group's Board of Trustees were NJSBA executive committee members. This group of Trustees decided to separate the Insurance Group's operation from the NJSBA because of an investment scandal outlined in the attached NJ State Commission of Investigation (SCI) report (appendix 15B).



PRESENTATION TO INSURANCE GROUP
1988 ANNUAL WORKSHOP
ATLANTIC CITY

GOOD AFTERNOON,

ALL OF YOU HERE TODAY ARE PURCHASING MEMBERS OF THE NEW JERSEY SCHOOL BOARDS INSURANCE GROUP. SOME OF YOU MAY HAVE BEEN WITH US SINCE OUR INCEPTION IN 1983. OTHERS MAY HAVE RECENTLY DECIDED TO JOIN.

I WOULD LIKE TO BACK UP A LITTLE AND EXPLAIN THE REASONS BEHIND THE GROUP'S FORMATION. MANY OF YOU MAY BE WELL AWARE OF MUCH OF MY PRESENTATION. I ASK YOU TO BEAR WITH ME FOR THE BENEFIT OF ALL.

IN RESPONSE TO A PERCEIVED LACK OF STABILITY IN THE COMMERCIAL INSURANCE MARKETPLACE AND AS A LONG TERM COMMITMENT BY THE ASSOCIATION TO PROVIDE A STABLE INSURANCE PROGRAM FOR SCHOOL DISTRICTS, AT THE LOWEST POSSIBLE NET COST CONSISTENT WITH A SOUND PROGRAM, A POOLING ARRANGEMENT FOR SCHOOL DISTRICTS WAS DETERMINED TO BE NECESSARY.

THE ENABLING LEGISLATION WHICH THE NEW JERSEY SCHOOL BOARDS ASSOCIATION OBTAINED, PRIMARILY THROUGH THE EFFORTS OF THE ASSOCIATION LOBBYING STAFF WAS A DIFFICULT THING TO ACCOMPLISH. BUT ACCOMPLISH IT

WE DID, LONG BEFORE POOLING IN NEW JERSEY WAS FASHIONABLE. POOLING WAS RESISTED BECAUSE IT WAS VIEWED AS UNNECESSARY AND EVEN DANGEROUS.

TIME HAS A WAY OF PROVIDING WHAT NO AMOUNT OF RHETORIC CAN. AS IT TURNED OUT, THE TIMING OF THE ASSOCIATION COULD NOT HAVE BEEN BETTER. JUST WHEN THE PROGRAM GOT UP AND RUNNING, THE INEVITABLE CYCLICAL DOWNTURN IN THE INSURANCE MARKETPLACE HIT ONCE AGAIN.

SCHOOL DISTRICTS AROUND THE STATE FOUND THEMSELVES BEING CANCELLED, HAVING COVERAGE LIMITS SIGNIFICANTLY REDUCED, AND AT THE SAME TIME PREMIUMS WERE SKYROCKETING. IN MANY INSTANCES, COVERAGE WAS NOT AVAILABLE AT ANY PRICE.

AS IN PAST CYCLES, IT WAS A CHOICE OF CONVENTIONAL INSURANCE AS OFFERED, TAKE IT OR LEAVE IT, OR NO INSURANCE AT ALL.

ONCE AGAIN, THE CRISIS KILLED BUDGET STABILITY AND COVERAGE ADEQUACY. AT THAT TIME, SINCE THEN, AND PRESENTLY, THE COMMERCIAL INSURANCE MARKETPLACE HAS DEMONSTRATED THE FOLLOWING CHARACTERISTICS:

- MODERATE TO INTENSE COMPETITION FOLLOWED CLOSELY BY SEVERE CONTRACTIONS AND HUGE PRICE INCREASES.

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- MANY SCHOOL DISTRICTS FIND THEMSELVES UNABLE TO OBTAIN THE KINDS AND AMOUNTS OF INSURANCE THEY REQUIRE.

 - CONTINUED RESTRICTION IN THE KINDS AND AMOUNTS OF INSURANCE AVAILABLE, INCLUDING AN INCREASING NUMBER OF POLICY EXCLUSIONS WHICH RESTRICT OR ELIMINATE COVERAGE FOR EXPOSURES WHICH INDIVIDUAL DISTRICTS CANNOT PRUDENTLY SELF-INSURE.

 - NO ONE INSURANCE COMPANY OFFERS ALL THE PROPERTY AND LIABILITY INSURANCE NEEDED, AND FEW OFFER IN THE AGGREGATE THE KINDS AND AMOUNTS OF INSURANCE REQUIRED.

 - THE LIST OF INSURERS OFFERING THE REQUIRED COVERAGE GETS SHORTER EACH YEAR.

POOLING CREATES ADDITIONAL CAPACITY IN THE MARKETPLACE AND IS USUALLY WELL SUPPORTED BY THE PARTICIPANTS OVER THE LONG TERM BECAUSE THEY SEE IT AS A MEANS OF ASSURING THEMSELVES A STABLE LOW COST METHOD OF MANAGING THEIR PROPERTY AND LIABILITY RISKS OF LOSS, OVER TIME.

POOLING QUITE OFTEN ALSO CAUSES MORE ATTENTION TO GOOD RISK MANAGEMENT AND LOSS PREVENTION EFFORTS ON THE PART OF PARTICIPANTS SINCE THEY SEE A MORE DIRECT RELATIONSHIP BETWEEN THEIR PREMIUMS AND

THEIR LOSSES. IT IS THEIR MONEY THAT IS AT STAKE, AND THEIR GAIN WHEN LOSSES ARE REDUCED.

THE NJSBAIG PROGRAM SOLVED MANY OF THE AVAILABILITY AND PRICING PROBLEMS SCHOOL DISTRICTS EXPERIENCED, AS EVIDENCED BY THE SIGNIFICANT NUMBER OF INSURED MEMBERS PRESENTLY IN THE GROUP.

IT ALSO DEMONSTRATED ITS ABILITY TO SERVICE THE BUSINESS PROFESSIONALLY, AND TO OPERATE THE PROGRAM SOUNDLY FROM A FINANCIAL STANDPOINT.

SOME OTHER POOLS WHICH EXIST ARE OPERATING WITHOUT TRUE REINSURANCE, EITHER FOR INDIVIDUAL CLAIMS, OR FOR ANNUAL AGGREGATE CLAIMS. THE NJSBAIG OPERATES VERY MUCH LIKE A CONVENTIONAL COMMERCIAL INSURANCE COMPANY, WITH REINSURANCE FROM THE BIGGEST PLAYERS IN THE BUSINESS AND WITHOUT AS MANY RESTRICTIONS OR LEVELS OF COST USUAL TO INSURANCE COMPANIES.

THE NJSBAIG PROGRAM'S RESERVING PRACTICES HAVE PASSED MUSTER THROUGH VARIOUS CLAIM AND CLAIMS RESERVE AUDITS, ACTUARIAL REVIEWS, AND FINANCIAL AUDITS.

AT THIS TIME, IT IS CLEAR THAT THE NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP HAS SERVED AND CONTINUES TO SERVE A VERY IMPORTANT FUNCTION.

POOLING, AS AN ALTERNATIVE TO CONVENTIONAL COMMERCIAL INSURANCE, IS NOW GENERALLY VIEWED AS A GOOD ALTERNATIVE WHEN ESTABLISHED FOR THE RIGHT REASONS, AND WHEN MANAGED PROFESSIONALLY.

THE REGULATORS IN NEW JERSEY, AND THE DEPARTMENT OF INSURANCE IN PARTICULAR, ARE SUPPORTIVE OF THIS APPROACH.

THE PROGRAM NOW PROVIDES FOR JUST ABOUT ALL THE INSURANCE REQUIRED BY SCHOOL DISTRICTS, INCLUDING:

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|---|-------------------------------------|
| PROPERTY
(INCLUDES EARTHQUAKE/FLOOD) | GENERAL LIABILITY (BROAD FORM) |
| INLAND MARINE | AUTOMOBILE |
| BOILER AND MACHINERY | UMBRELLA LIABILITY |
| CRIME | SCHOOL LEADERS ERRORS AND OMISSIONS |

AS NEEDS ARISE OR ARE IDENTIFIED, COVERAGES ARE OFFERED.

NO COMMERCIAL INSURANCE COMPANY CAN MATCH THIS EFFORT.

WE DON'T SUGGEST THAT ANY INSURANCE COMPANY SHOULD HAVE TO SERVE ALL DISTRICTS, OR OFFER ALL THE COVERAGES THAT SCHOOL DISTRICTS REQUIRE, IF THEY DO NOT CHOOSE TO.

THE NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP HAS CHOSEN TO SERVE ALL SCHOOL DISTRICTS WHETHER LARGE OR SMALL, URBAN, SUBURBAN OR RURAL.

IN THE PROCESS OF DOING SO, IT IS ALSO VERY CLEAR THAT IT HAS CAUSED THE OTHER PROVIDERS OF THIS KIND OF INSURANCE TO RESPOND MORE POSITIVELY TO THOSE DISTRICTS WHICH ARE NOT CURRENTLY IN THE ASSOCIATION PROGRAM. COVERAGE LIMITATIONS SEEM TO HAVE ABATED AND PRICES ARE BECOMING MORE COMPETITIVE.

WHILE SOME MAY ARGUE THAT THE EXISTENCE OF THE GROUP IS NOT THE CAUSE OF THIS CHANGE, IT WOULD BE NAÏVE TO BELIEVE THAT THIS IS NOT THE CASE.

SUBMISSION FROM AGENTS AND BROKERS IS ENCOURAGED, AND A COMMISSION IS PAID TO THE LICENSED AGENT OR BROKER.

THIS SERVES TWO IMPORTANT FUNCTIONS:

1. IT ENABLES THE INDIVIDUAL SCHOOL DISTRICT WHICH NEEDS AND WANTS THE PROFESSIONAL SERVICE OF A QUALIFIED LOCAL AGENT, TO RETAIN THOSE SERVICES.

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2. IT PROVIDES AGENTS AND BROKERS WITH A SOURCE FOR A COMPETITIVE PROPOSAL. THIS HAS PROVEN ESPECIALLY VALUABLE WHEN THE COMPANY OR COMPANIES REPRESENTED BY THE AGENT OR BROKER CANNOT OR WILL NOT INSURE SCHOOL DISTRICT EXPOSURES.

ADDITIONAL UNDERWRITING CAPACITY IS GOOD FOR THE SCHOOL DISTRICTS IN NEW JERSEY. IT ASSURES COMPETITION FOR THEIR BUSINESS AND TENDS TO HOLD DOWN COSTS. HOPEFULLY, SCHOOL DISTRICTS WILL REMEMBER TWO THINGS:

1. A YEAR OR TWO AGO, THEY COULD NOT GET A POSITIVE RESPONSE FROM MOST COMMERCIAL INSURANCE COMPANIES TO THEIR REQUEST FOR COVERAGE OR FOR ANY MODIFICATION IN THE SKYROCKETING PRICES BEING QUOTED.
2. THE NJSBAIG HAS SERVED ITS SCHOOL DISTRICT CONSTITUENCY THROUGH THIS CYCLE, AND IS COMMITTED TO DO SO THROUGH ALL CYCLES.

MUCH OF THE ADDITIONAL UNDERWRITING CAPACITY WHICH IS CAUSING THIS INCREASED INTEREST IN PROVIDING COVERAGE ARISES OUT OF THE HUGE PROFITS INSURANCE COMPANIES HAVE EARNED FROM THE HIGH RATES CHARGED IN THE PAST COUPLE OF YEARS, AND FROM THE GAINS REALIZED IN THE STOCK MARKET.

IF THE INSURANCE INDUSTRY MAKES THE SAME MISTAKES IT HAS MADE SEVERAL TIMES PREVIOUSLY, AND THERE IS NOTHING IN ITS PRESENT APPROACH TO

INDICATE OTHERWISE, IT WILL REDUCE PRICES BELOW WHAT IS REQUIRED TO PAY CLAIMS AND COVER ITS ADMINISTRATIVE COSTS, AND THE SAME PROBLEMS OF UNAVAILABILITY AND HUGE PRICE INCREASES WILL FOLLOW, AS THE NIGHT FOLLOWS THE DAY.

PART OF THIS PHENOMENON IS CAUSED BY THE PRESSURE PUT UPON CORPORATE MANAGERS AND OFFICERS TO ACHIEVE RESULTS IMMEDIATELY, RATHER THAN BEING ALLOWED TO FOCUS ON THE LONG TERM.

FOR SOME INSURANCE COMPANIES, IT HAS MEANT THEIR DEMISE.

MORE COMPANIES HAVE FAILED IN THE PAST THREE YEARS, AND MORE ARE IN FINANCIAL DIFFICULTY THAN HAS EVER BEEN THE CASE FOR A COMPARABLE PERIOD IN THE HISTORY OF THE INSURANCE BUSINESS.

MANY INSURANCE COMPANIES HAVE HAD THEIR UNDERWRITING CAPACITY TO INSURE LIABILITY LIMITS REDUCED TO A MUCH GREATER EXTENT THAN WOULD HAVE BEEN IMAGINED JUST THREE SHORT YEARS AGO.

GIANTS IN THE FIELD HAVE HAD THAT CAPACITY REDUCED FROM A HIGH OF FORTY MILLION TO FIFTY MILLION DOLLARS DOWN TO FIVE MILLION TO TEN MILLION DOLLARS.

SMALLER COMPANIES HAVE HAD THEIR CAPACITY REDUCED FROM TEN MILLION TO ONE MILLION OR TWO MILLION DOLLARS. FOR SOME KINDS OF EXPOSURES, THEY HAVE NO UNDERWRITING CAPACITY AT ALL.

THE NJSBAIG HAS SEEN THE RESULTS OF THIS OVER TIME, AND THE EFFECT IT HAS ON SCHOOL DISTRICTS.

WHILE THE GROUP MUST ATTEMPT TO MEET COMPETITION, IT MUST DO SO IN A PRUDENT AND REASONABLE MANNER; COUNTING ON ITS MEMBERS TO ALSO FOCUS ON THE LONGER TERM BENEFITS WHICH STABILITY IN INSURANCE AVAILABILITY AND PRICING CAN PROVIDE.

THE ASSOCIATION INSURANCE GROUP SETS RATES AT THE LOWEST LEVEL POSSIBLE; CHARGING ONLY WHAT IS REQUIRED TO PAY CLAIMS AND TO MANAGE THE PROGRAM EFFICIENCY AND PROFESSIONALLY, RELYING UPON THE ADVICE AND COUNSEL OF ITS RETAINED PROFESSIONALS WHICH INCLUDE MARSH AND McLENNAN, COOPERS AND LYBRAND, AND THE REINSURERS SELECTED.

NO ORGANIZATION CAN START, AND BUILD WHAT THIS ONE HAS, WITHOUT EXPERIENCING SOME GROWING PAINS.

(NOTE: SHOW EXHIBIT B 1 COVERAGES-REINSURERS GROWTH HISTORY)

(THEN SHOW EXHIBIT B 2 ----- PARTICIPATION HISTORY)

WHEN THE INSURANCE PROGRAM WAS INITIALLY BEGUN, THE GROUP STARTED WITH WORKERS' COMPENSATION AND THEN MOVED INTO OFFERING "OTHER LINES".

AS PART OF THIS PROGRAM EXPANSION, IT WAS LEARNED THAT THE OFF-THE-SHELF PRODUCTS, EVEN WHEN WRITTEN UNDER VERY BROAD FORMS, WAS NOT ALWAYS ADEQUATE TO THE NEEDS OF ALL THE SCHOOL DISTRICTS WHICH APPLIED.

WHEN THIS WAS DISCOVERED, COVERAGE CHANGES AND COVERAGE IMPROVEMENTS WERE NEGOTIATED TO PROVIDE WHAT WAS REQUIRED. THE GROUP PARTICIPATION HAS GROWN FROM SIX BOARDS IN 1983 TO 176 BOARDS IN 1987.

EACH YEAR, REINSURANCE IS NEGOTIATED TO LIMIT THE GROUP'S EXPOSURE TO INDIVIDUAL AND ANNUAL AGGREGATE CATASTROPHIC LOSS, AND COVERAGE IMPROVEMENTS ARE INCLUDED.

WHEN INSURERS SAID THEY COULD NOT COVER CLAIMS ARISING OUT OF ATHLETIC PARTICIPATION, THE NJSBAIG CONTINUED TO DO SO.

WHEN THE UMBRELLA LIABILITY MARKET LOOKED LIKE IT WAS GOING TO DRY UP ALTOGETHER, THE NJSBAIG CAME OUT WITH ITS OWN PROGRAM. IT NOW OFFERS LIMITS TO FIVE MILLION DOLLARS.

THIS COVERAGE IS FULLY REINSURED WITH NONE OF THE RISKS RETAINED BY THE GROUP. LOSSES UNDER IT CANNOT AFFECT THE BALANCE OF THE PROGRAM.

WHEN IT LOOKED LIKE SCHOOL BOARD LEGAL LIABILITY INSURANCE WAS GOING TO BE OFFERED ONLY AT LOW LIMITS, VERY HIGH COST, AND HIGH DEDUCTIBLES; THE NJSBAIG OFFERED A PROGRAM WHICH IMPROVED ON ALL OF THESE ITEMS AND INCLUDES DISCRIMINATION COVERAGE.

THIS COVERAGE IS FULLY REINSURED WITH NONE OF THE RISKS RETAINED BY THE GROUP. LOSSES UNDER IT CANNOT AFFECT THE BALANCE OF THE PROGRAM.

THE SOUNDNESS AND THE STABILITY OF THE GROUP, COUPLED WITH THE MARKET CLOUT OF THE GROUP'S SERVICING AGENT, MARSH AND McLENNAN, HAS BEEN INSTRUMENTAL IN ATTRACTING THE LARGEST AND MOST CAPABLE REINSURERS TO SUPPORT THE VARIOUS COVERAGES IN THE OVERALL PROGRAM. THE LIST OF INSURERS AND REINSURERS INVOLVED READS LIKE THE WHO'S WHO OF THE INSURANCE COMMUNITY.

THIS HAS BEEN AND CONTINUES TO BE A KEY ELEMENT IN THE SUCCESS OF THE PROGRAM. IT WILL CONTINUE TO BE A REQUIREMENT OF THE PROGRAM THAT ONLY THE MOST SIGNIFICANT PLAYERS IN THE INSURANCE MARKETPLACE WILL BE PERMITTED TO PROVIDE THE INSURANCE AND REINSURANCE REQUIRED.

SOME OF THIS EFFORT ON THE PART OF THE NJSBAIG CAN BE VIEWED AS SHORT TERM AID. SOME OF IT IS LONG TERM AID.

IN THE SHORT TERM, THE EMERGENCIES CREATED HAVE BEEN TAKEN CARE OF. IN THE PROCESS, SOME LONG TERM CURES HAVE FOLLOWED.

THIS IS EVIDENCED BY THE MANNER IN WHICH SOME OF THE OTHER PROVIDERS HAVE CHANGED THEIR POSITION SO THAT ADDITIONAL EMERGENCIES WERE AVOIDED. AS THEIR NEGATIVE REACTION SLOWED AND THE CLAIMS WHICH WERE EXPECTED AND WHICH PROMPTED THE NEGATIVE REACTION DID NOT MATERIALIZE, SOME STABILITY HAS BEEN CREATED.

ALL THE WHILE, THE NJSBAIG PROGRAM CONTINUES IN ITS COMMITMENT TO DO WHAT IS REQUIRED, DAY IN AND DAY OUT, YEAR IN AND YEAR OUT; A CONSISTENT SOURCE TO ALL OF ITS MEMBERS ALL OF THE TIME, WITH THE ADDITIONAL COMMITMENT TO PROVIDE WHAT IS REQUIRED AT THE LOWEST NET COST POSSIBLE.

THIS APPROACH IS THE BASIS FOR EXPECTING THAT THIS PROGRAM WILL PROVIDE THE MOST STABLE AND LOWEST NET COST INSURANCE PROGRAM TO SCHOOL DISTRICTS IN NEW JERSEY, AND INCLUDES THE FOLLOWING ELEMENTS WHICH WILL HELP ASSURE THIS RESULT:

1. ONLY NEW JERSEY SCHOOL DISTRICTS CAN PARTICIPATE.

NO OTHER KIND OF RISK CAN IMPACT THE RESULTS.

2. GROUP PURCHASING POWER IS AT WORK.

THIS HAS HELPED IN THE NEGOTIATIONS FOR ALL THE COVERAGES PRESENTLY OFFERED AND WILL CONTINUE TO HELP IN THE NEGOTIATIONS AND RENEWAL COVERAGE AND RATES.

IT HAS BEEN A KEY FACTOR IN ARRANGING THE NEW COVERAGES WHICH HAVE BEEN OFFERED.

3. THE OVERALL COST OF ADMINISTRATION IS LESS THAN THAT OF COMMERCIAL INSURANCE COMPANIES.

THE PRESENT COST OF ADMINISTRATION IS RUNNING APPROXIMATELY 21 PERCENT. ADDITIONALLY, ALL INVESTMENT INCOME IS RETAINED BY THE GROUP.

A REVIEW OF THE INFORMATION IN THE BEST'S INSURANCE REPORTS WILL INDICATE THAT THE AVERAGE COST FOR COMMERCIAL INSURANCE COMPANIES KNOWN TO PROVIDE INSURANCE TO SCHOOL DISTRICTS IS IN THE RANGE OF 28.5 PERCENT TO 33.1 PERCENT.

THE NJSBAIG DOES HAVE THE ADVANTAGE OF NOT HAVING TO PAY INSURANCE PREMIUM TAXES BUT THAT DOES NOT ACCOUNT FOR THE DIFFERENCE. PREMIUM TAXES IN NEW JERSEY ON PROPERTY AND LIABILITY INSURANCE PREMIUMS ARE APPROXIMATELY 3.5 PERCENT.

4. THE FAVORABLE EXPERIENCE OF INDIVIDUAL MEMBERS OF THE NJSBAIG IS REWARDED THROUGH EXPERIENCE MODIFICATION RATE CREDITS AND THROUGH DIVIDENDS AT THE END OF EACH YEAR.

PROFITS WHICH RESULT FROM REDUCED OPERATIONAL COSTS AND GOOD EXPERIENCE OF THE GROUP AS A WHOLE, ARE USED FOR THE BENEFIT OF ALL THE INSURED MEMBERS. AS PREVIOUSLY STATED, NO ONE OTHER THAN MEMBERS PARTICIPATE FINANCIALLY IN ANY WAY IN THE PROGRAM.

5. INSURANCE/REINSURANCE GAINS ARE EXPECTED TO ARISE OUT OF TWO SOURCES:

- WHEN THE GROUP AS A WHOLE DOES NOT EXPERIENCE THE EXPECTED FREQUENCY OF CLAIMS, LARGE OR SMALL, THE PREMIUMS COLLECTED TO COVER THIS CONTINGENCY ARE NOT LOST TO THE INSURER TO WHICH THEY WOULD ORDINARILY BE COMMITTED; THEY STAY WITH THE GROUP.

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- WHEN LARGE CATASTROPHIC TYPE CLAIMS OCCUR, THE OVERALL RESULTS OF THE GROUP ARE INSULATED BY THE REINSURANCE WHICH IS IN PLACE FROM LARGE REPUTABLE, FINANCIALLY SOUND REINSURERS.

AN IMPORTANT SERVICE IS PROVIDED TO ALL INSURED MEMBERS TO HELP REDUCE INCIDENTS OF LOSS.

USING THE SERVICES OF M&M PROTECTION CONSULTANTS, THE GROUP CONDUCTS SAFETY INSPECTIONS TO IDENTIFY PHYSICAL CHARACTERISTICS OR WORK PRACTICES THAT MAY LEAD TO INJURIES.

A FORMAL REPORT IS PRESENTED TO THE SCHOOL DISTRICT HIGHLIGHTING IMPROVEMENTS WHICH ARE NEEDED, WITH EMPHASIS ON THE MOST SIGNIFICANT ITEMS. BY IMPLEMENTING THE NEEDED CHANGES, THE NUMBER OF LOSSES ARE REDUCED, GENERATING BETTER LOSS EXPERIENCE RESULTS, FOR THE INDIVIDUAL SCHOOL DISTRICT AND THE GROUP AS A WHOLE.

THE GROUP ALSO PROVIDES PERIODIC SAFETY EDUCATION SEMINARS AT VARIOUS SITES THROUGHOUT THE STATE. TOPICS COVERED INCLUDE THE RIGHT-TO-KNOW LAW, THE NEW JERSEY FIRE CODE, ACCIDENT INVESTIGATION TECHNIQUES, SPORTS SAFETY, AND OTHER SUBJECTS OF INTEREST AND IMPORTANCE TO SCHOOL DISTRICTS.

THE NJSBAIG HAS ENJOYED EXCELLENT SUCCESS TO DATE AND EXPECTS TO CONTINUE THAT SUCCESS PATTERN.

THIS RESULT IS ATTRIBUTABLE TO THE MANY PEOPLE WHO HAVE BEEN INVOLVED STARTING WITH THE MOST IMPORTANT PARTICIPANT, THE INSURED SCHOOL DISTRICTS AND GOING ON TO INCLUDE:

1. ASSOCIATION STAFF – THEY KNOW AND UNDERSTAND SCHOOL DISTRICTS AND THEIR INSURANCE NEEDS AS NO ONE ELSE CAN.

2. SERVICING AGENT, MARSH & MCLENNAN – THEY HAVE THE PROFESSIONAL EXPERTISE AND THE MARKET CLOUT TO OBTAIN THE COVERAGES AND THE REINSURANCE REQUIRED. THEY OBTAINED THIS AT A TIME WHEN IT WAS VERY DIFFICULT TO DO AND THEY HAVE ARRANGED THE REINSURANCE ON CATASTROPHE TYPE EXPOSURES IN A MANNER WHICH LEAVES THE INSURANCE GROUP INSULATED FROM RISK COMPLETELY WHERE THE POTENTIAL FOR A CATASTROPHIC LOSS IS POSSIBLE.

3. VARIOUS OTHER RETAINED PROFESSIONALS WHO HAVE BEEN BROUGHT IN TO ADVISE THE GROUP AS IT GREW AND RECOGNIZED THE NEED FOR ADDITIONAL CRITICAL ANALYSIS AND PROFESSIONAL ADVICE INCLUDING SUCH SERVICES AS ACTUARIAL, CLAIMS RESERVES REVIEW, LEGAL DEFENSE TEAM WITH EXPERTISE IN NEW JERSEY ABOUT NEW JERSEY SCHOOL

DISTRICTS AND TITLE 59, WHICH GOVERNS THEIR LIABILITY OBLIGATIONS TO
A LARGE EXTENT.

EACH TIME A PROBLEM HAS BEEN IDENTIFIED IT HAS BEEN DEALT WITH
EXPEDITIOUSLY WITH THE RESULT THAT IN JUST ABOUT EVERY INSTANCE, THE
INSURED MEMBERS WERE SHELTERED FROM THE PROBLEM AND WERE SERVED
EVERY BIT AS WELL AS THEY WOULD HAVE BEEN IN THE COMMERCIAL INSURANCE
MARKETPLACE; PROBABLY BETTER IF YOU CONSIDER THE WILD GYRATIONS THEY
HAVE OTHERWISE BEEN SUBJECTED TO OUTSIDE OF THE NJSBA INSURANCE
GROUP.

(NOTE EXHIBIT B – PARTICIPATION PREMIUMS BY YEARS)

ALONG WITH THIS EXHIBIT FLOWS THE ACCUMULATION OF ASSETS BY THE GROUP.

ALL THE PREMIUM DOLLARS COLLECTED BY THE NJSBAIG ARE USED ONLY FOR THE
NEEDS AND THE BENEFIT OF ITS MEMBERS.

ALL MONEY COLLECTED AS PREMIUMS IS USED TO PAY CLAIMS AND TO SERVICE
AND ADMINISTER THE PROGRAM.

NO PERSON OR FIRM PROVIDING COVERAGE OR SERVICE TO NJSBAIG SHARES IN
ANY PROFITS, DIVIDENDS, BONUS, OR OTHER TYPE OF SPECIAL COMPENSATION
ARRANGEMENTS.

(SHOW EXHIBIT C – FINANCIAL RESULTS)

THIS EXHIBIT POINTS TO OUR GROWTH SINCE THE END OF 1984 AND ALSO SHOWS OUR INVESTMENT INCOME FOR EACH YEAR.

SINCE THE ISSUE OF THE REDUCTION IN ANNUAL INVESTMENT EARNINGS HAS RECEIVED SUCH WIDESPREAD PUBLICITY RECENTLY, IT WOULD NOT DO TO NOT MENTION IT.

IT IS IMPORTANT TO REALIZE THAT THE INVESTMENT ACCOUNT REALIZED A GAIN FOR THE YEAR IN THE RANGE OF FIVE HUNDRED FIFTY THREE THOUSAND DOLLARS. HISTORY OF THE PROGRAM – GAINS HAVE EXCEEDED THE LOSS WHICH WAS INCURRED IN 1986-87.

THE GROUP DID NOT HAVE A NET NEGATIVE INVESTMENT RESULT DURING THE HISTORY OF THE PROGRAM.

A MISTAKE WAS MADE. IT HAS BEEN ADDRESSED AND CONTINUES TO BE ADDRESSED. IT WILL BE RESOLVED SATISFACTORILY, GIVEN TIME.

ON THE OVERALL SCALE OF THINGS, IT IS NOT A DANGEROUS OCCURRENCE AND DOES NOT THREATEN THE LONG TERM VIABILITY OF THE INSURANCE GROUP, AND

MUCH MORE IMPORTANTLY, DOES NOT AFFECT THE INITIAL OR CONTINUING REASON FOR BEING.

IF ANYONE HAS FOLLOWED THE FORTUNES OF THE LARGE NATIONAL COMMERCIAL INSURANCE COMPANIES FOR ANY PERIOD OF TIME, IT WILL BE QUITE CLEAR THAT THEIR UNDERWRITING AND INVESTMENT DECISIONS, WITH MANY SEASONED PROFESSIONALS ON STAFF, HAVE EXPERIENCED LARGER FLUCTUATIONS IN THEIR UNDERWRITING AND INVESTMENT RESULTS THAN IS THE CASE WITH THE NJSBAIG.

NOT ONLY HAS THE "GROUP" ACHIEVED SUCCESS IN THE VAGARIES OF THE UP AND DOWN INSURANCE CYCLES, IT HAS ALSO PERFORMED ADMIRABLY IN LOSS EXPERIENCE WHEN COMPARED TO INDUSTRY STATISTICS. THE INDUSTRY DOES NOT PUBLISH DATA ON A CLASS-BY-CLASS BASIS SO IT IS DIFFICULT TO COMPARE OUR SCHOOLS-ONLY PROGRAM EXACTLY. HOWEVER, WE CAN COMPARE OUR FIGURES AGAINST EXPECTED LOSS RATIOS IN THE INDUSTRY. EXPECTED LOSS RATIOS INDICATE THAT PERCENT OF THE PREMIUM DOLLAR WHICH THE INDUSTRY ANTICIPATES WILL BE USED FOR LOSSES.

(NOTE: EXHIBIT D ----- RATIO OF LOSS TO STANDARD PREMIUM)

THESE EXPECTED RATIOS ARE TAKEN FROM INSURANCE SERVICES OFFICES PUBLICATIONS FOR GENERAL LIABILITY, AUTOMOBILE LIABILITY AND PROPERTY AND FROM THE NEW JERSEY COMPENSATION BUREAU FOR WORKERS' COMPENSATION. A FURTHER INTERESTING COMPARISON FOR WORKERS'

COMPENSATION FOR WHICH WE HAVE THE MOST YEARS OF EXPERIENCE IS THE FOLLOWING YEAR-BY-YEAR PICTURE OF ACTUAL LOSS RATIOS EXPERIENCED. WHILE THE NEW JERSEY COMPENSATION BUREAU EXPECTS A LOSS RATIO OF 61 PERCENT, THAT IS NOT THE AMOUNT WHICH THEY'VE ACTUALLY INCURRED IN RECENT YEARS.

WHILE WE COMPARE QUITE WELL TO THE INSURANCE INDUSTRY IN LOSS STATISTICS, WE HAVE ROOM FOR MUCH IMPROVEMENT BEFORE WE MEET OUR OWN GOALS FOR LOSS LEVELS, PARTICULARLY IN WORKERS' COMPENSATION AND IN GENERAL LIABILITY.

SINCE WE HAVE BEEN POOLING WORKERS' COMPENSATION LONGER, WE HAVE MORE DATA TO WORK WITH. STUDIES HAVE BEEN RUN BY OUR SERVICE COMPANY TO DETERMINE LOSS RATIOS OF VARIOUS CATEGORIES OF SCHOOLS. THE PARTICIPANTS WERE DIVIDED INTO URBAN, SUBURBAN, AND RURAL, BASED UPON POPULATION DENSITY STATISTICS, NOT GEOGRAPHIC LOCATION. ANOTHER GROUPING WAS DONE BY LARGE, MEDIUM, AND SMALL SIZE CATEGORIES BASED UPON PROFESSIONAL PAYROLL. TOTAL PAYROLL WAS NOT USED, SINCE A NUMBER OF DISTRICTS DO NOT HAVE NON-PROFESSIONAL PAYROLL DUE TO USE OF CONTRACTED LABOR.

THE RESULTS HAVE BEEN INTERESTING. THE NEXT OVERHEAD SHOWS THE RATIOS OF LOSSES INCURRED TO PREMIUMS COLLECTED FOR THESE GROUPINGS. FOR THE PURPOSE OF DISCUSSING OUR OWN LOSS EXPERIENCE DETAIL, WE WILL SWITCH

FROM USING STANDARD PREMIUM TO THE USE OF THE GROUP'S COLLECTED AND EARNED PREMIUMS. THIS IS DONE BECAUSE WE DO NOT CHARGE FULL STANDARD PREMIUMS, AS YOU ALL KNOW.

(NOTE: SHOW EXHIBIT E ----- GROUP LOSS RATIO)

IT CAN READILY BE SEEN THAT HIGH POPULATION DENSITY DISTRICTS TEND TO HAVE A GREATER PERCENT OF PREMIUM GO TOWARD WORKERS' COMPENSATION CLAIMS THAN OTHERS. INTERESTINGLY, BOTH LARGE AND SMALL DISTRICTS SHOW HIGHER THAN AVERAGE WORKERS' COMPENSATION LOSS RATIO TENDENCIES, WHILE MEDIUM SIZE DISTRICTS OFFER THE BEST PERFORMANCE. NATURALLY, THESE ARE GENERALIZATIONS AND THERE ARE INDIVIDUAL DISTRICTS IN EACH CATEGORY ABOVE AND BELOW THESE PERCENTAGES.

A SIMILAR BREAKDOWN CAN BE SHOWN FOR THE GENERAL LIABILITY, THE ONLY OTHER COVERAGE LINE FOR WHICH THERE IS SIGNIFICANT CLAIMS ACTIVITY. HOWEVER, SINCE THIS PROGRAM HAS ONLY TWO YEARS OF EXPERIENCE, ITS DATA IS NOT MATURE AND IS THEREFORE A BIT LESS RELIABLE.

CONTROLLING LOSSES CERTAINLY MUST REMAIN OUR ONGOING GOAL. THE CLAIMS PERFORMANCE REPRESENTS A VAST NUMBER OF CLAIMS SERVICED, ADJUSTED AND CLOSED BY OUR SERVICE COMPANY. MANY LARGER CLAIMS REMAIN OPEN.

(NOTE: SHOW EXHIBIT F ----- CLAIMS VOLUME)

OUR SERVICE CARRIER IS USING EVERY APPROPRIATE TECHNIQUE AVAILABLE TO REDUCE AND CONTROL THE CLAIMS AMOUNTS. FURTHER, THE ASSOCIATION HAS HIRED OUTSIDE CLAIMS AUDITORS TO REVIEW THE PROCEDURES OF MARSH & McLENNAN AND RECOMMEND IMPROVEMENTS WHERE BENEFICIAL.

MARSH & McLENNAN HAS RECENTLY INTERVIEWED INSURER CLAIMS MANAGERS TO STUDY THEIR SERVICE STATISTICAL RECORDS AND FIND THAT NJSBAIG CLAIMS PROCEDURE MEET OR ARE BETTER THAN INSURER FIGURES IN CLAIMS CLOSINGS AND AVERAGE CLAIMS AMOUNTS.

LOSS CONTROL EFFORTS ARE IMPORTANT AS WELL. TO DATE, THE GROUP LOSS CONTROL M&M PROTECTION CONSULTANTS HAVE CONDUCTED OVER 500 BUILDING INSPECTIONS IN MEMBER DISTRICTS. EIGHT NEW DISTRICTS TO THE PROGRAM HAVE 45 BUILDINGS WHICH ARE IN PROCESS OF INSPECTIONS THIS FALL. A TOTAL OF EIGHT SEMINARS HAVE BEEN CONDUCTED THROUGHOUT THE STATE AND M&M P.C. AFFORDED INDIVIDUAL MISCELLANEOUS SERVICES TO NUMEROUS DISTRICTS. ADDITIONALLY, MORE VIGOROUS LOSS CONTROL EFFORTS WILL AID THE SUCCESS OF OUR INSURANCE GROUP.

IT IS TIME TO MOVE ON WITH THE PRIMARY MISSION WHICH CREATED AND SUSTAINS THIS GROUP – STABILITY IN THE AVAILABILITY AND THE COST OF THE KINDS AND AMOUNTS OF INSURANCE REQUIRED BY ALL THE SCHOOL DISTRICTS IN

NEW JERSEY, WITH THE LOWEST NET COST OVER THE LONG TERM, BY A GROUP WHICH EXISTS FOR THAT SOLE PURPOSE.

THE FOLLOWING CHANGES/IMPROVEMENTS ARE BEING STUDIED AT THIS TIME. CHANGES AND IMPROVEMENTS THE GROUP BELIEVES WILL DEMONSTRATE THE GROUP'S COMMITMENT TO ITS MEMBERS, AND TO THE PROFESSIONAL AND PRUDENT MANAGEMENT OF THE PROGRAM:

1. MARKETING OF THE PROGRAM BY ASSOCIATION STAFF PERSONS. AS PLEASED AS THE GROUP HAS BEEN AND IS WITH THE SERVICES OF MARSH & McLENNAN, IT ALSO BELIEVES THAT IT IS TIME FOR IT TO HAVE ITS OWN MARKETING STAFF. PERSONS WHO WILL BE ABLE TO WORK DIRECTLY WITH SCHOOL DISTRICT ADMINISTRATORS AND/OR SUPERINTENDENTS, AND WHO WILL BE VIEWED AS QUASI EMPLOYEES OF THE SCHOOL DISTRICTS.

THE INSURANCE GROUP HAS RECEIVED COMPLAINTS ABOUT MARSH & McLENNAN'S RESPONSE TO REQUESTS FOR PROPOSALS, AND THERE IS A PERCEPTION AMONG SOME AGENTS AND BROKERS THAT THE INSURANCE GROUP PREFERS TO DEAL DIRECTLY WITH SCHOOL DISTRICTS, CUTTING OUT THE INTERMEDIARY. AS EACH COMPLAINT IS RESEARCHED, MANY TIMES THE "OTHER SIDE OF THE STORY" PROVIDES A SIGNIFICANTLY DIFFERENT VIEW OF THE FACTS. THERE HAVE BEEN ENOUGH LEGITIMATE COMPLAINTS TO CAUSE SOME CONCERN ON THE PART OF ADMINISTRATION, AND THE TRUSTEES.

THE OVERRIDING CONCERN OF THE INSURANCE GROUP AND ITS PRIMARY COMMITMENT HAS BEEN AND WILL CONTINUE TO BE THE BEST LONG TERM PROGRAM FOR ALL THE SCHOOL DISTRICTS IT CAN SERVE; WHATEVER THAT REQUIRES.

THE GROUP BELIEVES THAT THE USE OF STAFF FOR THE MARKETING FUNCTION SHOULD GO A LONG WAY TO ACHIEVE THAT OBJECTIVE, AND TO DETERMINE AS FACTUALLY AND AS OBJECTIVELY AS POSSIBLE WHAT THE NEEDS ARE AND WHAT THE ISSUES ARE.

MUCH AS THE GROUP DOES NOT WANT TO LAUNCH ANOTHER SURVEY, BECAUSE OF THE TIME IT TAKES TO RESPOND ADEQUATELY, A SURVEY IS BEING CONSIDERED TO SOLICIT COMMENTS FROM SCHOOL DISTRICTS WHICH HAVE COMPLAINED DURING THE PAST YEAR AND A HALF. WE WILL INCLUDE IN THAT SURVEY THE SCHOOL DISTRICTS WHICH DID NOT JOIN OR WHICH HAVE SELECTED TO LEAVE THE INSURANCE PROGRAM, FOR WHATEVER REASON.

2. WORKERS COMPENSATION CLAIMS COST CONTAINMENT. BY FAR, THE LARGEST NUMBER OF CLAIMS AND THE BIGGEST PORTION OF RESERVES ARE IN THIS AREA.

WHILE MUCH HAS BEEN DONE IN THE AREA OF COST CONTAINMENT IN THE GROUP MEDICAL FIELD, VERY LITTLE HAS BEEN DONE IN THE FIELD OF WORKERS COMPENSATION. THE PROBLEMS ARE THE SAME AND THE REWARD FOR REDUCING THE AMOUNT OF MONEY SPENT IS GREAT.

THE GROUP IS LOOKING INTO A PILOT PROGRAM TO SEE WHAT CAN BE ACCOMPLISHED IN THIS AREA. IF THE COST/BENEFIT RATIO PROVE SATISFACTORY, IT WILL BE IMPLEMENTED ON A LARGER SCALE.

3. A LEGAL DEFENSE TEAM HAS BEEN ASSEMBLED AROUND THE STATE TO DEAL WITH A LIMITED NUMBER OF HIGHLY QUALIFIED DEFENSE ATTORNEYS WHO HAVE EXPERIENCE WITH PUBLIC ENTITIES AND WHO ARE KNOWLEDGEABLE ABOUT TITLE 59, WHICH CONTINUES TO PROVIDE SOME IMPORTANT LIABILITY DEFENSE PROTECTION FOR SCHOOL DISTRICTS.

THIS IS A FORM OF COST CONTAINMENT ON TWO FRONTS:

- A. CONTAIN AND REDUCE THE NUMBER OF CLAIMS PAID, AND/OR THE AMOUNT PAID.
- B. CONTAIN THE AMOUNT PAID FOR THE PROFESSIONAL SERVICE REQUIRED TO ADEQUATELY DEFEND CLAIMS AS THEY ARISE.

4. THERE IS IN PLACE, BOTH A LONG TERM PLANNING EFFORT, AND A CALENDAR QUARTER OF EVENTS LIST.

- THE FIRST ASSURES THAT THE GROUP PLANS FOR ITS FUTURE IN BOTH A GENERAL AND A SPECIFIC WAY.
- THE SECOND ASSURES THAT EVERY FACET OF THE GROUP PROGRAM AND ITS OPERATION IS SUBJECTED TO INTENSE ATTENTION WELL IN ADVANCE OF THE DATE ACTION IS REQUIRED.

THE NEW JERSEY DEPARTMENT OF INSURANCE IS AWARE OF THE CHANGES BEING IMPLEMENTED TO MONITOR THE FINANCIAL ASPECTS OF THE PROGRAM, AND THE OTHER THINGS BEING DONE TO PROMOTE THE CONTINUED SUCCESS OF THE PROGRAM, INCLUDING THE VARIOUS ITEMS MENTIONED IN THIS REPORT.

THE ADMINISTRATION AND THE TRUSTEES HAVE DISCUSSED ALL ASPECTS OF THE PROGRAM WITH THE DEPARTMENT. EVERYONE IS IN AGREEMENT WITH THE PLANS THE GROUP HAS FOR THE CONTINUED MANAGEMENT, SUPERVISION, AND ADMINISTRATION OF IT.

OUR LATEST FINANCIAL INFORMATION INDICATES OVER TEN MILLION DOLLARS IN ASSETS. THE RECENT MARKET PROBLEMS DID NOT AFFECTIVELY HARM US SINCE OVER THREE MILLION DOLLARS IS INVESTED IN GOVERNMENT BONDS WHICH FAIRED VERY WELL DURING THE RECENT STORM. OF THE APPROXIMATELY SEVEN MILLION DOLLARS IN LONG-TERM INVESTMENTS, ONLY 1.5 MILLION DOLLARS WERE

IN A STOCK FUND WHICH WAS NEGATIVELY AFFECTED. OUR ALMOST THREE MILLION DOLLARS IN SHORT-TERM CERTIFICATES WERE, OF COURSE, NOT AFFECTED AT ALL.

FOR ALL INTENTS AND PURPOSES, OUR FINANCIAL CONDITION HAS BEEN, AND REMAINS, SOUND.

WITH WHAT HAS BEEN ACCOMPLISHED TO DATE, AND WITH FULL CONFIDENCE THAT THE ORIGINAL GOALS ARE JUST AS IMPORTANT AND JUST AS REALIZABLE AS THEY EVER WERE, THE NJSBAIG REQUESTS YOUR CONTINUED SUPPORT.

IT EXISTS SOLELY FOR YOUR BENEFIT.

IN THE FINAL ANALYSIS THE GAINS, BOTH SHORT TERM AND LONG TERM, ARE YOUR GAINS.

IT DESERVES YOUR SUPPORT!